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Help Fund a Project, and Get a Green Card

Once-Obscure U.S. Program Provides Alternative Financing for Developers, but New Flood of Interest Raises Concerns

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A redevelopment of New York's Battery Maritime Building into a hotel is turning to unusual funding source.

With bank financing for new construction in short supply, real-estate developers are turning to a federal program that grants green cards to foreign nationals who invest at least $500,000 in a project.

The new attention has turned a once-obscure alternative source of funds into a viable route toward development. Use of the 20-year-old program nearly doubled last year, to 1,995 investor applicants in the fiscal year ended last September from 1,031 in the prior year.

In 2006, when the economy was still roaring, there were just 486 applicants, according to the U.S. Citizenship and Immigration Services. The program is named EB-5 because it represents a fifth category of employment-based immigration.

Developers for projects approved by the federal government typically seek investors from countries such as China and India willing to put up $500,000 in exchange for a two-year green card that can be made permanent after two years. Through the project's history,The program has been used for a variety of investments in projects spanning industries, from manufacturing to tourism to hospitality.

But amid the downturn, real-estate developers in particular have flocked to it. Perhaps the highest profile user is New York's Forest City Ratner, which is tapping the program for its Nets basketball arena under construction in Brooklyn, part of a larger residential project.

The developers, who have said they are looking to help refinance a loan and build out infrastructure, in recent weeks received final commitments for $249 million from 498 investors, according to people familiar with the effort. Such a sum, which comes at a lower cost than traditional financing, would have been difficult to receive from a bank or other standard lender.

Typically, these financings are arranged through a company's subsidiary or an intermediary that collects the money from the immigrants and makes it available to developers, often through loans.

The New York City Regional Center, the intermediary that arranged the financing for the Nets arena, is also planning to seek through EB-5 about $77 million for a stalled $90 million-plus boutique hotel and retail project in Lower Manhattan, people involved said. That project, the redevelopment of the historic Battery Maritime Building that is linked to a larger waterfront revitalization, was first planned by developer Dermot Co. in 2007 but was shelved when the credit markets dried up the following year.

Last year, still unable to find traditional private financing, Dermot turned to EB-5 to fill a financing gap. The developer hopes to begin raising the money from green-card applicants this spring.

"We're in the early stages in all honesty," Stephen Benjamin, principal at Dermot, said. "We're hopeful that it will go."

While the government doesn't quantify how many projects are in the EB-5 pipeline, a sampling of publicly announced projects shows that additional real-estate developments worth hundreds of millions of dollars are at various stages of fund raising nationally.

The developer of a $150 million hotel project planned for Florida said he is seeking $80 million through EB-5 and was recently in China seeking investors.

And a new Marriott hotel planned for downtown Milwaukee received approval from the City Council last month, and the developers plan to raise a substantial portion of the $50 million needed.

"It's an attractive alternative," says Evan Zeppos, a spokesman for the Milwaukee developer, Jackson Street Management. "Any developer knows now that for financing, the faucet is still very tight."

The program is popular among some members of Congress who have turned to it to boost jobs in their districts. It generally hasn't generated significant criticism from immigration groups. Members of conservative think tanks have previously said they accept the program, given its relatively small size, which is capped at 10,000 visas a year.

Such a flood of interest in the program, however, has raised concerns. Even some supporters of the program acknowledge there is potential for abuse as the number of high-risk projects appears to grow.

Immigrant investors are granted full-time residency status only if the development has created at least 10 jobs per-investor. If a project fails and jobs aren't created, investors have to leave after two years and don't get a green card. They also stand to lose their investments.

Numerous developers and others involved in the industry say that high-risk projects can easily pass muster, and the onus is on the aspiring immigrants—who don't have great resources to scrutinize projects—to make judgments about viability.

"It's at the heart of the matter that if the projects don't go forward as planned, the jobs aren't created; the residencies are terminated after two years," says Sam Sutton, managing member with Lake Buena Vista Resort LLC, a project seeking EB-5 to expand a Florida condo development. "That will cause major problems with the program in general."

A Citizenship and Immigration Services spokeswoman said all projects are required to submit business plans that must be approved for economic viability. Further, the agency can revoke licenses of intermediary companies that facilitate the financing and investment for projects, she said.