Chinese Investment in US Real Estate

Markets Using the EB-5 Program: A Cleveland, Ohio Case Study

ABSTRACT

EB-5 is a US immigrant-attraction program created in the early 1990s. After lying mostly dormant, it recently become a source of gap capital when the lending markets mostly collapsed during the great recession of 2008-2012. With low loan to value ratios and high capitalization rates for real estate projects at the end of the great recession, the EB-5 investor visa program has been instrumental in filling the financing gap, especially for hotels. Most EB-5 investors are Chinese. We focus primarily on Chinese investor attitudes towards the program, using a non-random survey of 85 potential investors who invested in Cleveland, Ohio. The survey was administered in Chinese. Our survey found that Chinese wealthy private business owners are mainly participants in EB-5 for the US green card on behalf of their young adult children. The rate of return of EB-5 program for investors is a low priority item, less important than return of capital.

KEY WORDS

EB-5 investor visa program, Gap capital source, Chinese investor attitudes, real estate investment

INTRODUCTION

Foreign investment in Chinese businesses is a well known topic in economic development as firms seek to penetrate the growing Chinese market for goods and services. China's economic development in recent decades, coupled with the high household savings rate, has generated a large and growing amount of personal savings, and therefore household wealth. However, this research addresses a lesser-known avenue: the tracking of where these wealthy Chinese householders put their overseas investment, and their immigration and investment objectives when they do invest abroad.

In the US, Chinese investors have been taking advantage of the EB-5 investor visa program. Originally designed as a way to attract capital and create jobs using investment funds from foreign individuals, EB-5 is a US immigrant-attraction program that has been around since the early 1990s. After lying mostly dormant for two decades, it has recently come into focus as a source of gap capital for real estate projects when the domestic US lending markets mostly collapsed during the great recession of 2008-2012. In this period, 53.6% of the investors were from China (http://iiusablog.org, 2012). Part of the reason for EB-5's popularity lies at the confluence of several trends: many Chinese individuals have attained substantial wealth; Chinese rules for moving capital (both human and financial) abroad have been relaxed; and some Chinese individuals want their children to have the option to live abroad.

This paper begins by reviewing the scant literature on Chinese investment in the US in general and on EB-5 in particular. We then characterize the EB-5 program's requirements and administrative structure. We provide a multi-layered case study of the various players in the EB-5 activity in northeast Ohio (Cleveland), a mid-sized Midwestern US market representative of non-coastal US targeted employment areas (TEA, an EB-5 status, defined later). Next, we describe our non-random survey of Chinese investors in EB-5, and report on the results. We finish with an extension of our case study to prospects for the EB-5 program, and suggestions for future research. The main focus of this paper is to understand the motivation and expectations of potential EB-5 investors in China as they consider applying for an EB-5 visa.

INTRODUCTION TO THE EB-5 PROGRAM

Administrative background and governing structure

The EB-5 investor visa program is an immigration program designed to attract wealthy foreign investors to the US, and get them priority for getting a US permanent resident visa (green card). It requires a substantial investment in the US (either $0.5 million or $1 million, depending on where the investment is made), and also requires that the investment create at least ten jobs. Thus, it is primarily intended to be an immigrant program, rather than serve as a pool of funds for investment into real estate projects. The EB-5 program is administered by the US by Citizenship and Immigration Service (CIS). Created as a pilot program in 1992 (in section 610 of US Public Law 102-395), the EB-5 investor visa program has lately come into prominence as a way to attract gap financial capital to close real estate deals in the absence of robust capital markets.

To illustrate the increased popularity of the EB-5 investor visa program, from 1991-2008, 10,733 persons applied, and 5,748 were accepted (about 320 per year). More recently from 2009 to 2012, 12,832 persons applied, with 7,882 accepted. This averages out to 1,970 per year in recent years, a six-fold increase in acceptances (USCIS 2013). The number of EB-5 regional centers has also proliferated: in 2009, there were only 45 centers throughout the US: by 2013, that number had grown to 243 centers (Strnisha 2013).

The EB-5 system has a number of players:

- US CIS. The US federal Citizenship and Immigration Service (CIS) is part of the US Department of Homeland Security. This agency is in charge of overseeing the immigrant process. Their website sets forth the parameters and requirements of the EB-5 program (USCIS 2014). The CIS does several things related to EB-5 investor visa participants. They authorize creation of EB-5 regional centers, and supervise periodic re-authorization of these centers. The CIS also does background checks on individual investors, once they apply for a green card through the EB-5 program, to make sure their funds are traceably legal. This review typically takes 6-8 months from the time investor funds are placed in escrow to the time they are deemed qualified for the EB-5 program. Since, the CIS is primarily motivated to "gate-keep" new immigrants into the US, the new focus of EB-5 on economic development is somewhat outside their main objective function.
- EB-5 Regional Centers. These for-profit or public centers are created using form I-924, and cost the cost to apply is $6,230 (USCIS website 2014). These entities are usually referred to as referred to as regional funds, or just funds. They are initially authorized and re-authorized periodically by the CIS, based largely on their ability to produce feasible economic models and business plans that have the ability to create the appropriate direct or indirect jobs. Regional funds are allowed to take investor money, and place it in projects that create enough jobs to qualify for the EB-5 program. Fund managers are the pivot: they make the pitch to investors (facilitated and coordinated by the agents), usually abroad, thus attracting investment capital, subject to CIS approval. Fund managers also deal in placing pooled investor money in projects, making their role essentially as that of an investment bank (not directly regulated by the US banking industry).
- Projects. Usually but not always real estate projects, these deals need investment capital as loans or equity, and place EB-5 investor money, obtained from authorized EB-5 Funds, into their capital stack. Projects must also create at least the required number of jobs to qualify (10 jobs per $0.5 million invested). Projects (e.g., real estate developers) only deal with the EB-5 regional fund managers as a source of capital. Real estate developers are motivated to obtain

capital at the least expensive interest rate.

- Investors: These are generally successful, high-net worth individuals, foreign nationals, who live abroad, have the money, and want a US green card. This is the type of person (extended household in some cases) the US wants to attract to live and work here and stimulate the economy. Their motivations for participating in the EB-5 program are the focus of this paper.
- Agents. They also live and work abroad, they know which investors are looking to make an EB-5 investment, and can help US funders attract them to hear the sales pitch. Agents work on a fee and commission basis, and these appear to be substantial. Fees are typically \$20,000-\$40,000 per investor, and if the market is tight, agents can also command a few additional percentage points of the stake (Wang, 2013, Strnisha 2013). Agents are typically regulated by the government in their home country. They help place investor funds in escrow, ready for INS scrutiny (Strnisha 2013).
- SEC. Tangentially, the US Securities and Exchange Commission (SEC) is also involved (especially in the event of veracity of claims concerning projects, and potential impropriety of the timing of use of escrow funds), as investors placing their money in a regional fund is essentially considered a private placement. The SEC seeks to protect and inform potential investors about potential risks of investing in registered securities.

One main role of the CIS is to initially approve and recertify EB-5 regional centers. Only authorized centers can attract funds from investors (typically working through agents in the foreign countries), and place these funds in end investments (projects) in the US. EB-5 Regional Centers do not have exclusive territories. They are re-authorized on three year cycles, along with the EB-5 program itself. In a “Sequester” national economic context, where extreme scrutiny is placed on budget deficits, it’s important to note that except for the INS processing and some SEC oversight, no direct federal funds are involved to provide the stimulatory benefits associated with the EB-5 program (e.g., job creation). Exhibit 1 shows the generic EB-5 process and flow of approvals and funds.

Insert Exhibit 1 with EB-5 flowchart about here

Motivation of EB-5 investors

On the supply of funds side of the equation (the investors), the EB-5 program has four components of benefit to potential investors, as outlined below:

1) A Green Card. Assuming they qualify (e.g., can document legal wealth), applicants jump to the head of the US permanent resident visa line. They do not have to permanently move to the US, nor do they have to live in the region where

they invest.

2) Capital requirements. Investors are required to put up either \$0.5 million (in a TEA-target employment area) in needy urban or rural areas classified as job-deficient) or \$1.0 million (other areas of the US). These funds must create at least 10 jobs per \$0.5 million invested (per investor). Investor capital must be returned in 5 years, starting from the time it is placed in escrow.
3) Return on capital invested. Depending on the fund's project, the investors are due a return on investment, to be negotiated.
4) Intangibles. How risky is the deal? Is it in a prominent market, or a trophy property? Is it real estate? How good are the technical details of the project (e.g., jobs calculation, job coverage ratio, use of funds, subordination and deal control).

The survey that is featured in this research focuses on teasing out the various priorities among potential Chinese investors in the EB-5 program.

LITERATURE REVIEW

Overview of China's Outward Foreign Direct Investment

As China's economy and huge foreign exchange reserves continue to grow, China's investments abroad are growing in spite of the overall global economic decline since 2008. There is a great deal of literature documenting China's Outward Foreign Direct Investment (ODI).

Nargiza Salidjanova (2011) in a working paper on China's Outward Foreign Direct Investment (ODI), points out that China's ODI is small compared with its massive inward Foreign Direct Investment (FDI), despite Chinese companies' continuous effort to expand overseas. A significant portion of Chinese ODI focuses on "accessing raw materials and energy, acquisition of technology, brands, and know-how, competition in the domestic market, and avoiding international barriers to trade" (Salidjanova 2011 p 6). The United States ranked 6th in destinations for China's ODI in 2009. Although this paper concentrates on overseas investments from Chinese companies rather than individual investors, it makes clear that ODI was encouraged by the Chinese government, and that ODI continues to increase.

The Hurun Report addressing Chinese private wealth management was published by the Bank of China in October, 2011. The data from this white paper were collected by interviewing about 1,000 Chinese people who had more than \$1.6 million in household wealth (about 9 million Chinese Renminbi/Yuan), and were thus designated as High Household Wealth Chinese (HHWC). According to the report, in 2011, there were 960,000 HHWC at the \$1.6 million level, 60,000 at the \$16 million level, and a few thousand at household wealth exceeding \$32 million (Bank of China, 2011 p 14).

The research finds that one third of the HHWC have properties overseas. On average, the overseas property consumes about 19% of the wealth in the households with \$1.6M, and 50% in those with \$16M (Bank of China, 2011p 7). For those householders without foreign properties, nearly 30% plan to invest in other countries in the future. It would appear that EB-5 would be a satisfactory outlet for these potential funds.

One of the main considerations for the HHWC to invest overseas is the education of their children. Nearly 50% of the HHWC who bought properties overseas admit they made such investment decision primarily because they want to give their children the chance to study abroad.

Another reason for the High Household Wealth Chinese (HHWC) to invest overseas is for immigration. A total of 60% of HHWC are considering moving to a foreign country, or already are in the process of immigration. The U.S. and Canada are the favorite choices (Bank of China, 2011 p 8).

Perceived high inflation and limited investment channels in China also contribute to the wealthy householders' investment decisions. The HHWC consider investment overseas to be a pathway to wealth preservation and management. In such cases, the US is their favorite country, and Hong Kong is the second favorite because of its proximate geographic advantage.

Next to real estate, deposits in overseas banks are also preferred. Because Chinese investors often lack the ability to understand and control overseas investment due to local technical matters and language barriers, earning a high rate of return on investment (ROR) is not their major purpose.

EB-5 Literature

Because the EB-5 program is focused on getting foreign investors a US permanent resident visa (green card), it is primarily intended to be an immigrant program, rather than to serve as a pool of funds for real estate investment. There are only two peer-reviewed articles about the EB-5 program as an investment pathway, and little literature about the potential investors. These are covered in some detail below.

Jesse Saginor (2012) in his American Collegiate Schools of Planning conference paper, Rebuilding Our American Cities One Affluent Immigrant at a Time, An Analysis of The EB-5 Immigrant Investor Program for Urban Redevelopment points out, "The EB-5 Program is perhaps one avenue for cities to seek out partnerships overseas for the financing of urban renewal and related projects either wholly or as gap financing." He details the history, purpose, definition and application process of the EB-5 investor visa program, focusing primarily at the regional center level. Saginor points out two problems in the initial EB-5 program. First, it is not easy for investors to maintain 10 jobs while investing in and running a new company personally. Since it is not easy to meet the requirement for job creation, many investors do not believe that EB-5 program can help them realize their goal of immigration. Another problem is the investor pulling their initial investment out of the deal (as per the EB-5 five year time requirement) creating a later funding gap. Thus, investment capital from EB-5 investors can only play a very minor role in the US capital market. He believes these two factors substantially reduced the popularity of the EB-5 program in its early years.

Responding to the fact that the EB-5 program was lagging in popularity, Congress restructured the EB-5 requirements. First, they tiered the required level of investment by relative economic health of US regions, based on employment levels. If the investment was to be made in a region that was experiencing less than 1.5 times the average national rate of unemployment, the minimum investment required of the EB-5 candidate was $1 million. In contrast, if a region had higher unemployment, it became designated as a "targeted employment area" (TEA), the minimum investment was only $0.5 million. The City of Cleveland, Ohio, and many other rustbelt central cities fall into the second category.

In addition to restructuring the minimum investment levels, EB-5 regional centers were also created to manage the investments made in the targeted employment areas or in areas designated as "rural" by the United States Office of Management and Budget. It became the responsibility of the regional centers to validate the job creation generated by the investments; at least 10 full-time jobs had to be created, directly or indirectly, for each investor's $0.5 million infusion. The investors may invest in any economic unit, defined as any economic unit, public or private, which is involved with the promotion of economic growth, including increased export sales, improved regional productivity, job creation, and increased domestic capital investment.

These initiatives have at least partially mended the initial negativity toward the EB-5 program. Though EB-5 is not a perfect program, "it takes billions of dollars for investment in real estate development projects and job creation in the United States across a wide-ranging of sectors. In the ongoing uncertainty in the economy and continued conservative lending market, it will likely continue to flourish in the future to rebuild American cities" (Saginor 2012).

The United States Government Accountability Office (GAO) comprehensively analyzed the EB-5 program in 2005. From this analysis, they produced a paper titled "Immigrant Investors" and subtitled "Small Number of Participants Attributed to Pending Regulations and Other Factors". This covers information about the EB-5 immigration category, such as the number of participants, countries of origin, number who sought U.S. citizenship, and the types and locations of the businesses established by EB-5 program investors (US GAO 2005).

The total number of EB-5 visas issued during fiscal years 1992 to 2004 (a thirteen year span) was only 6,024, a miniscule proportion compared to the 130,000 which had been authorized (10,000 per year) in the EB-5 legislation (http://www.gao.gov/new.items/d05256.pdf, 2004).

There were several reasons for the small subscribership to the program: it was more difficult for EB-5 investors to qualify for lawful permanent resident status than for other visa types; it was very expensive, and there was no guarantee that the investor would receive a green card. The role of the EB-5 investor visa program all changed during the cash-starved great recession.

Case study of Cleveland and Northeastern Ohio

Cleveland, Ohio had a 2010 central city population of 0.4 million, and a metropolitan area population of 2.1 million. It's the biggest city in the 14 counties of northeast Ohio (2010 population 3.4 million), which also includes the cities of Akron, Canton, Youngstown, Warren, Lorain and Elyria (US Department of Commerce, Bureau of the Census 2013). Chinese are relatively rare here: less than 3% of residents of the northeast Ohio are of Asian race. In late 2013 Ohio had an unemployment rate within half a point of the US average of 7.0%, but has generally seen slower than average population and economic growth over the past few decades. Cleveland is the home of the authors, so selection of Cleveland as a case study area is somewhat opportunistic. This Cleveland case study may be representative of the experience in mid-sized non-coastal US markets in EB-5 targeted employment areas where the minimum investor stake is $0.5 million.

The first EB-5 regional center in northeast Ohio was established in Wooster Ohio, in 2008, but it is largely inactive. It is eligible to serve as a funding vehicle for projects, but has not yet done so (Wang 2013, Strnisha, 2013).

The Cleveland International Fund (CIF) is the main regional fund in this case study. It was set up in 2010, and is currently headed by Steve Strnisha, an experienced economic development and public finance professional. The CIF has placed over 200 EB-5 investors (>$100 million in funds), almost all from China, in three separate eligible projects, with other as-yet-unfunded projects also under consideration (Strnisha 2013).

- Flats East Bank (FEB). This $272 million mixed-use project near the confluence of the Cuyahoga River and Lake Erie in downtown Cleveland, Ohio has office, retail, public and hotel components. The hotel is from the Aloft chain. This deal has been funded. It has been planned on-and-off since about 2005. EB-5 investors provided three tranches of investment: a $20 million co-first mortgage for the hotel project, a $20 million subordinated first loan for the office project (secured with two anchor leases from Fortune 500 companies)[1], and a late-breaking "gap" junior loan of $5 million (Fishman 2013). The FEB project is paying the CIF between 8-10% for these funds. The FEB project closed during 2010 and 2011, a time where there were almost no hotel deals closing anywhere in the US. Flats East Bank phase 2, a largely residential component, is also planned, and CIF is considering playing a funding role in this as well. Phase 1 of FEB opened in July, 2013.
- Westin Hotel. This hotel project is in downtown Cleveland. The CIF role here is for a $36 million first mortgage. The project is almost fully subscribed, and CIF planned to close it in late 2013 (Strnisha 2013).
- University Hospitals of Cleveland. This $60 million project is backed by bond indenture claims on the AAA rated hospital system's revenue stream. The

[1] A subordinated first is essentially a second mortgage with some properties of a first mortgage.

near-senior mortgage deal closed in 2011. Interest rates paid by the hospital to CIF are about 2%. (Strnisha 2013).

- Proposed project: Uptown Cleveland Parking structure. Uptown is a college-oriented, mixed-use development project near Case-Western Reserve University, about four miles east of downtown Cleveland. CIF is talking to the Coral Company, developer of the Intesa project at the periphery of Uptown, about providing a senior mortgage for a multi-million dollar parking structure, where the payment stream would be secured by a Tax Increment Financing (TIF) instrument (Strnisha 2013, Rubin 2013). Although expected interest rates would be in the low single digits, no deal has been signed.

The Cleveland International Fund (CIF – the main EB-5 regional center case for this article) is a true public private partnership, and has an ownership structure that includes Cleveland's main not-for-profit downtown development economic development entity. CIF views itself as a type of lender, and needs to obtain a few hundred basis points over its cost of funds to maintain profitability. They desire to place 3-4 medium-sized deals per year. Thus far, they have targeted investors from China primarily, but are in the process of setting up offices in Eastern Europe.

Insert Exhibit 2 with capital stacks about here

Ohio International Fund: One possible emerging source of possible competition for the CIF is the Ohio International Fund (OIF). Also located in Cleveland, Ohio, OIF seeks to fund only one project: a start-up business called Zuga Corporation. OIF applied for INS recognition as an EB-5 regional center in 2011, but has not yet been awarded regional fund status. One potential source of delay could be the recent shutting down of an EB-5 Regional Center in Chicago for potential SEC and INS rule infractions (Strnisha 2013, Wang 2013). The OIF could work under the Northeast Regional Center, which has the INS license as an EB-5 Regional Center Program, but prefer rather to attain their own EB-5 status to maintain more control and avoid transaction costs.

The Zuga Corporation is a start-up company project focusing on dental inventions, production and sales. As per the OIF website: "Zuga is a high-tech bio-medical company that has developed disruptive technology that allows general dentists to profitably and cost effectively perform certain dental implants without significant clinical risk" (www.oif/zuga.com, 2013).

The OIF is seeking to utilize EB-5 investor capital to help develop the physical plant for Zuga, and to capitalize the start-up business itself. They have already invested modest amounts of their own funds and obtained two local economic development grants, but require an injection of capital (preferably in debt form, to avoid dilution of ownership) to grow their business. OIF/Zuga is considering up to $8 million from EB-5 in a mortgage loan for the real estate, and if needed, in part as stock in the Zuga enterprise itself (Wang 2013). Thus, they desire a modest number of investors (only 16). OIF has projections that the Zuga project would generate up to 210 jobs (70 direct and 140 indirect), more than the 160 jobs required to guarantee that their investors attain the job creation requirements of the EB-5 TEA program.

SURVEY OF CHINESE EB-5 INVESTORS

Complementary to the balance of the EB-5 literature focused on regional centers as a unit of observation (Saginor 2012), this research focuses instead on investors who provide the underlying source of investment capital, specifically those from China. In the surveys discussed below, we determine their demographics, priorities, and investment preferences with respect to potential US investment in general, and EB-5 in particular.

Survey Procedures and data collection

In January of 2013, we submitted our application to the Institutional Review Board for Human Subjects in Research Application for Project Review (IRB) at Cleveland State University for our survey to be conducted in Chinese in China. The IRB approved our request in April. The relatively long approval period was due in part to the fact that the survey instrument, consent forms, letters of introduction and related protocols needed to be translated form English to Chinese and back again. During the whole process of the survey we strictly followed the procedures set forth by the IRB.

Two persons worked with us to obtain potential respondents. One lives in southwest China and is starting an immigration-service business. The second is himself an EB-5 visa investor from the east coast of China, who was studying at a US university, obtained his green card and now resides in the US. Both sources provided us with potential interviewees in the region they are from. Therefore, the geographic distributions of our interviewees are in the southwest and east coast of China.

The sample plan started out as random, but evolved into a non-random sample. The research team had limitations of budget, access and the need to maintain confidentiality. The 100 or so names from the immigration-service were likely the most qualified group, but this list only yielded about 20 completes. Since the most qualified potential investors tend to deal with people of their own type, it was not easy to gain access to their inner circle, typically through special events or limited channels, such as EB-5 investment seminars, private clubs, friends and relatives. This access issue, plus the somewhat private nature and sensitivity of the questions limited our sample size for the most qualified respondents. Thus, once this "A" list was exhausted, the survey team went for other more available but likely less qualified respondents, of appropriate age and education, but who had not yet attained sufficient personal wealth to plausibly be eligible for the EB-5 program in the near term. Finally, the student who personally was an EB-5 participant allowed us to access his group of personal contacts from east China, to round out this opportunistic and non-random, yet information-rich, sample.

Our interviewing team consisted of two groups of students, supervised by the authors, based at Kunming Metallurgy College. One group was responsible for contacting the potential interviewees on the list, scheduling the appointment and collecting the consent form from the interviewee before the interview begins. The other group was charged with conducting the actual interviews and data. This process ensured that the name of the interviewee and the information he/she was asked would never be related, therefore guaranteeing confidentiality.

Respondent Profile

About half of the pool of respondents were currently viable candidates for EB-5 (based on income), with the balance being upwardly mobile and educated but inexperienced investors. Thus, in our final pool of 85 interviewees there are only 40 currently viable EB-5 candidates: among these are 22 who have already personally participated in EB-5.

The survey results are grouped into four categories (non-mutually-exclusive) for comparison purposes. The first group covers the data of all 85 interviewees. The second is US immigration destination group, and includes the responses from the 40 interviewees whose preferred immigration destination is the US. The third group is the qualified wealth group. For an EB-5 investor in a Targeted Economic Area (TEA) like Cleveland, the required minimum investment is $0.5 million, plus the expenses for the services of the immigration agent and attorney. As a result, we defined a minimum household wealth of $0.8 million as the qualification for an EB-5 investor. The qualified wealth group is hence comprised of 40 interviewees whose household wealth are over Chinese Renminbi 5 million ($0.8 million). The fourth group is made up of the 22 households who have already taken advantage of the EB-5 program, or are in the process of applying for investing in the US as an EB-5 investor. We follow this four-group presentation format below. There are 26 questions in the questionnaire, divided into 6 parts. Each part, beginning with description of the sample, is addressed in turn.

SURVEY RESULTS

Descriptive statistics about sample (background)

The first part of the survey includes 10 questions on respondents' demographics, including age, marital status, gender, type of job, education, English language proficiency, the household income and household wealth. It also includes whether the interviewees have children or plan to have children, and the age of their first child.

Insert Table 1 on Demographics of Sample about here

The majority of our interviewees are male in our survey, more than 60% in all groups. A similar situation applied to marriage status: about 60% of those interviewed are married in all four groups.

With respect to age, more respondents in the 20-30 age range took part in our survey: between 43-55% for all groups. It is highest in the 100% EB-5 investor group. For those between the ages of 50-60, only a small number participated in the survey, generally less than 10%, with an exception of the 100% EB-5 investor group, which is at 18%. An anomaly is that in the 100% EB-5 investor group, the percentage of those within the age range of 30-40 is very low, (5%), although it is about 30% in the other 3 groups.

Concerning children, about 40% in all four groups reported no children, and about 20% responded that their first children are younger than 6. The most noticeable difference is that in the 100% EB-5 investor group, 26% had their first child older than 21 years. In contrast, in all other 3 groups it is less than 16%.

In terms of employment type, over 50% of the participants in all four groups work in the private sector. Very few (<3%) respondents work at a government agencies in all groups. It is worth pointing out that almost all the interviewees who selected their job type as "other" are either college students or recent college/high school graduates. In the 100% EB-5 investor group, the percentage of students or graduate students takes the second position, at 27%: many of are assumed to join the program under the direction of their parents' household.

Comparison of US and China

This section reports interviewees' attitudes toward the US and China by providing four general areas for them to compare. In addition, an open-ended question gives the interviewees an opportunity to compare USA and China, beyond the four areas set forth.

Insert Table 2 on Comparison of US and China about here

More than 85% of respondents across the board in all groups thought the US university system, medical system, and general living environment was better than in China. For a wealth-gaining opportunity, however, less than 50% of respondents believe the US is superior to China. This is especially true in the 100% EB-5 investor group, where only 14% of respondents favor the US over China for wealth creation.

Likelihood of immigrating to US

This section aims to discover how much the participants know about the opportunity to immigrate to the US. It includes five questions: the possibility the interviewees would immigrate in the next 5 years; their choice of immigration destination by order of priority; past travel to the US; knowledge of the EB-5 program; and possibility of their participating in an EB-5 program in the next 5 years.

Insert Table 3 on Immigration probability about here

About half of the respondents report they plan to immigrate to the US within five years. The lowest value is in total group, where only 45% said they'd immigrate to the US within five years. In the other 3 groups, the 100% EB-5 investor group is the most likely to emigrate to the US, at 78%. Similar figures pertain to the possibility of participation in the EB-5 program within 5 years.

When it comes to the immigration destination, respondents were presented with a list of five countries: the US, Canada, Britain, Australia and Singapore, with a priority rate ranging from 1as the highest to 6 as the lowest. An open-ended question was also provided for the interviewees to put down their choice of destination not listed. The results reveal that most of those interviewed in all four study groups selected the US as their first choice of immigration destination. Canada and Australia are the 2nd and 3rd choices in all groups but among the 100% EB-5 investor group, Canada and Singapore were chosen as the 2nd and 3rd priorities.

When asked if he/she had been to the US, 50% of our interviewees in the total group, 72% in the US #1 destination group, 71% in the qualified group and 100% in the 100% EB-5 investor group responded yes.

The final question from this section is about the previous knowledge of the EB-5 program. In our 4 groups, a minimum of 80%, in the three smaller groups (95% among the EB-5 participants) responded affirmatively. Thus, even though the sample was non-random, familiarity with the EB-5 program prior to the survey being administered, appears to be very high.

Prioritized EB-5 Investment Objectives

The fourth part of our survey addresses prioritizing investment objectives when considering investing in an EB-5 program: As background, respondents are asked to measure their expectations of ROR (rate of return), in China. Then, they are asked to prioritize green card, US ROR, and return/safety of their investment capital.

Insert Table 4 on prioritized EB-5 investment objectives about here

For the four groups, the expected ROR for the investment in China is respectively 12.4% (total group), 12.0%, 10.7% and 8.1% (already in EB-5 program). It seems that the more an interviewee is considering immigration, the less ROR they expect from an investment in China.

With regard to the expected and accepted return with EB-5 programs in US, all the groups with exception of the 100% EB-5 investor group expect ROR on average to be twice as high as that is accepted, which is around 7%. For the 100% EB-5 investor group, the average expected and accepted ROR are 5.7% and 4.0%, which are closer to US market realities. The result demonstrates that the 100% EB-5 investors are more knowledgeable about EB-5 programs than other groups, and more willing to accept a lower return.

In terms of the investment priorities of green card, ROR and return of capital, the three factors were rated on a range from 1 (highest) to 3 (lowest priority). Results clearly indicate that the green card outweighs other factors, with the rate of return (ROR) as the least important item. This means the green card is the most important factor in the potential investors' decision to invest in EB-5 programs. This works against the notion that investors generally use EB-5 as a real estate portfolio investment.

Preferences For Different Risk And Deal Structures

The fifth part of the survey explores what type of alternative projects our potential EB-5 investors prefer and how much financial risk they are willing to take. As far as project investment types, the data show that farming/mining investments are the least favored, while retail is the most preferred type of investment project under the EB-5 program. The scale employed was 1 to 5, where 1 represents the most favored and 5 the least attractive. In all 4 groups, the average score of a farming/mining project was between 3 and 4, meaning farming/mining project was the least favored. Recreation projects scored from 2.9 to 3.1, which was the second least favored project among all groups. The score of a retail project was between 1 and 2.8, implying it's the most favored type of investment project. With regard to office and hotel/motel project, the US #1 destination group and 100% EB-5 investor groups preferred office projects to hotel/motel projects. By contrast, the total group and qualified wealthy group favored hotel/motel projects over office projects.

In order to assess relative risk tradeoffs, five different scenarios of risk and rate of return (ROR) were set before the interviewees. The factors common to all five scenarios include return of capital within five years, and issuance of a green card within 18 months. The variables for the scenarios were as follows:

#1) $0.5 million investment with 1% ROR;
#2) $0.5 million investment with 3% ROR;
#3) $1 million investment with 2% ROR;
#4) $1 million investment with 4% ROR; and
#5) $0.5 million investment with 0% ROR.

Insert Table 5 on favored investment scenarios about here

The outcomes indicate that the first scenario was favored: lower investment, with lower perceived risk, almost regardless of return. The only exception is the EB-5 investor group, which preferred scenario 5 with no return. The highest return/highest risk scenario (#4) is the most unfavorable in all 4 groups, with no one from the 100% EB-5 investor group bothering to score it. We assume that the 100% EB-5 investor group does not choose scenario 4 is because they strictly follow the principle of avoiding risk as much as possible. This assumption is also supported by their picking scenario #5 as the first choice, and scenario #1 the second, scenario #3 as the third with scenario #2 as the fourth. As designed, scenario #5 requires less capital, with a 0% ROR. It is also evident that this group is least likely to risk their investment capital. The other three groups ranked the first scenario as their favored project. It seems they were willing to take certain risks above a safer project with a 0% risk. The conclusion here is that rate of return means little to investors, and that they prefer to get their green cards with risking $0.5 million rather than $1 million. This is opportunity is offered by investing in EB-5 designated Targeted Economic Area (TEA) zones.

Reinvestment Potential

The structure of the EB-5 program requires that investor funds can only be encumbered for five years, when capital is returned to the investors. The purpose of the final part of the survey is to identify the intention of potential EB-5 investors to reinvest, or "roll over" their investment in the US after 5 years. When asked whether or not they would continue to invest in the US after 5 years, 83-95% of the interviewees in the four groups answered yes.

With regard to how much ROR they expect would when reinvesting in the US, the 100% EB-5 investor groups responded with 7%, while the other three other groups wanted more than 15%. It seems the more possibility the interviewees' immigration, the more realistic they are with respect to expected returns, and the more likely they are to accept a lower ROR when considering reinvestment.

Insert Table 6 on Reinvestment Potential about here

DISCUSSION/CONCLUSIONS

It appears from our survey that young males of the second generation of wealthy Chinese households constitute the major proportion of potential EB-5 investors. Most of these men are married. Presumably, young females of the same family background are likely to be on board as spouses or family of the investors.

As a rule of thumb, most people younger than age of 30, in particular those still in school, are not financially qualified for the requirements of EB-5 immigration without support from the parents. Therefore, it is understood that the investment of these young people would be carried out with family funding.

Since almost all interviewees favor US over China in the aspects of the university system, medical system and living environment, and likewise prefer China to the US in terms of a wealth gaining opportunity, we can infer that it is a general mentality and practice of Chinese EB-5 investor visa participants that the family will keep their business roots and continue making money in China, while exploring opportunities and benefits for a future for some family members in the US. That means, the parents would stay in China and continue the wealth building to support the younger generation's move to the US.

It is clear that the ultimate goal of EB-5 investors is getting the green card, the safety of capital comes second, and rate of return is the last concern. This conclusion can be further verified by the correlation between their immigration willingness and their preference of the no risk, very low ROR projects presented in the last part of the research.

Regarding the preference of investment project type, it seems the most favored are retail properties. Hotels and office buildings are also acceptable. The least preferred are farming and mining projects, followed by recreational properties. This is ironic because the bulk of Chinese corporate (rather than personal) investment in the US is to acquire natural resources.

We find that potential investors have a lack of knowledge about the US real estate market. Their investment judgments are based on their China's real estate market experiences where retail properties, hotels and office buildings are more suitable for individual investors. Their expectations must be adjusted before the EB-5 program can meet their needs. In addition, the positive response about reinvestment after 5 years makes it clear that the investment capital could likely be retained in the US after the investor gets their green card.

We provide the caveat that, from our limited and non-random sample, our conclusions about investment type preferences should be viewed as an instructive case study, from a Midwestern US market of the EB-5 slower-growing Targeted Economic Areas (TEA), and could cautiously be generalized to regional centers of that same TEA investment tier ($0.5 million minimum investment).

FUTURE - on the horizon

EB-5 is a pilot program that has been reauthorized every 3 years since 1990s. Since the direct cost to the federal government is so low, and benefits are high, it is possible/likely that it could be incorporated into a comprehensive US immigration bill in the next few years. Since the current US Congress seems unable to agree about anything, this one could be easier than most.

What do to with those funds that are rolling over? The hard part has been to get investors to bite on the first EB-5 project. The main benefit there has been the visa. Yet the EB-5 program requires that investor funds are returned in five years. Regional centers like the Cleveland International Fund would probably like to reinvest those investor funds, but since investors already have the green card, second round interest rates would more likely be at a higher return to the investor than nominal rate of the original project.

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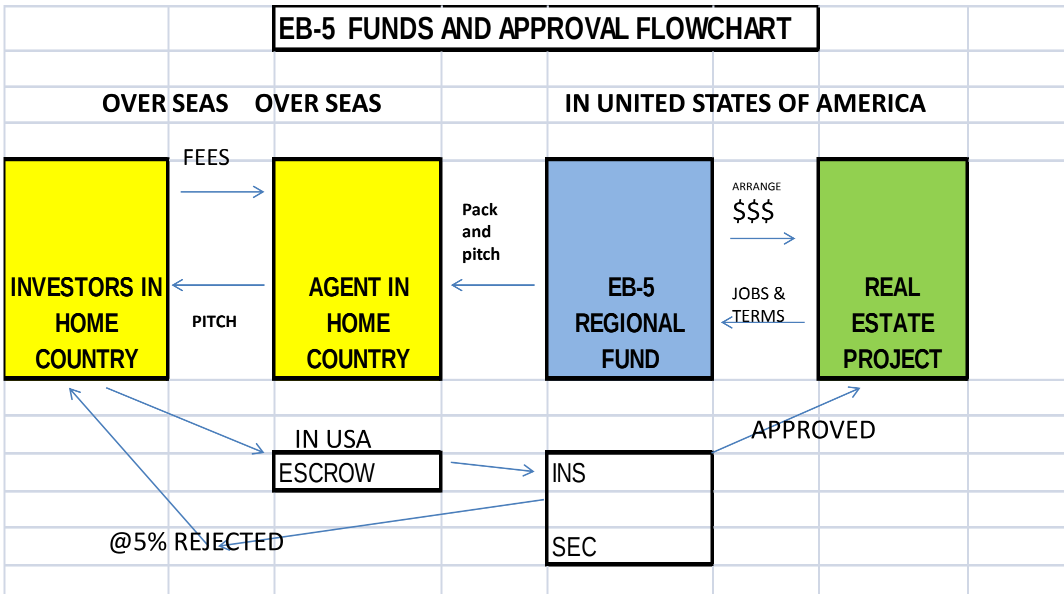
Figure 1 EB-5 flowchart



Note INS in Figure 1 above is part of the US Citizen and Immigration Service

Figure 2 Capital Stacks with EB-5 Positions shaded, Three Projects in Cleveland, Ohio

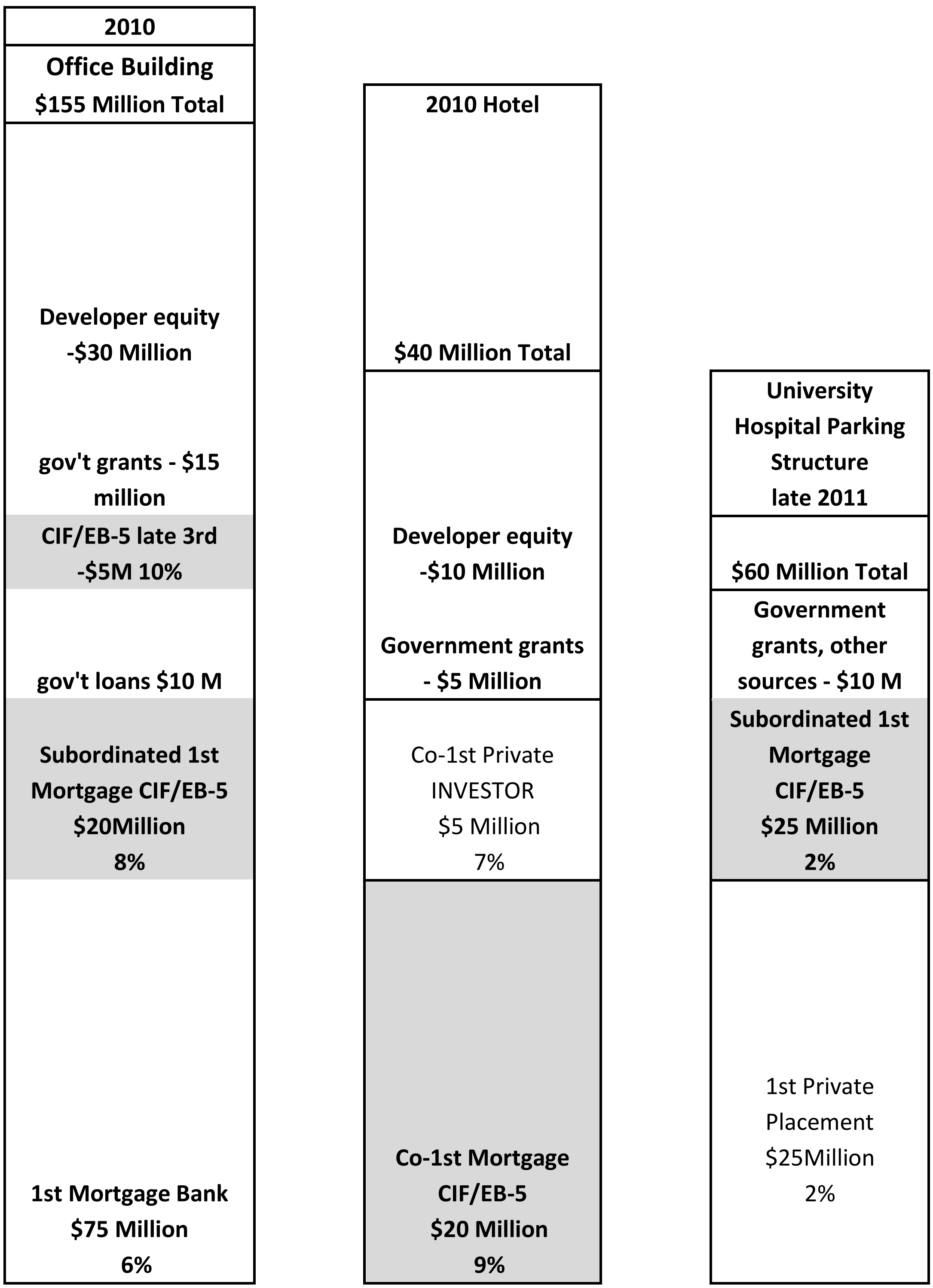


Table 1: Demographic Characteristics of Respondents

Variable		All Reponses Group (N=85)	US #1 Destination Group (N=40)	Qualified Group (N=43)	100%EB-5 Investor Group (N=22)
Gender	Male	69%	71.8%	73.8%	72.7%
	Female	31%	28.2%	26.2%	27.3%
Marriage Status	Married	62%	67.5%	67.5%	58.1%
	Single	38%	32.5%	32.5%	41.9%
Age range	20-30	47.1%	43.6%	45.2%	54.5%
	30-40	31.8%	28.2%	28.6%	4.6%
	40-50	11.8%	20.5%	16.7%	18.2%
	50-60	8.2%	7.7%	9.5%	18.2%
First child Age range	<6 years	23.2%	28.9%	25.0%	21.1%
	6-12 years	8.5%	7.9%	7.5%	0.0%
	12-15 years	9.9%	5.4%	10.3%	0.0%
	15-18 years	0.0%	0.0%	0.0%	0.0%
	18-21 years	1.2%	2.6%	2.5%	5.3%
	>21 years	11.0%	15.8%	15.0%	26.3%
	no child	45.1%	39.5%	40.0%	47.4%
Job Type	government agency	1.2%	0.0%	2.3%	0.0%
	public institutions	8.2%	7.5%	7.0%	0.0%
	state owned enterprise	14.1%	7.5%	11.6%	9.1%
	private operate business	58.8%	70.0%	58.1%	63.6%
	foreign-funded enterprise	4.7%	2.5%	4.7%	0.0%
	Others	12.9%	12.8%	16.3%	27.3%

Source: Authors' survey

Table 2 US and China Comparison

	Total Group	US #1 Destination Group	Qualified Group	100% EB-5 Investor Group
University Education System: US Better Than China	94.05%	97.44%	95.24%	100.00%
Medical System: US Better Than China	94.12%	97.50%	93.02%	100.00%
Living Environment: US Better Than China	85.88%	95.00%	95.35%	100.00%
Gain Wealth: US Better Than China	44.71%	40.00%	32.56%	13.64%

Source: Authors' survey

Table 3 Likelihood of Immigrating to US

exhibit 3 — **Likelihood of immigrating to US**

		total group						US #1 destination group						qualified group						100% eb-5 investor group		
possibility immigration in 5 years		45.16%						51.22%						59.59%						78.00%		
top 3 immigration destination		USA		Australia		Canada		USA		Australia		Canada		USA		Australia		Canada		USA	Singapore	Canada
		order	score	order	score	order	score	order	score	order	score	order	score	order	score	order	score	order	score	ratio	ratio	ratio
		1	2.11	3	2.49	2	2.46	1	1.00	2	2.85	3	2.88	1	1.83	2	2.21	3.00	2.26	91%	4.5%	4.5%
have been to US		50.00%						71.79%						71.43%						100.00%		
heard about eb-5		79.76%						82.05%						85.71%						95.24%		

possibility for participate in eb-5 in 5 years	no	little	much	100%	?
total group	3.5%	34.1%	34.1%	14.1%	14.1%
US #1 destination group	5.0%	27.5%	35.0%	22.5%	10.0%
qualified group	0.0%	20.9%	44.2%	23.3%	11.6%
100% eb-5 investor group	0.0%	4.5%	45.5%	40.9%	9.1%

Table 4 Prioritization For Green Card, Rate of Return, and Return of Capital

	Total group	US #1 destination group	Qualified group	100%EB-5 investor group
Green Card	1.66	1.32	1.47	1.18
ROR	2.60	2.86	2.72	3.00
Capital Return	1.67	1.72	1.78	1.81
Expect ROR Without EB-5	12.35%	11.95%	10.73%	8.09%
Expect ROR With EB-5	15.29%	12.50%	14.59%	5.71%
Accept ROR With EB-5	7.44%	6.80%	7.65%	4.00%

Source: Authors' survey

Table 5 Preferences For Different Risk And Deal Structures

		Total Group		Us #1 Destination Group		Qualified Group		100% EB-5 Investor Group	
		Rank Order	Score	Rank Order	Score	Rank Order	Score	Rank Order	Score
	Farming/ Mining	5	3.39	5	3.13	5	3.48	5	4.00
	Office	3	2.85	2	2.81	3	2.79	2	2.55
	Hotel/ Motel	2	2.79	3	2.90	2	2.66	3	2.69
Different	Retail	1	2.67	1	2.72	1	2.32	1	1.27
Kind	Recreation	4	2.96	4	3.00	4	3.03	4	3.09
Deal	Other								
	$0.5M,1%	1	2.29	1	1.97	1	2.13	2	1.58
	$0.5M,3%	2	2.73	3	2.78	3	2.80	4	3.33
	$1M,2%	3	2.84	4	2.81	4	3.04	3	2.00
Different	$1M,4%	5	3.35	5	3.20	5	3.05	--	--
Risk Deal	$0.5M,0%	4	3.02	2	2.74	2	2.57	1	1.48

Note: scale 1=highest preference, 5=lowest preference. The lower score, the higher priority.

Source: Authors' survey

Table 6 Potential For Capital Reinvestment After 5 Years

	Total Group	US#1 Destination Group	Qualified Group	100% EB-5 Investor Group
% Favoring Capital Reinvestment	83.05%	91.43%	88.24%	95.45%
Expected Rate of Return on Investment	16.27%	15.35%	16.03%	7.00%

Source: Authors' survey