

# Victory on Home Front in Military Housing

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Fort Hood, Texas

**L**AURA CAMPOS has plenty to worry about. Her husband, Louis, is shipping off soon to Iraq. She has their four children to care for, and has to make ends meet on his Army salary. But there's one thing she won't have to worry about: housing.

The Campos live in a brand-new home on the nation's largest military base, as the result of a multibillion-dollar program that's bringing an infusion of private-sector money and know-how

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to military housing. Since moving onto the base from a small, three-bedroom apartment in nearby Killeen two months ago, family conflicts are less frequent now that Mrs. Campos no longer has to stack her three boys in one tiny bedroom to sleep.

What's more, the move is saving the Campos several hundred dollars a month. And Louis will worry less about the family while he's in the Persian Gulf because military police patrol the Fort Hood streets. "It's the first new house I've ever lived in," Mrs. Campos, 29, says. "It's a great deal. I mean who's going to give you a brand-new house for free?"

As the U.S. military mops up resistance and rebuilds in Iraq, a \$7 billion campaign is ramping



Recently completed new homes at Fort Hood, Texas, feature rare amenities in military housing.

up on the home front, aimed at rebuilding and refurbishing soldiers' housing. The effort grows out of a law passed in 1996 to upgrade housing by taking it out of the military's hands and placing it with the private sector. So far, 30,000 of the military's 260,000 U.S. housing units have been privatized; about 6,000, or 20%, have been rebuilt or renovated. By the end of 2004, the number of privatized units will jump to 100,000, according to the Defense Department.

Fort Hood is a 335-square-mile territory with 70,000 residents and 6,000 houses and apart-

ments, mostly reserved for families. So far, the base's \$220 million residential project—run by a partnership of the Army and Actus Lend-Lease, a Napa, Calif., division of Australia's Lend Lease Corp.—has produced 168 new and 184 renovated homes since October 2001. By 2004, the private developer will have built 392 new homes and renovated 672 more. Ultimately, 974 new units will be built and nearly 4,600 renovated.

More than 60% of the military's on-base housing is considered substandard by the Defense Department. Leaky ceilings and cracked windows are the result of poor upkeep over decades of use. Many units don't have enough bedrooms for growing military families; some are just plain ugly. Still, demand far outstrips supply, and waiting lists are long. Living on base is often far more practical and economical for families. Empty units are filled first come, first served, according to family size and pay grade.

Fixing housing has never been a top priority for the military, says Joe Sikes, director for competitive sourcing and privatization for the Defense Department. Many bases' entrenched culture also has been a hindrance. "The base commander would say, 'I like being in charge of my own housing, thank you very much'—ignoring the fact that when we were in charge, we let it fall apart," Mr. Sikes says.

Much of the substandard housing was built in the 1950s and 1960s using guidelines, such as

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### Military Families Get Home Improvements

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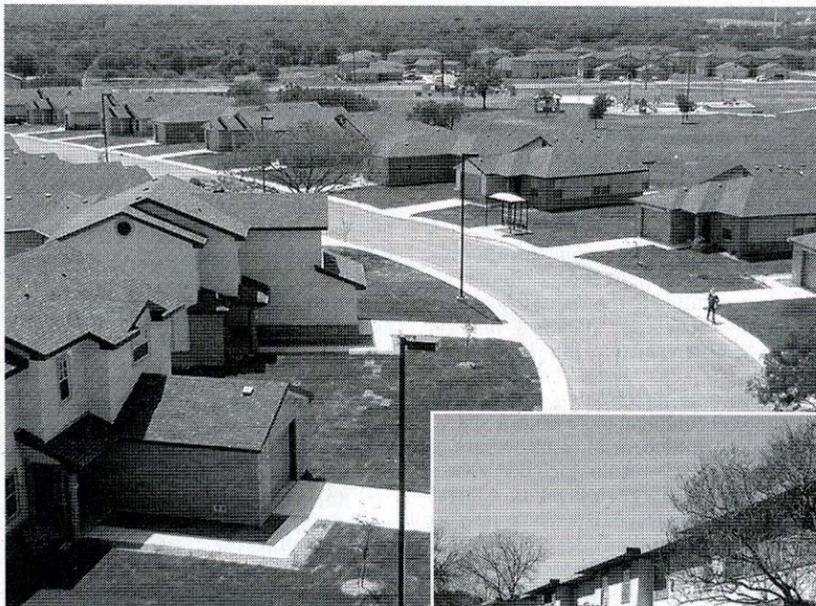
those for room sizes, that were outdated even then and now are obsolete. The armed forces' rapidly changing demographics have meant more women in the service and an older average age for enlistees, who increasingly tend to be married with children.

The result: an acute shortage of decent, appropriate housing for military families. At Fort Hood, for example, there was a surplus of two-bedroom units and a shortage of four-bedroom ones. The Army, on the advice of its corporate partner, is converting an overcrowded neighborhood of 1,000 two-bedroom units into four-bedroom townhouses, at a cost of about \$50,000 per unit, compared with a projected cost of new construction of about \$100,000 per unit.

Military studies indicate that high-quality housing can boost retention by up to 15%—a huge number for a military made up entirely of volunteers. "When we had a deficit of good housing, a lot of families elected not to come with the soldier because they couldn't afford to live [in Killeen]," says Robert D. Erwin, who manages Fort Hood's housing for the Army. "We're looking to improve the quality of life for soldiers and their families. ... You enlist soldiers, but you retain families."

After successful pilot projects at a few bases, the momentum has picked up. GMAC Commercial Holding Capital Corp., a unit of General Motors Corp., was an early entrant in the military-financing business and has now closed deals totaling more than \$800 million on projects at the Army's Fort Meade, Md., near Baltimore; at the Army's Fort Bragg, in North Carolina; and the Marines' Fort Pendleton near San Diego. Other lenders are jumping in, including Bear Stearns Cos. and France's Société Générale Group. "I think the competition's waking up," says Dan Ray, a senior vice president and manager director at GMAC.

In an early deal that closed in May 2002, the Army chose Picerne Real Estate Group, of Warwick, R.I., to redevelop 3,107 homes at Fort Meade. Under the terms, the Army contributed a 50-year ground lease and deeds to the homes themselves into Meade Communities LLC in return for a 40% stake. Picerne, for its 60% stake, contributed an undisclosed amount of cash and assumes certain risks, including the possibility of the base closing. The \$460 million Meade project, which will knock down and replace nearly all houses on the base over 10 years, is financed by the income provided by soldiers' housing allowances, plus \$325 million in



At Lackland Air Force Base in San Antonio, Texas, new houses (above) are replacing some of the older-style dwellings (right).



debt arranged by GMAC.

Real-estate services firm Jones Lang LaSalle Inc., of Chicago, recently signed a five-year, \$29 million contract to manage the Air Force's national housing portfolio and act as an intermediary between the service and private developers. But local contractors aren't left out of the military's money loop: at Fort Hood, 80% of the work so far has been subcontracted by Actus to small businesses in Killeen.

The private sector brings expertise and efficiency to a traditionally government-run program. Response times for plumbing and heating emergencies have improved, says Steve Lockhart, Actus's housing manager for Fort Hood.

The government budget process was part of the reason repairs were systematically bogged down. Unable to take out loans, the service branches had to fight every year for allocations and could only get so much done each year. The capital that private-sector developers bring to the table allows them to get onto a base and do a lot of work at once. At Fort Hood, all housing units will have been replaced or renovated by 2009. It would have taken the military until 2031 to the work done. "This wouldn't have happened without private capital," the Army's Mr. Erwin says.

The housing programs are aimed at

Allowance for Housing, allotted to each soldier by rank and location. A five-year program, begun in 2000 and aimed at bringing the housing allowance up to speed with market prices, has reduced the average to 7%. By 2005, that number will be zero. Under the privatization law, the armed forces must use all of on-base personnel's basic allowance for housing—unlike in the past, when such funds would tend to get used for other military purposes.

Toni Shanyfelt, whose husband, John, is preparing to leave Fort Hood for Iraq, says she saves \$300 a month now that she lives on base. There's no rent check to write out and no utilities to pay. Plus she now has a large storage room, a covered carport and a fenced-in backyard with a patio—rare amenities in military housing. Before landing one of the new four-bedroom homes at Fort Hood, the Shanyfelts used to live in an old three-bedroom house off base; their two sons shared a room. Now, the three kids have their

own rooms. junior enlisted soldiers with families. (Single junior enlisted soldiers live in barracks.) The programs have been good for these military families' finances. Two years ago, Mr. Sikes says, the average soldier was paying out of pocket 18% more for rent than the Basic

"There are definitely less fights," Mrs. Shanyfelt, 33, says. "My youngest one would complain," she says. "Now it's obvious the youngest one keeps his room clean. It's the other one who's sloppy."