

**Global Water Center Building
Milwaukee, Wisconsin**

Photo by Kahler Slater



Another NMTC Funding Option

Foreign Investor Capital

Low-cost capital raised from foreign investors under the federal “EB-5” program can help finance new markets tax credit (NMTC) projects, as illustrated by three real estate projects in Texas and Wisconsin.

Under the EB-5 pilot program, administered by a unit of the U.S. Department of Homeland Security, foreign nationals that invest at least \$500,000 in an eligible job-producing project or business receive an array of benefits. (See sidebar on p. 42 for details.)

Two of the three new NMTC projects, a hotel in Dallas and a Marriott hotel in downtown Milwaukee, closed funding in 2011. The third, an office building project in Milwaukee, closed in July 2012.

U.S. Bancorp Community Development Corporation (USBCDC) is the NMTC investor in all three projects. In each, some of the EB-5 dollars have been used to help

capitalize the Qualified Equity Investment and some have been lent directly to the project, according to Steve Kramer, Senior Vice President at USBCDC. For each project, a bridge loan was utilized to provide funding upfront, to be repaid over time as the foreign investor dollars come in.



Steve Kramer

Photo by FirstPathway Partners

Option for Tough-to-Fund Projects

EB-5 dollars can “help fund [new markets tax credit] projects that can be difficult to finance based on the cost of development or the project’s inability to attract other, more conventional private sources of capital,” Kramer said. “Both programs focus on increasing

NMTC, continued on page 42

NMTC, continued from page 41

domestic capital investment, promoting economic growth, and creating jobs, which means that projects under consideration are often eligible for EB-5 funds and new markets tax credits.”

Kramer said that USBCDC didn’t alter its underwriting procedures for the three projects because they would utilize EB-5 funding. “Any time we underwrite a new markets tax credit project,” Kramer said, “we want to know that the source of funds is available when it’s needed by the project or to capitalize the QEI. As long as funds are made available when needed – which in these cases was at closing – we underwrite and structure the same way as we would any other source of funds.”

The Dallas Development Fund, a CDE affiliated with the City of Dallas, committed a NMTC allocation for the \$24.6 million boutique hotel project in Dallas. The 76-room NYLO Dallas South Side, which opened in 2012, was created from the historic rehabilitation and adaptive

NMTC, continued on page 43

The EB-5 Program: Key Facts

The EB-5 Immigrant Investor Visa Program is administered by U.S. Citizenship and Immigration Services (USCIS), part of the U.S. Department of Homeland Security.

The program offers conditional green cards to foreign investors – and their spouses and children under 21 – that invest \$1 million or more in eligible projects or businesses that create at least 10 full-time permanent jobs for U.S. workers.

Foreign investors approved by USCIS and their family members receive a green card with two-year conditional permanent resident status. They can live and work anywhere in the U.S. if they wish, travel back and forth from the U.S. without a visa, and their children can qualify for in-state tuition rates at American colleges. After five years of being a permanent resident they are eligible for U.S. citizenship.

An EB-5 pilot program, reauthorized through September 30, 2015, requires a minimum investment of only \$500,000 but limits investment to businesses and projects in “targeted employment areas,” which are rural or high unemployment areas. The minimum 10 jobs can be created indirectly or directly and also be jobs preserved through the acquisition of a troubled existing business as well as from new projects or businesses.

Investments must be made through federally approved Regional Centers (about 250 nationwide), which have defined geographic areas for EB-5 investment and specify the types of businesses and projects eligible for EB-5 investment. There are about 250 Regional Centers nationwide.

Among the eligible projects of the Milwaukee Regional Center, for example, are hotels, manufacturing facilities, and office buildings. The Milwaukee Regional Center’s investment zone includes Kenosha, Milwaukee, Ozaukee, Racine, Waukesha, Washington, and Walworth counties.

Specialized private intermediary firms are often used by project sponsors to help them determine if their venture is eligible for EB-5 funding and to line up foreign investors and their capital through the EB-5 program.

For a list of Regional Centers and a link to detailed information on the EB-5 program, go to <http://tinyurl.com/yh5a26r>. For an article on combining EB-5 and new markets tax credits, go to <http://tinyurl.com/bgyoxt2>. **TCA**

Your source...
for affordable housing
and tax credit services.



For 30 years, RubinBrown’s Real Estate Services Group has built an admired reputation nationally as a premier accounting firm in the real estate industry, focused almost entirely on affordable housing and tax credits.

Our specialized experts can help with the complexities related to audit, tax, and consulting, including complex deal structuring for LIHTC, historic tax credits, NMTC, renewable energy tax credits, HUD, state housing finance agencies, and much more.

Bryan Keller, CPA
Partner-In-Charge
Real Estate Services Group
bryan.keller@rubinbrown.com
314.290.3300



RubinBrown
CPAs and advisors specializing
in the affordable housing industry
Denver | Kansas City | St. Louis

Blog: RubinBrownRealEstate.com
Twitter: @RubinBrownRE
Web: RubinBrown.com

NMTC, continued from page 42

re-use of a five-story, 100-year-old building once used to manufacture coffins.

The EB-5 funds were channeled to the project through the Dallas Regional Center, which is managed by Civitas Capital Management on behalf of the city.

The \$56 million Marriott Hotel project in Milwaukee, which closed on the financing in December 2011, received separate NMTC allocations from the Wisconsin Business Growth Fund and from the Wisconsin Community Development Legacy Fund, the latter an affiliate of the Wisconsin Housing and Economic Development Authority. The 10-story, 200-room hotel is slated to open in July.

The third project, the Global Water Center, expected to be completed by July, involves the historic rehabilitation and adaptive re-use of a seven-story former warehouse building in Milwaukee into offices for tenants involved in research, education, and business related to water. Milwaukee, in the midst of the Great Lakes, is a center for the fresh water industry.

The EB-5 capital for both Milwaukee projects was channeled through the Milwaukee Regional Center, which is administered by the Metropolitan Association of Commerce. The capital was raised by FirstPathway Partners, a Milwaukee-based private firm that acts as an intermediary to assist foreign investors with the EB-5

process and raise foreign investor capital through the EB-5 program for projects within the investment zone of the Milwaukee Regional Center.

The developer of the \$22 million Global Water Center project is HKS Holdings LLC. Joe Klein, one of the

partners, is also Chief Investment Officer of FirstPathway Partners.

Primarily Chinese Investors

Most of the EB-5 capital raised today by FirstPathway Partners is from Chinese investors, Klein said, although the company also raises monies from foreign nationals in other countries through a worldwide network of employees and agents. These employees



NYLO Dallas South Side, Dallas, Texas

Photo by Jacob Tindall

and agents identify and hold seminars for prospective EB-5 investors using marketing and investor packages prepared by the company on the EB-5 program and individual projects.

Klein said FirstPathway's investors for a project typically come in over a six-month period and usually put their money in upfront as equity in an investment fund or limited partnership set up for the project. FirstPathway can't use the funds, however, until the investors are approved by the federal government. As a result, the company must either wait until the last investor is approved to release the funds for the project, or make arrangements for another party to provide a bridge loan on behalf of FirstPathway. The bridge loan is then paid off over time with the foreign capital as the investors are approved.

Klein says developers wishing to utilize the EB-5 program as a funding source should have patience, a high level of risk tolerance, and the ability to find a bridge lender if there are timing gaps. He said there isn't any predictability as to how long it takes to get foreign investors approved by the federal government, noting it can sometimes take many months.

It probably doesn't make sense to utilize the EB-5 program for a project unless raising at least \$15 million to \$20 million, Klein said, adding that FirstPathway Partners generally tries to have EB-5 capital fund 80% of a project's total cost. **TCA**



Joe Klein

Photo by FirstPathway Partners