

7. Privatization of Military Housing

Department of Defense

“Two-thirds of military family housing units are now substandard, and they must be renovated.”

Governor George W. Bush

THE PROBLEM

About 20 percent of the nation’s military families live in inadequate housing.

- *Inadequate Military Family Housing.* Last year the military services identified about 177,000 of the Department of Defense’s (DoD’s) 290,000 military family housing units as inadequate. DoD estimates that fixing this problem with traditional military construction funding would cost about \$16 billion and take over 20 years.
- *Excess Military Family Housing Units.* Last year, the military services identified that they maintain 9,000 out of 290,000 housing units that they do not need, and indications are that there are even more excess units in DoD’s inventory. Building and maintaining unneeded housing units diverts funding from higher priority defense needs.

THE INITIATIVE

The Administration’s military housing initiative has four components:

- increased reliance on public-private partnerships;
- increased funding for housing construction and public-private partnerships;
- increased funding for housing allowances to eliminate out-of-pocket expenses by service members; and
- increased reliance on private-sector housing as the primary source of housing.

1. *The Public-Private Partnership Opportunity.* Public-private partnerships provide private-sector capital and expertise to build and manage housing for America’s military families. DoD is using temporary authority to enter into arrangements with private developers to renovate and construct more modern housing for military families. These

arrangements can be formal public-private partnerships with direct government investment or more informal partnerships with government loans or loan guarantees. Experience to date shows that with such public-private partnerships, it is possible to construct and renovate many more “privatized” housing units, quickly, at substantially reduced costs to the government than through normal military construction. To assess customer satisfaction with these projects, DoD plans to do an annual tenant survey.

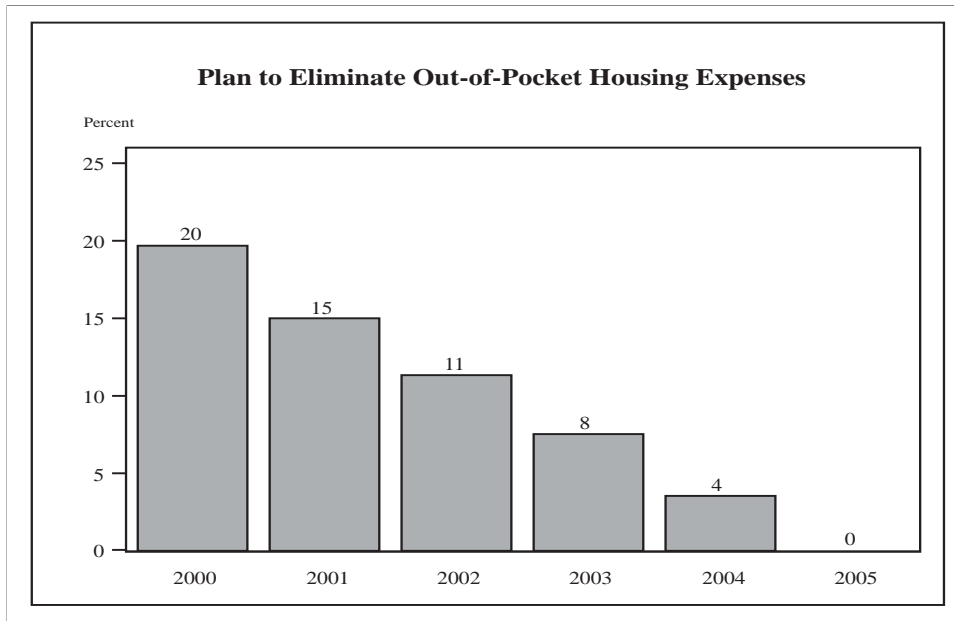
- At Fort Carson, CO, the Army has obtained 210 of the 840 new housing units and 177 of the 1,823 renovated units from the private sector. The renovation and construction is projected to be completed by the end of 2004. Based on limited customer response, the Army indicates personnel are pleased with the new and renovated housing. The cost to the Army to privatize the housing is \$10 million to guarantee a loan. Using traditional military construction funding, it would take 12 years or more and cost \$229 million (23 times the cost of privatization) to upgrade these same housing units.
- At the Naval Station Everett, WA, the Navy entered into a 30-year limited partnership with a private developer to construct 288 housing units off base, of which 40 are expected to be completed by October 2001. Construction is expected to be completed by July 2002. The Navy invested \$12 million in the partnership and provided \$6.7 million in differential lease payments to make the housing more affordable. Using traditional military construction funding, the project would have cost \$53 million (three times the cost of privatization) to upgrade these same housing units.
- At Camp Pendleton, CA, the Marine Corps is providing land and a direct loan to a private developer to renovate 512 existing units and construct 200 new units. The project is expected to be completed by January 2002. The cost to the Marine Corps is \$19 million. Using traditional military construction funding it would take six years or more and cost \$87 million (4 1/2 times the cost of privatization) to upgrade these same housing units.
- On March 15, 2001, the Air Force awarded a contract at its base in Elmendorf, AK for the construction of 420 new housing units, renovation of 200 existing units, and conveyance of another 208 units. The Air Force is providing \$23 million to guarantee a private-sector loan and provide a government direct loan to help finance the development. Using traditional military construction funding, it would take \$128 million (5 1/2 times the cost of privatization) to upgrade these same housing units.

2. *Increased Funding for Housing Construction and Partnerships.* The President included an extra \$400 million in the 2002 budget to improve the quality of housing available to military personnel and their families.

At Fort Hood, TX, the Army is preparing to sign a contract for the construction of 973 housing units and the renovation of 4,939 existing units. This will be DoD's largest housing public-private partnership project to date.

- \$195 million, almost half of the \$400 million, will be used for public-private partnerships to privatize about 14,675 housing units.
- \$107 million will be used to construct Bachelor Enlisted Quarters for 1,396 sailors and marines.
- \$98 million will go toward construction or renovation of 900 family housing units, (predominantly) overseas.

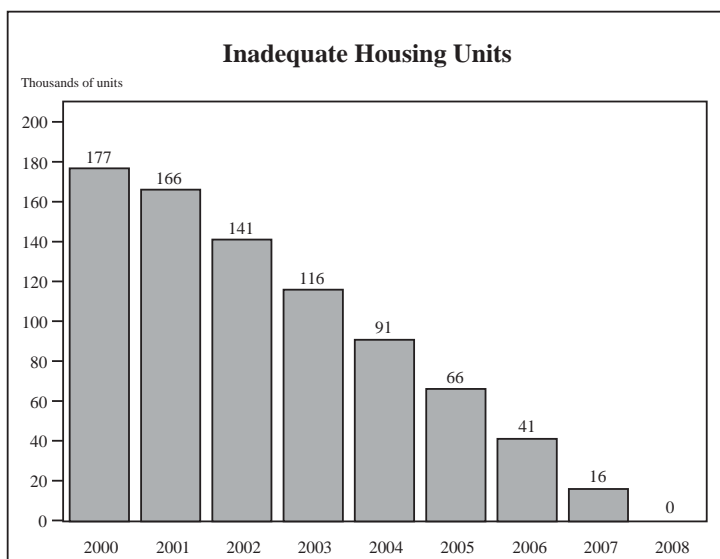
3. *The Housing Allowance Opportunity.* The Administration is committed to reducing to zero by 2005, the average out-of-pocket expense of military families living in private housing in local communities. This will enable more military families to leave inadequate government housing and rent quality private-sector housing in the local communities around DoD's installations.



4. *Reliance on Private-Sector Housing.* As private housing becomes more affordable to military families, DoD needs to fully implement its longstanding policy to rely first on private-sector housing in local communities for housing military families. DoD's process for determining on-base housing requirements needs to be updated, standardized, and implemented. Savings realized from not building or renovating unneeded housing units can be used for more pressing defense priorities.

THE EXPECTED NEAR-TERM RESULTS

- DoD is executing the 2001 enacted appropriations that provided funding to support eliminating 11,000 inadequate housing units through new construction, renovation, and public-private partnerships (“privatization”), more than double the total units privatized between 1996 and 2000.



- The 2002 amended DoD budget funds construction and renovation of 6,363 housing units and privatization of 28,174 units, of which about 18,600 are currently inadequate. So in all, with the 2002 budget, about 25,000 inadequate units will be upgraded.
- DoD should issue an updated housing requirements process to ensure that DoD relies on private-sector housing first for its housing needs.

- DoD reports current lifecycle costs for private-public partnerships are five to ten percent less than the traditional construction projects.

THE EXPECTED LONG-TERM RESULTS

- If DoD continues using public-private partnerships to privatize housing at the rate in the 2002 budget, DoD should be able to eliminate all inadequate military family housing units by 2008, two years before its original goal of 2010. Increased use of public-private partnerships could accelerate progress even more.
- Secretary Rumsfeld has observed that housing is not a core military competency and “can be performed more efficiently in the private sector.” To move in that direction, the percentage of military families living in private housing should be increased, thereby reducing the government-owned housing requirement.