

Insights

into Housing and Community
Development Policy



PD&R

U.S. Department of Housing and Urban Development | Office of Policy Development and Research

Community Housing Impacts of the Military Housing Privatization Initiative

Housing is a key component of services offered to military personnel, civilian staff, and their families at most military installations. Military services typically rely on the surrounding community for housing and provide a Basic Allowance for Housing (BAH) for troops and staff to cover housing costs. Where communities do not have adequate housing, on-base housing has been built. The U.S. Department of Defense (DoD) manages more than 300,000 family housing units, and approximately one-third of military families live in on-base housing, with the remainder living in surrounding communities.¹ Since 2010, private developers have provided and managed much of the on-base housing because of the Military Housing Privatization Initiative (MHPI), which was passed in 1996. Property managers may rent to non-active-duty troops, including the general public, if occupancy rates are not maintained with active-duty staff, using a “tenant waterfall policy.” The purpose of this article is to discuss the relationships between on-base military housing, including privatized housing, and housing markets near military installations. The article will consider the effects of recent troop drawdowns, force realignments, and possible future Base Realignment and Closure (BRAC) rounds on housing markets.

Each military service has its own housing privatization initiative. The article, however, will primarily focus on the U.S. Army’s Residential Communities Initiative (RCI). The Army is the largest single branch, with more than 35 percent of total servicemember counts, but has absorbed a disproportionate share of personnel reductions. More than 60 percent of all servicemember declines in the military since 2010 have been within the Army.² Case studies of Fort Sill in Lawton, Oklahoma, and Fort Campbell on the Kentucky-Tennessee border near Clarksville, Tennessee, will be considered. Both bases have lost many troops since 2010, with Fort Campbell expected to lose an additional 350 troops after the July 2015 force realignment announcement. Fort Sill, however, is expected to gain 220 troops by the end of 2017.³

The MHPI program has, in effect, made on-base privatized housing part of the local competitive housing market. When established, privatized housing at the installation operates similarly to any other private rental property business, competing with other local housing options. The resulting competition can affect the local rental market and estimates of housing demand. The realignment of troops to different bases and brigade combat teams, in addition to declining troop counts, have added stress to privatized housing markets in some areas. These movements can also create challenges for nearby communities. First, communities may have built housing off base to accommodate an influx of troops during previous periods of military growth. Second, the economic base of these communities may be intertwined with the nearby military post, and declining troop counts can adversely affect overall economic conditions.

This article describes evidence and context for decisionmakers considering issues related to privatized housing on military posts and the effects on surrounding communities. Key insights include the following:

- Servicemember declines and force realignments are expected to continue, at least through 2020, exacerbating stress on economic conditions and housing markets in some areas near military posts.
- The implementation of the tenant waterfall policy opens privatized housing to several tiers of households, including retired military personnel, civilian workers, and the general public. These households generally live off base.
- Housing is a long-term bundle of services, limiting the ability to remove excess housing supply. Therefore, as servicemember counts decline in some areas, off-base housing markets may weaken as military and nonmilitary households take advantage of increased privatized military housing options.
- Understanding the dynamics among MHPI, the tenant waterfall policy, and housing markets in these areas is vital to creating balanced housing market conditions.

History

After a rapid expansion of on-base troop accommodations throughout the 1950s and 1960s, the quality of on-base housing declined as construction and upkeep did not keep pace with natural deterioration and changing definitions of adequate housing.⁴ DoD consequently estimated during 2001 that 180,000 of the 300,000 military family units that it owned and operated did not meet housing standards.⁵ DoD calculated that 30 years and \$16 billion would be needed to resolve the family housing shortfall.

DoD historically used a combination of two methods to house active-duty personnel and their families. The principal method was reliance on the residential housing supply near military installations, and Congress provided members with a cash allowance to

defray part of the cost, the BAH, which is discussed in detail subsequently. The secondary method, intended for those locations where local housing was very expensive or unavailable, was to lodge members and their families in quarters built with appropriated funds within military installations. In 1996, Congress provided a third method to DoD—MHPI.⁶

MHPI was created in Section 2801 of the *National Defense Authorization Act for Fiscal Year 1996* as a 5-year pilot program.⁷ Using “alternative authorizations,” Congress intended to improve military housing by leveraging federal investment to encourage private investment. MHPI originally was centralized within DoD under the Office of the Secretary of Defense (OSD). Because of the complexity of

this new approach to military housing construction; the unfamiliarity of DoD contracting personnel with these kinds of negotiations; and new legal, financial, and budget issues, progress in the negotiation of contracts and construction was slower than originally envisioned. These difficulties led to a 1997 decision by DoD to extend its original housing solution target date of 2006 by 4 years, to 2010. In October 1998, the Secretary of Defense devolved operational responsibility for MHPI to the individual military branches, with oversight and final approval authority vested in the OSD Directorate of Housing and Competitive Sourcing.⁸ By the end of the initial MHPI authorization in late 2000, only the privatization of 2,663 units at Fort Carson had been finalized.

Privatization

Projects approved as part of MHPI typically move through the process in a similar fashion. First, the military branch conducts a site review and feasibility study to establish the need for additional housing at an installation. This examination includes an evaluation of the local private housing market and a cost-benefit analysis. The branch then decides to either renovate existing housing or construct new dwellings and shares the results with the OSD Directorate of Housing and Competitive Sourcing. If OSD judges the concept to be adequate, it approves the project and authorizes the military branch to develop a solicitation proposal. The military service notifies Congress before the completed solicitation is issued to private industry and again when the successful solicitation response is selected and before a contract is awarded.

Each military service has its own privatization program. The U.S. Marine Corps’ and Navy’s programs

are referred to as “Public Private Ventures,” the U.S. Air Force program is called “Housing Privatization,” and the Army’s program is RCI.⁹ Each service is responsible for evaluating the housing needs of its active-duty members, determining which of its installations should be privatized, establishing its program’s policies and procedures, carrying out the private developer solicitation process, and monitoring its projects.¹⁰

Congress has provided the DoD with a variety of authorities within the MHPI initiative that may be used to obtain private-sector financing and expertise to repair, renovate, and construct military family housing, including—¹¹

- Real estate tools. The military service may convey or lease existing DoD property or facilities to developers for the purpose of using that property to provide housing suitable for military servicemembers.

- Investment tools. The military branch may invest limited amounts of appropriated funds in a developer carrying out a project or projects for the acquisition or construction of housing units suitable for use as military family housing.
- Financial tools. The military department may make direct loans to a developer or may guarantee a loan made to a developer if the proceeds of the loans are used to acquire or construct houses suitable for use as military family housing.

DoD may use any combination of the preceding MHPI authorities, which provide flexibility in the structure and terms of the transactions with the private sector. This flexibility has resulted in a number of different kinds of transaction structures using different combinations of these authorities.

How Privatization Works

In a typical privatized military housing project, the developer is a limited liability company or partnership that has formed for the purpose of acquiring debt, leasing land, and building and managing a specific project or projects.¹² The limited liability company is typically composed of one or several private-sector entities, such as construction firms, real estate managers, and businesses with expertise in housing construction and renovation. In those cases in which a military department has made an investment in the limited liability company, typically in the form of land, the department may also be a member of the limited liability company developing the project.

A military branch generally leases land to a developer for a term of 50 years. The military branch generally conveys

any existing homes on the leased land to the developer for the duration of the lease. The developer is responsible for constructing new homes or renovating existing houses and then leasing this housing, giving preference to servicemembers and their families. DoD has established a tenant waterfall policy, described subsequently, that property managers can use if occupancy falls below a certain rate.

DoD can invest a limited amount of appropriated funds or other assets into a development to carry out a privatization project. The developer uses this equity to help obtain private financing for construction or renovation. Developers obtain their funds through bank loans or military housing bonds obtained through private-sector financial markets. Developers also typically

obtain funds from the military services either through investments of cash or assets, such as land and homes, or from loans provided by the military services. MHPI limits a service's investment in a development to not more than 33 percent, or 45 percent if land or facilities are all or part of the investment, of the capital cost of the project or projects that the developer proposes to carry out.

By March 2009, DoD had awarded 94 projects and turned over housing to real estate developers who in turn generated more than \$22 billion in private-sector financing to construct new housing or renovate existing housing on military installations. DoD had privatized about 98 percent of its domestic housing (or nearly 219,000 houses) by the end of 2012.

Basic Allowance for Housing

DoD's policy is to rely on private-sector housing in the local communities near military installations as the primary source of family housing. As a result, about two-thirds of all military families in the United States live in local community housing and receive a cash housing allowance, or BAH, to help defray the cost of renting or purchasing a home.¹³ Each year, DoD sets the monthly BAH rates. This allowance is based on the median local monthly cost of housing, including current market rents, utilities, and renter's insurance. The allowance can fluctuate from year to year as demand in housing markets varies over time. BAH is generally based on pay grades and whether or not servicemembers have dependents. Furthermore, although BAH is calculated based on the rental market, servicemembers may choose to apply their allowance toward purchasing a home and are free to spend more or less than their allowance on housing. Servicemembers are permitted to keep any portion

of their BAH not spent on rent and conversely will have to use other funds if their rents exceed their allowance.

BAH rates have increased since 2000 as DoD has implemented an initiative to reduce military servicemembers' out-of-pocket housing costs, partly to serve as a retention tool. The higher housing allowance rates may make it more feasible for military servicemembers to consider off-base rental housing if the homes are deemed more desirable in the community or the amount of BAH exceeds the cost of the rent, permitting the servicemember to keep the difference. Higher housing allowances may similarly prompt some off-base housing developers to build more housing to directly compete with privatized housing at the installation for servicemember tenants. Thus, increased BAH and increased housing choices can provide servicemembers and their families with more housing options and potentially lead to lower rates of occupancy for

privatized housing at an installation. Previous studies from the Government Accountability Office report that increases in BAH have made it possible for more servicemembers to afford housing in the local market, thus reducing the need for privatized housing at installations.¹⁴

When a servicemember chooses to live in a family housing privatization project, the servicemember pays rent to the developer. The rent is usually, but not always, equal to BAH. In turn, the developer uses the rental income to help pay for housing improvements, home maintenance and property management expenses, and other costs such as utilities and the developer's management fees. Servicemembers are not obligated to live in privatized houses at the installation and may opt instead to use their housing allowance to lease or buy a home off the installation. The MHPI program has made on-base privatized housing part of the local competitive housing

market. This privatized housing operates similarly to any other private rental property business, competing with other local housing options. The resulting competition can affect the local rental market and estimates

of housing demand. For instance, the addition of privatized housing at Fort Sill and Fort Campbell that competed with increased apartment construction off base led to soft rental market conditions in the surrounding

metropolitan areas, with vacancy rates of 13.4 and 12.4 percent, respectively, during 2012. These examples are discussed further in subsequent sections.

Unaccompanied Personnel Housing and Privatization

Unaccompanied personnel are typically “single, junior-enlisted servicemembers” and are generally required to live in barracks.¹⁵ Barracks generally have a communal bathroom, and members are required to share a room. Military personnel who have one or more family members living with them are eligible to live in military family housing.

Since Congress enacted MHPI in 1996, the military services have conducted several analyses and considered other factors to determine whether to privatize housing for unaccompanied personnel.¹⁶ These analyses were conducted between 1997 and 2011. The Army’s and the Navy’s analyses

compared different scenarios—such as whether to rely on privatization or use traditional military construction funding to improve housing quality—and considered information from multiple installations in these analyses. By contrast, the Air Force and U.S. Marine Corps analyzed the feasibility of privatizing unaccompanied housing at a few selected installations. Three factors played a role in decisions that the individual military branches made about whether to privatize unaccompanied personnel housing: (1) the limited availability of BAH for junior unaccompanied personnel, which may result in not having a dedicated stream of income to pay rent

for privatized housing; (2) the frequency or duration of unit deployments, which could affect the occupancy rates of unaccompanied housing; and (3) uncertainty about the future size of the military and whether demand for privatized housing would be sufficient.

Between 1996 and 2013, the Army and Navy implemented seven privatized unaccompanied personnel housing projects. The Air Force and Marine Corps have not used the privatization authorities and are instead using military construction funds to improve the quality of their unaccompanied personnel housing.

Tenant Waterfall Policy

Approximately one-third of military families live in government-owned housing, and the remainder lives in privately owned or rented accommodations. The primary purpose of privatized, on-base housing is to offer family housing options to military families. When changes to servicemember counts affect occupancy rates, however, on-base property managers have the ability to implement the tenant waterfall policy to maintain occupancy rates and the financial stability of the on-base housing.

To reiterate, active-duty servicemembers are not required to live on base but can use the BAH to rent or buy housing in

the private market off base. As a result, when accompanied and unaccompanied personnel are not maintaining sufficient occupancy within privatized housing, different tiers of tenants are allowed to rent privatized housing. The first three tiers are the primary residents of military housing. Priority levels 4 and 5 include servicemembers who may typically live in barrack housing. Tiers 6 through 8 include retired military personnel, widowed spouses of retired military personnel, civilian personnel, and the general public.

The goal of the tenant waterfall policy is to maintain the financial viability of on-base privatized housing.

Implementing this policy may attract households, especially the lower-priority tiers that include retired personnel, civilian workers, and the general public, to move from the surrounding communities to on-base housing. The combined effects of declining community economic impacts and the movement of households to privatized housing can be particularly challenging for the surrounding community.

Tenant Waterfall Tier Sequence

Category	Priority
Key and Essential accompanied or unaccompanied military personnel assigned or attached for duty at the Installation and Key and Essential civilians, as such civilians are approved by the Lessor, assigned or attached for duty at the Installation	1
Accompanied military personnel and unmarried chaplains assigned or attached for duty at the Installation	2
Accompanied military personnel assigned or attached for duty within a 50 mile radius of the Installation	3
Unaccompanied family members of military personnel	4
Unaccompanied military personnel (married and single) assigned or attached for duty as stated in (2) or (3) above	5
Retired military personnel and spouses or widowed spouses of retired military personnel	6
DoD and Federal Agency civilians (other than designated Key Essential)	7
Non-military or non-DoD or non-Federal Agency personnel not included in priority categories 1–7 cleared to live on the Installation (general public)	8

DoD = U.S. Department of Defense.

Source: Army Privatization and Partnerships, Office of the Assistant Chief of Staff, Installation Management

Current Changes and Issues

The privatization of on-base housing has continued. The Army, Navy, and Marine Corps have privatized virtually all their family housing in the continental United States. The Air Force has privatized 82 percent of its domestic on-base housing. The Air Force planned to privatize the remaining inventory by 2013.¹⁷ Although about 70 percent of MHPI projects generally exceed 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.¹⁸

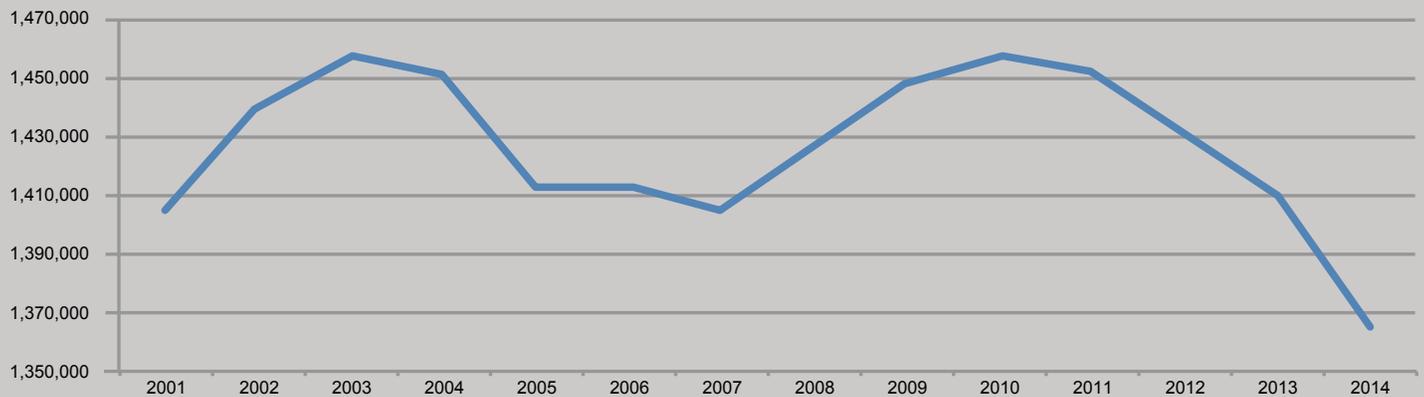
Several force structure and infrastructure initiatives are compounding DoD’s and the developers’ challenges in

ensuring that affordable and adequate military family housing will exist when needed. DoD is implementing BRAC recommendations, returning some military forces based overseas to defense installations in the United States, converting Army units to more mobile brigade combat teams, and modifying the size of the Army and Marine Corps force structure. Army officials have stated the planned growth at some installations was exceeding the pace at which military family housing was being made available through new construction or renovation, potentially meaning that adequate family housing on the installations may not be available when needed. To increase the pace of new construction or renovation, the Army allocated nearly \$600 million in fiscal years (FY) 2008 and 2009 to be made available to developers. Further, the Army has in some cases retrofitted projects after financial closing and actual housing turnover to the developer.

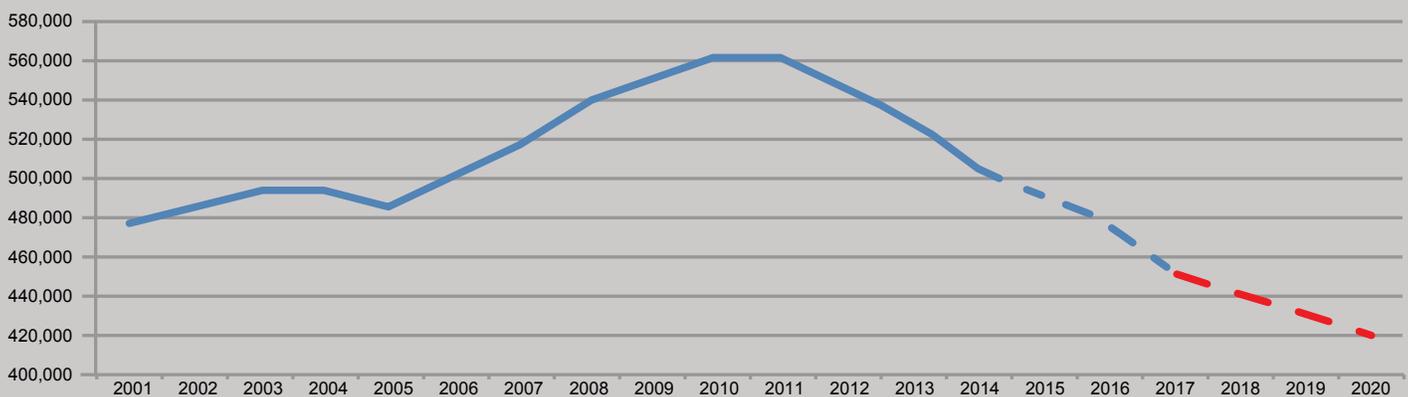
Total officer and enlisted personnel in the U.S. military rose to 1.46 million in FY 2003 before declining to 1.40 million in FY 2007. After reaching this recent low, personnel counts returned to 1.46 million in FY 2010. Since FY 2010, officer and enlisted personnel has declined to a recent low of 1.36 million during FY 2014. Nearly 60 percent of the decline of 100,000 military personnel from FY 2010 through FY 2014 was concentrated in the Army. The Army expects troop counts to decline to 490,000 by the end of FY 2015 before falling to 450,000 by the end of FY 2017. The Budget Control Act, as currently written, potentially limits the troop count to 420,000 by FY 2020.

The realignment of troops within military branches to different bases and brigade combat teams, in addition to declining troop counts, have added stress to privatized housing markets in some areas. These movements

Total Officer and Enlisted Count, FY 2001–14



Army Active-Duty Troop Count, FY 2001–20



Notes: The 2015–17 active-duty troop counts are based on announced cuts. The 2017–20 counts are based on current Budget Control Act requirements.

can also create challenges for nearby communities. First, communities may have built housing off base to accommodate an influx of troops during previous periods of military growth. Second, the economic base of these communities may be intertwined with the nearby military post, and declining troop counts can adversely affect overall economic conditions. The discussion of the case studies of Fort Sill and Fort Campbell highlight the challenges some communities may face.

Distribution by Rank and Grade

The tenure and rank of enlisted personnel affect demand for family

housing. Grades E-1 through E-5, if they are unaccompanied, are typically required to live in unaccompanied housing on base. Servicemembers who have higher ranks, are married, or have dependents, however, can choose to live in family housing, either on base or within the local community. The number of married personnel has increased as a percentage of total servicemember counts, increasing demand for family housing. The 1.5 million service men (85 percent) and women (15 percent) who are in today's active-duty military fall into two categories:

1. Enlisted personnel. The E-1 through E-9 enlisted ranks number

1.2 million. Of this group, 42 percent are in the E-4 and E-5 ranks and 75 percent are in the E-3 through E-6 ranks.

2. Officers. By contrast, officers number more than 216,800. They range in rank from warrant officer to general or admiral. Of these officers, 31 percent hold the rank of captain or lieutenant and 13 percent hold the rank of commander.¹⁹

Marital and Family Status

The number of married people in the military has steadily increased. In FY 2002, 58 percent of servicemembers

were married, up from 51 percent more than 20 years previously. For career personnel, senior enlisted and senior officers, the rate is 93 percent.

About 66 percent of military spouses are employed, and 90 percent of those with preschool children live in homes where both parents work full time.

Married personnel with dependents rely on on-base family housing or off-base conventional housing inventory.

Why Housing Privatization Is Important for Understanding Housing Demand

The use of MHPI to create on-base privatized housing added competitive housing supply to communities near military bases. The privatized housing at the installation operates similarly to any other private rental property business in competition with other local housing options. The combination of the additional housing and the ability to open that housing to various tiers of households through the tenant waterfall policy allows for on-base housing to compete with the local housing market. The resulting competition can affect the local rental market and estimates of housing demand.

Since 2000, as part of the privatization process, developers have rehabilitated dilapidated on-base housing and created competitive housing that troops could live in. Overall on-base housing numbers may or may not have changed, but creating comparable units has a community impact. Mayors are stating that this housing is “stealing their tax base.”²⁰

In addition, DoD has begun several extensive force structure and infrastructure initiatives—such as the permanent relocation of about 70,000 military personnel back to the United States from overseas bases, the implementation of about 800 BRAC actions through 2011, and the continued transformation of the Army’s force structure from an organization based on divisions to one based on more rapidly deployable brigade units. These initiatives will place new demands on DoD to provide affordable and adequate housing for servicemembers and their families at several installations expecting

significant change in military personnel numbers.

Many factors can contribute to each specific privatization project’s occupancy rate, and these factors may vary from one location to another and may be specific to the location. For example, off-base housing options in the surrounding community can influence whether military servicemembers desire to live in the military privatized housing at their base or elsewhere in the community. To be specific, the quality and affordability of both off-base rentals and for-sale housing, and the nature of the off-base communities where available housing exists, are some factors that can influence a servicemember’s decision where to live while stationed at a particular installation. In addition, other factors such as the quality of the military privatized housing by comparison with the competing housing options, the availability of certain amenities such as community centers and swimming pools on the installation or in the off-base community, the location and quality of elementary and secondary schools, commuting distances, and the quality of property management service provided by the privatization project owner may influence a servicemember’s decision where to live. Some examples of the reasons for below 90 percent occupancy at selected bases as of September 2008 follow.²¹

- At the Navy’s New Orleans, Louisiana complex, occupancy was 86 percent. According to the Navy, the primary reason for this occupancy rate was military members moving away from Naval

Air Station Joint Reserve Base New Orleans as a result of BRAC actions.

- At Fort Hamilton, New York, occupancy was 85 percent. Army officials attribute this rate to a higher-than-anticipated, 22-percent increase in BAH, which according to the Army has made off-base housing options more affordable for servicemembers and their families.
- At Fort Benning, Georgia, occupancy was 82 percent. According to Army officials, extended deployments prompted some family members left behind to vacate their on-base privatized houses and move to be closer to other family members.
- At Fort Jackson, South Carolina, occupancy was 51 percent. This project was awarded in August 2008, and much of the existing inventory of houses transferred to the private developer was older and had not yet been renovated, making the houses relatively less attractive and marketable, according to Army officials. The Army expects occupancy rates to increase considerably as the developer replaces the older housing with newly constructed or renovated homes.

DoD’s force structures and infrastructure initiatives are leading to changing family housing needs because of the relocation of servicemembers and their families under—

- Reductions in force. The Army expects the current troop strength

of 520,000 to decline to 490,000 by the end of FY 2015. Further declines in troop strength to 450,000 are expected by FY 2017. In addition, the Budget Control Act, as it is currently written, limits the end strength to 420,000 Army troops by FY 2020.

- BRAC. Under the 2005 round, DoD implemented 182 recommendations that were completed by the statutory deadline

of September 15, 2011. These recommendations encompass many realignments, prompting significant personnel movements among installations. A future BRAC round is anticipated, with possible realignments across the country.

- Army modularity. The Army is undergoing a major force restructuring as it implements its force modularity, which entails converting units to brigade combat

teams. Many Army installations with housing privatization projects either have received or are slated to receive one or more of these brigade combat teams.

DoD's initiatives collectively are affecting Army installations to a greater degree than those of the other services and are generating increased family housing requirements for certain installations that may be met with privatized housing.

Case Studies—Fort Sill and Fort Campbell

The following case studies provide a glimpse of the community impacts of privatized housing. The two areas share many common characteristics. The military bases are among the greatest economic drivers in the two metropolitan areas. Fort Sill is the largest employer in the Lawton, OK Metropolitan Statistical Area (MSA) and Fort Campbell is the largest civilian employer in the Clarksville, TN-KY MSA. Both are Army bases, and the Army has experienced 60 percent of all servicemember declines in the military since 2010. In addition, Fort Campbell recently initiated the tenant waterfall policy, and further troop declines are expected by 2017.

Fort Sill—Lawton, OK Metropolitan Statistical Area (Comanche County, Oklahoma)

The Fort Sill Army Base serves as the home of the U.S. Army Field Artillery School, the Marine Corps Field Artillery MOS School, and the Army Air Defense Artillery School. The base is the largest employer in the Lawton, OK MSA, with an overall economic impact of more than \$1 billion during 2014.²²

Troop Counts and Economic Conditions

From FY 2001 through 2005, the active-duty troop counts declined from 15,300 to 11,500 after an Army

personnel reduction.²³ During the period, the unemployment rate in the MSA increased from 3.8 to 4.5 percent.²⁴ After the recent low in FY 2005, active-duty troop counts increased to 14,200 during FY 2010, helping to ease the local effects of the national recession. From 2005 through 2010, the unemployment rate in the MSA rose from 4.5 to 5.8 percent. By comparison, the national unemployment rate rose from 5.1 to 9.6 percent. After the recent high in 2010, troop counts declined to 11,100 during FY 2014, which has exacerbated weak overall economic conditions.

Population trends in the MSA mirrored troop movements at Fort Sill. From 2000 through 2005, net out-migration of 640 people annually kept population growth stagnant.²⁵ As troop counts at Fort Sill increased from 2005 through 2010, net in-migration averaged 930 people annually, and population growth averaged 1.6 percent, or 2,025 people annually. Since 2010, net out-migration of 1,125 people annually has led to population declines of 0.1 percent annually, partly as a result of troop count declines of 6.0 percent annually.

Military Impacts on Sales Markets

Building activity and housing market conditions reflected economic trends and troop movements. Single-family

construction averaged 180 homes annually from 2000 through 2005 before rising to 300 homes annually from 2005 through 2010, in response to annual troop increases of 4.3 percent during the latter half of the decade.²⁶ Since 2010, single-family construction has declined to 200 homes annually as troop counts have declined. The percentage of seriously delinquent home loans (home loans 90 or more days delinquent or in foreclosure) and loans that had transitioned into real estate owned (REO) status averaged 5.8 percent of total loans from 2000 through 2005 before rising to 8.5 percent during 2010.²⁷ By comparison, the national rate rose from 2.3 percent during 2005 to 12.0 percent in 2010. Since 2010, as the nation began to recover from the national recession and the national rate of seriously delinquent home loans and REO properties fell to 6.6 percent, the rate has continued to increase in the Lawton, OK MSA, rising to 10.1 percent during 2014.

Home sales peaked during 2006, when 3,350 homes sold, before declining to 2,200 sales during 2010 despite rising troop counts at Fort Sill. Resales constituted the bulk of the slowdown in overall sales, falling from 3,000 to 1,650 sales during the period. REO sales grew dramatically during the period, mirroring national trends, rising from

3 percent of total sales in 2005 to 10 percent during 2010. Since 2010, home sales in the MSA have continued to decline, falling to 1,750 sales during 2014. Despite improving national economic conditions, REO sales in the MSA rose to 18 percent of sales during 2014. By comparison, national REO sales declined from 12 percent in 2010 to less than 7 percent in 2014. Home sales prices in the MSA followed a similar trend as home sales, rising from \$98,200 during 2005 to \$117,200 during 2010, before falling to \$110,500 during 2014.

Rental Market Conditions

Multifamily construction averaged 60 units annually from 2000 through 2005 before rising to 240 units annually from 2005 through 2010.²⁸ Because of

troop declines since 2010, multifamily construction has fallen to less than 20 units annually. On October 1, 2008, on-base family housing was privatized, and Corvias Military Living currently manages on-base housing. From 2010 through 2013, more than 400 rental units were added to the family housing supply at Fort Sill. Declining troop counts after 2010, and the addition of 1,475 multifamily units off base from 2005 through 2009 and 400 family housing units on base, caused vacancy rates in the MSA to rise to 13.4 percent in 2012.²⁹ Ongoing troop declines and net out-migration of 1,125 people annually since 2010 have kept the apartment market weak. Apartment vacancy rates fell slightly to 12.3 percent during the first quarter of 2015.³⁰ The many rental completions, both on and off base, muted rent

growth. The BAH for an E-5 with dependents rose from \$942 in 2012 to \$963 during 2015, but average rents rose only from \$613 to \$618 during the period.

The tenant waterfall policy has not been instituted at Fort Sill, as vacancy rates on base remain balanced. The rental market in the MSA is soft and expected to remain soft. The vacancy rate in the MSA is expected to remain high through 2019, at 12.5 percent, as decreased troop counts and continued out-migration hinder apartment absorption. The July 2015 Army force realignment report announced that Fort Sill would gain approximately 220 active-duty troops by 2017.³¹ The tenant waterfall policy is therefore unlikely to be implemented, limiting effects to local housing and rental markets.

Fort Sill—Renter Housing Unit Counts, 2010–13

	Fort Sill CCD, Comanche County, Oklahoma			
	2006–10	2007–11	2008–12	2009–13
Total	992	1,282	1,392	1,397
Renter-occupied housing units	961	1,274	1,373	1,388
1, detached	231	342	319	326
1, attached	296	423	508	553
2	387	468	497	446
3 or 4	40	17	16	26
5 to 9	0	0	3	3
10 to 19	0	17	22	23
20 to 49	0	0	0	0
50 or more	0	0	0	0
Mobile home	7	7	8	11
Boat, RV, van, etc.	0	0	0	0

CCD = Census County Division. RV = recreational vehicle.

Sources: American Factfinder, Table B25032; 5-year American Community Survey data

Fort Campbell—Clarksville, TN-KY Metropolitan Statistical Area (Christian and Trigg Counties, Kentucky, and Montgomery and Stewart Counties, Tennessee)

The Fort Campbell Army post serves as the home of the 101st Airborne Division and the 160th Special Operations Aviation Regiment. Because of declining troop counts and the availability of competitive, affordable homes off post, Fort Campbell has implemented the tenant waterfall policy. Campbell Crossing, the privatized housing property management company, instituted the policy in response to an increase in BAH paired with a large supply of new and affordable houses and apartments off post. With the tenant waterfall policy enacted at Fort Campbell, retirees and DoD civilians can now elect to rent homes on the installation and reside within the military community.³²

Troop Counts and Economic Conditions

From 2001 through 2011, the active-duty troop count increased from 22,900 to 34,600 as the base benefited from the 2005 BRAC round.³³ During the period, the civilian labor force in the metropolitan area increased by an average of 1.8 percent annually as troops brought families and encouraged job growth.³⁴ After the recent high in 2011, active-duty troop counts decreased to 29,950 during 2014. Since 2011, the labor force in the metropolitan area has fallen 0.4 percent annually, partly because of declining numbers of troops and their families.

Population trends in the metropolitan area mirrored troop movements at Fort Campbell. Troop counts increased 4.3 percent annually from 2000 through 2010, and the overall population in the metropolitan area grew 1.7 percent annually.³⁵ During the decade, net in-migration averaged 1,575 people

annually and constituted nearly 40 percent of population growth. Since 2010, because troop counts fell beginning in 2011, net in-migration has declined to an average of 975 people annually and population growth has averaged 1.5 percent annually.

Military Impacts on Sales Markets

Developers responded to the greater troop and military family presence at Fort Campbell and increased building activity in the metropolitan area. Single-family construction averaged 1,690 homes annually from 2000 through 2006 before falling to 1,280 homes annually from 2007 through 2010 because of the local effects of the national recession.³⁶ During 2011 and 2012, single-family construction averaged 1,450 homes annually.

Home sales peaked during 2007, when 8,650 homes sold, before declining to 5,900 sales during 2010, even as troop counts at Fort Campbell continued to rise 3.5 percent annually during the period.³⁷ Resales constituted the bulk of the slowdown in overall sales, falling from 7,150 to 4,550 sales during the period. REO sales, however, rose from 250 during 2007 to 510 sales during 2010, partly because of local effects of the national recession. REO sales increased dramatically to an average of 640 annually from 2012 through 2014, as troop counts declined. Since 2010, home sales in the metropolitan area have continued to decline, falling to 1,750 sales during 2014. Seriously delinquent home loans and loans that had transitioned into REO status averaged 3.7 percent of total loans from 2000 through 2007 before rising slightly to 5.7 percent from 2008 through 2011.³⁸ Despite improving economic conditions, the rate increased to an average of 7.2 percent of total loans from 2012 through 2014, because troop counts in the area declined.

Tenant Waterfall Policy Implementation and Rental Market Conditions

Multifamily construction averaged 600 units annually from 2000 through 2006 before falling to 360 units annually from 2007 through 2009.³⁹ As economic conditions improved and troop counts increased, multifamily construction again increased to 600 units annually from 2010 through 2013. From 2009 through 2013, more than 370 rental units were added to the family housing supply at Fort Campbell. Declining troop counts beginning in 2012, and the addition of 1,050 multifamily units off base and 370 family housing units on base, caused vacancy rates in the metropolitan area to rise to 12.4 percent in 2012.⁴⁰ Despite ongoing troop declines since 2011, continued net in-migration of 975 people annually has absorbed some of the apartment construction. Apartment vacancy rates declined to 9.1 percent during the first quarter of 2015.⁴¹ The many rental completions, both on and off base, muted rent growth. The BAH for an E-5 with dependents rose from \$918 in 2012 to \$1,296 during 2015, but average rents rose only from \$723 to \$736 during the period.⁴²

The tenant waterfall policy was recently implemented at Fort Campbell, opening on-base family housing to civilians and retirees. The vacancy rate in the metropolitan area, excluding on-base privatized housing, is expected to rise to 9.8 percent during 2016, partly because of this move. The July 2015 Army force realignment report anticipates that Fort Campbell will lose 350 troops by 2017.⁴³ As these reductions occur, further use of the tenant waterfall policy is expected, which may exacerbate apartment market conditions off base, as will the decreased economic impact of a smaller military presence.

Fort Campbell—Renter Housing Unit Counts, 2009–13

	Fort Campbell North CDP, Kentucky	
	2005–09	2009–13
Total	2,324	2,667
Renter-occupied housing units	2,296	2,667
1, detached	117	96
1, attached	887	961
2	649	996
3 or 4	215	335
5 to 9	254	243
10 to 19	104	23
20 to 49	42	0
50 or more	0	0
Mobile home	28	13
Boat, RV, van, etc.	0	0

CDP = Census Designated Place. RV = recreational vehicle.

Sources: American Factfinder, Table B25032; 5-year American Community Survey data

Conclusion

Military housing is a vital service provided for servicemembers and their families. The MHPI program provided the means for the military branches to update existing housing stock and to add to on-base housing supply. The program, however, has made on-base privatized housing part of the local competitive housing market, and understanding the flow of households between community housing markets and privatized housing is vital to accurately monitoring housing markets. When established, privatized housing at an installation operates similarly to any other private

rental property business; that is, in competition with other local housing options. The resulting competition can affect the local rental market and estimates of housing demand.

The Army announced plans to reduce active-duty end strength on July 9, 2015. The plan is to reduce end strength to 450,000 and lay off 17,000 civilians by 2017. As these cuts begin to take effect, more bases may implement the tenant waterfall policy. Bases that open on-base family housing supply to civilians, military retirees, and the general public will attract households that typically live off base. Large shifts of households

to privatized housing might negatively affect community housing markets.

It is important to note that housing is a long-term bundle of services. After housing has been added to an area, reducing the supply later can be difficult. The case studies of Fort Sill and Fort Campbell highlight some of the challenges for local housing markets and privatized housing as both attempt to maintain stable occupancy rates. Continued analysis of military-impacted areas is vital to fully understanding the relationship between households, communities, and privatized housing markets.

Selected Bibliography

- Association of Defense Communities. 2014. "Military Housing Developers Increasingly Looking Outside the Gates for Tenants." <http://www.defensecommunities.org/1>.
- . 2015. "Courtney Concerned About Impact of Opening Up Family Housing Projects to General Public." <http://www.defensecommunities.org/headlines/2>.
- Automated Housing Referral Network. 2014. "The Changing Face of Military Housing." Blog. <http://blog.ahrn.com/changing-face-military-housing/>.
- Barron, Patricia M. 2014. "Garrison Life Post-Drawdown." http://www.ausa.org/publications/armymagazine/archive/2014/Documents/11November14/Barron_November2014.pdf.
- Bissell, Kristie L., Robert L. Crosslin, and James L. Hathaway. 2010. *Military Families and Their Housing Choices*. Report HCS80T2. <http://www.acq.osd.mil/housing/FH%20Choices.pdf>.
- Brooks, Drew. 2014. "Fort Bragg Housing Opens to Retirees, DOD Civilians, and Gold Star Families," *Fayetteville Observer*, November 17. <http://www.fayobserver.com/military/>.
- Buddin, R., and S. Hosek. 1999. "Why Do Military Families Live in On-Base Housing?" RAND Corporation. http://www.rand.org/pubs/research_briefs/RB7527/index1.html.
- Business Wire. 2014. "Fitch Affirms Fort Jackson Housing, LLC (SC) Tax Revs 2008 Ser A at 'AA-'; Outlook Stable." <http://www.businesswire.com/news/home/20140117005641/en/Fitch-Affirms-Fort-Jackson-Housing-LLC-SC#.VUvUVJtMHY8>.
- DePillis, Lydia. 2015. "The Biggest and Most Disruptive Layoffs in America Are Coming From the Military," *Washington Post*, July 7. http://www.washingtonpost.com/blogs/wonkblog/wp/2015/07/07/the-biggest-and-most-disruptive-layoffs-in-america-are-coming-from-the-military/?tid=pm_business_pop_b.
- General Accounting Office. 1998. *Military Housing: Privatization Off to a Slow Start and Continued Management Attention Needed*. GAO/NSIAD-98-178. Washington, DC: Government Printing Office.
- Grey, Philip. 2014. "Fort Campbell Could Lose Half Its Personnel by 2020," WBIR.com, June 28. <http://www.wbir.com/story/news/2014/06/28/fort-campbell-could-lose-half-its-personnel-by-2020/11657303/>.
- Jowers, Karen. 2015. "BAH Cuts May Hit Troops in Privatized Housing," *Military Times*, February 19. <http://www.militarytimes.com/1>.
- Kentucky Commission on Military Affairs. n.d. "Fort Campbell." <http://kcma.ky.gov/economic-impact/sites/Pages/Fort-Campbell.aspx>.
- Los Angeles Times. 2015. "Military Bases Offer Families Home Away From Home," May 27. <http://www.sfgate.com/news/article/Military-bases-offer-families-home-away-from-home-6290244.php>.
- Office of the Deputy Under Secretary of Defense, Installations and Environment. n.d. "Overview: Military Housing." <http://www.acq.osd.mil/housing/housing101.htm>.
- Simpson, Megan Locke. 2015. "Community Stands Against Potential Cuts," *Fort Campbell Courier*, January 22. Obtained at http://www.fortcampbellcourier.com/news/article_cb49c8e8-a28d-11e4-b5e1-ab960fcc0ab0.html
- The National Defense Authorization Act for Fiscal Year 2008. P.L. 110-181. "Chapter 169. Military Construction and Military Family Housing." http://www.acq.osd.mil/housing/docs/CHAPTER_169_title_10_USC_MHPI_leg_2008.pdf.

- ¹ Else, Daniel H. 2001. *Military Housing Privatization Initiative: Background and Issues*. Report to Congress. Order code RL31039, July. Washington, DC: Congressional Research Service.
- ² Defense Manpower Data Center. Data reported for September 2014.
- ³ U.S. Department of Defense (DoD). 2015. "Army Announces Force Structure and Stationing Decisions." Press release number NR-268-15, July 9. <http://www.defense.gov/Releases/Release.aspx?ReleaseID=17374>.
- ⁴ Else (2001).
- ⁵ Ibid.
- ⁶ Else (2001).
- ⁷ Public Law 104–106.
- ⁸ Office of the Secretary of Defense website. <http://www.acq.mil/installation/hrso/>.
- ⁹ Service housing privatization websites are: Army (<http://www.il.hq.af.mil/ile/ilei.html>); Navy (<http://www.hsgnavfac.com/ppv/>); and Air Force (<http://www.il.hq.af.mil/ile/ilei.html>).
- ¹⁰ Else (2001).
- ¹¹ Government Accountability Office (GAO). 2009. *Military Housing Privatization: DOD Faces New Challenges Due to Significant Growth at Some Installations and Recent Turmoil in the Financial Markets*. Report to the Subcommittee on Readiness, Committee on Armed Services, House of Representatives. GAO 09–352. Washington, DC: Government Accountability Office.
- ¹² Ibid.
- ¹³ GAO (2009).
- ¹⁴ GAO. 2006. *Military Housing: Management Issues Require Attention as the Privatization Program Matures*. GAO 06–438. Washington, DC: Government Accountability Office.
- ¹⁵ <http://www.acq.osd.mil/housing/housing101.htm>.
- ¹⁶ GAO. 2014. *Military Housing: Information on the Privatization of Unaccompanied Personnel Housing*. Report to the Subcommittee on Readiness, Committee on Armed Services, House of Representatives. GAO 14–313. Washington, DC: Government Accountability Office.
- ¹⁷ "Handbook for Military Life." *Military Times*. <http://www.ec.militarytimes.com/benefits-handbook/housing/base-housing/>.
- ¹⁸ Ibid.
- ¹⁹ GAO (2009).
- ²⁰ Analyst interview.
- ²¹ <http://www.acq.osd.mil/housing/housing101.htm>.
- ²² U.S. Army. 2013. "Fort Sill Economic Perspective 2014." http://sill-www.army.mil/_docs/2014/2/perspective-2013.pdf.
- ²³ Defense Manpower Data Center, data reported for September 2014.
- ²⁴ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics.
- ²⁵ U.S. Census Bureau, Population and Housing Unit Estimates.
- ²⁶ U.S. Department of Housing and Urban Development, State of the Cities Data Systems, Building Permits database.
- ²⁷ CoreLogic, Inc. data, with adjustments by the analyst.
- ²⁸ U.S. Department of Housing and Urban Development, State of the Cities Data Systems, Building Permits database.
- ²⁹ Reis, Inc. data. Lawton metropolitan area.
- ³⁰ Ibid.
- ³¹ DoD (2015).
- ³² Clark, Heather. 2015. "Campbell Crossing Opens Housing to Civilians, Retirees," *The Fort Campbell Courier*, February 5. http://www.fortcampbellcourier.com/news/article_ded1a192-ad7d-11e4-8485-23ee9f2c7c66.html.
- ³³ Defense Manpower Data Center, data reported for September 2014.
- ³⁴ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics.
- ³⁵ U.S. Census Bureau, Population and Housing Unit Estimates.
- ³⁶ U.S. Department of Housing and Urban Development, State of the Cities Data Systems, Building Permits database.
- ³⁷ CoreLogic, Inc. data, with adjustments by the analyst.
- ³⁸ CoreLogic, Inc. data, with adjustments by the analyst.
- ³⁹ U.S. Department of Housing and Urban Development, State of the Cities Data Systems, Building Permits database.
- ⁴⁰ Reis, Inc. data. Clarksville metropolitan area.
- ⁴¹ Reis, Inc. data. Clarksville metropolitan area.
- ⁴² Reis, Inc. data. Clarksville metropolitan area.
- ⁴³ DoD (2015).

Insights

HUD Office of Policy Development and Research

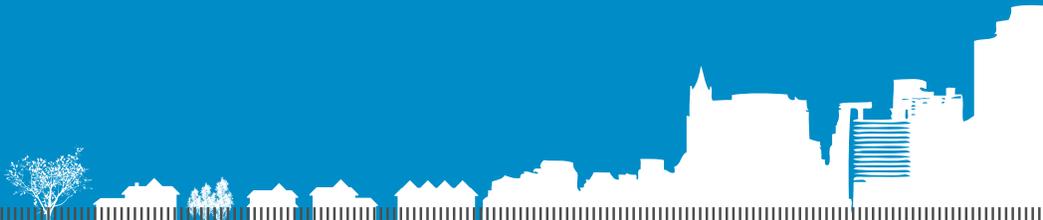
Lynn M. Ross, AICP, Deputy Assistant Secretary for Policy Development

Rachelle L. Levitt, Director, Research Utilization Division

Sam Young, Author, Economist, Economic and Market Analysis Division

Insights

into Housing and Community
Development Policy



U.S. Department of Housing and Urban Development | Office of Policy Development and Research



October 2015