



November 6, 2013

The Honorable Carl Levin, Chairman  
Committee on Armed Services  
United States Senate  
Washington, DC 20510-6050

The Honorable James Inhofe, Ranking Member  
Committee on Armed Services  
United States Senate  
Washington, DC 20510-6050

Dear Chairman Levin and Ranking Member Inhofe:

On behalf of the National Multi Housing Council (NMHC) and the National Apartment Association (NAA), we would like to call your attention to an issue of great concern relative to potential reductions in the Department of Defense (DoD) budget. In anticipation of another round of sequestration, DoD conducted the Strategic Choices Management Review, highlighting potential areas for cost savings. Among the options identified is service member pay and benefits, including reductions to the Basic Allowance for Housing (BAH).

We represent the nation's leading firms engaged in the multifamily rental housing industry, and our member companies have participated in the Military Housing Privatization Initiative (MHPI) since its' inception. Cutbacks to BAH would increase the out-of-pocket housing expenses for nearly one million troops, while jeopardizing the progress and success of the MHPI. In addition to limiting a service member's housing choices, changes to BAH will directly and negatively impact privatized military housing providers, and could more broadly undermine real estate investments made in proximity to military installations.

Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. NAA is a federation of more than 170 state and local affiliates comprised of 63,000 multifamily housing companies representing 6.8 million apartment homes throughout the United States and Canada. Together, we operate a joint federal legislative program and provide a unified voice for the private apartment industry.

Without question, the MHPI is a distinguished example of successful public-private partnership. The BAH is a core military benefit that compensates service members for housing costs when the member does not reside in government-owned housing. Also a central component of the MHPI program, BAH provides funding stability for the program's long-term contracts. As a result, before the DoD considers any changes to BAH allocations, it is critical that they engage housing industry stakeholders in the process and thoroughly analyze the far-reaching impacts.

The following summarizes the success of the MHPI and the likely impacts of BAH reductions on the program participants, service members and their families, and the local economy.

### **Successful Public-Private Partnership**

Since 1996, the apartment industry and the DoD have successfully partnered to fulfill the housing needs of the armed services through the MHPI. The program was established to address severe deficiencies in the adequacy and availability of military housing, which negatively impacted troop readiness, morale and retention. Before enactment of the MHPI, over 50 percent of the DoD's housing units needed to be replaced or repaired. Analysis showed it would take 20 years to solve the problem at an estimated taxpayer cost of nearly \$25 billion.<sup>1</sup>

<sup>1</sup> Office of the Deputy Under Secretary of Defense, Military Housing Privatization, FAQs at: <http://www.acq.osd.mil/housing/faqs.htm>.  
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Instead, by leveraging private-sector capital and expertise, the MHPI program utilizes market forces to provide high-quality, affordable homes to military families. And, the cost-savings to the DoD are well-established. For example, according to data published in the *Army Times*, under the Army's privatization program, private firms have invested \$6 for every \$1 of taxpayer appropriated funds.<sup>2</sup> As of 2012, 193,000 family housing units were privatized compared to 53,000 government owned units.

### Potential Impact of BAH Reductions

- 1) **Privatized military housing projects and their residents will feel an immediate impact from a BAH reduction.** The rent collected at privatized projects cannot exceed the BAH, so any reduction could negatively affect revenue streams for participating firms. Less potential revenue can undermine financial and business assumptions and drive firms to make operating adjustments, such as scaling back property services and amenities. Inadequate cash flow can also deplete reserve accounts necessary to respond to future maintenance or capital improvement needs. Even a more measured approach such as a BAH rate freeze could seriously impair MHPI projects, since initial investment decisions were predicated on at least modest increases in BAH. Sustained shortfalls threaten the project's ability to satisfy debt service obligations and can harm recapitalization efforts.
- 2) **With two-thirds of the military population living off-base in conventional private-sector housing, any BAH reduction, or period of flat BAH rates, will shrink the funds service members have available for housing costs.** Rental housing providers could face downward pressure on rent rates or occupancy challenges. Further, the quality and character of the community near installations can suffer if service members seek lower cost housing options on-base or outside of the area.
- 3) **A BAH reduction can also result in collateral damage to the local economy because apartments and their residents are significant economic drivers in their communities.** The ongoing operations and maintenance of apartment properties support considerable spending and job creation in their area. In addition, spending by apartment residents powers local economies, with roughly 70 percent of dollars spent staying in the immediate community, according to research by George Mason University economist Dr. Stephen Fuller.<sup>3</sup> In addition, the average apartment household generates \$51,831 in total economic activity each year through the purchase of goods and services.

The wide-spread impacts associated with reductions to the BAH can undermine the success of the MHPI program. Therefore, we ask that you weigh-in with DoD and encourage them to use caution before recommending a reduction in the BAH as a means of meeting targeted savings reductions. In the absence of a full exemption, we urge stakeholder engagement in the process and a thorough analysis of the impacts across the real estate sector and local economy. Please contact Jeanne Delgado at 202-974-2344/[jdeltgado@nmhc.org](mailto:jdeltgado@nmhc.org) or Paula Cino at 202-974-2345/[pcino@nmhc.org](mailto:pcino@nmhc.org) with any questions.

Thank you.

Sincerely,



Douglas M. Bibby  
President  
National Multi Housing Council



Douglas S. Culkin, CAE  
President  
National Apartment Association

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<sup>2</sup> ArmyTimes by Karen Jowers, "BAH cuts could hurt privatized housing, too", Aug. 26, 2013. Available at: <http://www.armytimes.com/article/20130826/BENEFITS02/308260003>.

<sup>3</sup> Stephen S. Fuller, Ph.D., "The Trillion Dollar Apartment Industry", in partnership with the National Multi Housing Council and National Apartment Association. February 2013. Available at: [www.weareapartments.org](http://www.weareapartments.org).