February 26, 2014

The Honorable John Culberson, Chairman
Committee on Appropriations
Subcommittee on Military Construction, Veterans Affairs and Related Agencies
United States House of Representatives
Washington, DC 20515

The Honorable Sanford Bishop, Jr., Ranking Member
Committee on Appropriations
Subcommittee on Military Construction, Veterans Affairs and Related Agencies
United States House of Representatives
Washington, DC 20515

Dear Chairman Culberson and Ranking Member Bishop:

On behalf of the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA), we appreciate the opportunity to share information about the improvements made to military quality of life through housing privatization, and call your attention to potential Department of Defense (DoD) actions that could jeopardize that success.

Specifically, as the DoD considers options for addressing sequestration and other budget challenges, military leaders have identified service member pay and benefits as a potential source for cost savings. Moreover, Fiscal Year 2015 budget discussions will prove pivotal for the future of military compensation. In Secretary Hagel's recent announcement of sweeping changes to military force structure and budget matters, he specifically discussed personnel costs and voiced plans to "slow the growth" of the Basic Allowance for Housing (BAH).[1] This raises serious concerns for service members and their families, privatized military housing participants, conventional housing providers and local economies.

Housing is a fundamental component of the quality of life for military service members and their families. Following a period of severe deficiencies in the adequacy of military housing, Congress and the DoD committed to improving housing conditions, largely relying on partnership with the private

[1] Secretary of Defense Chuck Hagel, FY15 Budget Preview Speech, Pentagon Press Briefing Room, February 24, 2014.

NMHC/NAA Joint Legislative Program

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sector. Today, the DoD touts housing privatization as "the single most effective reform" carried out in the installations and environment program area,[2] having reversed the trend of substandard and scarce housing options for military service members.

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) (or Public Private Venture (PPV) Housing) since its inception. 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.

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 serious deficiencies in the quality and availability of military housing, which negatively impacted troop readiness, morale, retention and overall quality of life. 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 using the traditional military construction process.[3]

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. DoD reports that a $3.6 billion outlay in taxpayer appropriated funds has generated $29.7 billion worth of housing investment through private sector cooperation – or an 8:1 ratio.[4] As of 2012, 193,000 family housing units were privatized compared to 53,000 government owned units.

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[2] Testimony of John Conger, Acting Deputy Under Secretary of Defense Installations and Environment, "Hearing on FY14 Budget Request Installations, Environment, Energy and BRAC." U.S. House Appropriations Subcommittee on Military Construction, Veterans Affairs and Related Agencies. April 12, 2013.

[3] Office of the Deputy Under Secretary of Defense, Military Housing Privatization, FAQs at: http://www.acq.osd.mil/housing/faqs.htm.

[4] Testimony of John Conger, *supra* note 1.

The continued success of the MHPI relies on a dependable and sufficient funding stream for privatized housing projects. The BAH is therefore a central component of housing privatization. It is a core military benefit that compensates service members for housing costs when the member does not reside in government-owned housing and provides funding stability for the MHPI program's long-term contracts. In addition, the BAH supports purely private-sector real estate investment around military installations, as it is a portable benefit that can be used to defray housing costs in PPV projects or conventional housing alike. As configured today, BAH enables service members to afford high-quality housing, while providing the flexibility to choose the housing that best fits their family needs.

Despite the value of the BAH to service members and housing providers alike, the DoD is exploring changes to military housing benefits that could jeopardize the progress and success of the MHPI. These possibilities reportedly range from a BAH rate freeze, to a reduction in BAH allocations, to a whole-scale restructuring of the benefit that would decouple the BAH from local rental rates.

Such changes to the BAH could increase the out-of-pocket housing expenses for nearly one million troops. 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.

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.[5] In addition, the average apartment household generates $51,831 in total economic activity each year through the purchase of goods and services.

Changes to the military housing allowance will have far-reaching impacts. Therefore, before the DoD moves forward with any changes to BAH allocations, it is critical that they engage housing industry stakeholders in the process and thoroughly analyze the effects. Further, DoD should avoid acting on proposed changes until completion of the Military Compensation and Retirement Modernization Commission review.

The wide-spread impacts associated with reductions or changes to the BAH can undermine the continued quality and housing choice for military service members. Therefore, we ask that you exercise caution before enabling DoD to make changes to 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 Paula Cino at 202-974-2345/pcino@nmhc.org or Jeanne Delgado at 202-974-2344/jdelgado@nmhc.org with any questions.

Thank you.

Sincerely,

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[5] 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.

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