



**Statement for the Record**  
**by Denis Hickey, Chief Executive Officer, Lendlease Americas**

**Joint Subcommittee on Personnel & Readiness and Management Support**  
**Hearing Regarding the “Current State of the MHPI Program”**  
**February 13, 2019**

Chairmen Tillis and Sullivan, Ranking Members Gillibrand and Kaine, and distinguished Members of the Armed Services Committee, my name is Denis Hickey, Chief Executive Officer of Lendlease Americas. Thank you for inviting me to testify today.

I represent Lendlease, and I am here to provide the Subcommittees with information regarding Lendlease’s contributions to the Military Housing Privatization Initiative (MHPI) program.

Lendlease is a leading global property company founded in Sydney, Australia in 1959, and we have been operating in the United States since 1970. Lendlease Americas is a full tax paying U.S. corporation directly employing more than 1,700 people across the United States, ~95% of which are American citizens. We are proud of our long history in America, and our goal is to increase our presence here in future years.

In 1972, our founder Dick Dusseldorp, famously remarked that “*the time is near that companies must start justifying their worth to society, with greater emphasis placed on environmental and social impact, rather than straight economics.*” This belief is at the core of who Lendlease is today. It guides our efforts and ensures we remain committed to delivering long-term sustainable value to the communities we create and serve.

As an Australian, I can attest to the fact that Australia - the only country to have stood and fought beside America in every major conflict since World War I - is very proud of the strong military ties between our two countries. As a partner to the Department of Defense (DoD) since the early days of the MHPI program, we at Lendlease are also humbled by the opportunity to serve military personnel and their families by providing quality, healthy, safe, and sustainable communities.

We take this responsibility seriously.

Our military housing business is headquartered in Nashville, TN. We oversee and manage more than 40,000 single-family rental homes across 28 installations in 12 states, from Upstate New York to Alaska and Hawaii. Many of our managers and employees live in the local communities we serve, managing day-to-day operations for our residents. They are part of these communities. Many are also veterans or military spouses who have lived on military installations and experienced first-hand the sacrifices our military and their families make every day.

Before I address the MHPI initiative and Lendlease's role in this program, I would like to touch on the recent news reports and the issues raised that have brought us here today. The media reports outline examples of some serious shortcomings that have arisen across the program, and they are clearly not acceptable.

I empathize with the families that have been affected by these issues, as they should not be subjected to these conditions.

I can assure the members of the Subcommittees that Lendlease is dedicated to creating and maintaining safe, healthy and sustainable communities for our service members and their families. As such, we are committed to doing everything we can to resolve these types of issues should they occur on our projects.

### **The MHPI Program**

The MHPI program was enacted out of a critical need to modernize old and dilapidated housing on military bases that, after decades of deferred maintenance, had fallen into disrepair. The

DoD did not have enough appropriated funding to undertake this renewal program. Partnering with the private sector to unlock much needed capital and capabilities was seen as an innovative and effective way to remedy this problem.

Exercising its authority under the MHPI legislation, after a full and open public procurement process, each military service selected a private sector developer to access the expertise and private sector funding that was deemed critical for the construction, refurbishment, operations and ongoing sustainment of their housing facilities.

Lendlease implemented the privatization initiative under a basic structure in which a Project Company is formed to own, develop, finance and operate family housing on military installations. Often, the respective military service elects to become a member of the Project Company. Regardless of structure, the military service retains governance oversight and control over major decisions of the Project Company through the project agreements. This Project Company then contracts with various parties to deliver the asset management, property management and development management services. In our case, Lendlease is engaged as the asset manager and the development manager, and partners with Winn Corporation to perform the property management.

Lendlease works closely with the DoD and the leadership of the individual military services, both at the Pentagon and local installation level, to determine appropriate development and operational plans to meet the objectives of the program. Generally, Lendlease, the DoD and military services share approval authority over annual operating budgets and capital expenditures, and the DoD maintains regular oversight of the overall performance of the Project Company and its service providers through the contractual and funding structure.

One of the great successes of the MHPI program has been the creation of new housing on military bases throughout the U.S. On these bases, older homes were torn down and replaced with new, modern ones that conform to the latest building codes. In addition, many of these older homes have undergone significant renovation and have been brought up to current standards.

Despite this investment in new homes, a significant number of older legacy homes remain including some that may have potential environmental issues that need to be carefully

managed. Maintenance plans are developed and administered for these homes until modernization and/or replacement can occur.

### **Project Funding Sources**

Initial funding for the development scopes was generated from leveraging the forecast income from the Project Company to secure financing from the capital markets. Together with investments made by the military services and the private sector developer, this financing was used to fund the initial period of development, construction and renovation of a select tranche of homes at each installation (known as the Initial Development Period or IDP).

Ongoing funding for the Project Companies comes in the form of the rent they collect from the residents, which is capped at the Basic Allowance for Housing (BAH). The revenue is deposited into secured accounts and is used to pay operating expenses, service debt, fund approved management fees and agreed investment returns, with the balance of the net operating income (NOI) deposited into the project's "reinvestment account." These funds are not distributed to the developers, but remain within the project to fund future development and maintenance work.

As the reinvestment account balance grows, the Project Company, in consultation with the military service and the local installation, assesses how those funds can be utilized to best improve the quality of housing on the installation. Generally, the military service, as a member of the Project Company, shares authority for approving plans and/or funds to be expended from the reinvestment accounts.

To date, Lendlease's MHPI projects have invested more than \$7.2B to fund new construction and major renovation activities to improve the quality of life for our residents. Our current forecast is that a further \$16.4B of surplus NOI will be generated for deposit into the reinvestment accounts across our MHPI portfolio over the remaining balance of the ground leases, subject of course to continued project occupancy. Funds in the respective projects' reinvestment accounts are intended to be used for further upgrades and new facilities over the remaining term of the projects, conditional on direction and mutual approval by the Project Manager and the military services.

## **Customer Service is Critical for Success**

Except for a small fraction of command-designated personnel who are required to live on base, every other eligible service member has the choice to live either on or off base. They receive their BAH and are free to use that BAH to pay for housing wherever they choose to live. As such, the MHPI program is an entirely free market program with consumer choice, and has absolutely no occupancy or rental guarantees from the Government.

As a result, we need to compete very hard with the homes off base to be seen as the housing provider of choice. For an MHPI housing project to thrive, it must consistently provide the best value and customer service to its residents, or it will lose occupancy and receive lower rental income. If lower rental income is received, then there is likely to be less NOI to be invested in the project's reinvestment account, thereby impacting what can be done to improve the housing and the facilities within that project.

We are very focused on customer satisfaction and train our employees on how to deliver high standards of customer service. We measure the quality of our customer's experience using independent resident surveys conducted by CEL & Associates and SatisFacts. These objective reviews are designed so that our local property management teams can promptly address residents' feedback, questions, issues or concerns.

In 2018, we received more than 36,000 completed resident feedback surveys and averaged a score of 4.45 out of 5. Whilst these were good scores, there is obviously room for improvement and we use these survey results as learning opportunities for our and our property managers' operations teams to focus on areas where we can improve our level of service and performance. These results are also reviewed in detail with military service leadership, both at the Pentagon and local installation level. They closely monitor our performance and they form part of the basis for the asset and property management fees.

To provide a measure of scale of the annual activity that happens on the installations that we manage, our front-line property management personnel perform more than 18,000 changes of occupancy annually. Each resident change brings with it a requirement to conduct environmental assessments, refresh the home and repair any cosmetic issues which can include flooring replacements, painting, fixture and finish upgrades, appliance upgrades and

minor structural renovations. In addition, our maintenance teams performed over 400,000 service requests in 2018, ranging from fixing mold issues, flaked paint, blown light bulbs, clogged toilets to broken screen doors. These are cataloged and recorded in our project databases.

All in all, our success depends on providing exceptional customer service and, as such, we invest significant time and resources trying to continuously improve and raise our performance in all areas.

### **Environmental Stewardship**

Lendlease understood that many of the houses acquired through the MHPI projects would not be demolished as part of the IDP, and came with both known and unknown conditions including lead-based paint, asbestos and contaminated soils. The set up of the projects was not and could not be designed to address all the legacy homes in the initial development. Rather, it was envisioned that these legacy homes would be addressed over time and funded out of the project reinvestment accounts.

For example, our portfolio of over 40,000 homes includes more than 14,200 legacy homes built prior to 1978, when the use of lead-based paint was banned. Until these conditions can be successfully eradicated through major renovations or housing replacements, they require active management. Accordingly, at the time of a project's inception, each home in the project is inspected for these conditions, and in cases where the conditions are not addressed and require continued active management, it is noted on our housing registers.

In these instances, any known presence of lead-based paint, asbestos, or contaminated soils in/or around a house are all clearly documented and disclosed to all residents prior to occupying their home. Every resident at move in receives a home walk through, covering all aspects of the home, including discussions around the existence of these environmental conditions, and receives material regarding how to live safely in the home. All residents are encouraged to report any suspected lead-based paint flaking, mold or other environmental concerns that may arise during their tenancy directly to the Property Manager. All reports are treated very seriously, and we strive to rectify these issues as soon as possible.

## **Driving Innovative, Sustainable and Community Solutions**

Consistent with Lendlease's commitment to improving the environmental and social impact to the communities we create, we have been focused on implementing strategies across our portfolio that support the DoD's objectives of reducing energy, water and waste consumption. These include:

- The development of 34.77MW of ground and rooftop solar arrays across our portfolio. In the past 12 months, our projects have generated over 43GWh of solar electricity, enough to power 5,303 homes for one year.
- The delivery of industry leading green building practices with 15,000 homes built to Energy Star or LEED Silver standards.
- The design, construction and monitoring of the first two Zero Energy Homes (ZEH) on any DoD military installation at Fort Campbell, and the first Net Zero Energy Home on a Navy/ Marines installation at Camp Lejeune.
- Implementing resident education and engagement programs around consumption and conservation best practices. This includes home energy audits and educational walk throughs to help residents operate their homes more efficiently.
- Incorporating the use of Building Energy Management Systems (BEMS) resulting in approximately 7,206,697kWh or \$684,636M saved over the last year.

In addition to these environmental initiatives, Lendlease is also focused on giving back to the people and communities we serve. For example, in 2007, Lendlease established the Lendlease (U.S.) Community Fund, a 501(c)(3) fund designed to give back to military communities. Through a combination of Lendlease contributions as well as other fundraising initiatives, the Lendlease Community Fund has raised over \$4.2M. This money has been distributed to various organizations such as Wounded Warriors, Operation Shower, Boot Campaign, K9s for Warriors, Veterans PATH, Fisher House Foundation and many more grassroots organizations working tirelessly to serve active duty service members, veterans and their families. The Lendlease Community Fund's BlueStar Scholarship program has also awarded \$704,000 in scholarships to high-school age military dependents.

We will continue to focus on these areas and are committed to piloting new initiatives. Our efforts have reshaped industry practices and have helped design and achieve better outcomes for our communities.

## **Meeting the Challenges**

Despite delivering tangible benefits to the respective communities, the MHPI program brings a unique set of challenges, including, but not limited to:

- The timely rectification and replacement of historic environmental conditions, including lead-based paint, asbestos and pesticide impacted soils.
- Ensuring the Project Companies can individually generate sufficient NOI to fund the continued modernization of the on-base legacy homes.
- Maintaining occupancy levels through troop deployment and other military decisions that can dramatically affect the housing demand.
- Managing various natural disasters and unforeseen events that periodically occur.

We will continue to do our best to manage and mitigate these issues so they do not adversely impact our military families. Our leadership and operational teams will continue to work with local installation command, military service leadership and community representatives to review these issues as they arise and develop and implement appropriate solutions to mitigate their impact.

The most recent example of managing one of these issues was the natural disaster of Hurricane Florence that hit our Atlantic Marine Corps Communities (AMCC) project in North Carolina in September 2018. This hurricane was unprecedented in size and impact with significant effect on both the AMCC base facilities and the broader community. Damages from the hurricane have resulted in major logistical and construction challenges. On the AMCC project alone, 3,818 of the 6,182 homes were damaged, and the estimated repair bill for housing on the base is over \$150M. Although progress on the recovery was initially slower than envisaged, after recent meetings with the local Commander and his team, as well as meetings with other high-ranking officials in both the Navy and Marines, we have collectively implemented several improvements that have helped AMCC to accelerate recovery in a collaborative manner. We are making solid progress and have currently rectified 1,478 homes (40% of the total damaged). Our aim is to have all of the recovery work substantially completed by November of this year.



## **Concluding Remarks**

Lendlease's MHPI portfolio is a cornerstone of our business in the United States. The company is committed to the MHPI program and to continuing to work with the DoD and military services to make it successful.

While we are proud of many of our accomplishments across our MHPI portfolio to date, we are also keenly aware of the issues that have been brought before the Subcommittees today and see these as critical areas that have our full attention. We will continue to focus on improving our services for the benefit of the military families who reside in our communities. We want them to be as proud to live in our communities, as we are to have them.

Mr. Chairman, this is of the highest priority to Lendlease. We want to make sure that every military family on all our bases receives the highest level of service every day. They deserve nothing less.

To that end, we look forward to the dialogue the Subcommittees have initiated and remain receptive to any and all constructive advice for improvements to our projects and the MHPI program. We also welcome any Senators or their staff who wish to visit our facilities and see first-hand the status of our operations.

I thank you for the opportunity to represent Lendlease and to tell the story of MHPI from our perspective.