

AIR FORCE

Housing Privatization



Case Study: Other Eligible Tenants in Off-Base Projects

The housing privatization project at Robins AFB I has been financially successful to date in large part due to its leasing to Other Eligible Tenants (OETs), including members of the general public, for the past several years. This Case Study summarizes how the OET Priority List was implemented at the Robins AFB I project and provides tips for the successful implementation of the OET Priority List at other off-base projects.

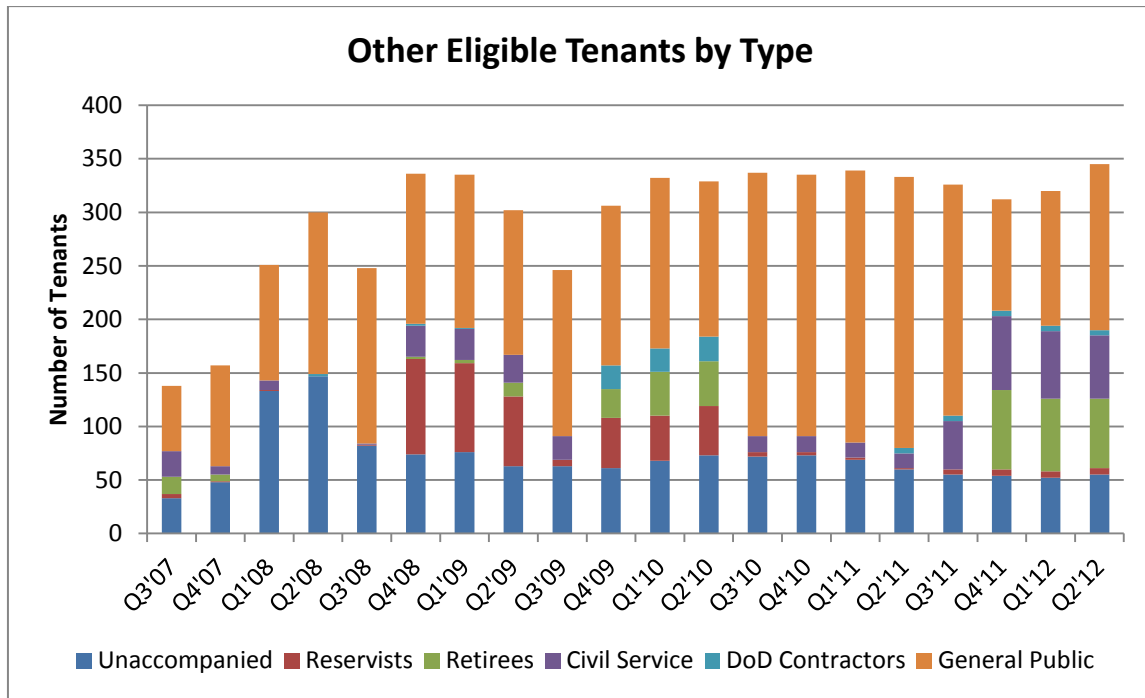
Background

Active-duty military personnel and their families authorized to reside on the installation are the “Target Tenants” for privatized housing and the primary engine that drives the financial component of private housing is the Basic Allowance for Housing (BAH). The BAH provides a future stream of cash flow, which financial institutions consider as income, that is leveraged to obtain significant loans to bring housing up to current standards. However, there must be enough BAH to fund ongoing operations, supply capital to construct, repair, and renovate units throughout the life of the project (50 years), and repay the private loans used to finance the improvements to housing. Investors concluded that if occupancy were restricted to only military families, no matter the circumstances, the financial risk would be too great to underwrite. To mitigate this risk, all project transaction documents include provisions that allow the Project Owner (PO) to rent to non-military personnel, if project occupancy falls below 95%, without the need to obtain approval from the Air Force. The process by which the PO may implement renting to OETs is known as the OET Priority List and is part of all Air Force projects. Among its provisions is a priority list for OETs that allows, as last priority, occupancy by members of the general public. The automatic trigger to enter the OET Priority List is when a project’s occupancy falls below 95%. Early implementation of the OET Priority List can have significant benefits as the added revenue results in improved housing services, amenities, and general quality of life for the primary residents: Air Force families. A case study of Robins AFB Phase I provide a roadmap for successful implementation of the OET Priority List.

OETs and the General Public

As of the 2nd quarter of 2012, occupancy at Robins AFB I was 94.8% including 297 Target Tenants and 388 OETs out of 670 total available units. Of those OETs, 160 were general public tenants. OETs constitute 61.1% of the project’s total number of occupied units with the subset of general public tenants representing 25.2% of all occupied homes. Rents paid by OETs comprise over half of the project’s revenues. Without the rental revenue generated from OETs in the past several years, the project would not have been able to make its private loan (similar to a mortgage) and Government Direct Loan (GDL) (similar to a second mortgage) payments or reduce its Preferred Return Balance (a \$5.7M financial obligation the

project must pay back to the developer and which accrues interest until it is paid in full). The graph below shows the number of OETs living at Robins I over the past several years has remained relatively constant.



Effects of OETs and General Public Tenants

The project housing units are located in a gated community in close proximity to the installation. Being off the main installation, yet within close proximity for access, was found to be highly desirable among Active Duty military unaccompanied personnel preferring to live with roommates. For these same reasons, the project experienced a high level of general public interest in the community which in turn prompted the Air Force and the PO to amend the Use Agreement (Lease of Property) and allowing the PO to lease 300 homes in the Huntington Hills neighborhood at market rental rates. This immediate and full implementation of the OET Priority List to the general public category increased project revenue quickly and dramatically

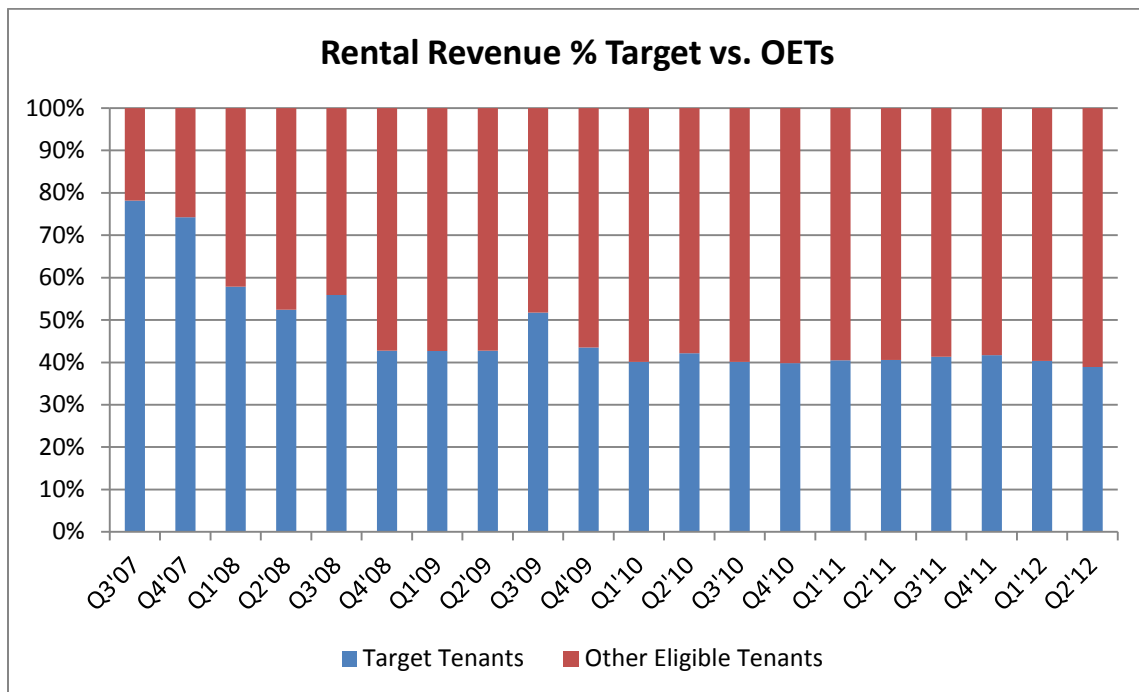
Of course they not only reaped the benefits but experienced unexpected drawbacks too. One such drawback was the increase in late and delinquent rental payments. The mandatory use of Military Allotment Center (MAC) greatly reduces the rental delinquency for military tenants; however, MAC cannot be utilized for OETs, hence the project's delinquency rate jumped to three times the AF-wide portfolio average. The PO had to dedicate additional staff time to focus on collecting delinquent rents before placing them in collection with agencies. Additionally, the number of evictions due to non-payment of rent also climbed higher than the portfolio average thus adding another expense to the project.

Another drawback was the common misconception that allowing OETs into the community would make it less secure, increase crime, and affect community appearance negatively. According to the PO, OETs care for their homes as well as military tenants and do not pose a risk to safety and security as they must pass the same background checks as military tenants.

Financial Benefits of the Active Other Eligible Tenant Priority List at Robins AFB Phase I

For the past five years, OETs have paid approximately \$16.7M in rent, or 52.8% of the project's total revenue. During the same time period, general public tenants have paid approximately \$8.2M in rent, or 26.0% of total revenue. So, while the current tenant mix varies greatly from the original expectation of solely military families, OETs and the general public have enabled the project to meet its debt obligations and improved the long-term viability of the project.

Figure 2 below illustrates the percentage of income generated by target tenants vs. OETs since the 3rd quarter of 2007.



Air Force OET Implementation Policy

The current Air Force policy regarding renting to OETs requires that the project begin marketing and renting to OETs in the following priority:

- a) Immediately when occupancy drops below 95%:
 1. Other Active Duty Members of the Uniformed Services/ Families
 2. Guard and Reserve Military Members/Families
- b) Upon 30 consecutive days of occupancy below 95%:
 3. Federal Civil Service Employees
 4. Retired Military Members/ Families
 5. Retired Federal Civil Service
- c) Upon 60 consecutive days of occupancy below 95%:
 6. DOD Contractor Permanent Employees (US Citizens)
- d) Upon 90 consecutive days of occupancy below 95%:
 7. General Public

The PO does not need approval from the AF to implement the OET Priority List as it is part of the project transaction documents, legally-binding agreements between the Air Force and the PO. The Air Force encourages installation leadership and POs to continually assess the Target Tenant demand and waiting lists and where it makes sense, consider early implementation of the OET Priority List.

OET Priority List Implementation Tips

Privatized homes lying outside the main base security perimeter offered greater flexibility to the Robins I project yet it is far from unique in the Air Force. Other off-base projects could use the following tips when implementing the OET Priority List and marketing to OETs and the general public.

- Plan early. Do not wait until the PO raises concerns. Have a well thought out plan vetted through the organization and brief at every Management Review Committee (MRC) meeting.
- Continually educate all stakeholders on the importance of OETs to the project's financial health.
- Understand the jurisdiction and the role of Security Forces versus civil law enforcement when it comes to dealing with non-military personnel living in privately owned homes on Federal property.
- Develop a roommate policy, encouraging unaccompanied and single members to live together and split the rent
- Provide regular updates to all stakeholders on the tenant mix of the project
- If not already accomplished prior to project closing, coordinate base access and pass procedures with installation Security Forces and put a base policy in place as soon as possible
- Educate continually
- Perform credit and criminal background checks on all OETs during the application process at the cost of the tenant or Broaden marketing and outreach efforts to reach potential general public tenants. In addition to on-base marketing efforts, consider advertising in municipal newspapers and public apartment websites.
- Maintain close contact with AFCEC to share lessons learned and ensure compliance with other policy directives and considerations. *For example, Secretary of the Air Force (SAF/IEI) committed to notifying Congressional representatives prior to leasing to general public tenants as a courtesy so representatives would be aware of such actions in their districts.*