

AIR FORCE

Housing Privatization



Case Study: Collaborative Efforts Drive Occupancy Improvement

The Wright-Patterson AFB (WPAFB) privatized housing project, located in Dayton, OH, faced immense occupancy challenges. A shrinking local economy and an end-state unit inventory that exceeds demand resulted in a project occupancy rate of 79.6% in mid-2008, 17.4 percentage points below the target pro forma rate of 97.0%. In response to the alarmingly low occupancy rate and subsequent decline in project financial performance, HQ AF/A7CA convened an Integrated Planning Team (IPT) of project stakeholders in May 2008 to improve occupancy. Following the implementation of WPAFB IPT directed actions, occupancy improved 9% within a year. Through the collaborative efforts of the Project Owner and the Air Force, occupancy at WPAFB has averaged 94% from 2011 through 2012. The approach and information provided below can be used at other projects to increase communication, address operating challenges, and drive occupancy improvement.

Factors Leading to the Implementation of an IPT

Occupancy for the privatized housing inventory at WPAFB trailed pro forma expectations by as much as 10.0% post-Initial Development Period (IDP) completion in June 2007, and dropped below 85.0% thereafter. Historically, project occupancy tends to decline in the beginning of the PCS cycle (April to August) and recover in the final months of the PCS cycle; however, persistent low occupancy negatively impacted WPAFB project cash flows resulting in the risk of financial default. Ultimately, low occupancy and resulting decline in operating cash flows were hurting the short and long-term viability of the project. A closer look at the WPAFB privatized housing project identified the following factors impacting demand and occupancy:

- 2011 Housing Requirements and Market Analysis (revised August 2007) indicated a Total Military Family Housing Requirement of 986 units in 2011, 550 units below the 1,536 end-state units of the project
- Local occupancy in competing unit types was at or below 89.0%
- End-state unit inventory consisted of over 700 units built in the 1970s and conveyed as-is with most recent renovations completed in the early 1990s
- Property Management team had not actively pursued Other Eligible Tenants (OETs) beyond the first tier

The circumstances at WPAFB clearly indicated the need for a focused group of decision makers to address these problems and warranted an IPT be implemented immediately.

Right Team, Right Objectives

The first step in addressing the occupancy challenges at WPAFB involved assimilating a team of decision makers with the ability to effect short and long-term change at the project. The IPT kicked-off in May 2007 and immediately identified the overall problem - inability to fund the project's lockbox "waterfall" accounts, and the possible result of project default under the covenants of the Guaranteed and Government Direct Loans (GDL). The team began identifying and defining short and long-term objectives that would have to be satisfied in order to correct the problem.

- Identify market audience and tools required
- Review customer satisfaction survey results/comment cards
- Review budget requirements (past, present, and future)
- Develop a realistic plan of action to include expectations, roles, responsibilities, and timing
- Define short and long-term success trigger points

Structured Approach

After defining the objectives, the IPT collaboratively developed the following approach:

Step 1 - Establish rules of engagement:

- Seek first to understand, then to be understood
- Fix the problem, not the blame
- Consensus means "I can live with and support"
- "We" means all of us

Step 2 - Define success as the project's achievement of a mix of occupancy and rental rates that would achieve financial stability

Step 3 - Develop metrics to determine if the efforts are successful. The metrics included project occupancy rate, number of OETs by Type, occupancy by rental rate and unit type, and resulting NOI.

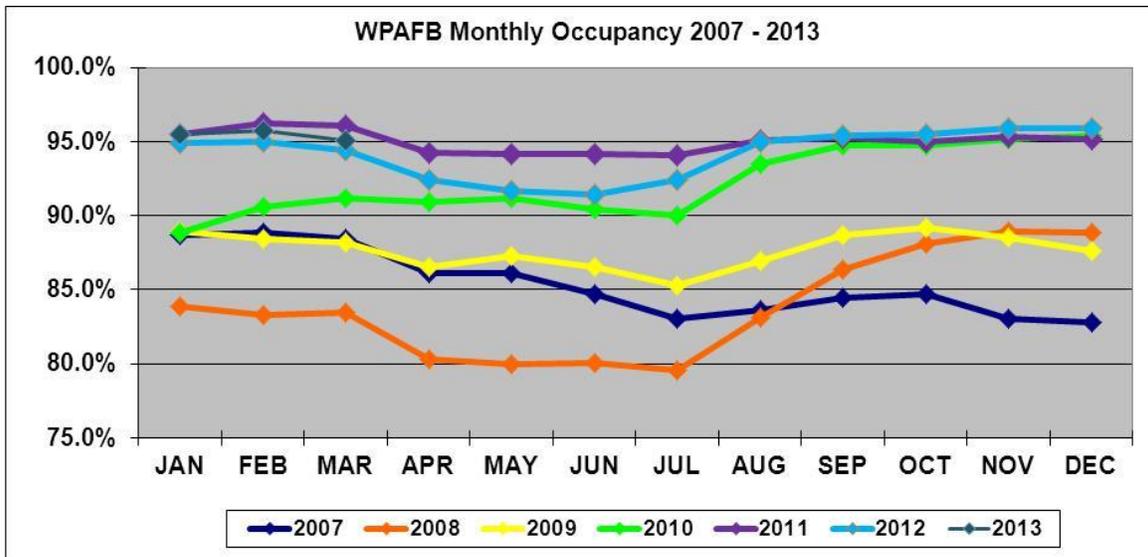
Step 4 - Brainstorm ideas to achieve objectives:

- Increase marketing and outreach to OETs, including General Public
- Open the tenant waterfall to General Public tenants
- Provide targeted financial incentives in difficult to lease units / areas
- Implement minor improvements (\$10K) in difficult to rent units
- Offer access to miscellaneous amenities and provide incentives (pool passes, golf rounds, etc.)
- Offer 2 and 3 year lease terms for OETs
- Request base leadership be more proactive in promoting advantages of privatized housing and concessions to Target Tenants and OETs

Step 5 – Implement ideas and refine actions. The IPT continually re-visited and refined the actions to perpetuate successes and change course when actions failed to achieve the desired results. The process is dynamic, and although the IPT stopped meeting in December 2008 the operating-level team continued to use the approach to achieve success.

The Results

Following the initial kick-off meeting in late May 2007, the Property and Asset Management teams along with Installation Leadership immediately began to implement, review, and refine the ideas developed during the monthly IPT meetings. The graph below shows continual improvement from May 2007 (79.6%) thru December 2012 (89.0%). The WPAFB project is now a healthy project and meeting all of its obligations with no sign of default. Current occupancy holds steady at 96%.



Contact your AFCEC Program Manager for more information on the WPAFB IPT.