

Are EB-5s the Answer to Affordable Housing?

MIAMI—On the heels of City of Miami Mayor **Tomas Pedro Regalado's** recent announcement urging housing developers to build more **affordable housing** options, many developers and investors are increasingly eyeing the use of EB-5s to meet this demand. In fact, most experts would agree that EB-5 use will continue to grow in **affordable housing**—a category previously left untouched this cycle.

GlobeSt.com caught up with **Steven Klein**, partner with accounting firm **Gerson Preston**, to get his thoughts on this and other questions, including the obstacles and risks involved with such funding, in part one of this exclusive interview. Klein works with both **foreign investors** and developers and provides counsel to clients investing in the US.



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GlobeSt.com: As developers and real estate investors increasingly eye the use of EB-5 funding for new construction in Miami, are there any risks associated with this type of funding?

Klein: There are certainly risks associated with the use of EB-5 funding, but these are not substantially different than any other type of funding. The biggest risk is in the viability and potential return of the construction contract.

The EB-5 funding typically comes at a lower rate allowing for a lower gross project return to be equivalent or potentially better than a higher return when evaluated on a net basis. For instance a project yielding a 20% gross return with 8% funding costs would yield a net return of 12%. Whereas a project yielding a 15% gross return with a 2% EB-5 funding cost would yield a net return of 13%.

GlobeSt.com: Many experts agree that EB-5 use is predicted to grow in the affordable housing sector—a category previously left untouched. What are your thoughts regarding the feasibility of using EB-5 funding for affordable housing?

Klein: Critics of the program say it amounts to little more than buying a visa and it benefits the wealthy more than the high-unemployment communities it's supposed to help. The critics may be correct that an EB-5 investor is indeed buying a visa, but when one looks at the greater good, it has to be considered whether the **affordable housing** project would have been built.

Is it better to build an **affordable housing** project that will employ a number of local residents during the construction and house a number of local residents after completion—while rewarding a foreign investor with a visa—then not building the project? Most would say yes.