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OVERCOMING IMPEDIMENTS TO GOVERNMENT LEASING (USAREUR
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OVERCOMING IMPEDIMENTS TO GOVERNMENT LEASING

[USAREUR Family Housing]



Prepared by
Engineer Studies Center
US Army Corps of Engineers

June 1985

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financing, Title 10 approval, and lease finalization. Depressed conditions in the FRG construction industry and changes in FRG tax laws may encourage more interest in USAREUR BTL projects. The study recommends initiatives in five areas to help overcome significant impediments to USAREUR's acquisition of government-leased family housing. *Long term*

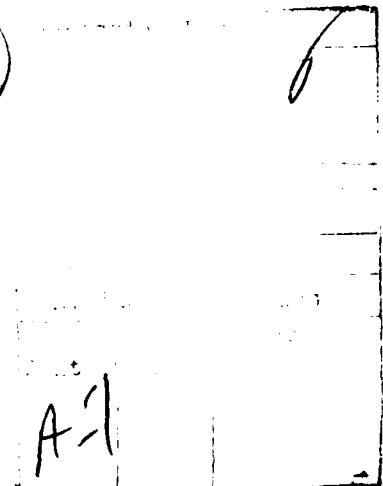
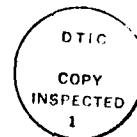
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(USAREUR FAMILY HOUSING)

Prepared by
Engineer Studies Center
US Army Corps of Engineers

June 1985



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ABSTRACT

This study investigated the impediments to USAREUR's acquisition of government-leased family housing, particularly in its Build-to-Lease (BTL) program. This report describes the USAREUR government leasing process, detailing the roles of the entrepreneur (proponent) and US and Federal Republic of Germany (FRG) agencies in developing a lease contract. The study concluded that USAREUR's government leasing process is improving, but problems still remain in the solicitation process, land acquisition, financing, Title 10 approval, and lease finalization. Depressed conditions in the FRG construction industry and changes in FRG tax laws may encourage more interest in USAREUR BTL projects. The study recommends initiatives in five areas to help overcome significant impediments to USAREUR's acquisition of government-leased family housing.

EXECUTIVE SUMMARY

When the Engineer Studies Center (ESC) briefed the "Analysis of USAREUR Family Housing" study's results to the Vice Chief of Staff of the Army (VCSA) on 25 April 1985, the VCSA tasked ESC with three additional areas for study:

- * Compare the costs of privately leased family housing with the cost of government-leased family housing.

- * Evaluate USAREUR's projections of privately leased family housing rentals outlined in the February 1985 USAREUR Family Housing Acquisition Plan.

- * Explore the impediments to the Build-to-Lease (BTL) program.

The third task is the subject of this report. Results of the analysis of the remaining two tasks are described in "Economics of BAO/Rent-Plus Versus Government Leasing" and "Projection of Economy Assets," published under separate ESC covers.

This study examined the significant issues that impede USAREUR's ability to adequately house the military family through government leasing. The study focused on USAREUR's government leasing problems in the Federal Republic of Germany (FRG), with particular attention to the BTL program. This analysis was based on information provided by previous studies of USAREUR family housing, as well as interviews with key DA, USAREUR, and USAFE personnel, officials of the FRG, and BTL housing entrepreneurs (proponents).

The USAREUR government leasing process relies heavily on the FRG which, by agreement, must act as USAREUR's leasing agent. The process begins with the development of the USAREUR Family Housing Acquisition Plan. After DA approval, the plan is translated into accommodations requests that are submitted to the FRG for concurrence. The specifications for government-lease projects are developed by the US Army Real Estate Agency, Europe (REA) and provided to the FRG's Bundesvermoegensamt (BVA), which makes a solicitation for proposals. Proponents develop project proposals based on the solicitation. The REA and BVA review and select the best of the submitted proposals. Then the REA and BVA negotiate lease terms with the selected proponent, and, if the negotiations are successful, will eventually sign a lease. It takes at least 3 years, from the establishment of a requirement for BTL housing to the completion of project construction.

The rather complicated process used for acquiring BTL housing in USAREUR presents a number of opportunities for breakdowns. Since the BVA only solicits by notifying proponents on its standing list, the potential number of proposals submitted is limited. The shortage of land which is zoned for residential construction and where the owner is willing to sell at a reasonable price is the major impediment to USAREUR BTL projects. Proponents also have had difficulty recently in obtaining financial backing for BTL projects. Additionally, the need to notify Congress for lease projects costing over \$250,000 per year typically will delay the process. Finally, the signing

of some leases can be delayed when one of the participants wants to change lease terms, even after negotiations have been completed.

The performance of the USAREUR government leasing program is also affected by conditions of the FRG economy. A proponent offers a BTL proposal with the expectation of: receiving a rebate of his Value-Added Tax (VAT) expenses; using an accelerated depreciation schedule; receiving a steady income from USAREUR during the period of the lease; and being able to profit with capital gains after the lease expires and the project is sold. The conditions in the FRG construction industry will probably make USAREUR BTL projects even more attractive, since other housing investment opportunities are on the decline. The construction industry has had low or negative rates of growth throughout the 1980s, and projections anticipate low rates of growth until the end of the decade.

USAREUR has improved the performance of its leasing program by establishing a program manager for family housing acquisition, incorporating more planning in the process, and attempting to find new proponents and sources of financing. To remove the remaining impediments to leasing, this study concluded that USAREUR should use more public advertising in its solicitation process, take innovative steps to acquire land for its BTL projects, provide additional assurances and assistance to proponents, seek to identify BTL financing from US sources, and urge Congress to raise its dollar limit on reporting annual lease costs.

OVERCOMING IMPEDIMENTS TO GOVERNMENT LEASING

(USAREUR FAMILY HOUSING)

I. INTRODUCTION

1. Purpose. This report presents the results of an Engineer Studies Center (ESC) analysis of the impediments to family housing government leasing in USAREUR and identifies solutions to overcoming those impediments.

2. Scope. Acquiring leases for existing housing units has not been a problem for either individuals or the US Government when housing units were available. However, future opportunities for leasing housing units already built will be very limited in the vicinity of certain US military communities. Therefore, the US Government will have to rely heavily on the Build-To-Lease (BTL) program, which is the focus of this study. The analysis was structured to review and evaluate current problems and initiatives, with particular emphasis on the Federal Republic of Germany (FRG), less Berlin. The study examined the significant issues that impede USAREUR's ability to adequately house the military family under the BTL program. Specifically, the study:

a. Reviewed the policies and procedures which govern how USAREUR plans, programs, allocates, and acquires government-leased family housing.

b. Evaluated the roles that Congress, the entrepreneur, the host nation (including its economy and political and physical environment) and similar factors play in the USAREUR family housing government leasing program.

c. Analyzed current and proposed initiatives in terms of overcoming impediments to the government leasing process.

d. Identified additional solutions that will help overcome significant impediments.

3. Background.

a. General. During the April 1984 Commander's Conference, the CINCUSAREUR expressed concerns about the family housing problems in Europe. In response, the Vice Chief of Staff of the Army (VCSA) asked the Chief of Engineers to ask ESC to evaluate the current family housing situation in USAREUR. The Chief of Engineers appointed the Assistant Chief of Engineers as the study's sponsor. ESC was formally tasked with the study in June 1984, and the study was completed in April 1985.¹

b. ESC report. Although the ESC family housing study was expected to be comprehensive, it purposely excluded three subject areas:

(1) The study did not audit or validate USAREUR's estimate of the Army family housing deficit in Europe.

(2) Because USAREUR's Family Housing Acquisition Plan was being developed concurrently with the execution of the ESC study, the ESC study team did not thoroughly analyze the plan.

(3) To avoid any duplication of effort already committed to the USAREUR-sponsored report on the BTL program,² the ESC study did not recommend ways to improve the current USAREUR government leasing process.

c. Follow-up requested. When ESC briefed the study's results to the VCSA on 25 April 1985, the VCSA tasked some of those present with additional actions (Annex A). ESC was asked to perform three tasks:

¹Department of the Army, US Army Corps of Engineers, Engineer Studies Center, Analysis of USAREUR Family Housing, Washington, D. C., April 1985.

²Department of the Army, Office, Chief of Engineers, Directorate of Real Estate, Report on the Build-to-Lease Family Housing Program, Prepared by Barry J. Frankel, et al., for the Deputy Chief of Staff, Engineer, HQ USAREUR, Washington, D. C., 29 June 1984.

(1) Compare the costs of privately acquired economy family housing supported by Basic Allowance for Quarters (BAQ) and Rent-Plus Housing Allowance (RPHA) with the costs of government-leased housing.

(2) Examine USAREUR's projections of future growth in economy housing as outlined in the February 1985 USAREUR Family Housing Acquisition Plan.

(3) Identify and explore solutions to the impediments to the BTL program.

d. ESC response. The third task is the subject of this report. Results of the analysis of the remaining two tasks are described in "Economic of BAQ/Rent-Plus Versus Government Leasing" and "Projection of Economy Assets," published under separate ESC covers.

4. Method. This analysis consisted of a review of a number of recent reports which identified USAREUR's government leasing impediments and explained their underlying causes. These include: the USAREUR-sponsored BTL Report (June 1984); an Army Audit Agency (AAA) study on housing management (February 1985);³ the ESC family housing study (April 1985); and a draft General Accounting Office report on DOD's BTL program.⁴ In addition, interviews were conducted with key DA, USAREUR, US Air Force, Europe (USAFE) managers, officials of the FRG, and entrepreneurs (proponents) in order to gain a clearer understanding of the nature of government leasing impediments and to gain some insights into how to overcome those impediments.

³Department of the Army, Army Audit Agency, Audit of Housing Management, US Army, Europe and Seventh Army, Report EU84-4, Washington, D. C., 20 February 1985.

⁴General Accounting Office, Opportunities Exist for Reducing the Cost of DOD's Overseas Family Housing, draft of a proposed report, Washington, D. C., undated.

II. USAREUR LEASING PROCESS

5. Role of Leasing. Congress has traditionally supported the use of government leasing as the primary method of addressing the overseas housing deficit. The program was rooted in a US reluctance to commit to permanent construction, particularly in Europe. At first, the program focused on leasing economy housing units--basically the same type of German housing unit that the soldier could rent on his own. In areas where not enough existing economy assets could be leased to satisfy the deficit, the Army has encouraged German contractors to construct housing which reflects American preferences; this housing then is leased by USAREUR and occupied by service members. These BTL projects normally take from 3 to 4 years from inception to completion. This type of government leasing (i.e., BTL) is the focus of this study.

6. BTL Acquisition Process. The process for acquiring government-leased housing in USAREUR is heavily affected by the role that the FRG assumes. As a result of the NATO Status of Forces Agreement and the 1957 US-FRG Technical Arrangement defining the process, the FRG government acts in behalf of USAREUR, functioning as USAREUR's leasing agent in Germany. The steps in the government leasing process, as described by USAREUR and the US Army Real Estate Agency, Europe (REA), are outlined below.

a. Request. The acquisition of a BTL housing project begins with the USAREUR Family Housing Acquisition Plan. This is a 5-year plan with its first year being the execution year. The plan is developed from a survey of the housing needs of USAREUR's military communities (MILCOMs). It details how the family housing requirement is to be met for each MILCOM and its subcommunities by using new construction, government leasing, or by families directly leasing private housing units. Once the acquisition plan is approved

owner is willing to sell at a reasonable price, and which is not encumbered by political or environmental issues.

b. Financing. Capital to finance these BTL ventures continues to be a problem. Due to generally lackluster German economic conditions and the disfavor of the Bauherrnmodell, investors are cautious. German financial institutions also are reluctant to support BTL projects, because of the perceived risks they present.

c. Title 10. Although USAREUR has taken several actions to streamline the Title 10 notification process, delays may still result. In addition, the \$250,000 threshold serves to limit the scope of certain projects so that they are within this constraint, and thus avoid Congressional notification.

d. Lease finalization. The critical aspects relating to a proponent's willingness to sign a lease and the user's certification of the need and availability of funds come into focus at this point. The proponent must insure that he has the land, that the land is zoned or can be rezoned for housing, that financing is available, and that his investment return is favorable. On the other hand, the government must assure that the terms and conditions of the specific lease are reasonable and legal, that they satisfy the requirement, and that funds will be available and committed for the contract. Because of these sensitive issues, there is high potential for delays, or even cancellation.

V. CONCLUSIONS

17. Leasing Process Is Improving. As a result of all the attention that the government leasing program has attracted in recent years, USAREUR has taken major steps toward improving the process.

a. Program Manager. The Program Manager for Family Housing Acquisition has provided the focus for addressing the housing deficit in USAREUR.

b. Planning. The development of the USAREUR Family Housing Acquisition Plan established a 5-year road map for eliminating the housing deficit in USAREUR. It provides long-range data, never available before, on the acquisition of government-leased housing at each USAREUR community. Because of long lead-times needed by proponents for developing proposals, the acquisition plan enables the REA to inform prospective proponents of USAREUR's planned BTL projects.

c. Solicitation. USAREUR is pushing to find new proponents and nurture them. It has contacted representatives of European and American sources of finance and asked for their assistance. USAREUR also has begun developing a specifications manual which will allow MILCOMs to more easily define their needs and reduce solicitation preparation and negotiation times.

18. Leasing Process Still Has Problems. The USAREUR government leasing program operates in an environment which is extremely frustrating. Although USAREUR has taken steps toward improving the program, there are still a number of impediments that remain which will require additional improvement actions.

a. Land. Because existing economy housing assets are unable to provide enough housing, USAREUR's government leasing program has evolved to BTL. Land for these BTL housing units remains an impediment. It is extremely difficult to find land which is zoned for residential construction, where the

opportunities presented by most other FRG housing projects that may be available.

d. Capital gains. Finally, the proponent hopes to benefit from appreciation of the building value. Capital gains are not taxed in the FRG. Therefore, a proponent may see the return from the sale of his building at the end of USAREUR occupancy as a major portion of his total profit.

16. FRG Economic Conditions and Impacts.

a. German housing. The current depressed conditions of the German economy and its construction industry are expected to generate only limited investment opportunities. Shrinking since 1973, the construction industry has suffered from low or negative growth rates throughout the 1980s. Projections for 1985 indicate negative growth. The German business magazine Impulse predicted only limited investment in construction until the end of the decade--well below the performance of the general economy. Whatever growth that could be expected is expected to be generated by public and commercial construction, rather than housing.⁵ Therefore, the growth in new German housing in the near term is expected to remain low.

b. BTL housing. Taking into account the available proponent incentives and the condition of the FRG economy for the near future, the attractiveness of USAREUR BTL projects should increase over time. Proponents interested in housing investments will find few opportunities that are greatly preferred over a USAREUR BTL project. Construction contractors should be eager to participate in BTL construction given the limited number of projected housing starts in the FRG. However, the more fundamental problem of obtaining financing for projects may be the pivotal issue in consummating BTL contracts.

⁵"Der Aufschwung haelt bis zum Ende der Jahrzehnts," Impulse, June 1985, pages 6-7.

IV. ECONOMIC CONSIDERATIONS

14. General. The performance of the USAREUR government leasing program is affected not only by the procedural impediments outlined above, but by economic motivations that induce proponents to accept US terms for BTL projects. The economic advantages the proponent expects to receive from contracting for a BTL project, and how these expectations are affected by German tax laws and conditions in the FRG economy, are described below.

15. Financial Incentives. The proponent hopes to gain a number of financial benefits from investing in BTL projects. Some of these tax considerations apply only to construction projects in support of NATO forces.

a. Value-Added Tax (VAT). If the proponent builds a USAREUR project, he can get a rebate of the VAT assessed against his construction materials. Since the German VAT is currently 14 percent, the proponent can make a notable reduction in his cost by building a project for USAREUR. Additionally, the attractiveness of USAREUR projects has been increased because most VAT exemptions for other types of construction have been repealed recently from FRG tax laws.

b. Depreciation. BTL projects also benefit from an accelerated depreciation schedule for newly built units. While existing structures are allowed only 2 percent annual depreciation over 50 years, new construction can be depreciated at 5 percent annually over the first 8 years, with declining rates thereafter. The accelerated rate does not fall below 2 percent until after the 20th year.

c. Income. The proponent can also plan on assured occupancy and a steady income from his investment by participating in the BTL program. This income, based on market rates, should be comparable to and perhaps exceed the

the considerable financial risk a proponent takes where the housing demand is dominated by US forces. If USAREUR were to decide not to renew a lease, the proponent could be left with an unrentable, unsaleable project. Moreover, he may not have been able to amortize the project costs within the leasing period.

12. Title 10. The need to notify Congress of leases costing over \$250,000 per year also complicates the USAREUR leasing process. Besides the potential delay in the government leasing process, there may be a bias towards choosing smaller projects to avoid the necessity of Title 10 approval, regardless of the housing needs of the community.

13. Lease Finalization. A number of potential obstacles near the end of the government leasing process could delay or prevent the actual signing of a contract.

a. Proponent delay. If market conditions change, the proponent may be unwilling to sign a lease, even though negotiations had been successfully completed. A change in the interest rate or terms of financing will make the proponent reconsider the potential return to be expected from the BTL project.

b. Approval. The need to obtain the concurrence of UMCs and MILCOMs on the terms negotiated for BTL projects has also snagged the government leasing process.

(1) Some MILCOMs are reluctant to approve lease contracts after negotiations. Late contacts with other local proponents sometimes result in a MILCOM delaying conclusion of a lease in the hope of obtaining a more advantageous project from another proponent.

(2) MILCOMs and UMCs sometimes veto already negotiated projects. Commanders may be uneasy about the location, funding costs, or taking on a long-term lease commitment.

and community facilities as well as land for residential construction. As a result, land availability for BTL projects will remain a chronic problem.

b. Zoning. A related problem is zoning. Because of the shortage of residential land, a proponent may acquire land that is zoned for other uses in the hope that it can be rezoned. However, changing the zoning can take over a year, resulting in extensive project delays. If there is serious opposition from local officials or citizens to the proposed project, the rezoning request may be denied. If that happens, an alternative site would have to be identified or the project proposal would have to be permanently withdrawn.

11. Financing. Attaining financial backing for BTL projects is a particularly critical problem.

a. Bauherrnmodell. Obtaining the financing for BTL projects has become difficult in recent years. This arises from the fact that a particular financial package, the Bauherrnmodell, was preferred by most BTL proponents. Proponents usually do not identify alternative financing sources to support project proposals. One element of the Bauherrnmodell requires the sale of units in a proposed project to individual investors. A successful sale of units demonstrates to financiers and local officials that the proposed project has generated sufficient interest to be considered a viable endeavor that can be successfully completed. But it has become difficult to induce small, individual investors to put their money into new residential buildings when other, more attractive investments are available, such as high interest rates paid on many investments in the US. Also, the current economic conditions have reduced the pool of available individual investors.

b. Isolated projects. USAREUR has had difficulty obtaining proponents for BTL projects in isolated or rural areas. The problem centers on

III. IMPEDIMENTS

8. General. The rather complicated process used for acquiring BTL housing in USAREUR presents a number of opportunities for breakdowns in the system. Under the existing system, there are five primary areas where impediments to successful completion of a typical lease may exist: the solicitation process, land acquisition, financing, Title 10 restrictions, and the lease finalization process.

9. Solicitation Process.

a. Advertising. Currently, the BVA solicits proposals only by notifying proponents from a standing list it maintains. This approach severely restricts the number of proposals that can be expected and perhaps also limits the competitiveness of the proposals.

b. Time to develop proposals. The length of time allowed for the solicitation process may also discourage proponents. Currently, most solicitations for proposals are open for 90 days. This may not be adequate time for a proponent to generate a viable proposal package that includes both land and financial arrangements. If the project location is unfamiliar to the proponent, proposal development may be a particularly lengthy process.

10. Land. The increasing difficulty in acquiring residential land for new projects in the FRG is a significant impediment to the USAREUR government leasing program.

a. Availability. Proponents have enormous difficulty finding suitable residential land at a reasonable price in the FRG. The FRG is about half the size of California, yet it has nearly three times the population. Two-thirds of the nation's land is dedicated to forests and agricultural use. The remainder must accommodate the FRG's requirements for industrial, commercial,

with a buy-out option or a lease/purchase schedule will prolong the lease negotiation process. It is expected that the cost of leases with lease/purchase or buy-out options would be higher than typical leases, since costs are based on amortizing the proponent's investment, rather than prevailing market rents.

(b) Potential problems. There may be some problems with USAREUR's plans for obtaining land. Planning to use existing FRG-owned land may help to simplify the initial acquisition of land; however, Government lands may be dedicated for forests or other uses and therefore would require rezoning for residential construction. Where options are purchased, they typically last for 3 to 6 months and it may be difficult to find a proponent who will buy the land within this time period. In the cases where the FRG will provide land at a fixed price, some proponents may be discouraged since they may feel restricted in structuring their BTL proposals.

(3) Alternatives forms of leases. USAREUR also is attempting to use innovative leasing techniques to make its projects more attractive to proponents.

(a) Initiatives. USAREUR is considering making US dollar lease payments to proponents who are interested. USAREUR is also attempting to develop methods, subject to Congressional approval, of eventually buying the units it leases. These leasing methods would include: the use of a lease with buy-out option; and the use of a lease/purchase contract, where lease payments would be applied to the purchase of the project at the end of the lease term. USAREUR is also attempting to get Congressional authority to enter into leases of up to 20 years in length to ensure that proponents will receive a long-term income in isolated and financially risky areas. USAREUR believes these new forms of leasing, insofar as they could be implemented, would help improve the effectiveness of their lease acquisition program.

(b) Potential problems. In the short run, these new forms of leasing will probably not help improve the USAREUR's ability to quickly conclude BTL leases. The difficulties of developing and negotiating leases

resignations and retirements of experienced people are expected, leaving vacancies that will be difficult to fill immediately. Thus, the disruptions of the REA reorganization may continue after the relocation is completed in October 1985.

b. Additional USAREUR initiatives. Since, the BTL Report, USAREUR has developed a number of new initiatives and proposals to further improve the performance of its government leasing program.

(1) Proponents. USAREUR has recently made great efforts to reach out and make contact with proponents to interest them in US BTL projects. A USAREUR seminar was held on 26 March 1985 to generate interest in the BTL program among proponents. USAREUR also has made contact with European and American financiers to identify sources for financing BTL projects. USAREUR's efforts to attract proponents should be applauded. Attempting to interest new proponents in USAREUR's BTL program helps reduce one of the major impediments to government leasing--financing.

(2) Land acquisition. USAREUR also has proposed new methods of ensuring that it can obtain the land it needs for BTL projects.

(a) Initiatives. In one approach, USAREUR will attempt to use FRG-owned land for its projects, which would be offered to proponents at a fixed price. USAREUR believes that offering a proponent a fixed price for land will encourage them to submit proposals. In another approach, USAREUR is attempting to induce the FRG to agree to purchase options (with USAREUR paying the costs) on available land and then offer the land to proponents with successful proposals. The FRG has resisted this approach, but has agreed to go along with US efforts on a trial basis.

need new family housing and how this requirement will be met (privately leased economy housing, new construction, or government leasing). With the USAREUR Family Housing Acquisition Plan, proponents can be provided information on USAREUR's long-range plans for acquiring BTL housing, including planned locations for such projects. There is also an ongoing effort to get REA personnel involved in the planning stages of MILCOM lease projects, so that locally-based impediments can be identified early in the process.

(3) Solicitation. In order to receive better quality project proposals from proponents, USAREUR is trying to become more specific in stating what it wants. The original request from the MILCOMs for BTL projects must be more detailed. USAREUR is also developing a standard Request for Proposal (RFP) format, so that the scope of USAREUR project requests are specific and are clearer to proponents. This should improve the quality of proponent proposals and insure that they can be evaluated objectively.

(4) REA. The BTL Report also suggested specific changes in the organization and operations of the REA to make it more responsive to USAREUR customers. First, REA headquarters will be moved to Heidelberg, and will report to the Real Estate Division of USAREUR DCSSENGR. The geographical responsibilities of the REA field offices will be realigned to better serve UMCs and MILCOMs; they are currently aligned to the BVA field structure. This effort to move REA headquarters and to redefine the geographical responsibilities of its field offices should help make the REA more responsive to its customers in USAREUR. Unfortunately, the disruption caused by these changes may diminish the performance of the USAREUR leasing program, at least in the short run. Of the roughly 25 spaces being moved to Heidelberg, approximately half are filled by local nationals who may be unwilling to relocate. Some

h. Execution. With a signed lease, the proponent can now begin the construction of the BTL project. After an inventory and condition survey is made of the completed structure, the project is turned over to the MILCOM, which is responsible for making the lease payments. USAREUR estimates that the period from the start of construction to beneficial occupancy takes an average of 79 weeks. Overall, the MILCOM can expect, at best, to acquire a BTL project 3 years after it makes its initial request.

7. USAREUR Initiatives Influencing the BTL Process. The BTL acquisition process has improved due to the attention that the USAREUR government leasing program has attracted in recent years. Several major initiatives that have influenced the development of the process:

a. BTL Report initiatives. A considerable number of the changes made by USAREUR are a result of the BTL Report. Implementation of the corrective initiatives are being monitored quarterly for possible readjustment. Among the major initiatives are:

(1) Program Manager (PM). The BTL Report proposed that a separate PM be established solely to direct the acquisition of family housing for USAREUR. This position, which is intended to remain in place for a limited period, was established 1 August 1984. The PM has brought immediate benefits to the government leasing program by giving prominence to the issue of family housing acquisition, and he has been a major influence in increasing the emphasis on planning.

(2) Planning. There was also a greater effort to incorporate more planning into the acquisition process. The most notable effort in this regard is the establishment of the USAREUR Family Housing Acquisition Plan on 25 February 1985. Now USAREUR has a 5-year plan that describes where it will

channels, four committees of Congress. USAREUR must wait for their approval before it can enter into such a high cost government-lease agreement. Since it is DA policy to send notification only when the committees are in session, the Title 10 process takes an average of 16 weeks.

f. Negotiation. Once a best offer has been designated, the BVA and REA enter into negotiations with the proponent. These negotiations, which can be quite extensive, cover the cost of the lease, its length, and any conditions that may be necessary to insure the interests of USAREUR. The length of the negotiation process can be as long as a year for complex BTL projects. Once the proponent, the BVA, and the REA reach agreement, work can begin on the actual lease. At this point, the proponent has a number of key financial and local government coordination actions (land rezoning, construction permit, finalization of financing, etc.) to complete before he is ready to proceed.

g. Lease. The process of writing and signing the lease also involves a number of administrative steps.

(1) First, the project's MILCOM and UMC must be notified of the negotiation results and the agreed-to lease terms. They must also concur with these terms and certify that lease allocations are available and that funds for the project will be budgeted.

(2) Next, the REA writes a Real Property Obligation Document (RPOD) that lists the lease terms and conditions agreed to in the negotiations.

(3) Finally, the REA submits the RPOD to the BVA, which uses this as the basis for the actual lease. The BVA then writes and signs a separate German lease agreement, called the Mietvertrag, with the proponent.

by DA, individual accommodation requests are developed for each USAREUR community and submitted to the FRG's Ministry of Defense for concurrence. After review, the Ministry of Defense submits the accommodation requests to the Ministry of Finance and its subordinate agencies for action.

b. Solicitation. The actual lease acquisition process for a specific project begins with a solicitation for bids. The UMC or subordinate MILCOM develops project specifications. The project specifications are then submitted through the REA to the Bundesvermoegensamt (BVA), a subordinate agency of the Ministry of Finance. The BVA then uses the REA specifications to solicit proposals for leased housing projects.

c. Proposal development. After a solicitation is made, interested proponents (entrepreneurs) must develop a viable project proposal. Proposal development requires considerable effort and coordination with user elements. A well-developed proposal should include:

(1) A legal interest (ownership or option to buy) in the land which is already zoned for the construction of housing.

(2) Target construction start and completion dates.

(3) Verification of sufficient financial resources to ensure contract compliance.

d. Evaluation. The proponents submit their proposals to the BVA, which forwards them to the REA. A panel is formed from representatives of the BVA, REA, and MILCOM to evaluate the proposals and select the best offer based on how well it meets the needs of USAREUR and the MILCOM. The USAREUR goal for the duration of the solicitation and proposal selection process is 23 weeks.

e. Title 10. If it appears that the leasing cost of the successful proposal may exceed \$250,000 per year, USAREUR must notify, through DA and OSD

VI. RECOMMENDATIONS

19. Expand Public Advertising of Solicitations. To attract more BTL project proponents (and perhaps even increase offers on available land) USAREUR should request the FRG to more widely advertise solicitations for proposals. Advertisements should run in major German newspapers and trade periodicals, and in selected printed media in the US. USAREUR should budget for this purpose and provide advertising funding to the FRG.

20. Take More Innovative Steps to Acquire Land for BTL Projects. Since the lack of available land for BTL projects has impeded USAREUR's ability to acquire leased housing, efforts to secure land should have major priority.

a. While the FRG has been cool to the idea of securing land options, USAREUR should continue to pursue this area with the FRG. The existing accommodations processes may be the vehicle for acquiring land for BTL projects. Specifically, the BVA should seek and purchase land that would ultimately be sold to proponents for BTL projects. If the FRG can be induced to implement this procedure, USAREUR should plan, program and budget for a revolving fund to provide capital to the FRG for these transactions.

b. USAREUR should seek to identify additional parcels of land it already controls for the specific purpose of constructing leased housing. This approach was used before--a parcel of land on a US-controlled facility was released to the FRG, which later sold the property to a USAREUR BTL proponent, who built housing units on the land.

c. USAREUR also should explore using the alternative facilities concept for acquiring needed land. If selected parcels of US-controlled land were released to the FRG, they could be sold to generate capital (and good will in the civilian community), so that other parcels could be purchased for

specific BTL projects. This initiative would demonstrate to the community in general that US-controlled lands were being reduced. Local opposition to rezoning lands or construction permits might therefore be mitigated. Also, this property could be held and sold later to the proponent for the project.

21. Provide Additional Assurances and Assistance to Entrepreneurs. The government leasing process does not provide sufficient assurances that the US is committed to the BTL project during the phases which precede lease preparation.

a. Alternative contract forms and terms. Proponents (entrepreneurs) have indicated a reluctance to invest in areas where the rental market is dominated by US forces. These situations normally occur where US forces make up a major portion of an area's population. New types of contracts like the lease with buy-out option and lease purchase could help attract BTL project proponents to these areas. Also, longer term leases would assist in attracting proponents.

b. Honor terms of lease negotiations. USAREUR should make the terms of government-lease negotiations binding on all US participants. This would reduce delays caused by MILCOM reluctance to approve already negotiated projects. This would achieve the additional benefit of enhancing the credibility of US commitments, such as Letters of Intent.

c. Longer payment period. Lease payments for BTL housing projects begin after the units are turned over to the US. If USAREUR could gain authority to provide payments at the beginning in the construction phase, a major impediment to leasing, (financing of BTL projects) could be ameliorated.

22. Seek To Identify BTL Financing from US Sources. DA and USAREUR should attempt to identify venture capital or financial institutions in the US

to finance BTL projects in the FRG. DA and USAREUR can advertise in CONUS publications for this purpose. These sources should be made available to all proponents.

23. Raise Title 10 Project Limit. USAREUR's government leasing program would be helped if HQ DA and Congress could be pressed to modify their Title 10 reporting requirements. Specifically, the \$250,000 criterion is too low. A higher dollar threshold, perhaps \$400,000, would help reduce the number of projects requiring Title 10 approval and thus eliminate associated delays in the program. Proponents and housing officials have indicated a reluctance to proceed with projects requiring Title 10 approval because delays increase the probability of failure in developing a lease contract. The change would lead to somewhat larger projects and increase the number of proponents submitting proposals. This could lead to reducing the ultimate number of BTL contracts executed by USAREUR.

LAST PAGE OF MAIN PAPER

ANNEX

STUDY TASKER

ANNEX

STUDY TASKER

DAEN-ZCZ-A

25 April 1985

MEMORANDUM FOR RECORD

SUBJECT: VCSA Briefing on USAREUR AFH, 25 April 1985

1. This morning ESC and USAREUR ODCSENGR briefed the VCSA on the ESC study of AFH in Europe (ACC task at Tab A) and the USAREUR build-to-lease program (task at Tab B). At Tab C are the briefing charts; at Tab D is their report.

2. Below are comments and tasks arising from the briefing and discussion:

a. Include E-1's - E-3's in all requirements and program statements. (e.g., charts 12, 14, 19, 26).

b. Chart 11: VCSA challenged the DODI that establishes "...the local housing market...as the primary source of family housing..." and our exclusion of build-to-lease units from that category. VCSA directed we approach DOD to include government leasing as a "local housing market" solution as are individual SM leases or purchases (DCSPER) (note: there may be some pitfalls in doing this because it would force the elevation of the priority for the government leasing solution over construction versus the current flexibility we now enjoy).

c. Chart 17: VCSA questioned methodology used in projecting individual economy rentals. He directed ESC to "audit" that projection. His concern is that our construction and government leasing programs would be depressed by an optimistic individual rental forecast. (ESC).

d. Chart 19: VCSA stated that the top line is not the "requirement," but that portion of the total requirement USAREUR has decided to satisfy with government leasing. He asked for a chart that shows total requirement (USAREUR).

e. Chart 21: VCSA requested numbers of units in each step of the process. We pointed out that allocations are required at the letter of intent stage in negotiations. (USAREUR).

f. Chart 26: (1) VCSA questioned need for allocation at all. (DAEN-RE will review legal requirement).

(2) VCSA asked what total allocation would we want now to cover all projected requirements. (USAREUR).

(3) VCSA wants to get that total from Congress in '86 bill (ACE will work issue with SASC and HASC and prepare a letter from VCSA to Mr. Dellums, HASC Subcommittee Chairman. Letter and staff contacts will include allocations, 20-year lease authority, and furnishings funds -- three points I suggested to DASD(MIL) last week be included in a Dr. Korb reply to a Mr. Dellums question of what can he do to help the family housing situation in Europe.

DAEN-2CZ-A

SUBJECT: VCSA Briefing on USAREUR AFH, 25 April 1985

25 April 1985

3. General Thurman commented that ESC had not explored the impediments to the build-to-lease program. He believes if we have the funds (which we do) and the allocations (which we do for this year at least) we should be able to move the program much faster. He tasked ESC to look at the impediments and let him know how we can get "out of the jam." He also asked ESC to show the economics of BAQ/Rent Plus vs. build-to-lease (ESC).

4. ESC agreed to a 30-day suspense for its tasks (para 2c, 3). /



HENRY J. HATCH
Major General, USA
Assistant Chief of Engineers

4 Encl

CF:

COE

DCOE

DCSPER

✓ Cdr, ESC

USAREUR DCSNGR

CLL

COA

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