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Highlights

Highlights of GAO-09-352, a report to the Subcommittee on Readiness, Committee on Armed Services, House of Representatives

MILITARY HOUSING PRIVATIZATION

DOD Faces New Challenges Due to Significant Growth at Some Installations and Recent Turmoil in the Financial Markets

Why GAO Did This Study

In response to challenges the Department of Defense (DOD) was facing to repair, renovate, and construct military family housing, Congress enacted the Military Housing Privatization Initiative in 1996. The initiative enables DOD to leverage private sector resources to construct or renovate family housing. As of March 2009, DOD had awarded 94 projects and attracted over $22 billion in private financing. DOD plans to privatize 98 percent of its domestic family housing through 2012. Since GAO's last housing privatization report in 2006, major force structure initiatives have placed new demands on DOD for housing.

GAO was asked to assess (1) the progress of DOD's housing privatization program, (2) the occupancy rates of the housing projects, (3) the impact of various force structure initiatives and DOD's efforts to mitigate any challenges, and (4) the effect of financial market turmoil on some projects. To perform this work, GAO visited 13 installations with privatization projects; analyzed project performance data; and interviewed DOD officials, real estate consultants, and private developers.

What GAO Recommends

GAO recommends that DOD provide more current information on investment caps and the impact of the current financial market on projects in its semiannual report to Congress. In response to a draft of this report, DOD concurred with our recommendations.

To view the full product, including the scope and methodology, click on GAO-09-352. For more information, contact Brian Lepore at (202) 512-4523 or Leporeb@gao.gov.

What GAO Found

DOD has made significant progress since 1996 to remove inadequate family housing from DOD's inventory by transferring these homes to developers, but it will be several more years before all of these inadequate houses are either replaced or renovated. Developers had replaced or renovated about 67 percent of the inadequate privatized housing as of February 2009.

While about 70 percent of military housing privatization projects are exceeding DOD's expected occupancy rate of 90 percent, each service has some projects below this rate. Some privatization projects with occupancy rates below 90 percent are challenged to generate enough revenue to fund construction, make debt payments, and set aside funds for recapitalization, which could negatively affect the condition and attractiveness of privatized homes and make it harder to compete with other homes in the community.

Base realignment and closure actions, overseas rebasing, Army modularity, and grow-the-force initiatives are challenging DOD's ability to provide family housing at some installations, and the services are taking steps to mitigate the challenge. Among other measures, Army developed an approach where an already awarded project is retrofitted with a new or another already awarded project. Once retrofitted, Army's total investment in the developer carrying out the projects must stay below a certain percentage of the capital costs of both projects combined, not a percentage of each project separately. This practice often results in DOD investing additional funds towards retrofitted projects. The House Appropriations Committee directed DOD to report on the status of each privatization project underway on a semiannual basis. However, DOD's most recent semiannual report did not include information on the retrofitting model it is using for certain projects. Including information on the changed status of privatized projects in DOD's report would assist congressional oversight of the program.

Several factors related to turmoil in the financial markets have reduced available funds for project construction, resulting in more renovations relative to new construction and reduced amenities at some newly awarded projects. First, higher interest rates in bond financing have increased the cost of some projects. Second, due to the diminished value of bond insurance, developers are having to set aside project funds to increase assurances the debt is repaid but that reduces available funds for construction. Third, financial turmoil has resulted in lower rates of return on invested funds. Consequently, as more homes are renovated given effects of today's financial markets, more recapitalization funds could be required. In H.R. Conf. Rep. No. 110-424, the conference committee expressed interest in monitoring developers' contributions to recapitalization accounts in DOD's semiannual report. However, information these effects have had on housing privatization projects was not included in DOD's most recent report. By including this information in its semiannual report, DOD could provide defense committees with a more current view of the financial market effects on these privatized projects.