

REGIONAL CENTERS



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REINING IN REGIONAL CENTERS

The EB-5 clearinghouses have emerged as a crucial but controversial tool in raising cheap foreign capital, but will they be reformed?

By E.B. SOLOMONT

Nicholas Mastroianni II is a man in perpetual motion. The 52-year-old CEO of the U.S. Immigration Fund, which raises money from foreign investors for real estate developments through the EB-5 program, spends a considerable chunk of his time on the road.

Last month, that meant a 10-day trip to China, Korea and Vietnam — which partly explains why, in the middle of that trip, after several attempts to connect, he emailed to suggest a phone call at 11 p.m. Korea time.

“I’m all over the world, that’s the problem,” he chuckled. “I’m in South Korea now.” Since 2010, when Mastroianni got into the EB-5 business, he’s lined up more than \$1.5 billion from EB-5 investors, who chip in \$500,000 each in exchange for a U.S. green card. Ninety percent of USIF’s clients are major New York real estate players, including Forest City Ratner, the Durst Organization, the Witkoff Group, HFZ Capital and Kushner Companies. Having arranged financing for mega-projects like Pacific Park (formerly known as Atlantic Yards), along with more than 20 other office and condo projects, USIF is the largest regional center in New York — if not the country.

Regional centers, otherwise known as “sponsors” of EB-5 projects, are the intermediaries between developers and investors — acting as de facto clearinghouses for immigration documents and investor capital.

But the central role regional centers have taken on has emerged as a major flash point for criticism of EB-5, which has garnered a reputation for being opaque, not to mention rife with fraud. In addition, the program has incited anger among some who say it spurs economic investment in urban areas while turning a blind eye to the rural parts of the country that truly need it.

Michael Gibson — managing director of US-



Top NYC regional centers by dollars raised

REGIONAL CENTER	\$ RAISED	NOTABLE PROJECTS
U.S. Immigration Fund	\$1.5 billion	Pacific Park, Nassau Coliseum, 101 Tribeca
NYC Regional Center	\$1.1 billion	Brooklyn Navy Yard, Steiner Studios
Related NYC Metro Regional Center	\$600 million	Hudson Yards
Silverstein Properties Regional Center	\$250 million	30 Park Place
New York Immigration Fund	\$233 million	Times Square Hotel, Knickerbocker Hotel
New York Metropolitan Regional Center	\$200 million	New York Wheel, Gulfport Marine Terminal

Source: Research by NYU professors Jeanne Calderon and Gary Friedland, TRD and EB-5Projects.com

Advisors, a registered investment advisory firm that does EB-5 due diligence work — called the industry “broken” and pointed the finger at U.S. Citizen and Immigration Service, the division within the Department of Homeland Security that oversees the program and regulates regional centers.

“This is a great program if it’s done right, but the biggest problem is transparency,” said Gibson, who also consults for developers and sometimes regional centers.

While Congressional efforts to reform the industry fell flat this fall, stakeholders are bracing for changes before EB-5 comes up for renewal again on Sept. 30. And many of those reforms are expected to target regional centers.

But the development and real estate finance communities have made no bones about the fact that they are staunchly behind these regional centers.

Case in point: When Howard Michaels of the financial intermediary the Carlton Group introduced Michael Shvo to USIF back in 2014, he urged the developer, who was trying to line up financing for 125 Greenwich, a 275-unit condo, to “sign them up” quickly.

In an email to Shvo, Michaels cited USIF’s successful fundraising on behalf of New York clients like the Witkoff Group. “According to the Witkoff Group,” Michaels wrote, “they put on an unbelievable show.”

“I said to myself, ‘If I can pull this together, I have 10 friends in New York who would love to borrow this inexpensive mezzanine capital, too.’”

**NICHOLAS MASTROIANNI II,
U.S. IMMIGRATION FUND**



Nicholas Mastroianni II
of the U.S. Immigration Fund

Profit powerhouses

When Mastroianni launched USIF in 2011, EB-5 was still in its infancy, with only 28 regional centers nationwide.

Today, there are more than 800, and at least 65 of them call New York home.

And while developers and investors are not required to use these regional centers, the vast majority of EB-5 capital — some 95 percent — flows through them.

In fiscal year 2015, EB-5 accounted for \$4.38 billion in direct foreign investment in the U.S. — up from \$3.56 billion a year earlier and from only \$320 million back in 2008, according to the Regional Center Business Journal, a quarterly trade publication.

Although some developers like the Related Companies and Silverstein Properties have in-house regional centers, most developers use a third party to avoid the expense and logistics of complying with federal requirements.

“The regional center is a point of communication between us and the investors,” said Assaf Schuster, vice president of business development for Victor Homes, which, along with Lend Lease, is raising \$90 million for a 55-story condo at 281 Fifth Avenue. Victor has tapped the Manhattan-based American Immigration Group as its regional center.

Not surprisingly, regional centers get paid generously for acting as the conduit between developers and investors.

Developers typically pay regional centers between 5 percent and 8 percent of the total capital raised. (A back-of-the-envelope calculation based on those percentages shows that Related, which raised \$600 million in EB-5 cash for its giant Hudson Yards project, may have saved around \$50 million by setting up its own regional center.)

In addition to that percentage haul, regional centers also charge each investor an administrative fee of \$25,000 to \$60,000 on top of the \$500,000 minimum commitment they are making to the project. A \$100 million raise, therefore, would generate fees up to \$8 million from the developer and up to \$12 million from investors.

Those aren't pure profits, of course. But at \$200,000, the cost of setting up a regional center is paltry, especially because developers also pay for things like marketing materials, business plans and economic studies that must be completed to ensure that every project complies with USCIS requirements. Each \$500,000 investment must also create 10 jobs, and it's up to regional centers to document that a project meets those criteria.

Lately, regional centers have also been shelling out big money to hire foreign “migration agents” who line up investors. (See related story on page 56.)



Jacqueline Finkelstein of the American Immigration Group

Min Chan, a co-founder of the regional center launched by the Manhattan-based brokerage City Connections, said she recently interviewed a migration agent who wanted \$25,000 up front — plus up to 4 percent of the capital raise.

“The whole point of EB-5 is more affordable capital,” she said. “If you're taking 3 to 4 percent of what we raise, and the investor gets [a standard] 1 percent, what's the regional center going to keep?”

The snowball effect

Mastroianni has a beefy build, black-and-silver hair and the perpetual suntan of someone who spends a lot of time on golf courses.

A Long Island native, he moved to Palm Beach in the '90s and now splits his time between homes in Florida and Manhattan when he's not racking up international frequent flier miles.

Rewinding a few decades, Mastroianni got into the construction business at age 19. In 1989, he started a Rhode Island-based company, Interstate

Design & Construction, which soundproofed buildings near airports. Then in 2004, he launched the Florida-based Allied Capital & Development.

However, it has not all been smooth sailing. In 2014, a published report documented a series of debts and lawsuits that the young entrepreneur left in his wake over construction issues.

According to the story, Interstate went into receivership in 2000. Mastroianni filed for personal bankruptcy in 2003.

“Listen, when you're on top, people want to knock you down,” Mastroianni said recently, when asked about the article. “It stems from people who are jealous and envious of what we do.”

Reflecting a bit more, he said life takes winding roads. “If I didn't do all the things I've done in life, I wouldn't be here today,” he said. “I might be banging nails on roof shingles, like when I was 19.”

Instead, in the mid-2000s, years before EB-5's skyrocketing popularity — the program has actually been on the books since 1990 — Mastroianni used the little-known program to finance a mixed-used development of his own in Jupiter, Fla., a wealthy enclave near Palm Beach.

Mastroianni was trying to line up financing for a \$144 million project called Harbourside Place. “There was no way to finance the project,” he recalled.

In 2010, after learning about EB-5, he formed the Florida Regional Center to raise nearly \$100 million from Chinese investors.

“I said to myself, ‘If I can pull this together, I have 10 friends in New York who would love to borrow this inexpensive mezzanine capital, too,’” he said.

The following year, Mastroianni landed his first New York City project when he was hired to raise \$23 million for the Charles, a 27-unit luxury condo developed by Bluerock Real Estate and Victor Homes. From there, the newly formed U.S. Immigration Fund was hired by Forest City, Durst and others. “It

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What changes are on tap for EB-5?

A new bill designed to clean up the EB-5 program is up for consideration. The bill, whose sponsors include **New York Senator Chuck Schumer**, is expected to take aim at regional centers and tackle some of the most controversial aspects of the program. The provisions include:



- **Clearer guidelines on job creation requirements. For example, mandating that 50 percent of jobs must be within a set geographic distance from the project.**
- **More stringent reporting for regional centers, including annual statements, certifications demonstrating securities compliance and background checks for some operators.**
- **Prohibitions barring foreign entities or governments from owning or funding regional centers.**
- **Signed consent forms from EB-5 investors showing they understand the rules, procedures and fees involved.**
- **Additional reporting requirements from government watchdog agencies, including the Government Accountability Office and the Inspector General's office.**

By **E.B. Solomont**