

PSYCHOLOGY OF A PANDEMIC: EB-5 LESSONS TO BE LEARNED FROM COVID-19

By Mona Shah, Esq. and Rebecca Singh, Esq.; Mona Shah & Associates Global

Historically, responses to pandemics have followed a pattern—from initial denial to panic and anxiety, to a period of adjustment and, finally, the establishment of a new normal. What is a new normal for EB-5? Will we see EB-5 investors exhibit counter-cyclical investment behavior? Will this new normal drive investors away from traditional hospitality projects towards businesses such as pharmacy, technology, and transportation? Or will COVID-19 drive EB-5 investors away from *at risk* projects for good? In a search for an answer, an obvious course appeared to be a study of present EB-5 projects at the height of the lockdown.

During this unprecedented time, we interviewed 14 regional centers and project developers from around the US to discuss how EB-5 projects are coping with the sudden economic downturn as a result of the pandemic. Throughout this article, readers will discover lessons learned from a range of industries as regional centers and project developers provided insight into surviving or thriving in the midst of COVID-19. For a more in-depth discussion, see the podcasts on EB-5 Investment Voice: *Regional Centers and Projects Impact & Insight On COVID-19* and *NuRide Transportation: New Age Medicine In The Time Of Corona*.¹

THE PSYCHOLOGY OF A PANDEMIC:

“Epidemics start at a moment in time, proceed on a stage limited in space and duration, follow a plot line of increasing revelatory tension, move to a crisis of individual and collective character, then drift toward closure.”

—Dr. David S. Jones, Professor of the Culture of Medicine at Harvard University

This drama is now playing out with Covid-19. Dr. Jones argues that *“epidemics put pressure on the societies they strike. This strain makes visible latent structures that might not otherwise be evident. As a result, epidemics provide a sampling device for social analysis. They reveal what really matters to a population and whom they truly value.”*²

¹ EB-5 Investment Voice can be found on www.mshahlaw.com; iTunes; Google Podcasts; Spotify; Spreaker; Stitcher

² <https://www.nejm.org/doi/full/10.1056/NEJMp2004361?query=RP>

In a pandemic, media coverage is inescapable. As COVID-19's effects impact everyday life and affect international tensions, appetite for coverage has grown exponentially – saturating an individuals' experience of the world around them. Scholar Nancy Tomes explored how a virus or disease becomes 'newsworthy' and thus takes hold in the public's imagination.³ Media coverage inevitably affects consumer reaction and here, the consumer is the EB-5 investor. Will consumer reaction, perhaps showing counter-cyclical behavior eventually manifest itself in US businesses and EB-5 projects?

New Perspectives and Counter-Cyclical Behavior:

Counter-cyclical or defensive industries are those that do well in economic downturns, since demand for those products and services do not depend on a buoyant economy. Often, it is a niche industry whose financial performance is negatively correlated to the overall state of the economy.

A business model that thrives in a period where most people do not have money is fairly difficult to attract EB-5 investors, in comparison to, for example, luxury real estate. EB-5 investors do not often fall under the category of the prudent investor seeking out recession-resistant industries or a non-touch and feel project such as technology. One such project that was interviewed was a Property Technology Company. According to Umesh Harigopol of Prop-Tech, the current COVID-19 market has been a boon for his project. As interest rates have declined, real estate refinancing has rapidly increased. He pointed to a change in habits in relation to social distancing with technology driving this change.

This point has also been reiterated by Dr. Ryan Hagen, an organizational and comparative historical sociologist studying risk and social change. He argues that in isolative situations such as mandated social distancing, individuals quickly adapt to change – warming to the intervention of technology. From working remotely to dependence on door-to-door delivery, quick-fix digital-first solutions are now being assessed for long-term viability. As people consider how they have adapted to and weathered the COVID-19 crisis, they will inevitably also rethink life moving forward.

³ Epidemic Entertainments: Disease and Popular Culture in Early-Twentieth-Century America by Nancy Tomes (*American Literary History*) Vol. 14, No. 4, Contagion and Culture <https://www.jstor.org/stable/3568019>

Douglas Anderson of New Hampshire EB-5 Regional Center, which sponsors the Ragged Mountain Ski Resort project shared a similar view, arguing that the pandemic has changed people's attitudes and that these shifts would dictate project success: *"A positive thing with this pandemic which has changed everyone's lives—people in the U.S. and in New England—is that people are looking to recreate in the open doors/outdoors close to home as well as distancing themselves from other people and what better way than a ski resort...we have 20 million people within a 40-mile radius...people want to be more local, they do not want to hop on a plane, but rather drive to their destination."*

Defining an Exit Strategy:

"The pandemic is not a hurricane or a wildfire. It is not comparable to Pearl Harbor or 9/11. Such disasters are confined in time and space. The SARS-CoV-2 virus will linger through the year and across the world. Everyone wants to know when this will end, that's not the right question. The right question is: How do we continue?"

—Devi Sridhar, a public-health expert at the University of Edinburgh

"Is the Project a Canary in a Coal Mine or a Black Swan" [Noreen Hogan, CMB]

The plain, unembellished lessons of COVID-19 have exposed what is required for project survival. EB-5 projects need to think laterally, explore new capabilities, re-purpose assets and leverage marketing.

Stephen Strinsha from Cleveland International Fund, a third-party Regional Center, stated that if a project is to survive a crisis like COVID-19, the strength of the developer and his subsequent relationship with the borrower is a major factor. Subsequently, when dealing with a strong developer, a regional center is able to secure meaningful collateral and protect the investor. Devin Williams of EB-5 Global echoed this idea, emphasizing that the structure of a project is paramount: though a project with low debt and fixed interest rates may not *"necessarily be [profitable] at a time like this,"* those features can help with *"preparing for the unexpected, that's what protection in your capital stack is all about. If you have 90, 80, 70 percent debt, you cannot weather the storm"*.

It was also pointed out from the interview with Henry Liebman of American Life Regional Center that it is more costly to shut down hotel operations than to keep open, showcasing his experience in the industry. Similarly, Joan Williams of Watercrest Regional Center, Sebastian Stubbe of Pine

State Regional Center, and Sushanth Reddy of Eagle Eye Property Group also highlighted the importance of having experienced developers on the team and creating a sustainable structure.

Noreen Hogan from CMB aptly summed up the COVID situation, explaining that as existing structures have been eroded, thinking laterally is good preparation for the future of EB-5, noting that asset flexibility is key to survival.

“Is it the canary in a coal mine situation where this hotel, for example, was underperforming and now, you know, COVID-19 really brought this to light, or is it [the project] a black swan event” .

Noreen reiterated that only with the appropriate structure can the project ensure job creation and thus a green card for the investor. *“We take a look at the preservation of the 10 new American jobs. And so, it goes back all the way to the underwriting ... how important it is to have completion guarantees and all the different types of insurance. So that way when there's interruptions...such as COVID-19, you know construction will resume”.* This was further emphasized by Dan Healy of Civitas—the importance of underwriting and risk analysis to benefit and protect investors when unforeseeable factors arise.

The advice from the experts is to adapt your infrastructure, marketing, production, and people, to the ‘new normal’. Build on new alliances and break from traditional bureaucracy.

A further example is with the auto industry—which has been pushed to explore new, creative avenues for launches. Transport companies are launching new services to cater to those who really need to get around and just like many other sectors, transit firms are expressing their gratitude towards essential workers by offering supportive services to those who still need to commute. As stated by [Katja Rechtsteiner](#), Mercedes-Benz spokesperson, *“The entire automotive industry is undergoing a transformation, especially with regard to digitalisation. Of course, this also includes the way we present our products in the future.”*⁴ A classic example is the shift to New Age Medicine by transporting medical personnel by the transportation company NuRide Transportation Group. This project has shown how it can diversify its portfolio and maintain flexibility to cope with the sudden changes and needs of the current economy.

⁴ <https://www.bbc.com/news/business-51700936>

Stretching Our Concept of What's Possible:

Indeed, being able to rapidly pivot and innovate due to unforeseen disruption will remain a key indicator of business health. Arguably, if these new under-crisis experiments and innovations work, there really is no reason not to keep them around.

Some brands will come out of this crisis changed in unexpected ways. Whilst there might be a longing for them to return to pre-crisis operations, it's unlikely that this will happen in the short-term. In business and at home, people will be open to exploring new ideas and innovations – a continued adaptation to the 'new normal'. Now would be the time to break away from traditional rules and use the resources you have to rethink what's possible. One such example is forming networks of small businesses, such as hotel projects opening networks with essential services.

“Strategic alliances are probably the most overlooked form of offline marketing and, yet, they’re one of the most meaningful. Two heads are better than one and, in many cases, two companies are better than one – especially when they combine resources or share expertise in order to build new business.”

–Olga Mizrahi, author of *Think Global, Sell Local*

US Cities Best Positioned to Bounce Back:

Research in China suggests that spending habits are set to rebound after the virus subsides. Kantar reported that 82% of Chinese respondents said they will resume their pre-COVID dining spending, 78% will resume their cancelled spending on travel and 77% pre-COVID entertainment.

Even so, this research still highlights some contractions, and the length of the “rebound” period will be determined by the much more sober economic realities society has to adapt to when the crisis is over. An economic downturn and a drop in disposable incomes will cause discretionary spending to shrink. Ominous forecasts project US unemployment could reach 12%-15%, the highest since World War II. Could this lead to a sharp decline in EB-5 investment itself? As economies across the world decline, a fall is to be expected, but it is unlikely that EB-5 will diminish and disappear altogether. Moreover, with the trillions being pumped back into the US

economy, investigations into recovery are positive. In a recent article, Moody's Analytics analyzed US metro areas capabilities for a strong recovery post-coronavirus using two primary factors: population density and educational attainment:

"The most dynamic recoveries may well bypass traditional powerhouses and take place instead in areas that [weren't] poised to lead the way in 2020 before everything changed," wrote Adam Kamins, Senior Regional Economist at Moody's Analytics.⁵

The report examined the top 100 metro areas in the US. The metros positioned for a relatively quick recovery based on the analysis included San Jose, California; Durham, North Carolina; Austin, Texas; Seattle, Washington; and Minneapolis, Minnesota; Denver, Colorado; Salt Lake City, Utah; and Washington D.C. *"A key difference between this recovery and the last recovery is the population density,"* he explained. *"It's going to have a different effect this time than it did last time."* During the Global Financial Crisis, *"the first place is out of the recession were big densely populated global cities,"* he explained. But this time, depending on the duration and the eventual outcome of the COVID-19 outbreak, Kamins believes that *"big densely populated cities...are going to be viewed as inherently risky."*

This theory that metropolitan cities like New York will be slow to recover may be just wishful thinking [according to developers like NRIA, Century Development Group and LCP Group, who were also interviewed], but the argument that defensive industries would thrive in such locations still holds water. Whatever the result, COVID-19 may have ushered in the new normal, but the existing principles for a good EB-5 project certainly prevail.

This article, Psychology of a Pandemic is based on a special episode of EB-5 Investment Voice, which is the first Podcast series focuses on the U.S. EB-5 visa and foreign direct investment. Mona Shah, Rebecca Singh are joined by the following developers and Regional Center representatives in this unique episode:

Dan Healy of Civitas Capital Group

Noreen Hogan of CMB Regional Center

Glenn La Mattina of National Realty Investment Advisors (NRIA)

Steve Strinisa of Cleveland International Fund Regional Center

Joan William of Watercrest Senior Living

Umesh Harigopal of PropMix

⁵ <https://finance.yahoo.com/news/cities-bounce-back-coronavirus-pandemic-moodys-144452350.html>

Doug Anderson of Pacific Group

Devin Williams of EB5 Global

Sebastian Stubbe of Pine State Regional Center

Sushanth Reddy Charabuddi of Eagle I Property Group

Rich Marquard of Live in America/ LCP Group

Henry Lieberman of American Life

George Xu of Century Development Group

Rob Pearson of NuRide Transportation Group appeared in episode 109