

How EB-5 regional centers navigate project selection

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By Marta Lillo

EB-5 regional centers (RCs) face the challenge of choosing projects that align with investor preferences, exhibit economic viability, conform to evolving regulatory standards, and stand out in a highly competitive market.

“The EB-5 Reform and Integrity Act of 2022 (RIA) opened up the floodgates, not the floodgates of EB-5 investors, but rather EB-5 projects. In other words, there is an overabundance of projects and investor slots compared to the demand for such slots,” says Stephen Smith, president of EB5 Coast to Coast.

As investors have more projects to choose from and take more time to make decisions, regional centers must ensure their offer sticks out.

“Urgency is not a factor for most investors. They are taking their own sweet time, over many, many months, to make a final decision as to which project they want to trust with their hard-earned 800k investment. RCs have no choice but to be patient, spending many hours handholding and answering questions,” Smith adds.

For Suresh Rajan, LCR Capital Partners founder and executive chairman, transparency and service provided are crucial when it comes to making the regional center and its projects stand out.

“Track record is important, of course, but most established industry players have that, including LCR. Another important point we see that comes into play on how one project and regional center differentiates from another is the level of transparency and service provided both before and after the investment is made and if they have team members in the investors’ home market.”

Project funding and EB-5 project selection

In this landscape of high competition, economic downturn, and RIA’s stricter regulation, predictability is paramount, which is obtained by securing funding, Guttig explains.

“It all boils down to the project,” says Shania Guttig, director of EB5 Investor Relations at Makaan.

That is why Makaan is championing in-house projects rather than working with external developers. These projects ensure readily available funding and align with the center’s industry-specific expertise. Also, budget allocation is speedier, she adds.

Makaan would eventually resume considering external projects provided developers can bridge funding gaps, Guttig insists. “Down the road, if the opportunity presents itself, we’ll want to work with some other people’s projects depending on their ability to bridge the gap in the source of funding.”

According to Smith, projects with secure funding resonate better with investors’ interest. “As far as RCs choosing which projects to sponsor and pitch to EB-5 investors, the bar continues to grow. Projects that ‘don’t need’ EB-5 (because they are already fully financed and the EB-5 simply replaces bridge financing) continue to be the most favored by investors, as are projects sponsored by the RCs with lengthy, successful track records,” he says.

EB-5 project criteria range from size to safety

Factors such as project size, location, job creation potential, and industry expertise also carry considerable weight in the regional center’s selection process.

The capital required for a project is crucial, with projects typically above \$20 million preferred as it ensures enough time necessary for EB-5 investor selection and fund transfer, Guttig adds.

“Less than that, it wouldn’t be time efficient for us to finalize to fund the project. EB-5 will take some time to choose and transfer funds (...) An ideal, comfortable size is anything between \$30 and \$50 million.”

Project size includes capital cost and construction timeframe. A timeline of between 24 and 36 months enables enough time for direct and indirect job creation during and after construction, Guttig explains.

As for location, projects located in Targeted Employment Areas (TEA) or rural TEA are more competitive as they align with new RIA set-aside requirements and offer swifter application processing by USCIS. However, Guttig insists the location must suit the regional center’s project type. “The area must make sense to us. Also, TEAs are a priority for investors to obtain the EB-5 visa,” she said.

In addition, Carel van der Merwe, sales director at EB5 Coast to Coast, observes that projects are more varied post-RIA. “Investors have a much more diverse choice of projects compared to the typical pre-RIA real estate project. These range from manufacturing, to farming, healthcare, oil and gas, mining and various other industries.”

According to Smith, RCs also need to filter in projects with a transparent exit strategy for investors’ capital return within the desired timeframe. “Only projects which can clearly demonstrate that the EB-5 investment is very safe will be able to eventually convince investors to take the leap of faith.”

Overall, “the project must be large enough to take at least ten EB-5 investors and be in a TEA, and funding means our regional center is using its funds,” Guttig concludes.

Meanwhile, Rajan says other regional centers are also looking into strong partnerships with developers that secure funding availability, understand the EB-5 program, and align with US government interests.

“Each Regional Center has different reasons on how to choose the projects they offer (...) Choosing partners with strong balance sheets that understand the EB-5 program, so we can create EB-5 projects that are well structured financially and that consider the needs of the EB-5 applicant. We also look for projects that support the US national interest. We believe EB-5 capital can do more than create jobs, it can support industries that the US government has declared a priority,” he said.

RIA’s impact on EB-5 project selection by regional centers and investors

The EB-5 industry specialists highlight a noticeable improvement in projects’ quality after RIA and a noticeable improvement in I-526E application form processing involving rural TEA projects.

“Now, you must go through extensive information and preparation. The government needs to see when you file for an EB-5 project. The government is really stepping up with faster processing types of I-526 applications. The first group of approval is taking less than 11 months,” Guttig says.

While USCIS has been approving rural project petitions relatively quickly lately, Smith cautions that they are still a fraction compared with the ongoing overall volume of submitted petitions. “Although there have been a handful of relatively quickly approved petitions, the numbers are a ‘drop in the bucket’ as the bucket continues to fill quickly.”

In that regard, Rajan warns that the increasing “appetite for rural projects” due to faster adjudication could become counterproductive.

“I am not sure if people are considering that if everyone decides to invest in a rural project, the visa cap will be reached soon enough. While there is a certain advantage on having your application adjudicated faster, RIA also allows for concurrent adjustment of status so if an EB-5 applicant is eager to start using the work and travel benefits that come with an EB-5 investment and they are already in the US, they may start doing so with a pending EB-5 petition.”

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