RESIDENTIAL COMMUNITIES INITIATIVE (RCI) & PRIVATIZATION OF ARMY LODGING (PAL) HIGHLIGHTS

as of September 2016
- MHPI Authorities
- RCI Overview
- RCI Legal Structure and Organization
- RCI Financing Overview
- Major Decisions Process
- Additional Discussion Topics
- PAL Overview

TOP: Fort Hood JNCO Home
BOTTOM: Fort Story SNCO Homes
Authorized in U.S., Its Territories & Possessions Including P.R.

1996 Financial / Other Authorities
- Direct loans at below market rates
- Mortgage guarantees against base closure, downsizing, extended deployments
- Subsidized rents if required for financial feasibility
- Investment in development entities (e.g., limited partnerships, etc.)
- Use local market standards, ground leases and development rights
- Build ancillary neighborhood facilities

Authorities / Restrictions Added Since 1996
- Allowed school construction and local / state housing authorities to participate
- Precluded competition with AAFES, DeCA, and MWR activities
- Provided direction on provision of utilities / services and reimbursement
- Made legislation permanent
Residential Communities Initiative (RCI) Overview

VISION

- Quality Residential Communities for Military Families

GOALS

- Eliminate inadequate Army Family Housing in the U.S.
- Eliminate the housing deficit

OBJECTIVES

- Sustain adequate housing
- Attract quality partners who will provide expertise / innovation / capital to the project
- Ensure opportunities for reasonable profits
- Ensure incentive based fees
- Maximize use of local (large / small) businesses
- Protect Army / Soldier interests with a Portfolio & Asset Management Program
Program: 44 Installations (combined into 34 projects)
End State: 86,055 Family Homes & 2,408 Unaccompanied Apartments
Program Status: 44 of 44 Installations Privatized by December 2010

Installations Privatized (Conveyed/Endstate Housing Inventory)

- Ft Carson, CO – (1823/3456) Nov 1999 - Balfour Beatty (BBC)
- Ft Hood, TX – (5622/5912) Oct 01 - Lend Lease
- Joint Base Ft Lewis- McChord AFB, WA –(4994) Apr 02 / Dec 08 - Lincoln
- Ft Meade, MD – (2862/2627) May 02 – Corvias
  - Garden Apartments for Junior Enlisted (0/816 by FY15)
- Ft Bragg-Pope AFB, NC – (5373/6238) Aug 03 / Sep 07 – Corvias
  - Senior UPH (0/504) {Additional 198 by 2015}
- Presidio of Monterey-Naval PS, CA – (2268/1565) Oct 03 – Clark Realty
- Ft Stewart-Hunter AAF, GA – (2926/3629) Nov 03 – BBC
  - Senior UPH (0/370)
- Ft Campbell, KY – (4235/4457) Dec 03 – Lend Lease
- Ft Belvoir, VA – (2070/2106) Dec 03 – Clark Realty
- Ft Irwin-Moffett FAF-Parks RFTA, CA – (2290/2982) Mar 04 – Clark Realty
  - Senior UPH (0/200)
- Ft Hamilton, NY – (293/228) Jun 04 – BBC
- Ft Detrick, MD / Walter Reed - (410/590) Jul 04 - BBC
- Ft Polk, LA - (3466/3773) Sep 04 - Corvias
- Ft Shafter / Schofield Brks, HI – (8132/7756) Oct 04 – Lend Lease
- Fts Eustis-Story, VA – (1115/1130) Dec 04 - BBC
- Ft Leonard Wood, MO – (2496/1806) Mar 05 - BBC
- Joint Base San Antonio (Ft Sam Houston, TX) – (925/925) Mar 05 - Lincoln
- Ft Drum, NY - (2272/3835) May 05 - Lend Lease
  - Senior UPH (0/320)
- Ft Bliss, TX-White Sands MR, NM - (3315/4581) Jul 05 – BBC
- Ft Benning, GA - (3945/4000) Jan 06 - Clark Realty
- Ft Leavenworth, KS - (1578/1583) Mar 06 - Michael's
- Ft Rucker, AL - (1512/1476) Apr 06 - Corvias
- Carlisle Brks, PA-Picatinny Arsenal, NJ - (429/348) May 06 - BBC
- Ft Gordon, GA - (876/1080) May 06 – BBC
- Ft Riley, KS – (3114/3827) Jul 06 - Corvias
- Redstone Arsenal, AL - (453/230) Oct 06 - Hunt
- Ft Knox, KY - (2998/2563) Dec 06 – Lend Lease
- Ft Lee, VA - (1206/1508) Aug 07 -- Hunt
- West Point, NY - (961/824) Aug 08 - BBC
- Ft Jackson, SC - (1162/850) Aug 08 - BBC
- Ft Sill, OK - (1411/1728) Nov 08 - Corvias
- Fts Wainwright-Greely, AK - (1866/1815) Apr 09 - Lend Lease
- Ft Huachuca-Yuma PG, AZ – (1570/1169) Apr 09 – Michael’s
- Aberdeen PG, MD - (1006/372) Dec 2009 - Corvias

Program Investment: Equity Contribution
- Initial Development: $13.2B (Ends in 2019)
  - Private Equity: $11.3B
  - Government Equity Contribution: $1.9B
- Portfolio Value (50 years): $25B
- Annual Portfolio Revenue (Rent): $1.5B
RCI Legal Structure and Organization

United States of America, by Secretary of the Army

Managing Member

Project Company (LLC/LP)

Ground Lease

Operating/Partnership Agreement

Tenants

Municipal Services Agreement

Lease

Property Management Agreement

Property Manager

Construction Agreement

General Contractor

Development Agreement

Developer

Investment Agreement

Investment Provider

Lockbox Agreement

Trustee / Lockbox Agent

Trust Indenture

Investment Agreement

Bondholder Representative

RCI Legal Structure and Organization
Typical RCI Financing Structure

**Key Financial Performance Metrics**

- BAH
- Occupied Units
- Effective Gross Revenue (EGR)
- Operating Expenses / Utilities
- Net Operating Income (NOI)
- Debt Service
- Subordinated Expenses
- Cash Flow After Debt Service

**Sources**

- Private Debt
- Partner Equity
- Govt Equity

**Uses**

- Construction Escrow Account
  - Hard Costs
  - Soft Costs
  - Reserves
  - Financing Costs
  - Transition Costs

**Interest Income**
Long-Term Project Sustainability (current vs. future)

TYPICAL CASH WATERFALL -- ILLUSTRATIVE EXAMPLE

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Revenue -> Expenses -> Debt Loan Repayment

Incentive Fee Payment

Reinvestment Account

Equity Payment

tension between current & future needs

• Project success = financial stakeholders’ goals are aligned & their needs are met
• Additional Army goals include delivery of expected scope & resident satisfaction
**Major Decision (MD) Approval Process**

- **Installation / Partner determine MD required**
- **Complete due diligence / project analysis**
- **Forward draft Concept Paper to PM / Regional Liaison for review**

- **DASA (IH&P)**
  - Reviews and completes analysis on Major Decision
  - Negotiates with Partner / Lender as required
  - Approves Major Decision
  - Provides approval documentation back to OACSIM-PPID

- **ACSIM**
  - Reviews signed Concept Paper
  - Forwards Concept Paper to ODASA (IH&P) for review / approval

- **ACSIM PM / Regional Liaison**
  - Confirms Major Decision requirement
  - Completes review; requests addl information or analysis as required
  - Provides support to Installation / ODASA (IH&P) as requested

- **GC / Partner Representative (MD Committee)**
  - Installation / Partner determine MD required
  - Complete due diligence / project analysis
  - Forward draft Concept Paper to PM / Regional Liaison for review
Privatization of Army Lodging (PAL) Overview

- PAL is the Army’s program to eliminate inadequate lodging facilities and provide for their long-term sustainment
  - Modeled after RCI family housing program but more arms-length
  - Rates kept below a weighted average of 75% of lodging per diem across the portfolio

- Army has privatized 41 installations & an end-state of 12,493 guest rooms
  - Group A (10 installations, 3,200 rooms) transferred August 2009
  - Group B (11 installations, 5,000 rooms) transferred August 2011
  - Group C (18 installations, 7,000+ rooms) transferred in FY13
    - Two additional Installations transferred in 2015

- $1.2B+ in recapitalization will be invested in new & renovated hotels

- Lend Lease is owner and developer & IHG is hotel operator
  - Develop “Branded” hotel facilities and standardized amenities & services across the portfolio
  - Renovated hotels will be Holiday Inn Express® and new hotels will be Candlewood/Staybridge Suites®
  - Free hot breakfast, high-speed internet, IHG frequent-stay points, pet-friendly rooms, shuttles
**PAL Program**

- **DELCIVERED:** 14 Holiday Inn Express® (HIE) brand hotels, a combined 2,673 hotel rooms
  - 2010 - HIE on Fort Polk, LA
  - 2010 - HIE on Fort Hood, TX
  - 2011 - HIE on Fort Rucker, AL
  - 2011 - HIE on Fort Sill, OK
  - 2011 - HIE on Fort Hamilton, NY
  - 2012 - HIE on Fort Wainwright, AK
  - 2014 - HIE on Fort Buchanan, PR
  - 2014 - HIE on Fort Leavenworth, KS
  - 2014 - HIE on Joint Base San Antonio, TX
  - 2014 - HIE on Fort Belvoir, VA
  - 2015 - HIE on Fort Bliss, TX
  - 2015 - HIE on Fort Knox, KY (2)
  - 2015 - HIE on Joint Base San Antonio, TX

- **DELCIVERED:** 6 Candlewood Suites® (CWS) brand hotels, a combined 1,081 hotel rooms
  - 2013 - CWS on Fort Riley, KS
  - 2013 - CWS on Yuma Proving Ground, AZ
  - 2014 - CWS on Fort Hood, TX
  - 2014 - CWS on Joint Base San Antonio, TX
  - 2014 - CWS on Fort Huachuca, AZ
  - 2015 - CWS on Fort Meade, MD

- **ALL OTHER FACILITIES HAVE COMPLETED...**
  - Life-safety and critical repair work
  - Local “early win’ improvement projects

PAL is structured as a 50 Lease between the Army and Lend Lease who serves as the managing member and owner and InterContinental Hotel Group (IHG) is contracted by Lend lease to serve as the Hotel manager.

Customer Satisfaction is trending up at 4.4 on a scale of 1 to 5 (1 as low satisfaction and 5 as highest level of satisfaction)

Eight (8) year initial development plan ends in 2021

- $1.2 Billion in construction

RCI & PAL Overview