



Business

Exchanging investments for U.S. green cards

Federal program attracts foreign capital for two downtown hotel projects

By Tom Daykin of the Journal Sentinel

Nov. 14, 2010

When a bank finances a commercial real estate project, it expects a strong return from that investment for putting its money at risk.

But foreign investors lining up to finance two hotel projects pending in downtown Milwaukee also want another reward: a new life in the United States.

That can happen under a program created in 1992 by Congress, during the administration of President George H. Bush. Known as EB-5, it allows a foreign citizen to obtain a visa by investing at least \$1 million, or at least \$500,000 in rural areas and areas with high unemployment, with that investment creating at least 10 U.S. jobs. That two-year visa can then be converted into a "green card," which provides permanent U.S. residency privileges to the investor, the investor's spouse and children.

"I don't think most of the people investing expect to get much of a return," said Pete Beitzel, vice president at Metropolitan Milwaukee Association of Commerce.

Instead, said Beitzel and others, foreign investors accept a relatively modest return because of the residency privileges - especially for their children to attend school and college in the United States.

"That's the big driver," said Beitzel, whose group helps market EB-5 investments in southeastern Wisconsin.

Those educational opportunities, as well as business opportunities for the investors and their families, are significant, said Julie Lee, an attorney at Foley & Lardner who represents the association on EB-5 issues.

"This is a segment of the economy where they have a lot of cash," Lee said. "And they want to diversify their investments."

Southeastern Wisconsin became one of the nation's EB-5 investment zones in 2007. Initially, the program was sparsely used in the Milwaukee area. But that's changing, as developers run into a continued reluctance by U.S. lenders to help finance larger commercial real estate projects.

"People are starting to realize there's money there," Beitzel said.

Developer Gary Gorman has traveled to China over the past year to line up investors for a proposed extended-stay suites hotel at the former Pabst brew house. While the EB-5 program is open to investors throughout the world, much of the focus is on China's growing, entrepreneurial middle class, and South Korea.

Gorman, president of Oregon, Wis.-based Gorman & Million Co., is raising \$15 in foreign capital for the project, which would convert the building, at the northwest corner of W. Juneau Ave. and N. 10th St., into a six-story, 90-room hotel. Gorman also is seeking \$3.8 million in federal historic preservation tax credits to help finance the project.

Also, a group led by local developer Ed Carow is raising cash from foreign investors for a \$50 million, 200-room Marriott Hotel proposed for a site near the southwest corner of E. Wisconsin Ave. and N. Milwaukee St. That project calls for demolishing some buildings designated as historic by the city, with the proposal scheduled to undergo initial Historic Preservation Commission review Monday.

Both Gorman and Carow turned to foreign investors because of the conservative lending climate among U.S. banks in the wake of the housing market collapse, recession and increased scrutiny from regulators.

"Money's tight," said Robert Kraft, chairman and chief executive officer of RCI FirstPathway Partners, a Milwaukee firm that represents EB-5 investors, including some who would finance the Marriott.

But the process of obtaining capital through the program is complex, Kraft and others said.

In 2007 and 2008, there were plans to raise money from foreign citizens to help finance the proposed Milwaukee International Trade Center at the former Pabst brewery distribution center. The trade center would have provided space to Chinese businesses seeking to sell their products directly to U.S. wholesale buyers. But that effort was dropped.

"It was hard attracting investors to a second-tier community," said Thomas Bernacchi, vice president at Towne Realty Inc., which was involved in the project. "A lot of Chinese investors are focused on the East Coast and the West Coast. I don't know that the Midwest is necessarily a hot spot for Chinese immigration."

Extensive process

A similar development surfaced in December for the former Northridge Mall, on Milwaukee's far northwest side. That project is led by Beijing-based Toward Group, which bought the property in 2008 for \$6 million.

Toward Group might use EB-5 investors to finance that project, said Lee, who represents the firm. She declined comment on how much money Toward still needs to raise in order to begin work on the development.

Lee said Milwaukee's Midwestern location and smaller size compared to New York, Los Angeles and other large cities have not hurt efforts to attract foreign investors.

"When they make an investment in Milwaukee, they don't need to live here," Lee said. "They don't even need to come here."

And prospective foreign investors who've visited Milwaukee often find they like the city and the friendliness of the people, said Daniel Wycklendt, RCI FirstPathway chief operating officer.

Still, once foreign investors have been lined up, there's an extensive approval process overseen by the U.S. Citizenship and Immigration Services. It takes months for federal officials to approve investors and make sure their money is coming from legal sources, Gorman said.

Some of those delays are due to the fact that China only began moving toward capitalism starting in 1978, said Lee, who was born in China and immigrated to the United States in 1992. Income verification documents, which U.S. citizens take for granted, are less common in China, she said.

Meanwhile, there's the question of whether foreign investors - enticed by green cards - are more likely than U.S. investors to finance projects that carry a higher risk.

While the residency privilege is an incentive to provide cash, the foreign investors also "are not looking to lose their money," Beitzel said.

"They're not idiots," he said.

In southeastern Wisconsin, the EB-5 program covers investments in manufacturing, printing, wholesaling, health services, financial services, business services and the hotel industry. So far, most of the interest has been in hotels, including Anvan Corp.'s remodeling of the former Interlaken Resort, on Walworth County's Lake Como, into the 146-room Lodge at Geneva Ridge.

The interest of foreign investors in hotels may be fueled by that industry's recent recovery.

Milwaukee-area hotels have seen a 14.5% increase in demand for rooms and a 10.3% increase in revenue per available room during the first nine months of 2010, compared to the same period in 2009, according to Nashville, Tenn.-based Smith Travel Research Inc.

"Those are some huge numbers," said hotel industry consultant Greg Hanis.

But both Gorman's proposed extended-stay hotel and Carow's Marriott plans carry some risk, said Hanis, who operates Hospitality Marketers Inc.

Gorman plans to operate the extended-stay hotel without a franchise. Hanis said that would hurt the hotel's ability to attract guests who want the centralized reservation system, brand familiarity and rewards programs offered by chain hotels.

The proposed Marriott, Hanis said, would offer too few rooms and be too far from the Frontier Airlines Center to draw convention guests. Instead, it will largely depend on individual business and leisure travelers who are looking at hotels on downtown's east side.

Still, the relative strength of the U.S. economy compared to other countries remains a big draw for foreign investors, Lee said.

"In the eyes of the outside world, we're still number one," she said.

COMMENTS

DavidPC - Nov 13, 2010 9:49 PM

Two hotel proposals: One restores a historic building complex & makes Milwaukee more interesting. The other destroys a historic building complex & makes Milwaukee more generic and cookie-cutter.

Polish Hussar - Nov 14, 2010 12:17 AM

@DavidPC

Everywhere you go in Milwaukee you will find a historic building that looks like crap. We can't get any new buildings put up because, of course, we have to keep the vacant crappy historic building in place. That's not modern. That's not interesting.

Let's get rid of all of these "historic" designations on buildings in Milwaukee. If a historic building was well made, then it will have future uses. If it isn't...tear it down and put up another building that will be put to good use.

hemmy9 - Nov 14, 2010 5:27 AM

The proposed Marriott doesn't look cookie cutter...

<http://www.jsonline.com/business/106572143.html>

I was looking at Google Maps street view and it seems five historic buildings would have to be torn down - all but one seem to have been extensively modified, and none of the historic buildings are in very good shape. If the Marriott is built, maybe the other ten or so historic buildings in the area that are vacant or partially vacant will find tenants.

Also, assuming these projects financed by foreign investment don't cause demand problems for other businesses in the area... whoever is finding these people in China - keep up the good work.

Dave Reid - Nov 14, 2010 3:54 PM

@hemmy9 Actually if these 5 buildings are demolished it will make it more likely that the other historic buildings in the area will come down as well.