



EB-5 Diligence: Why to Avoid EB-5 Multi-Family Development Projects in the San Francisco Bay Area (Oakland)

A Data Driven Analysis of The Multi-Family Real Estate Development Landscape in the Bay Area

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**This presentation is not legal advice and is for
informational purposes only.**

You must engage your own legal counsel for legal advice.

Topics Covered in Today's Webinar

Why to Avoid EB-5 Investment in Bay Area (Oakland) Development Projects

About EB5AN

Oakland Multi-Family Investment Thesis

SF Bay Area Economy Overview

Basics of Real Estate Finance

SF Bay Area Investment Risk

Macroeconomic Trends

Investment Framework for EB-5 Investors



About EB5AN



EB5AN: A Leading EB-5 Investment Fund Manager

2,300+ families from 60+ countries and regions have invested through EB5AN's regional center investments.



2013

Established



\$4 billion+

Assets under development



10+

USCIS-approved regional centers covering 30+ states



100%

Regional center project approval rate with USCIS



30+

Completed or ongoing EB-5 investment funds; numerous I-526, I-829, and I-924 exemplar approvals

EB5AN Is Committed to 100% EB-5 Investment Transparency

EB5AN is Pleased to Make the Following Key EB-5 Investment Due Diligence Documents Available to All EB-5 Investors

- ✓ The complete set of Form I-956F “exemplar” EB-5 documents filed with USCIS
- ✓ The complete Form I-526E individual investor document set template
- ✓ The balance sheet of the Kolter parent company guarantying the repayment of the EB-5 loan
- ✓ The current financial statements of the Kolter company developing the project showing proof of developer equity invested to date
- ✓ The executed loan agreement between the company developing the project and the construction lender
- ✓ Any other available documents related to the development of the project and EB-5 investment

Other EB-5 Regional Centers

- ✗ Not willing to share the entire Form I-956F “exemplar” or Form I-526E template with all exhibits
- ✗ Not willing to share the balance sheet of the company guarantying the repayment of EB-5 funds, or no such company exists, and the EB-5 investment is unsecured with “no collateral” or only a pledge
- ✗ Not willing to share the current financial statements of the company developing the project because they do not exist, reflect losses, or reflect that no developer equity has been funded
- ✗ Not willing to share an executed senior loan agreement or other financial commitment documents because they do not exist

Use common sense. If an EB-5 company is not willing to provide the basic documents needed to evaluate the financial position of an EB-5 project, avoid that project. Get access to and review critical financial documents for the project. Invest only if you know and are comfortable with the current financial position of the companies involved.

How to Identify Red Flags for EB-5 Investments



For many EB-5 investors, an \$800K EB-5 investment will be the largest investment they have ever made.

Some EB-5 investors may not have experience making real estate investments or other private equity investments. As a result, many EB-5 investors may not know what questions to ask and what documents to focus on when evaluating potential EB-5 investments.

Many EB-5 projects appear to be “safe” and have nice renderings but have minimal security and are very risky. An inexperienced investor can have a difficult time separating these “risky” projects from safer projects.

EB5AN has prepared many articles to help EB-5 investors evaluate potential EB-5 real estate development projects. Our articles help EB-5 investors identify and understand the impact of the most common risks found in such projects.

View these articles at: www.EB5Investments.com

We strongly recommend that EB-5 investors take the time to understand real estate development investments so that they make an educated EB-5 investment decision and increase the likelihood of receiving permanent green card approval and a timely repayment of EB-5 investment funds.

If you need help, or don't know where to start, just ask, and we can point you in the right direction.

The EB5AN Management Team

The EB5AN team has been involved in more than \$4 billion of leveraged buyouts, IPOs, and real estate development.



**Samuel B.
Silverman**



- Yale University – B.A. in Economics with a concentration in Mandarin Chinese
- Boston Consulting Group (BCG) – Business and strategy consulting
- Stanford Graduate School of Business – M.B.A.
- Forbes 30 Under 30 National Winner for Social Entrepreneurship



**Michael B.
Schoenfeld**



- University of North Carolina at Chapel Hill – B.A. in Economics; B.S. in Business Admin
- Boston Consulting Group (BCG) – Business and strategy consulting
- AEA Investors – Leading middle-market private-equity firm
- Forbes 30 Under 30 National Winner for Social Entrepreneurship

Our Commitment to EB-5 Investment Transparency



EB-5 investors deserve to be well-informed about the EB-5 visa program and potential investment opportunities.

We are committed to transparency, providing accurate, insightful information to potential EB-5 investors. We succeed when our clients achieve both their immigration and investment goals.

Since our founding, we have delivered on our commitment to our EB-5 investors by funding institutional-quality real estate development projects that not only meet the immigration requirements of the EB-5 program but also provide a level of transparency and financial security that remains unmatched in the EB-5 industry.


Speak with EB5AN Managing Partner Sam Silverman about EB-5

If you have questions about the Twin Lakes Georgia rural EB-5 project or the EB-5 green card process, you can schedule a call, send a WhatsApp message, or e-mail Sam directly.



Weekend Time Slots Available

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+1 (561) 386-5356

 Email at
sam.silverman@eb5an.com

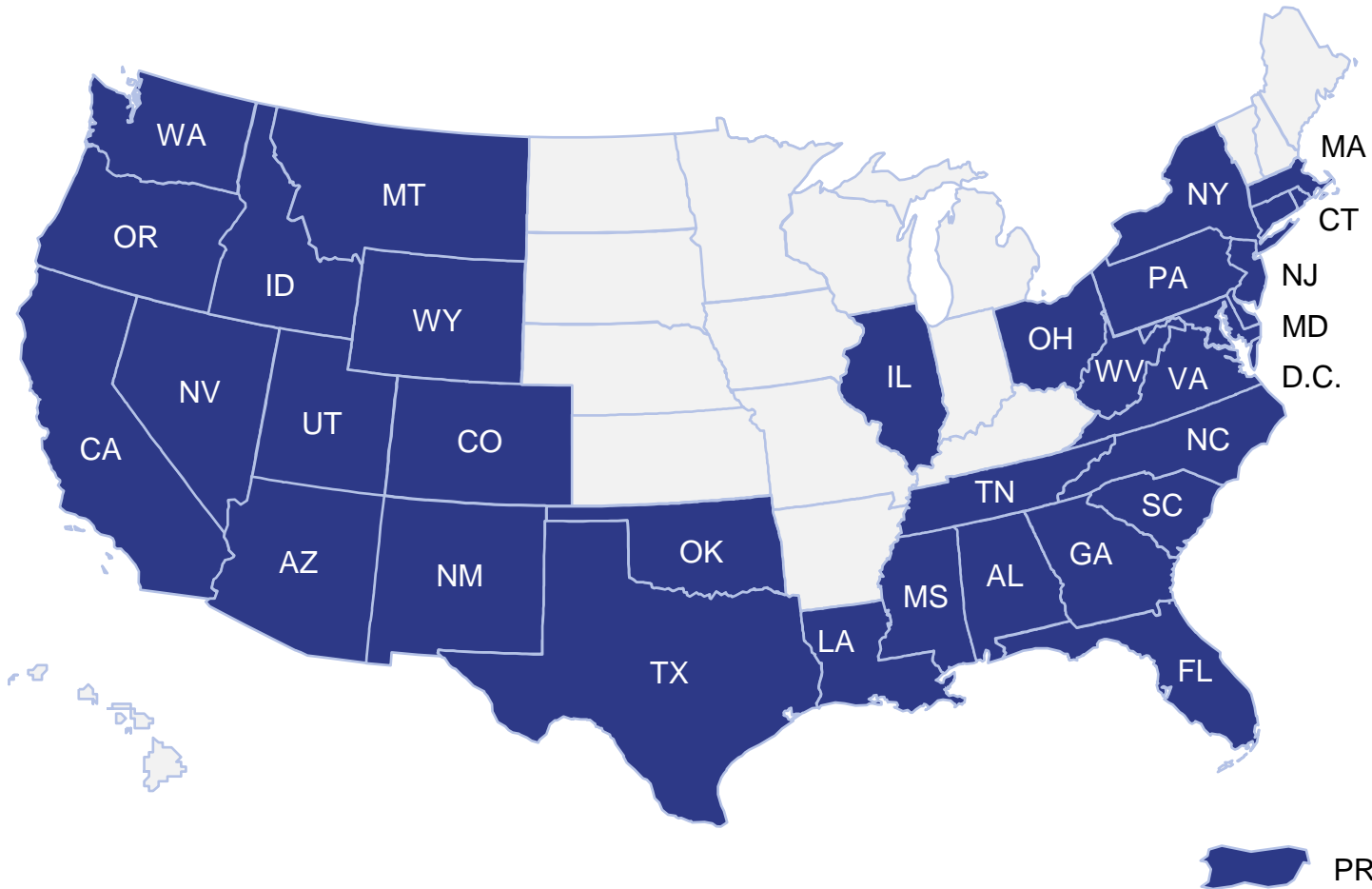
Yale

Stanford

BCG



EB5AN Operates 10+ Regional Centers that cover 30+ States, Puerto Rico, and Washington, D.C.



USCIS regional center approval letters

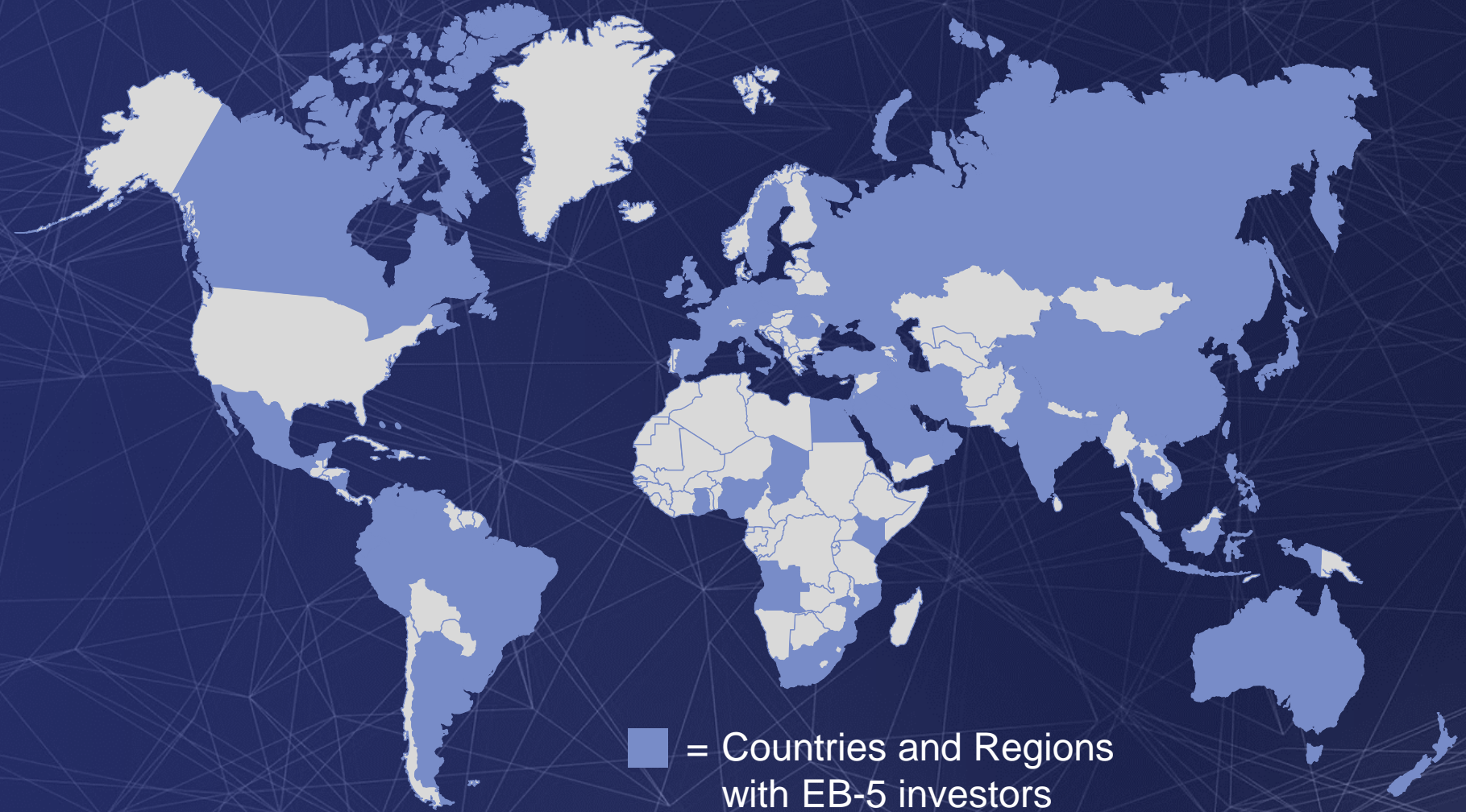


All regional centers 100% owned and controlled by EB5AN

Investors from More than 60 Countries and Regions

People of many nationalities and backgrounds consistently find value in EB5AN's investment approach.

 Angola	 Kuwait
 Argentina	 Mexico
 Australia	 Montenegro
 Austria	 Mozambique
 Azerbaijan	 Netherlands
 Bahamas	 New Zealand
 Bangladesh	 Nicaragua
 Belgium	 Nigeria
 Brazil	 Oman
 Canada	 Palestine
 Chad	 Peru
 China	 Philippines
 Colombia	 Poland
 Czech Republic	 Romania
 Ecuador	 Russia
 Egypt	 Saudi Arabia
 France	 Singapore
 Germany	 South Africa
 Ghana	 South Korea
 Haiti	 Spain
 Hong Kong	 Sweden
 India	 Taiwan
 Indonesia	 Thailand
 Iran	 Trinidad and Tobago
 Iraq	 Turkey
 Ireland	 UAE
 Italy	 Ukraine
 Japan	 United Kingdom
 Jordan	 Uruguay
 Kenya	 Venezuela
 Korea	 Vietnam

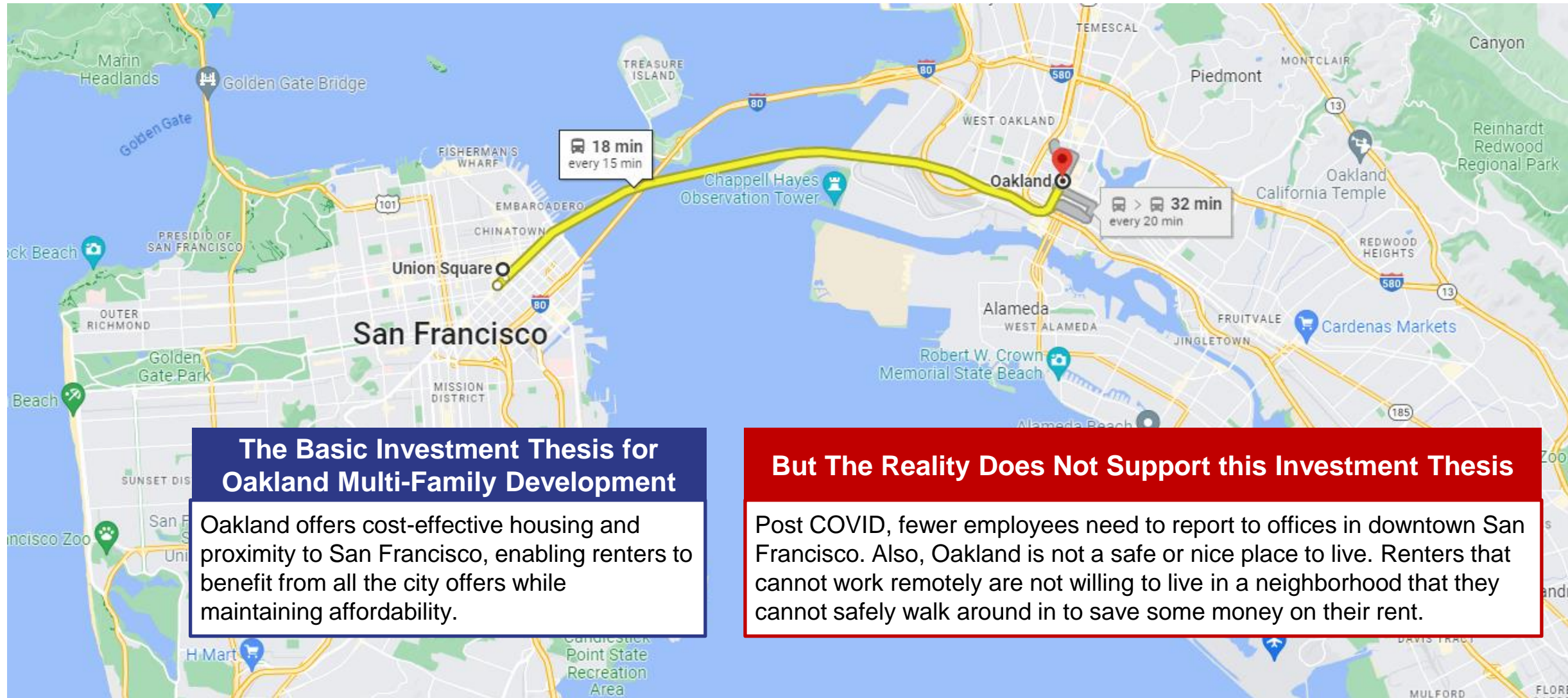


 = Countries and Regions with EB-5 investors

Oakland Multi-Family Investment Thesis

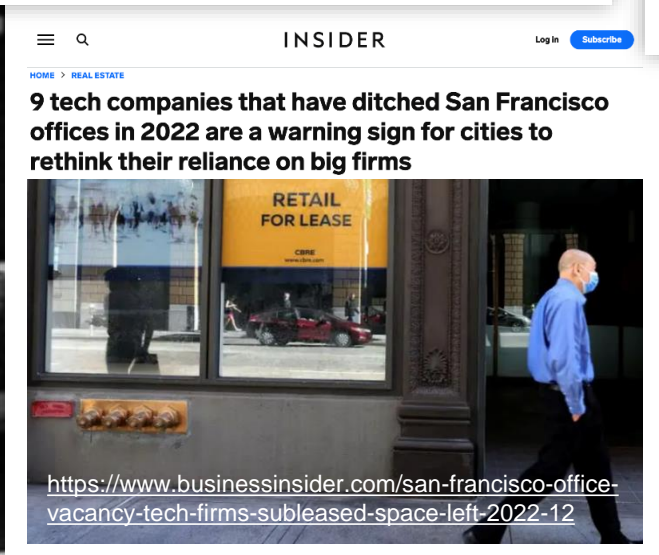
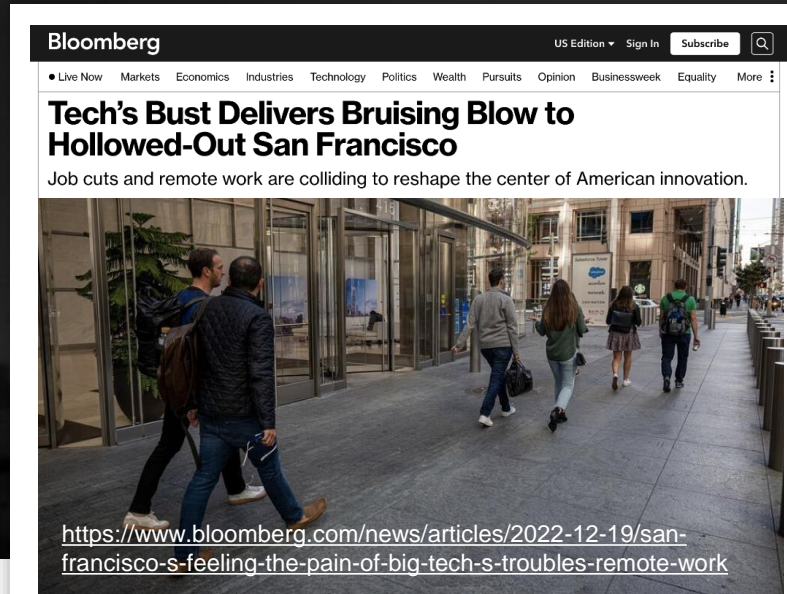
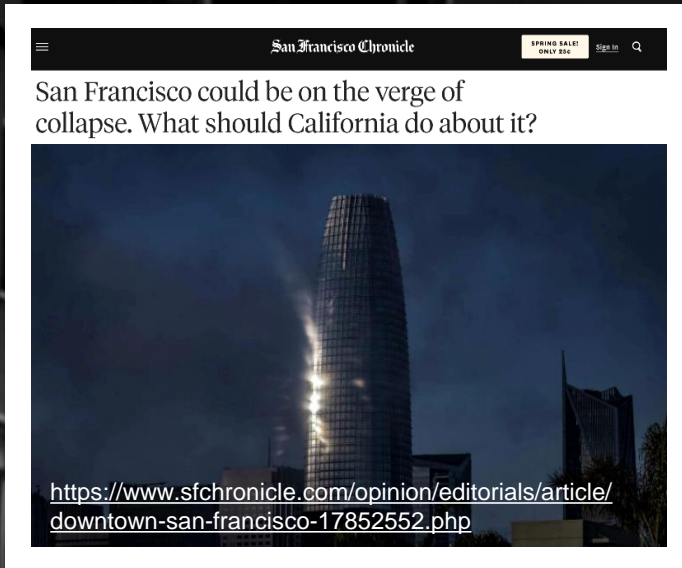


Why Does Investing in New Multi-Family Apartment Buildings in Oakland Sound like a Good Idea at First Glance, but the Reality is Quite Different



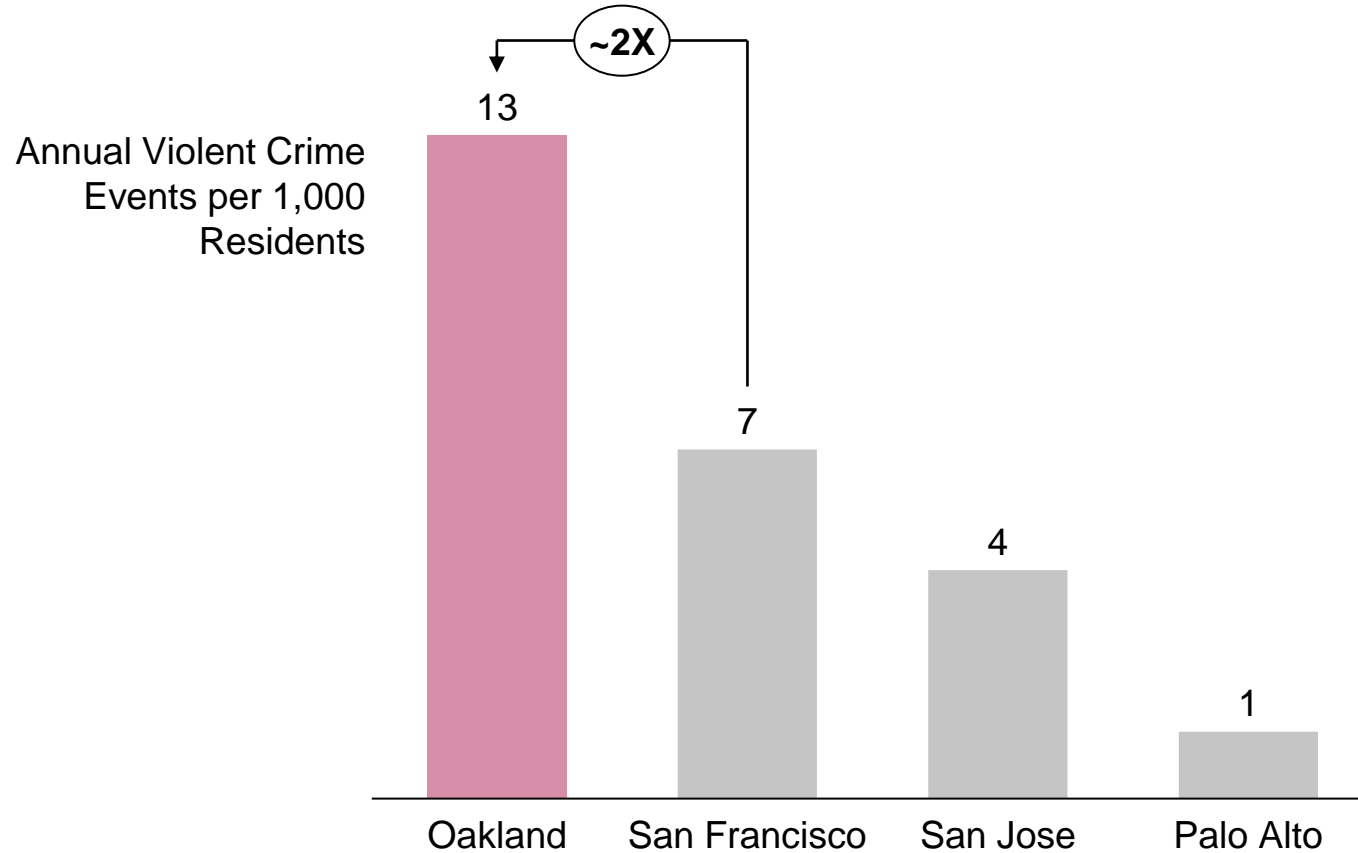
San Francisco Bay Area Economy Overview

San Francisco Bay Area Economy: Recent News



Oakland: the Most Dangerous City in the Bay Area

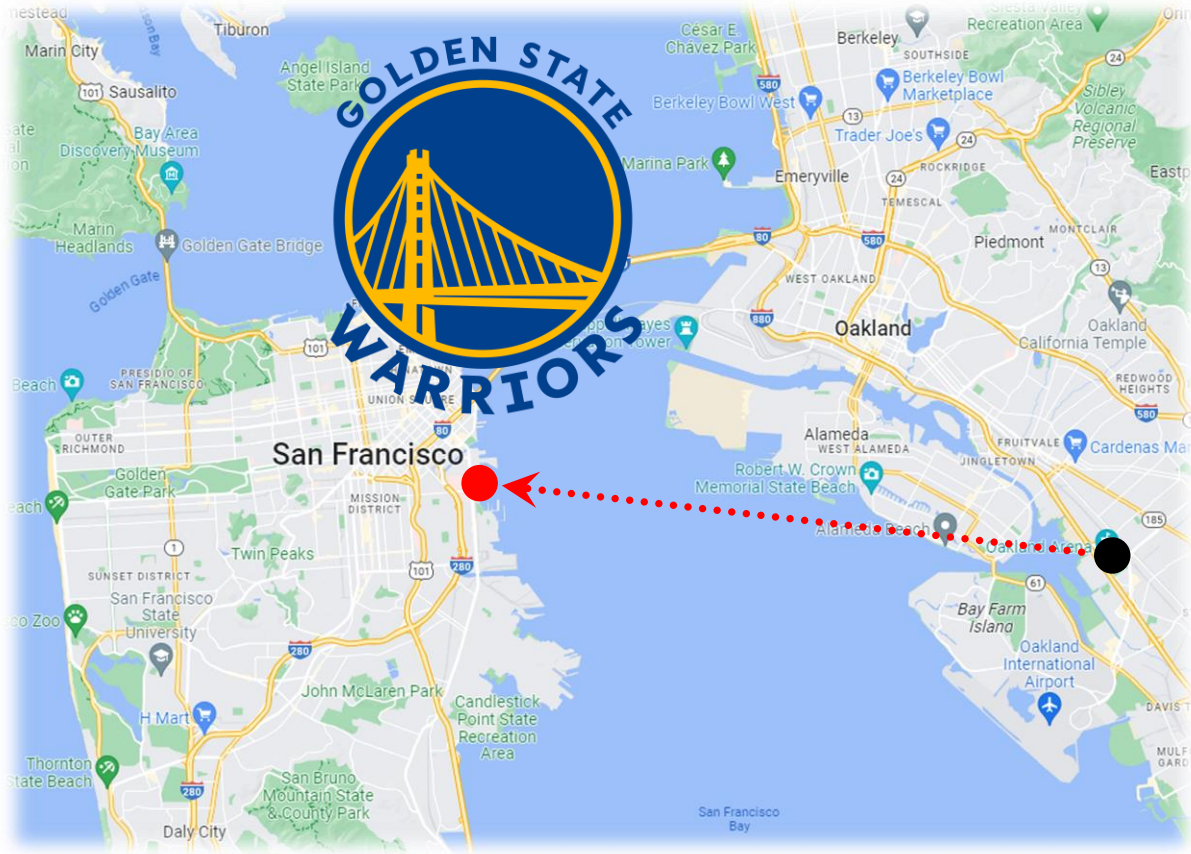
Oakland is by far the most dangerous Bay Area city in terms of violent crime; Oakland residents are ~2x as likely to be victims of violent crime compared to San Francisco.



Source: Federal Bureau of Investigation Crime Statistics.

Oakland Loses Three Professional Sports Franchises

Golden State Warriors left Oakland for San Francisco; Raiders left for Las Vegas, and the Athletics will follow by 2027.



Basics of Real Estate Finance



Basics of Real Estate Finance: Key Topics to Consider when Investing in a Real Estate Development Project

Cost of Capital

What is the cost of capital and why does it matter?

Capital Structure

Understand priority of payment: Senior Loan, Mezzanine Loan, Preferred Equity, Common Equity.

Common Sources of Capital

National bank, regional bank, private lender, private equity, EB-5 capital, etc.

Secured vs. Unsecured Loans

Understanding collateral and how to interpret guarantees.

Supply and Demand

Demand must match supply to maintain price levels.

San Francisco Bay Area Investment Risk Analysis

Supply and Demand for Multi-Family Units: The Value of Multi-Family Assets is Driven by a Basic Supply and Demand Function.

Too Much Supply and Reduced Demand = Declining Prices

Supply and Demand

How does basic supply and demand work in the multi-family real estate market? What are key drivers you see in the market today?

Impacts on Supply and Demand

Generally, what supply trends are affecting the Bay Area real estate market? What about demand trends?

Multi-family Rent Prices

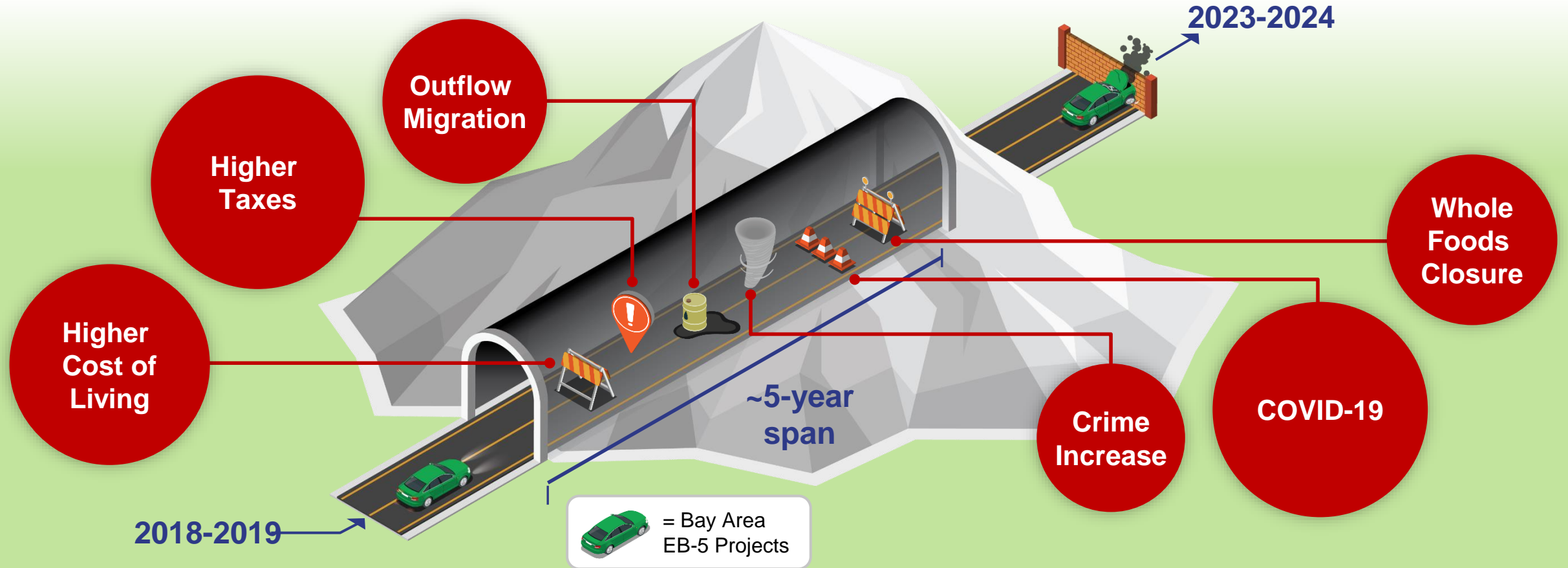
How important are stable rent prices for multi-family apartment building projects? How do falling rents affect these projects?

Shifting Curves

How would simultaneously increasing supply and decreasing demand affect the real estate market?

Long, Fixed Development Timelines Increase Risk

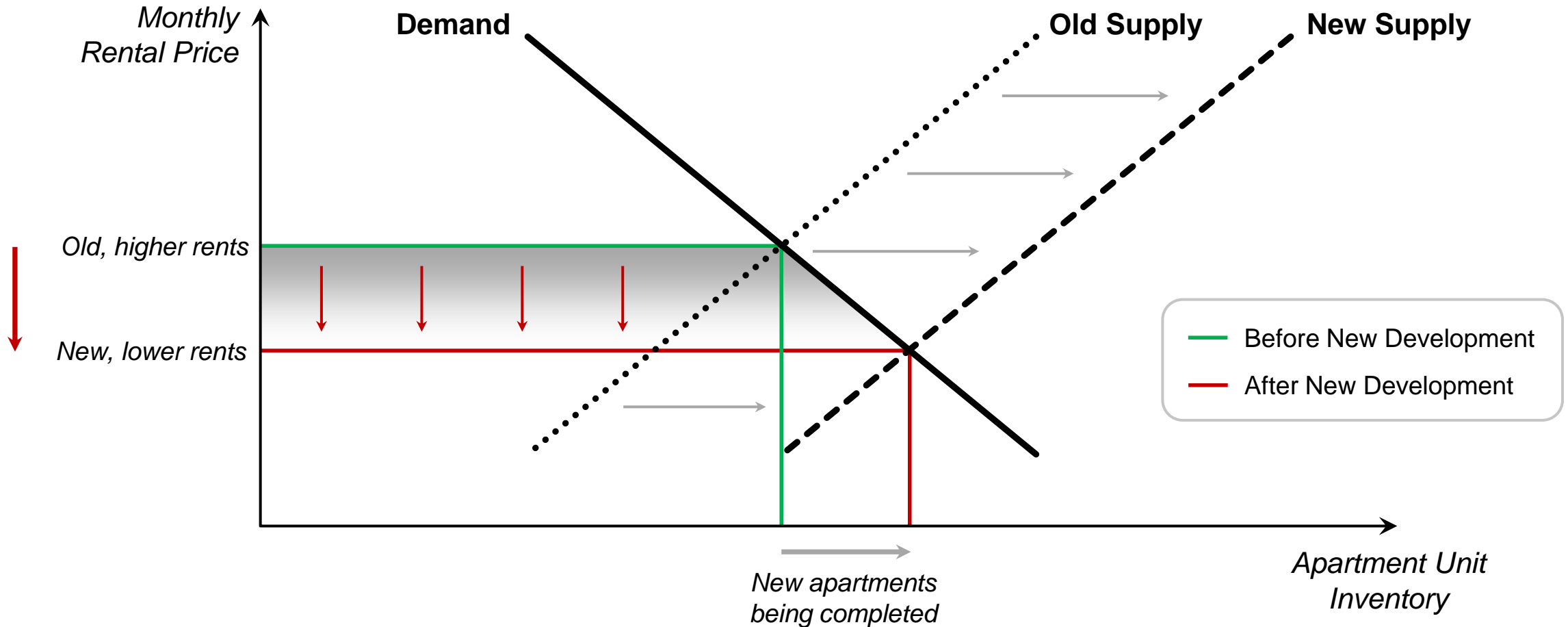
These timelines expose Bay Area EB-5 projects to unforeseen negative economic developments.



Multi-family real estate developments generally do not enjoy a flexible development timeline, which leaves them vulnerable to unforeseen negative changes in the economy.

Oversupply of New Units

Oversupply in Alameda County will put downward pressure on rents, lowering project revenues and profitability.



As new apartments are added to the market, rental prices drop.

Market Saturation Caused by Oversupply of Units Results in Higher Vacancy Rates as There are Not Enough Renters to Fill the Units on the Market

Market Saturation

What are key indicators that a given market is oversaturated with supply?

Vacancy Rates

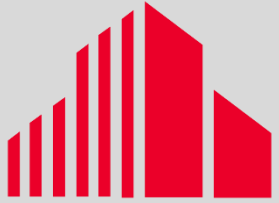
What do vacancy rates mean?

What impact can high vacancy rates have on real estate investments?



Cushman & Wakefield

Cushman & Wakefield produces quarterly reports on multi-family, retail, and office space in San Francisco.



**CUSHMAN &
WAKEFIELD**

Cushman & Wakefield is a global commercial real estate services firm. Cushman & Wakefield is among the world's largest commercial real estate services firms. It is one of the "Big Three" commercial real estate services companies alongside CBRE and JLL.

52,000

Team Members

\$10.1B

2022 Revenue

60

Countries

Manages

~5.1B

Sq. ft. of commercial space

Recent Major Awards



Firm named the world's best commercial real estate advisor and consultant overall for the fifth consecutive year by Euromoney's 2022 Real Estate Survey

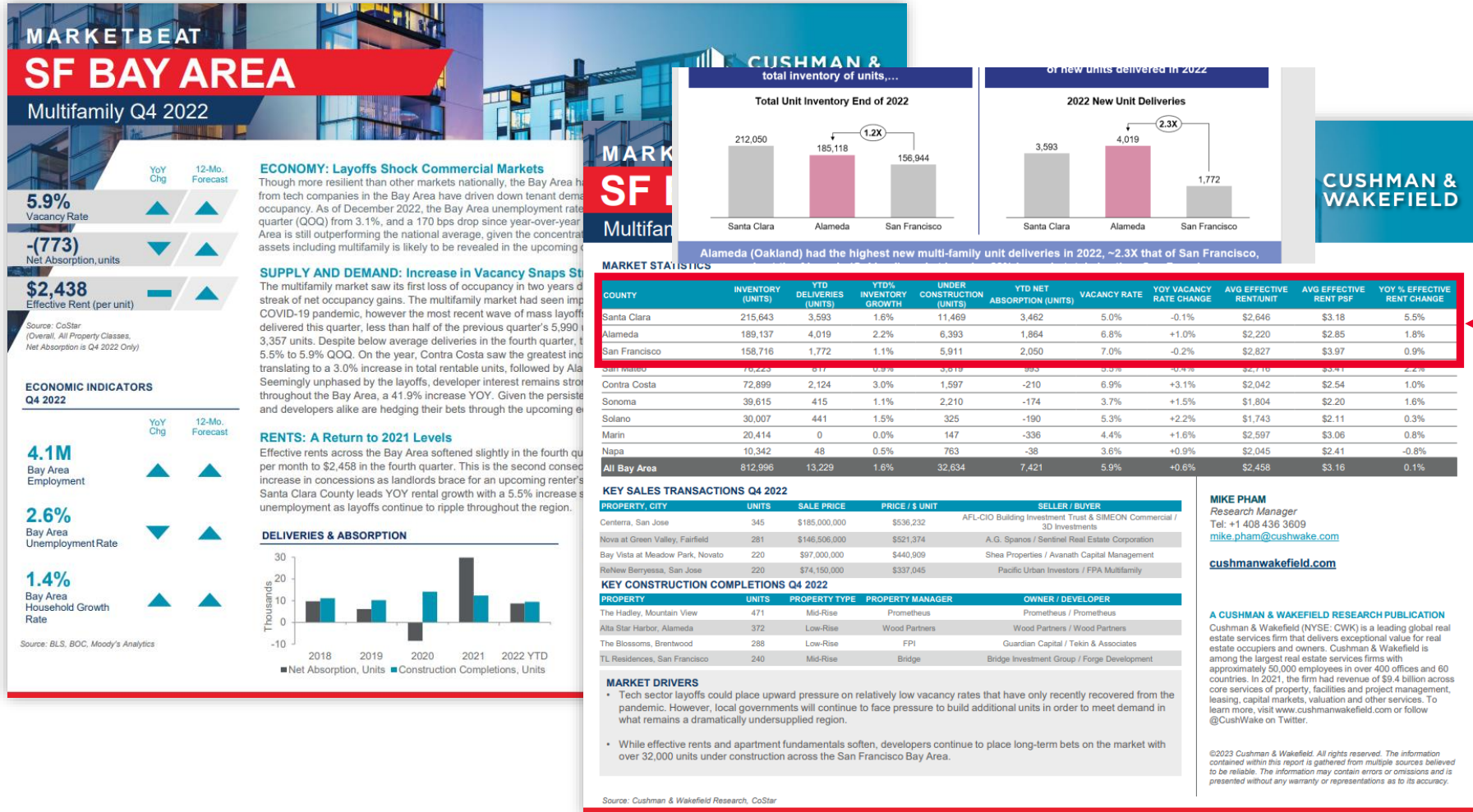


Firm among the world's best outsourcing providers for 12th consecutive year

Source: <https://www.cushmanwakefield.com/en/about-us>

Cushman & Wakefield Bay Area Report

Cushman & Wakefield recently published a detailed report on multi-family homes in San Francisco Bay Area (4Q 2022).



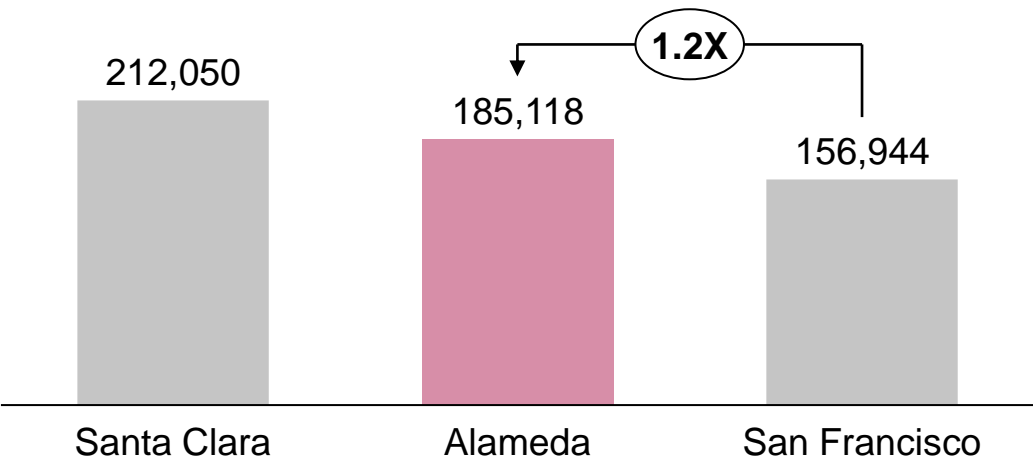
The following slides will focus more in depth on how Alameda County (Oakland) is becoming significantly overbuilt

Source: Cushman Wakefield SF Bay Area Multifamily Q4 2022 MarketBeat Report

Alameda (Oakland) Is Becoming Significantly Overbuilt (1 of 2)

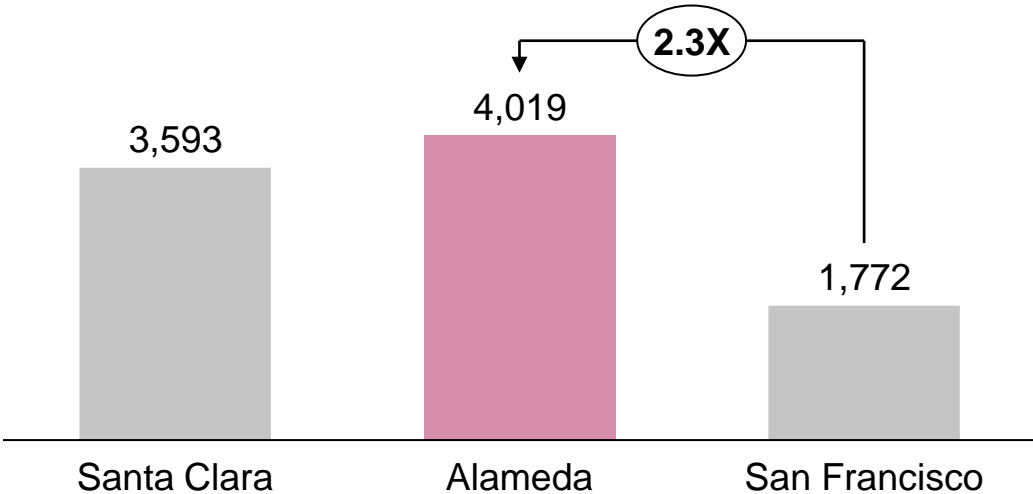
Alameda (Oakland) is the second largest Bay Area county in terms of total inventory of units...

Total Unit Inventory End of 2022



...but it had the largest number of new units delivered in 2022.

2022 New Unit Deliveries



Alameda (Oakland) had the highest new multi-family unit deliveries in 2022, ~2.3X that of San Francisco, and yet the Alameda (Oakland) market is only ~20% larger in total size than San Francisco.

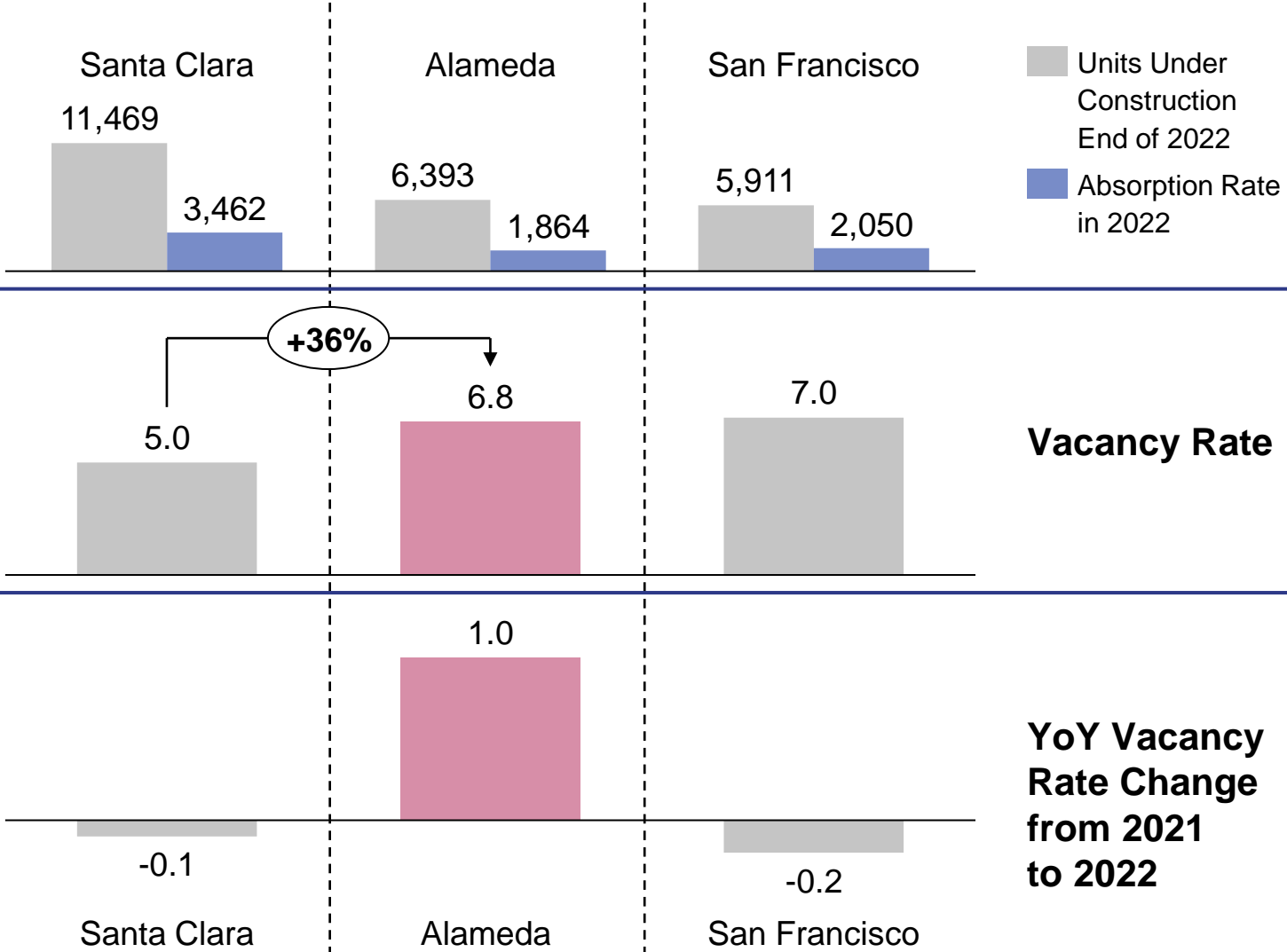
Source: Cushman Wakefield SF Bay Area Multifamily Q4 2022 MarketBeat Report

Alameda (Oakland) Is Becoming Significantly Overbuilt (2 of 2)

Many of these projects started in 2018/2019 since most projects take 4–5 years to obtain permits and complete construction.

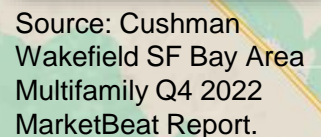
A ~36% higher vacancy rate for Alameda (Oakland) clearly indicates that there is too much supply and not enough demand.

Vacancy rates in Santa Clara and San Francisco were flat from 2021 to 2022, but Alameda (Oakland) jumped significantly, a clear warning sign that this market has a supply–demand mismatch with too much supply already delivered and more to come in 2023/2024.



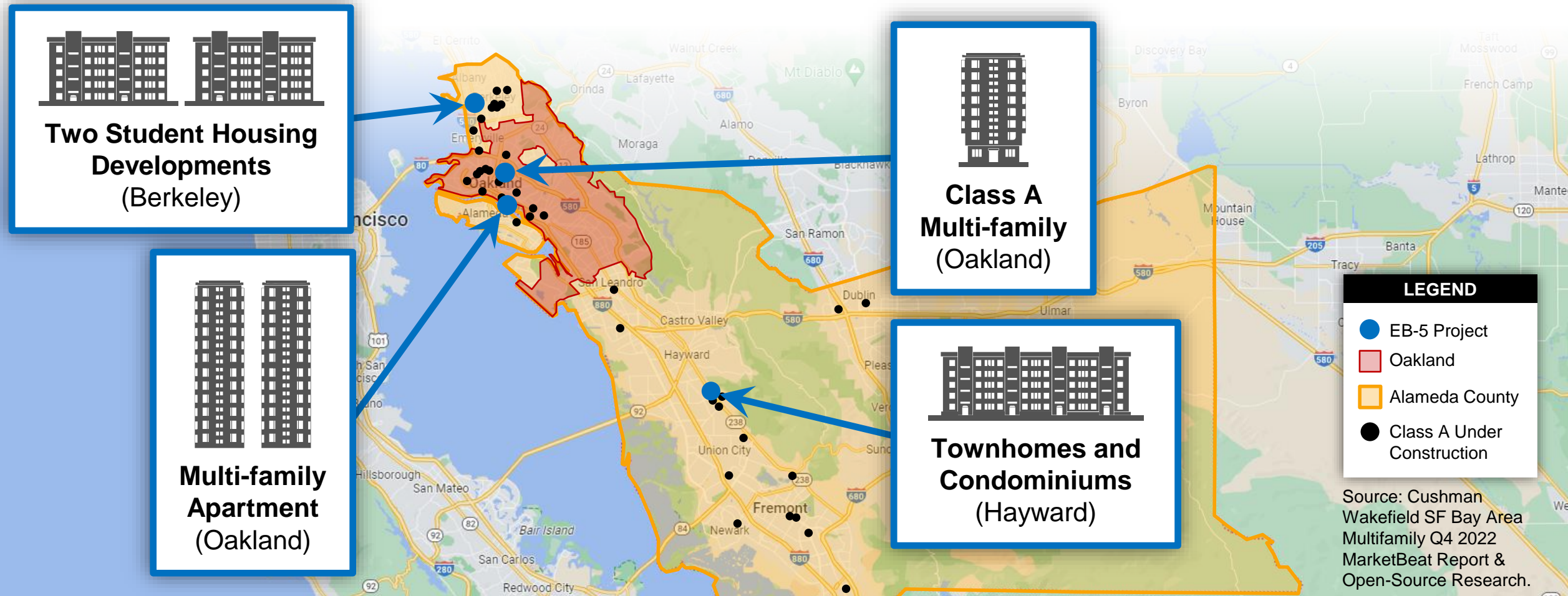
Source: Cushman Wakefield SF Bay Area Multifamily Q4 2022 MarketBeat Report

Significant oversupply will cause prices to fall, creating major issues for new development projects coming online.



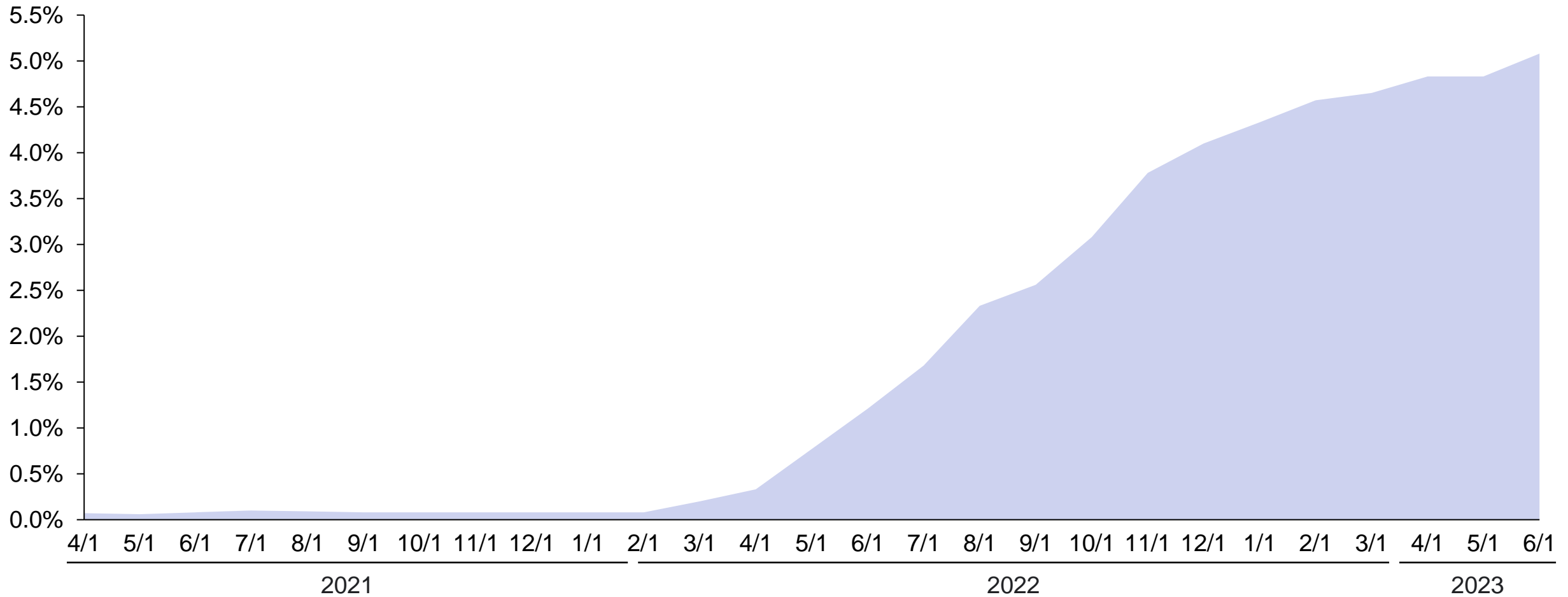
EB-5 Projects Being Built in Alameda County

As of May 2023, at least four EB-5 projects are being built in Alameda: 2 in Oakland, 1 in Hayward, and 1 in Berkeley.



New development EB-5 projects, especially those in Oakland, will face tough competition to successfully lease their apartments given the market oversupply; Oakland is now a “renter’s market.”

Interest Rates Have Been Steadily Rising Since Early 2022



The Federal Funds Effective Rate has dramatically increased from 2021 to 2023, which directly drives the cost of debt service for real estate development projects.

How do Rising Interest Rates Impact Project Values and Cap Rates

Capitalization Rate

What are capitalization (or “cap”) rates?

]What do high cap rates mean for real estate investments?

What do low cap rates mean?

Cap rate = net income / property value.

If after operating expenses, a property generates \$50 of net income and its value is \$1,000, then it has a 5% cap rate.

“Value” is tied to building quality, location, & operating complexity.

Interest Rates

How are cap rates affected when interest rates rise?

When interest rates rise, this makes owning a property less attractive to investors and thus property values fall. A drop in property values causes an increase in cap rate.

\$50 net income / declined value of \$700 = 7.1% cap rate

Real Estate Capital Stack Basics: Typical Financing Structures, Capital Security and What Happens to Investors when a Project Fails

Typical Financing

How is a typical real estate deal financed?

Capital Security

Which types of real estate financing are most at risk?

Project Failure

When a real estate project fails, how are different levels of the capital stack typically impacted?

Oakland Properties Likely Under Water

Decreased rents combined with increased interest rates make Oakland development properties conceived of years ago very likely to be unprofitable once completed and at high risk of foreclosure and investment capital loss.

2019 Assumptions

Estimated Development Cost: \$60.0M

Gross Rental Revenue: **\$10.0M**

—

Operating Expenses: **\$4.0M**

Free Cash Flow Before Debt Service: **\$6.0M**

—

Interest Only Debt Expense*: **\$2.5M**

=

Net Income: \$3.5M

*Assumes a \$50M interest only senior loan at 5%.

Cap rate was estimated to be 5% > \$70M value

2023 Reality

Actual Development Cost: \$70.0M

Gross Rental Revenue: **\$9.0M**

—

Operating Expenses: **\$4.0M**

Free Cash Flow Before Debt Service: **\$5.0M**

—

Interest Only Debt Expense**: **\$3.5M**

=

Net Income: \$1.5M

**Assumes a \$50M interest only senior loan at 7%.

Cap rate is actually 6% > \$25M value

Inflation
Higher
Construction
Costs

Market
Oversupply

Increased
Interest Rate

Loss of Value
of \$45M or
64%


Increased cap rates combined with increased interest expenses can result in loan default, property foreclosure, and, in most cases, a complete loss of capital for equity holders and mezzanine debt holders (i.e., EB-5 Investors in most new development projects).

Oakland Housing Development Site Lurches into Loan Default

A huge multi-family site has defaulted on its loan, according to an April 21, 2023 article from *The Mercury News*.

“An Oakland site being eyed for a mixed-use development that would feature more than 1,000 residences has staggered into a loan default and faces foreclosure, Alameda County real estate files show.”

Source: <https://www.mercurynews.com/2023/04/21/oakland-housing-home-develop-build-bart-real-estate-loan-default/amp/>

 The Mercury News

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Huge Oakland housing development site lurches into loan default

George Avalos

PUBLISHED: April 21, 2023 at 5:30 a.m. | UPDATED: April 21, 2023 at 3:04 p.m.

Business, California News, Economy, Housing, Latest Headlines, News, Real Estate

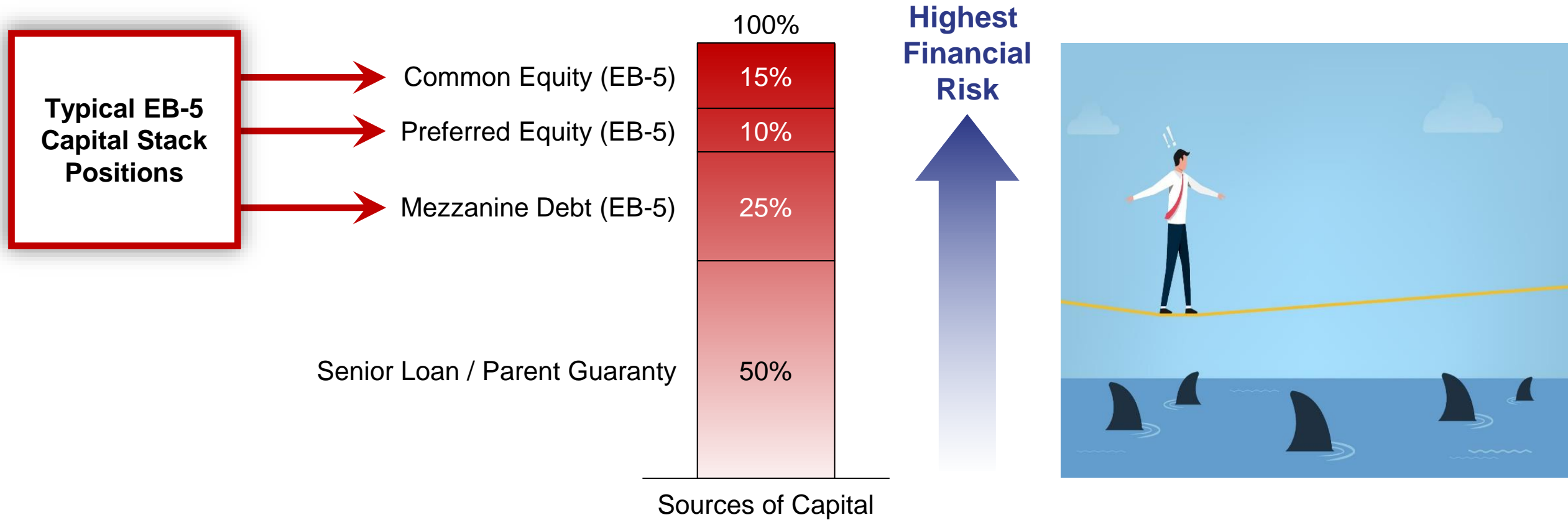


Housing tower within the CitySpaces mixed-use development that features 1,032 residences, retail, restaurant and grocery spaces at 500 Kirkham Street in West Oakland, concept.

OAKLAND — An Oakland site being eyed for a mixed-use development that would feature more than 1,000 residences has staggered into a loan default and faces foreclosure, Alameda County real estate files show.

Diagnosing Project Failure

Different tranches of real estate development capital investment have varying levels of risk.



If a project fails and cannot cover debt payments, then the first EB-5 investors to lose funds will be common equity, followed by preferred equity, and then mezzanine debt.

Macroeconomic Trends

Macroeconomic Trends: As Thousands of Residents Flee Higher Tax States, such as California, what is the Impact on the Local Economies these Residents Leave Behind

Outflow Migration

How does outflow migration affect an area's real estate market?

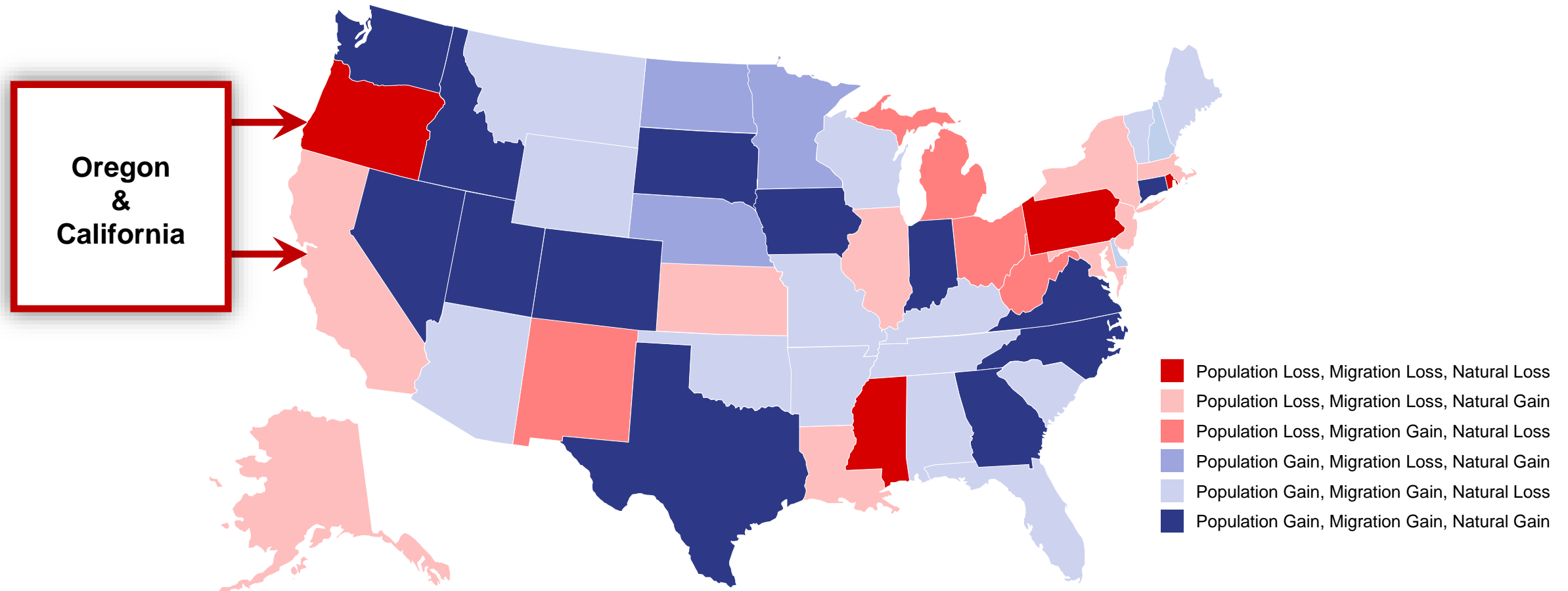
Home Price Drops

How do falling home prices affect the market for rental apartment units?

California and Oregon Suffer Population Loss

The states with the greatest population loss due to outflow migration on the west coast are California and Oregon.

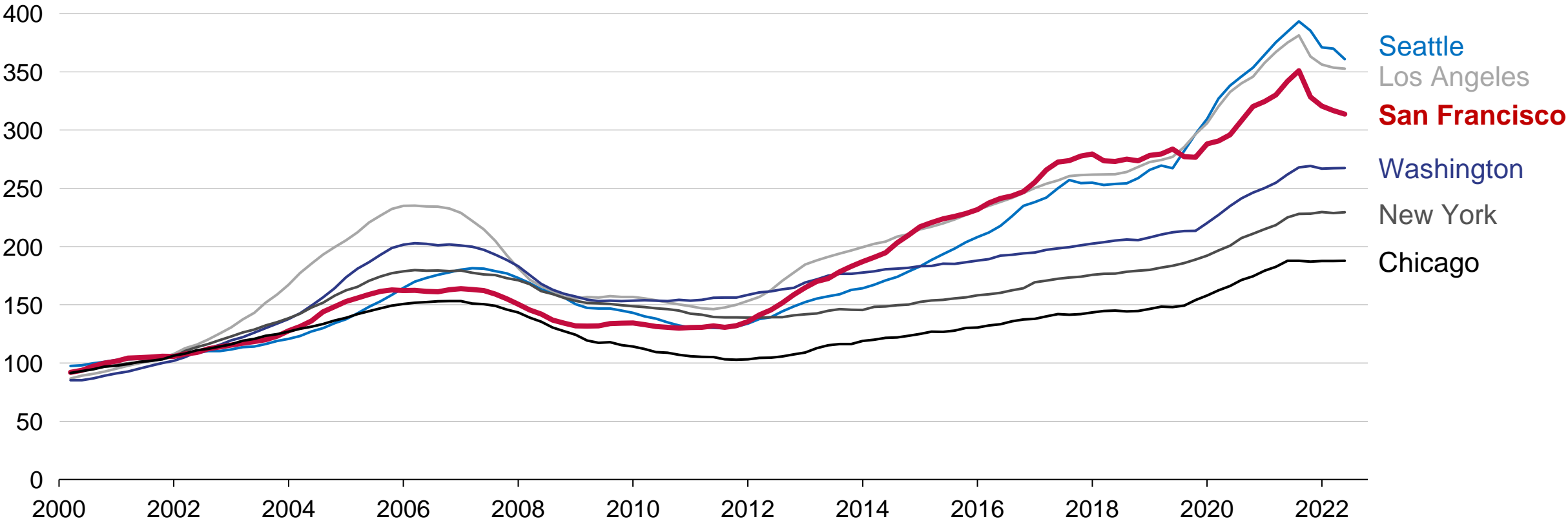
Population Change, Natural Change, and Net Migration by State through July 2022



Source: U.S. Census Population Estimates. Analysis: K.M. Johnson, Carsey School, University of New Hampshire

The Home Price Correction is Sharpest in Western U.S. Cities

Home prices as measured by the Burns Home Value Index



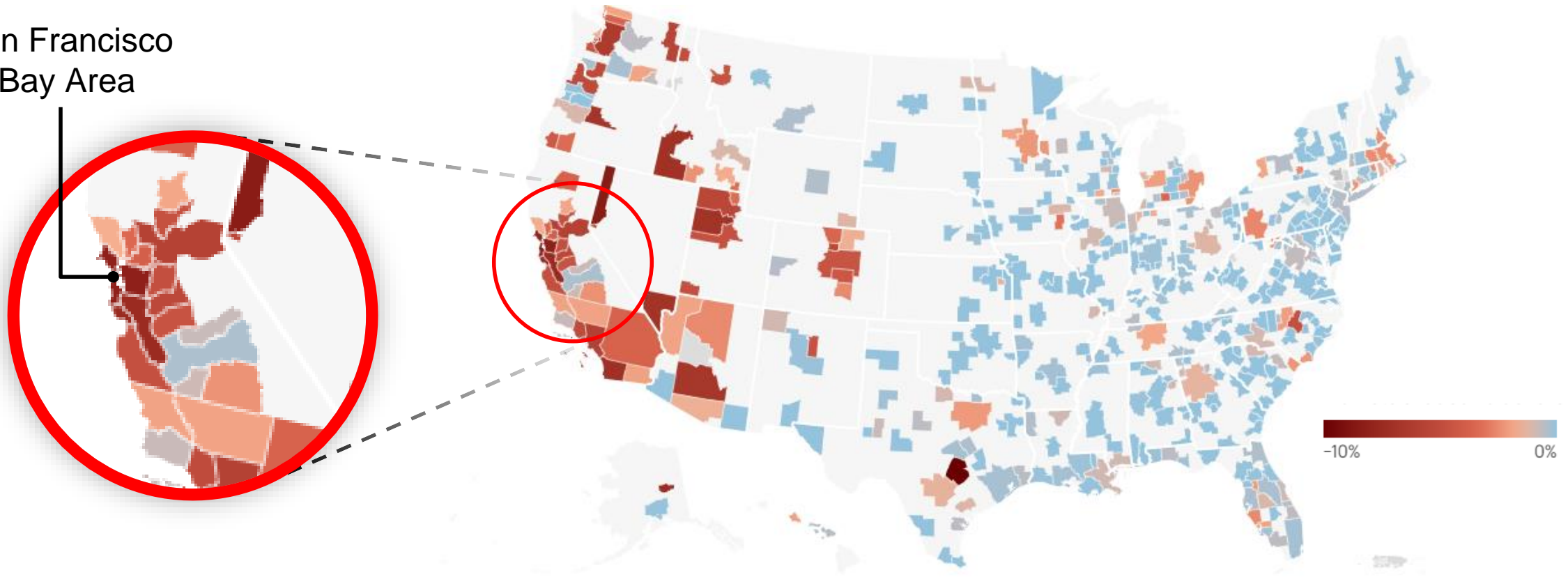
When home prices decline, fewer consumers rent their homes;
More consumers can afford to purchase their own home.

Note: Burns Home Value Index (BHVI) reading through December 2022; Chart by created by Lance Lambert
Source: John Burns Real Estate Consulting

Bay Area Experiencing Housing Price Corrections

West coast migration outflow is one of the many factors driving some of the largest housing value price corrections (drops) in the nation to happen in the San Francisco Bay Area.

San Francisco
Bay Area



Source: <https://fortune.com/2022/11/15/housing-market-map-home-price-correction-2022/>

Investment Framework for EB-5 Investors

Questions Investors Should Ask (1 of 2)

1 EB-5 Fund Manager's Qualifications

How many projects has the fund manager raised capital for?
How many investors has the fund manager subscribed?

2 EB-5 Fund Manager's Independence

What is the fund manager's relationship with the project?
Do any potential conflicts of interest exist?

3 Reporting and Transparency

What key financial information has been provided? Have you seen the financial statements of the project company and any entity securing repayment of EB-5 funds, and the executed senior loan documents?

4 Representation Options

Can investors choose their own attorneys?
Can investors' attorneys review all offering documents?

5 Developer's Experience

How many projects has the company successfully developed?
How do previous projects compare to the current project?
Has the developer ever not repaid a loan or not completed a project?

Questions Investors Should Ask (2 of 2)

6 Regional Center Qualifications

What is the regional center's experience and reputation? Does it have a strong record of compliance? Is it independent of the developer?

7 Project Capitalization

What are the non-EB-5 sources of capital? Have these been secured? Is the project dependent on money from EB-5 investors?

8 Exit Strategy

When will the EB-5 capital be repaid to the immigrant investors? How will it be repaid (i.e., cash flow, refinancing, etc.)? Is the project's business model proven? Is it already profitable?

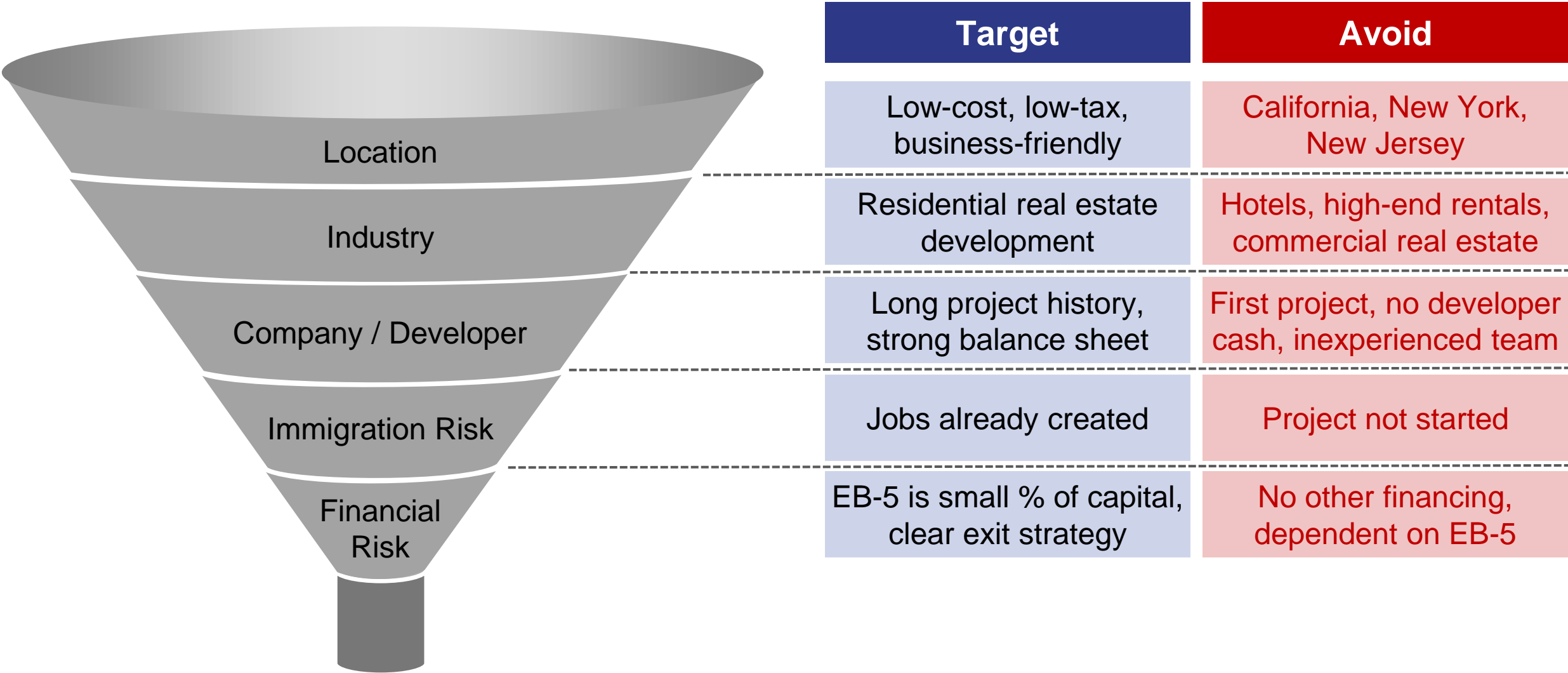
9 Job Creation

How many permanent jobs will be created per immigrant investor? How many jobs have already been created?

10 Geographic Area

How strong is the local economy? What demand exists for this project? Is the risk of failure higher due to local market forces?

Selecting an EB-5 Investment





Thank you for attending.

Please call or write to us if
you have any questions.



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eb5investments.com