

Spotlight on Foreign Investment: what's driving overseas money to Texas?

BY BRANDI SMITH

Right in the heart of downtown Houston, construction is underway on a 20-story tower, which will soon be home to 100 different residences. Marlowe Houston is situated in one of the most sought-after locations in a thriving market, making it an ideal investment opportunity and foreign investors took notice

Marlowe is managed, in part, by Houston EB5, an organization based in Houston that works to connect interested foreign parties with projects and opportunities. Houston EB5 is working on five projects, two of which are still in need of funding: District Lofts in Sugar Land and Arabella Houston.

The developments are just the latest examples of money pouring in from other countries as foreign investment has skyrocketed.

"A safe haven for your investment"

"It's really true. There is significantly more direct foreign investment these days than there has been in years past," said Jack Fraker, vice chairman and managing director of CBRE's Capital Markets Industrial Practice. "The investments are direct and not just through a commingled fund vehicle."

In fact, according to Real Capital Analytics, foreign purchases of U.S. real estate have seen

a tremendous increase since the recession. In 2015, they totalled \$87.3 billion. That's up from just \$5 billion in 2009.

"Foreign investors are looking outside the top tier coastal markets such as New York City, Washington, D.C., Los Angeles or San Francisco," Fraker said. "They are also starting to look at different asset types and they are looking at different geography, including non-coastal markets."

As staggering as 2015's number are, it appears 2016 will be even better. According to the 24th annual survey by the Association of Foreign Investors in Real Estate (AFIRE), 65 percent of foreign investors say they have plans to increase their investment here.

"The United States is still the leading economy in the world. It's definitely considered a safe haven for investment by foreign investors," Fraker said.

That survey also revealed that the United States is still considered the "most stable and secure" country for real estate investments, according to the majority of respondents. Though no Texas cities top AFIRE's list of most sought-after investment locations (New York, Los Angeles and San Francisco are ranked 1, 2 and 3, respectively), the state is still a go-to for foreign investors.

"It's no secret that Texas has the best

population growth and the best job growth in the country," said Fraker. "In and of itself, the Texas GDP would make it one of the top economies in the world. It is a very diverse economy and so are the population base and job opportunities."

That impressive growth has definitely caught the attention of overseas investors, looking to get some extra bang for their bucks.

"Big office buildings in Houston have set record prices. Many of which were sales to foreign investors," Fraker said. "The same is true for Dallas. It's not just the office properties. Large-scale logistics and industrial platforms have been sold to foreigners. Multi-family housing is also popular asset now for foreign investors."

"It's bringing a lot of capital"

One of the key tools in bringing foreign money into the U.S. and Texas is the Employment-Based Fifth Preference program, better known as EB-5.

Created by Congress in 1990 as a way to create jobs and increase foreign investment, EB-5 permits foreign nationals to obtain a visa by investing at least \$500,000 in U.S. businesses. There are some caveats, including that the money must directly or indirectly employ at least 10 Americans. The investments generated by EB-5 are funneled through about 800 regional development centers located around the U.S.

"EB-5 is a great opportunity to import capital and also allow for citizens from abroad to get US citizenship," said Fraker. "Some of the biggest projects in Manhattan, for example, have equity through EB-5. It's also very active here in Texas with office development, large-scale residential projects and certainly



Jack Fraker

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hotels. Even in the logistics sector, you're seeing EB-5 financing is available."

The program is booming. For example, in the first quarter of 2015, there were 2,941 EB-5 applications. The first quarter of this year saw more than double that: 6,277 applications. However, as interest grows, the approval rate has dropped. It was down to 20 percent in 2015.

So who's applying for the EB-5 program? The bulk of interest comes from China; 80 percent of applicants are Chinese. In 2015, more than 8,000 of the approved applications were given to Chinese nationals, compared to 88 for Russians and 62 for Iranians.

"It's no secret that Texas has the best population growth and the best job growth" - Jack Fraker

"I don't believe that America should be selling visas and eventually citizenship" - Sen. Sen. Dianne Feinstein

"It's getting very smart, new immigrants and it's bringing a lot of capital, which will help finance great projects and also create jobs," Fraker said.

A few of those projects are those managed by Houston EB5, including Marlowe Houston. The organization touts its team of professionals who "work diligently to provide assistance at various stages of the EB-5 Program application process."

"We're so close to getting it right."

EB-5 has come under scrutiny recently after cases of fraud surfaced. Some in Congress have called for the program to be shut down or, at the least, reworked.

"I don't believe that America should be selling visas and eventually citizenship," said California Sen. Dianne Feinstein. "The right to immigrate should not be for sale."

However, during a hearing on the issue in

February, Texas John Cornyn came to the program's defense, saying, "Mend it, don't end it."

Another EB-5 supporter is New York Sen. Chuck Schumer. He says the program has generated \$8.7 billion and more than 35,000 jobs since October 2015.

As Congress evaluates EB-5's value, one Texas attorney is hopeful about its future.

"I'm still holding out hope," said Shae Armstrong, who represents clients involved in EB-5 projects. "We're so close to getting it right."

"The capital markets are truly global these days"

Assuming Congress preserves EB-5 in some way, the program will continue to be a

vital part of foreign investment in the U.S. However, due to the security and stability of the American economy, experts say overseas money will always play a significant role in real estate investment.

"There has also been recent changes in foreign tax legislation (FIRPTA), which will make it easier for foreign investors to invest in the U.S.," Fraker said.

But just as people from outside the United States want to pool their money here, American investors are looking for opportunities overseas as well.

Said Fraker: "The capital markets are truly global these days." ●



Courtesy: Randall Davis