

BOB KRAFT, Chairman, President, and CEO of FirstPathway Partners and President of IIUSA's Board of Directors

FIRST PERSON AN ENTREPRENEURIAL DIFFERENCE



Robert Kraft spent 40 years running companies before he started working in the EB-5 industry. Through his regional centre, he has raised investor money for projects as diverse as aircraft engines, student dorms, specialised business centres and hotels. He talked to the IM Yearbook about his EB-5 journey, the current situation in the US and future investment opportunities.

Robert Kraft is a shining example of American entrepreneurship. He has more than four decades of international business experience and sat on the boards of over a dozen companies. Robert – who usually goes by his American nickname Bob – was a serial entrepreneur long before the term became closely associated with multi-venture technology mavericks like Elon Musk and Steve Jobs. In 1993, he founded his first of nine companies. Three years later, in 1996, he set up a software company that he grew from a one-man start-up into a business with 600 employees in just 10 years.

It was around the year 2004 when he got interested in the EB-5 regional centre programme, but he didn't jump right into it. With decades of boardroom experience, he knows that knowing the market and competition is crucial when starting up. "I spent three years investigating the industry. I came to believe that EB-5 had great potential and that this is something I'd like to be involved in." Shortly after, he sold the software business and set up FirstPathway Partners (FPP), with the mission to become the leading EB-5 regional centre practitioner in the United States.

Careful Project Selection

From the hundreds of thousands of business ventures that entrepreneurs launch every year, many never get off the ground. Others struggle after spectacular rocket starts. Kraft knows that and has made careful project selection his number one business mantra. One of FPP's first projects for which it raised EB-5 investor capital was Delta Hawk Engines, an aerospace company which manufactured lightweight and fuel-efficient aircraft engines. Delta Hawk's engines are unique in the market as they are powered by diesel, which means they can be used in areas where it is harder to get access to 100LL fuel, which is typically used in similar sized aircraft engines. "This was a very exciting project that did very well, and the investors have long been paid back," says Kraft.

Other projects, Kraft says, were perhaps less unusual and innovative but all offered investors a very good investment. Examples include student dormitories at the University of Wisconsin, specialised business parks and research labs, hotels and restaurants. "We have

been very conservative in the projects that we got involved in. They are not the huge monster projects that we have seen in some of the big cities, but all are very successful. I think smaller projects are beneficial for the investor because they can easily get their arms around them."

Hotels and Hospitality

Some 65% of FPP's projects fall in the hotel and hospitality category, a sector that is facing some serious challenges at the moment due to Covid-19 travel restrictions. "I am convinced the industry will bounce back. I actually feel pretty good about our projects. They are in strong markets and have strong names behind them as we usually work with big brands such as Marriot, IHG and Hilton," says Kraft.

FPP's hottest project at the moment is a restaurant franchise: Teriyaki Madness. "The model yields the investor true business ownership and continued potential for income even after immigration goals are achieved. Best of all, we have a management company that expertly runs the restaurants and day-to-day operations, jumpstarting the business with their years of experience and repeatable framework for success,"

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explains Kraft. This offering, he says, “is very attractive to Indian EB-5 investors who – more than many other nationalities – like the value of entrepreneurship”.

FPP today works in 40 different countries and expanded its footprint years ago. “We kind of anticipated the retrogression issue with Chinese nationals, and we are active around the world,” says Kraft. Last year, his firm also started offering services for E-2 treaty country investors and investors born in non-treaty countries who can apply for this type of visa after obtaining citizenship in the Caribbean country of Grenada. “This year, due to Covid-19, we spent a lot of time on rethinking projects and also upgrading our sales process. We are scaling up, bringing in people with industry experience, to better serve our investors. In 2021, things will start going back to normal, and we will hit the road running with a really good track record and some very exciting projects to present globally.”

Driving EB-5 Forward

Part of Kraft’s mission throughout the years has been to continuously improve EB-5. For the past four years, he has been serving as President of Invest in the USA (IIUSA), the global industry trade association of the EB-5 Regional Centre Programme, which has been suffering from a series of short-term extensions and a constantly growing quota backlog. “The programme has just been extended right through to December 2020. I think that’s the 18th extension over the past four to five years,” says Kraft. EB-5, he mentions, is supported by Democrats and Republicans. “This means there isn’t much of a problem to get both parties to re-authorise a programme, but to get them to agree to a new programme is a different story.”

Although America’s EB-5 programme has been the most successful immigrant investor programme in the world, its overall economic impact on the US economy is still small, he admits. EB-5 could be of tremendous benefit to the US economy in the post-Covid-19 recovery; however, two things are important for EB-5 to realise its true potential, he says. The first is to distinguish between main investors and family members, as currently the cap of 10,000 visas is still interpreted in a way that family members are counted toward the annual visa allocation. “A proper interpretation of investor visa units would increase the programme by two-thirds,

which then can bring in \$9 billion per year and create at least 288,000 jobs per year, so over the course of five years, we are talking some very significant numbers.”

The second is a long-term authorisation for about six years. “The extensions aren’t much of a problem because everybody understands that the programme just gets rolled over, but it would still be nice to have the regional centre programme in place for a longer period of time.”

Drop in Demand

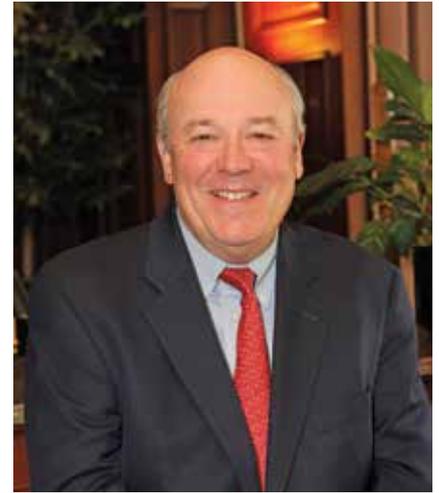
Rather than a general overhaul, EB-5 has seen incremental change, with some new regulations coming into effect at the end of 2019. The definition and selection of “targeted employment areas,” also known by its acronym TEA, has been tightened to ensure that investment is truly being channelled into areas with high unemployment. In addition, the investment threshold for the TEA option has been raised from \$500,000 to \$900,000. Has this affected demand? Yes, says Kraft. “It had a negative effect. And just when the market would have adjusted to the higher number, Covid-19 hit. We all know that it’s difficult over zoom and phone calls to really move the programme forward.”

However, he’s convinced that there will be a return to normality in 2021, although he admits that the US is in crisis mode – the presidential election, racial turmoil and the impact of the coronavirus on the country’s health all add up. “Right now, politics is as aggressive as I’ve ever seen it in my life time. There is certainly a lot going on, but I am not sure whether this has diminished immigration interest in the US because interest in our projects is still very high from around the world.” He believes the US is still the top destination for migrants and will emerge stronger from the current pandemic crisis.

EB-5 can be a powerful tool to help stimulate economic development and job creation. “EB-5 has already proven effective during an economic recession. The programme has generated \$20.6 billion in investment and created or saved 730,000 jobs between the fiscal years 2008 and 2015 when the US was recovering from the financial crisis.”

New Opportunities

Kraft has extensive experience in running manufacturing operations, but does he



believe manufacturing could play a greater role in the EB-5 programme? “I think manufacturing is getting stronger in the US, but the problem with manufacturing is that it is more subjected to global disruptions and tougher to manage. A hotel project, for instance, is fairly static and predictable, and even if the business fails, you still have the tangible real estate asset to sell. In the case of manufacturing operations, many times you are dealing with lease facilities, so if the product is out of favour, management makes a mistake or there is a global interruption in terms of trade, there is not much left.”

He believes hotels will always be a great option for EB-5 due to their high potential for job creation. But they may also be opportunities in distribution centres on the back of increased e-commerce activity. Infrastructure investment is also high on his agenda. IIUSA is currently working with US policymakers on defining what qualifies as infrastructure in terms of EB-5 investment. “The issue with infrastructure is if it’s just road and bridges – how do you repay investors? There is really no revenue, so it would require a government bond or similar. I think infrastructure investment is really a big need and a good opportunity in the US. We are not quite there yet but it’s definitely an area to watch.”

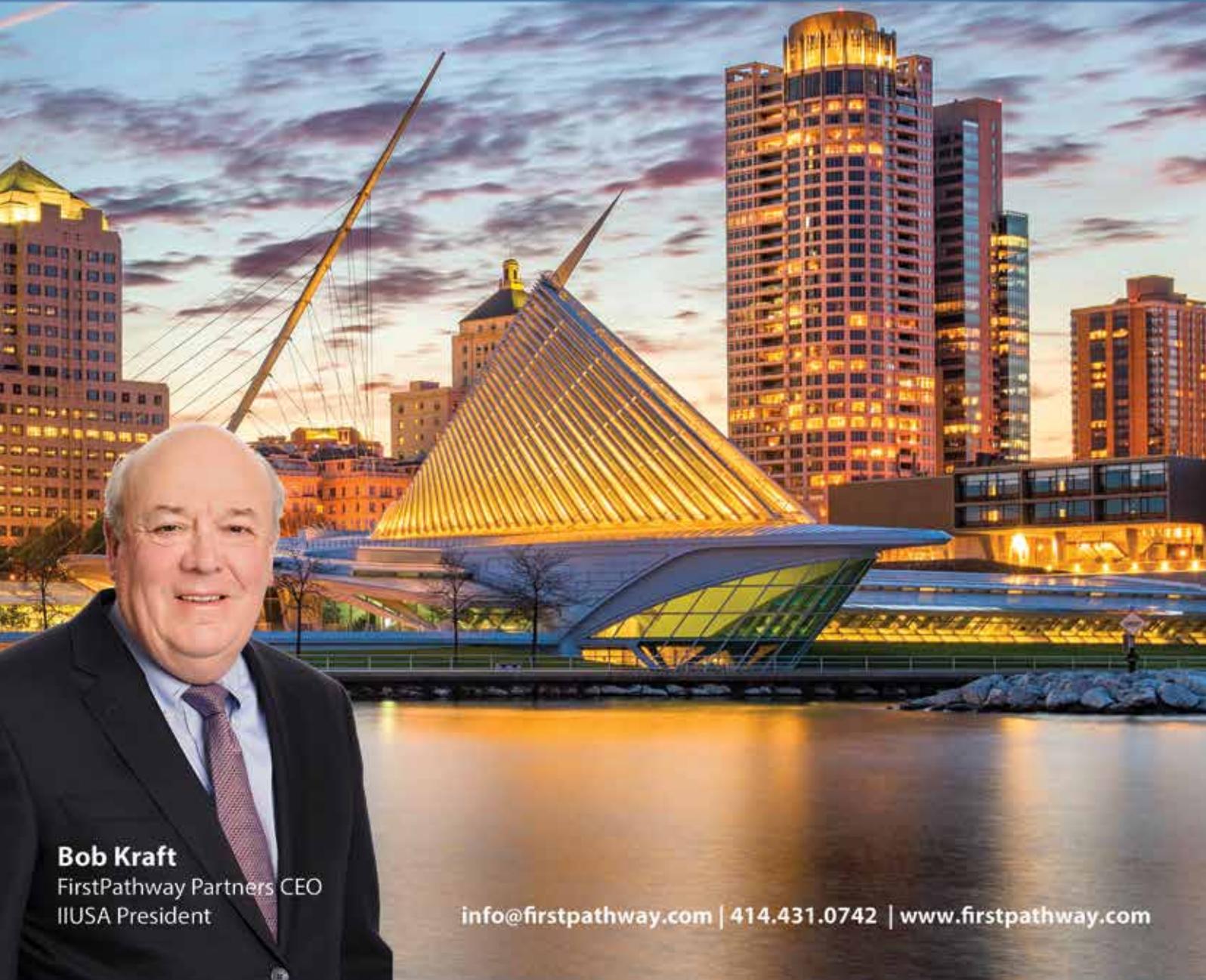
Kraft is optimistic about the future as the recent changes to the EB-5 programme had brought it back to the original idea of driving economic development in areas that needed it most. “That’s a very good change for the long-term, and it will pave the way for EB-5 to play a key role in the post-Covid-19 recovery.”



FPP
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Immigration Through Investment

Since 2008, FirstPathway Partners (FPP) has assisted hundreds of immigrant investors through the EB-5 program, placing us in the highest category of EB-5 industry achievement.

FPP has helped to raise millions in EB-5 funds for job-creating enterprises, while obtaining I-829 approvals and redeeming full investor contributions on multiple projects.



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