

Developing Private Housing for Air Force Families



Background

The shortage of quality affordable housing available to military service members and their families in local communities has reached a point where quality of life and, hence, retention and readiness are at risk. Consequently, the Pentagon proposed, and Congress enacted, the Military Housing Privatization Initiative (MHPI) in the 1996 National Defense Authorization Act. This law allows the military services to address their housing needs by using privately financed and built housing constructed to market standards. The law authorizes direct loans and loan guarantees, conveyance or leasing of existing property and facilities, and building to local commercial standards and codes. The MHPI's goal is to drastically reduce the time required to provide military members with quality, affordable housing and replace the Department of Defense's (DoD) aging inventory of housing units. A significant goal milestone for housing privatization projects will be achieved with the successful closure of a real estate (non-Federal Acquisition Regulation [FAR]) transaction meeting Air Force objectives.



Tech. Sgt. Terry Bennett and his family outside of their three-bedroom, two-and-a-half-bathroom, single-family house at Lackland Air Force Base, Texas, the first privatized housing development to go public in DoD

Elements of a Deal

Three criteria are used for determining the appropriate investment strategy for revitalization. If all criteria are met, privatization is generally identified as the preferred method of revitalizing the housing. If any one of the three criteria is not met, the traditional military construction method is used. The three criteria are as follows:

“Severability”—Air Force guidance is that privatized military housing will be physically separate (geographically separate or severable) from other installation functions.

Economic Feasibility, “Scored” Cost—DoD guidance is that the “scored” cost for housing privatization cannot exceed one third of the estimated military construction cost to bring all housing units up to modern standards (referred to as a three-to-one leverage in budget authority).

Economic Feasibility, Life Cycle Costs—Air Force guidance requires that the life cycle costs associated with privatization be less than the life cycle costs for Government ownership.

Why Privatize?

Today, more than 50 percent of Air Force housing does not meet modern standards and requires either major improvement or replacement to meet current needs and provide suitable quality of life to current standards for military families. DoD has tasked the Air Force to upgrade all required, inadequate housing by or before Fiscal Year 2007. To accomplish

this mandate, the Air Force has launched into an aggressive program to revitalize all military housing units through a combination of traditional military construction and privatization. In the next two years, the Air Force is looking to privatize approximately 21,900 housing units throughout the United States at a cost of approximately \$2 billion dollars.

Privatization will accelerate housing improvements, alleviate housing shortages, and reduce waiting times for new housing, ultimately improving morale of Air Force personnel. Privatization is a public-private partnership and it is vital this program be predictable and understandable to our industry partners.

Lessons Learned at Lackland AFB, Texas

Air Force Must Streamline Award Process

The Lackland AFB, Texas housing privatization project was awarded to Landmark Organization of Austin, Texas on August 4, 1998. Groundbreaking for this project was September 15, 1998. This 420-unit project was completed on January 28, 2000. This project utilized a direct government loan and limited guarantee of a private sector loan. It is also the first DoD project using on base property under a long-term ground lease.

As the first Air Force project awarded under the new privatization authorities, several lessons learned from this project

have been shared throughout DoD to ensure continuous improvement is applied to other housing privatization projects. The most important lesson learned from the project included the need to streamline the award process by maintaining schedules and sustaining the review process. The Air Force responded to this issue by reducing the number of reviews and coordination actions, providing a generic toolkit of documents for the developer to access, and providing expertise in investment banking and real estate development.



Aerial view of privatized units at Lackland AFB

What is a Privatization Support Contractor (PSC)?

The role of the Privatization Support Contractor (PSC) is central to the Air Force Housing Privatization Program. As a private sector financial and business advisor to the Air Force, the PSC assists the Air Force in developing an acceptable and financially feasible concept, conducts pre-marketing activities, completes the Request for Proposal, solicits proposals from multiple developers in a fair and open competition, and objectively assesses them against the identified Air Force project objectives. The PSC will use its experience in structuring complex real estate transactions to do the following:

- Match Air Force requirements to real estate market opportunities;
- Maximize developer creativity;
- Streamline the process of selecting a developer for the real estate transaction; and

- Facilitate a transaction that brings quality, affordable housing for Air Force service members that has high potential for successful execution.

Although the Air Force is using the PSC as a representative in assessing proposals for each housing privatization project, the Air Force retains full responsibility to obtain intimate knowledge of the proposals, make decisions on the PSC's assessment, and select the "best value" transaction. Therefore, a careful balance must be struck in each privatization transaction to provide the PSC with sufficient latitude to facilitate the competition process while ensuring the Air Force retains all inherently governmental responsibilities. Additionally, the Air Force's assessment of the PSC's results is greatly enhanced



Interior view of a privatized house at Lackland AFB

by the PSC's expertise and knowledge of privatization practices. Once a selection has been approved, the PSC will assist the Air Force in finalizing the transaction documents leading to the closing of the real estate transaction.

Streamlined Approach at Kirtland AFB, New Mexico

PSC Applies Commercial Practices

With Kirtland AFB as the first PSC-led housing privatization project, the Air Force is utilizing a streamlined, non-FAR (not governed by Federal Acquisition Regulations), "best value" solicitation strategy that encourages maximum flexibility in proposal development within the parameters set forth in the solicitation. Similar to other PSC-led projects, the PSC pro-

posed and the Air Force approved a two-step evaluation process which has allowed offerors to respond to Step One (Qualifications Submittal) in a timely and cost-effective manner, and to allow the Government to down-select expeditiously in order for fully qualified offerors to proceed to Step Two (Financial and Technical Proposal). Step Two required a more com-

prehensive response by the offerors than was originally submitted in Step One. The Kirtland AFB project is now in the evaluation and selection phase. Step Two proposals have been submitted and the Air Force anticipates making an award in 2002.

Matching Air Force Needs with Industry Standards

Industry Demands Consistency

The Air Force's approach to housing privatization is to match its needs with industry standards and private sector real estate market opportunities to provide the "best value" housing, maximize developer creativity, and return a transaction with high potential for successful execution. The Air Force makes all decisions and ultimately selects a developer who will plan, design, develop, renovate, demolish, construct, own, operate, maintain, and manage the housing inventory for up to 50 years. All privatized units are designated for occupancy by pay grade. The private developer is paid rent each month directly from the military members' housing allowance. Base personnel no longer directly manage, maintain, or control the housing, but provide priority referrals to the private developer.

The use of private financing cannot always eliminate the requirement for appropriated funds to support housing needs. However, privatization leverages the limited DoD funds available for construction and renovation. The private sector is willing to invest their resources if the service members' rents (housing allowance) and other Air Force inducements sufficiently provide adequate cash flow and return on their investment. These private funds are used to renovate and/or construct housing units and related amenities traditionally financed through military construction.

Air Force Establishes Housing Privatization Center of Excellence

In August 1998, the Air Force Center for Environmental Excellence was designated by The Air Force Civil Engineer as the Air Force's Military Family Housing Privatization Center of Excellence. To support Air Force housing privatization, the Center has developed an internal project management structure and approach that can be tailored to particular installation needs for cradle-to-grave program management. Key elements of this approach include assignment of an experienced project manager, availability of specialized contracting, financial, and legal support services, customized statements of work and contract vehicles, and development of specialized materials.

Demonstrated Track Record

Full Scale Implementation is Underway

PREVIOUSLY AWARDED HOUSING PRIVATIZATION PROJECTS

The Air Force has demonstrated a strong track record in housing privatization. The following figure and chart illustrate the location, number of units, total development costs, transaction closure date, successful offeror, and status for four pilot projects awarded in the past four years. In this effort, the Air Force has privatized 2,320 housing units at a total development cost of \$231.1 million dollars.

Installation	No. of Units	Total Development Costs (\$M)	Transaction Closure Date	Successful Offeror	Status
Elemendorf AFB, AK	828	100.5	March 2001	Aurora Military Housing LLC (Anchorage, AK)	Construction to be completed by September 2003
Dyess AFB, TX	402	31.5	September 2000	Hunt Building Corporation (El Paso, TX)	Construction to be completed by September 2002
Robins AFB, GA	670	56.5	September 2000	Hunt Building Corporation (El Paso, TX)	Construction to be completed by September 2002
Lackland AFB, TX	420	42.6	August 1998	Landmark Organization (Austin, TX)	Construction completed in January 2000
Total	2,320	231.1			



Elemendorf AFB, AK



Dyess AFB, TX



Robins AFB, GA

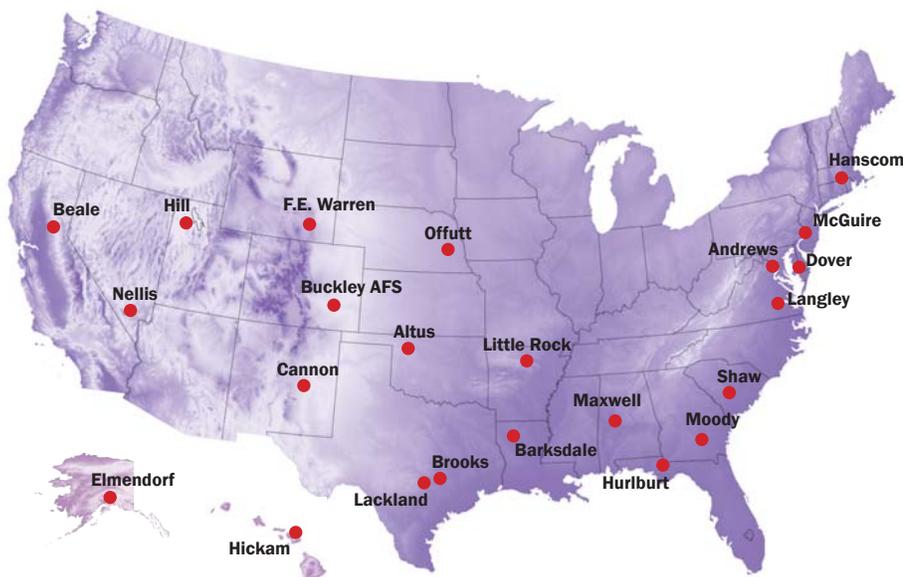


Lackland AFB, TX

Upcoming Housing Privatization Projects

The following figure and chart illustrate the locations, number of units, estimated solicitation issue date, and PSC assignments for 23 housing projects scheduled for the next phase of privatization over the next two years. The Air Force is looking to privatize approximately 21,900 housing units throughout the United States in this PSC-led effort at a cost of approximately \$2 billion dollars. Additional projects are in the programming stage at this time.

Installation	No. of Units	Estimated Solicitation Issue Date	Assigned Privatization Support Contractor (PSC)
Buckley AFB, CO	332	April 2002	PSC Military Housing Company
Hickam AFB, HI	1,356	April 2002	Not Applicable
Little Rock AFB, AR	1,535	April 2002	Jones Lang LaSalle Americas Inc
Hill AFB, UT	1,116	May 2002	PSC Military Housing Company
Nellis AFB, NV	1,313	May 2002	PSC Military Housing Company
Offutt AFB, NE	2,415	May 2002	Jones Lang LaSalle Americas Inc
Dover AFB, DE	450	June 2002	Ernst & Young LLP
Moody AFB, GA	606	June 2002	Basile Baumann Prost & Associates
Shaw AFB, SC	1,704	June 2002	Ernst & Young LLP
Beale AFB, CA	1,444	Aug. 2002	PSC Military Housing Company
Barksdale AFB, LA	432	Sept. 2002	Jones Lang LaSalle Americas Inc
Elmendorf AFB, AK	624	Oct. 2002	Ernst & Young LLP
FE Warren AFB, WY	265	Oct. 2002	Kormendi \ Gardner Partners
Langley AFB, VA	1,268	Oct. 2002	Jones Lang LaSalle Americas Inc
Hanscom AFB, MA	687	Nov. 2002	Basile Baumann Prost & Associates
McGuire AFB, NJ	2,414	Nov. 2002	Jones Lang LaSalle Americas Inc
Altus AFB, OK	970	March 2003	PSC Military Housing Company
Lackland AFB, TX	564	March 2003	Ernst & Young LLP
Maxwell AFB, AL	614	March 2003	Kormendi \ Gardner Partners
Andrews AFB, MD	115	TBD	Jones Lang LaSalle Americas Inc
Brooks AFB, TX	90	TBD	Not Awarded
Cannon AFB, NM	1,205	TBD	Not Awarded
Hurlburt AFB, FL	330	TBD	Not Awarded
Total	21, 849		



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