



# RCI, PAL and Army Housing Training

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## Impacts of BAH Reductions

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# TODAYS FOCUS

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- **Sources & Uses Impacts**
- **Trade-off Analysis**
- **The Defense Appropriations Bill under consideration calls for reductions in defense spending, including limiting Service Members' pay raises to 1 percent for the next three years and having troops pay an average of 6 percent of their future housing costs**
  - Property insurance would be removed from BAH
  - BAH entitlement would be set at 95% of the market rate
- **How will this affect the housing projects?**
- **Which projects will not be able to pay their debt?**
- **Will this affect funding for construction and renovation?**
- **What should we do?**



# Sources and Uses Impacts

Cash Flow shortfalls directly impact the planned development scope.

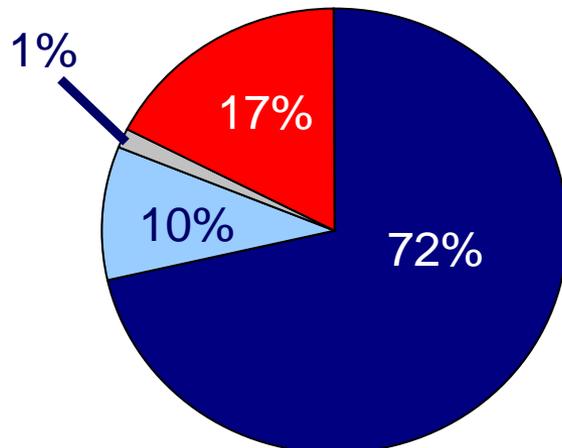
## Beneficial drivers of variance

- BAH increases
- Utilities consumption

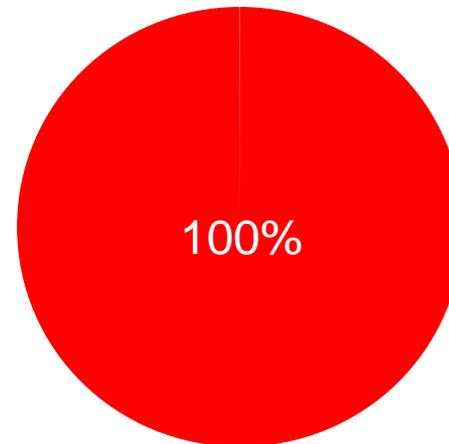
## Detrimental drivers of variance

- BAH decreases
- Construction delays
- Occupancy variances
- Controllable expenses
- Non-controllable expenses
  - Utility Pricing / Privatization

Current IDP Average % Allocation



Out-Year Development

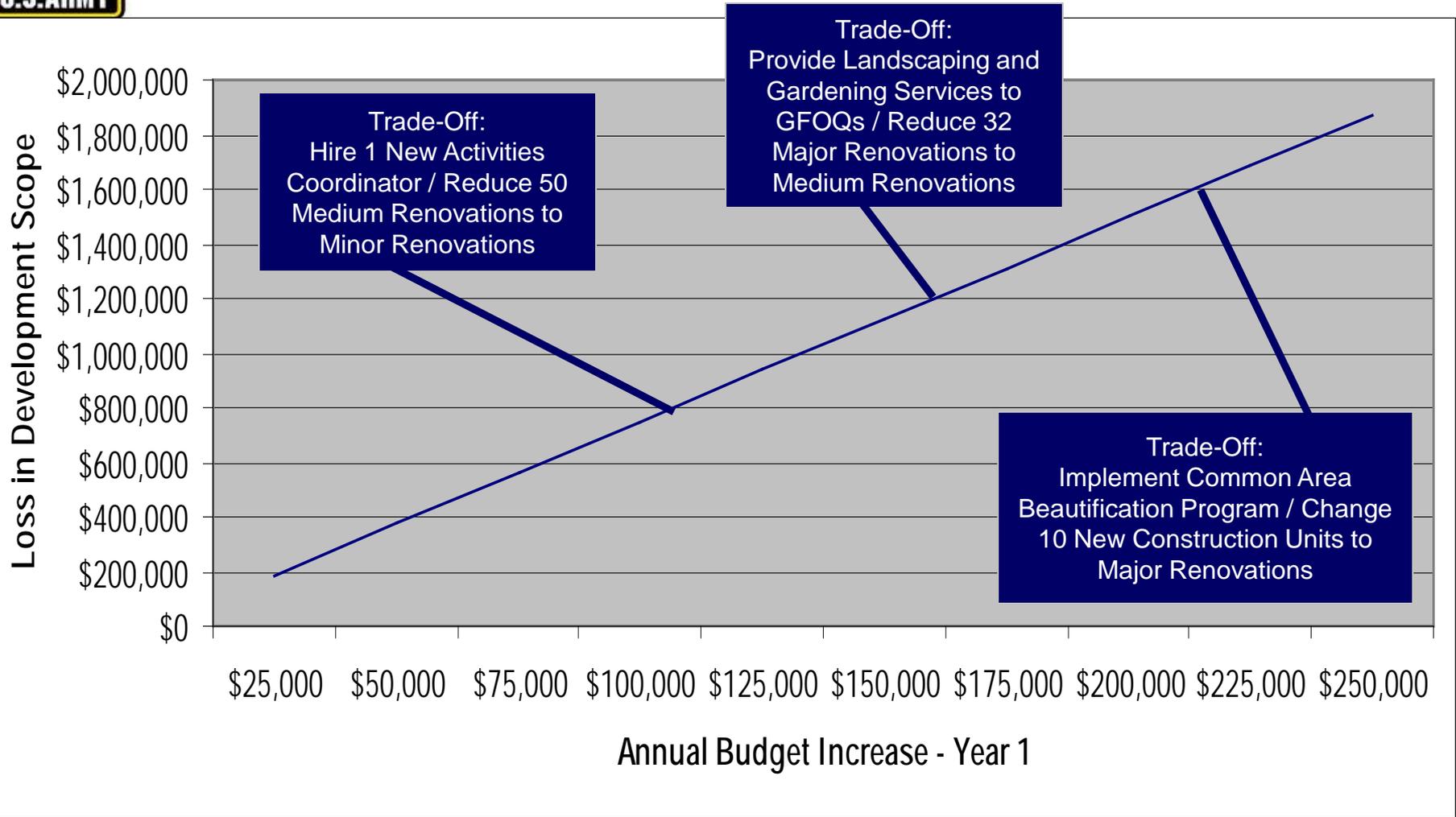


■ Private Debt ■ Government Equity ■ Private Equity ■ NOI and Interest Income



U.S. ARMY

# Trade-off Analysis



Note: Loss in Development Scope based on budgeted increases is calculated over the course of an average IDP of 90 months. The loss in development scope gets much larger as we move to out-year development period



# IMPACTS OF BAH REDUCTIONS

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- What could happen if projects have to absorb the lower rent?
  - a. Occupancy will **increase** because Service Members will perceive a greater value to housing rather than paying out of pocket to live out in the community
  - b. Occupancy will **decline** because Service Members will not be happy with the service reductions the projects would implement to reduce costs
    - Some projects will **not be able to pay their debt** and DCR minimum trigger provisions would apply



# IMPACTS OF BAH REDUCTIONS

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- What could happen if projects charge market rate rent?
  - a. Occupancy will **increase** because Service Members will perceive a greater value to housing
  - b. Occupancy will **decline** because Service Members will not pay out of pocket to live in housing
  - c. Occupancy will **remain about the same** because service members will perceive the out of pocket expense between on- and off-post housing as equivalent



# IMPACTS OF BAH REDUCTIONS

- If the projects absorb the decrease, which projects will not be able to pay all of their debt?

Project	Debt Coverage Ratio			
	Before any change	Market continues to grow (2% growth)	Market stagnates (0% growth)	Cash Trap Trigger(s)
Huachuca Yuma	1.42	1.27	1.14	1.20
Aberdeen	1.39	1.25	1.12	N/A
Rucker	1.38	1.21	1.05	N/A
Presidio of Monterey	1.19	1.07	0.97	1.20, 1.15
Leavenworth	1.14	1.02	0.91	1.10
Irwin-Moffett	1.08	0.97	0.90	1.15
Knox	0.41	0.32	0.23	N/A
<b>Average Decrease Across Portfolio</b>		<b>(0.17)</b>	<b>(0.32)</b>	
<b>% Decrease Across Portfolio</b>		<b>(10.4%)</b>	<b>(19.9%)</b>	



# IMPACTS OF BAH REDUCTIONS

- If the projects absorb the decrease, how much less will they have to fund construction (through end of IDP)?

<b>Project</b>	<b>Market continues to grow (2% growth)</b>	<b>Market stagnates (0% growth)</b>
Hawaii	(\$60.4M)	(\$114.1M)
Lewis-McChord	(\$16.3M)	(\$30.7M)
Riley	(\$2.9M)	(\$5.3M)
West Point	(\$1.5M)	(\$2.7M)
Drum	(\$1.9M)	(\$3.3M)
Benning	(\$1.3M)	(\$2.2M)
Sill	(\$1.7M)	(\$3.0M)
<b>Total Decrease Across Portfolio</b>	<b>(\$86.9M)</b>	<b>(\$162.8M)</b>
<b>% Decrease Across Portfolio</b>	<b>(15.5%)</b>	<b>(29.1%)</b>



# IMPACTS OF BAH REDUCTIONS

- If the projects absorb the decrease, how much less will they have to fund out-year development (through 2038)?

<b>Project (IDP End)</b>	<b>Market continues to grow (2% growth)</b>	<b>Market stagnates (0% growth)</b>
Hawaii (2020)	(\$337.2M)	(\$648.0M)
Lewis-McChord (2018)	(\$127.3M)	(\$224.2M)
Riley (2016)	(\$102.2M)	(\$196.1M)
West Point (2016)	(\$47.9M)	(\$91.9M)
Drum (2015)	(\$120.4M)	(\$230.8M)
Benning (2015)	(\$89.7M)	(\$170.3M)
Sill (2016)	(\$3.6M)	(\$7.0M)
<b>Total Decrease Across Portfolio</b>	<b>(\$2.2B)</b>	<b>(\$4.3B)</b>
<b>% Decrease Across Portfolio</b>	<b>(20.8%)</b>	<b>(40.2%)</b>



# HQDA Assessment

- We analyzed the following market conditions
- We looked at key factors affecting the market and project.
- We looked at what could happen to occupancy.
- We looked at what rent would the project charge.
- We made some assumptions.

	Location 1	Location 2	Location 3	Location 4
BAH	\$2,280	\$1,340	\$1,260	\$3,780
Market Rent	\$2,400	\$1,410	\$1,000	\$3,550
Project Occupancy	96%	93%	91%	89%
Market Occupancy	94%	91%	86%	94%
Project Quality	New in 2012	Renovated in 2010	New in 2012	Renovated in 2012
Market Quality	Below project	Better than project	Similar to project	Better than project



# SUMMARY - IMPACTS OF BAH REDUCTIONS

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- The Army will allow projects to charge market rate rent
- Partners will include renter's insurance in market rate rent
- You should support the projects and Service Members
  - Maintain fiscal responsibility
    - Scrutinize expenditures to ensure they are necessary
    - Set priorities and stick to them
    - Think ahead: nice-to-have items now limit funding for must-have items later
  - Communicate this change at all levels
  - Educate service members
    - Out-of-pocket costs will impact on- and off-post opportunities
    - HSO help Service Members understand the total cost of housing
  - Get involved in and understand local market dynamics



# Questions?

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