MILITARY HOUSING ASSOCIATION

PROUDLY SERVING MILITARY FAMILIES OF PRIVATIZED HOUSING

MILITARY HOUSING PARTNERSHIPS HISTORY

In 1996, Congress authorized the Military Housing Privatization Initiative ("**MHPI**") to improve the condition and quality of the Department of Defense's ("**DoD**") housing inventory, which had deteriorated due to inadequate new construction and maintenance funding. That year, the DoD identified 180,000 inadequate housing units in need of renovations or replacement. The military faced a $20 billion housing maintenance backlog that would take 30 years to resolve using the traditional methods of contracting and construction. The dire state of military housing severely impacted readiness by creating recruitment and retention challenges.

The MHPI allowed DoD and the Military Departments to engage with private companies specializing in development and property management to obtain nearly $30 billion in initial private sector funding to address this backlog. Those funds were raised through equity investments from the private companies, institutional loans and the issuance of privately placed bonds held by accredited investors across the country. Each of the Service Branches structured their partnerships to meet their respective needs. All partnerships were subjected to a competitive procurement solicitation process and continue to include oversight and collaboration with the Services. Today, privatized military housing partnerships ("**Partnerships**") own and operate 99% of domestic military family homes on installations across the country. Overseas military family housing, barracks and dormitories remain Government owned and operated.

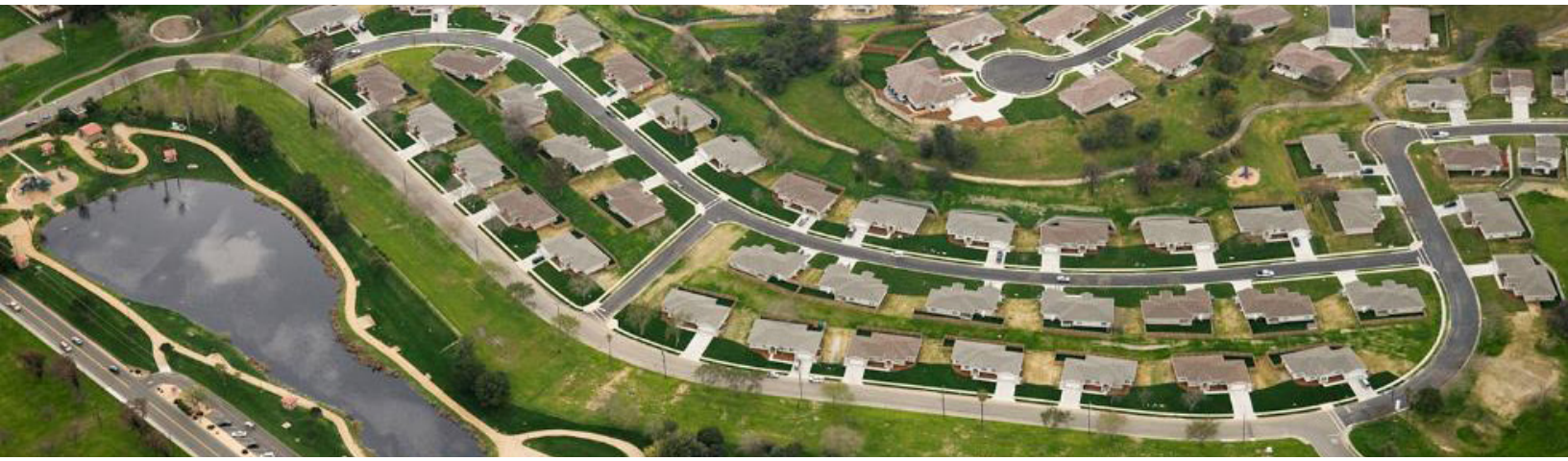
THE MHPI PROGRAM TODAY

200,000+	81	156
HOUSING UNITS	MHPI PROJECTS	INSTALLATIONS

WHAT IS A MILITARY HOUSING PARTNERSHIP AND HOW DOES IT OPERATE?

These Partnerships are private legal entities (limited liability companies or limited partnerships) that serve as the project owner and landlord of the housing units and in which both a private sector company and the U.S. Air Force, Army, or Navy, (to include the Marine Corps) may own a membership or partnership interest. The private company serves as the managing member, representing the project on a day-to-day basis, while the Services (the "**Government Member**") provide oversight and direction, including exercising approval authority over the Partnership's operational and development budgets. The interaction between the Managing Member and Government Members in each Partnership is typically outlined in an operating or partnership agreement.

At the inception of each Partnership, the Government Member signed a Ground Lease with the Partnership, granting it use of the underlying land, and conveying title to the existing homes, which were slated for redevelopment via renovation, demolition, and reconstruction. In return, the private sector managing member invested its own equity into the project and assisted with obtaining financing for the Partnership from private lenders to conduct the work. The Partnership also entered into various contracts with service providers (which may be affiliated with the managing member) to develop, manage, and maintain the housing on a day-to-day basis in conjunction with oversight from the military housing offices at each installation.

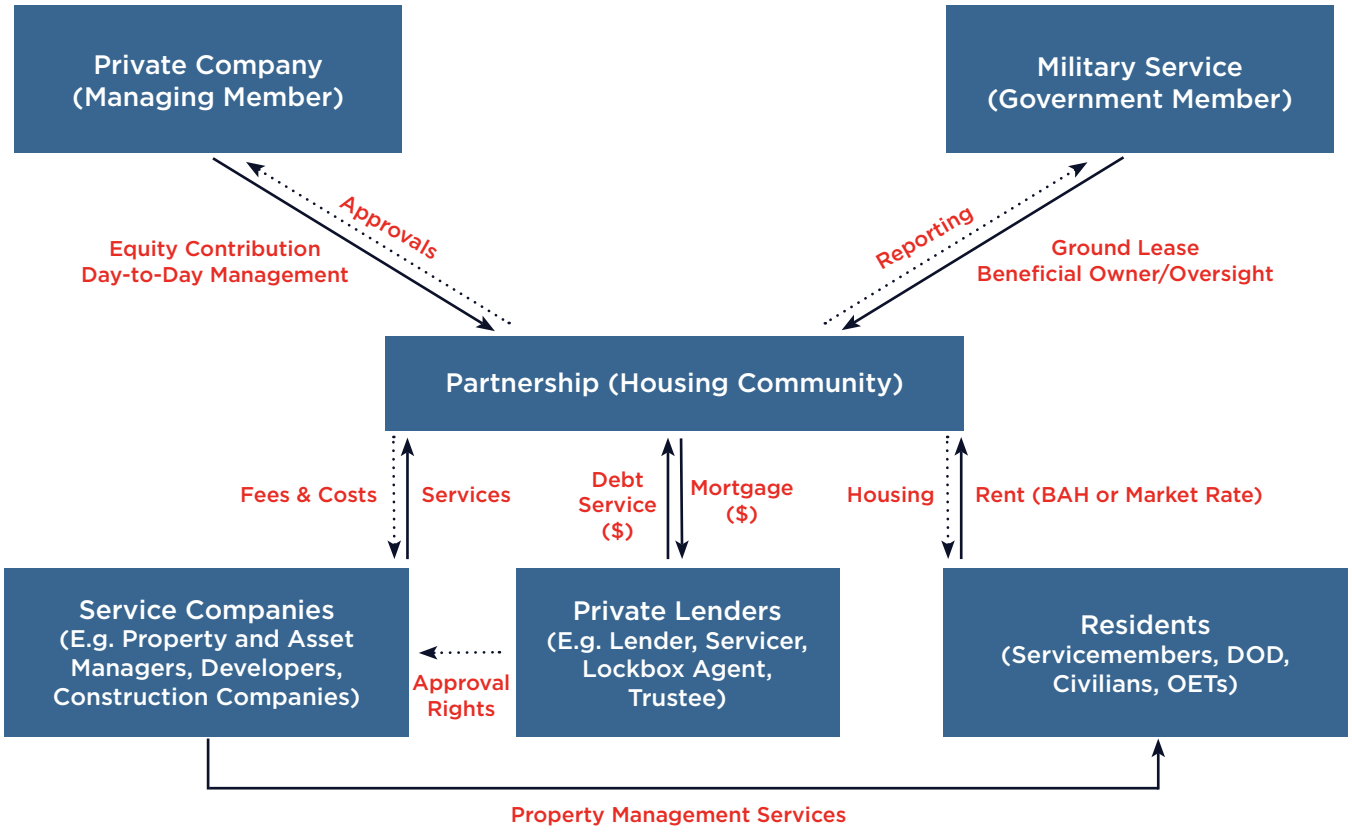


HOW MILITARY HOUSING PARTNERSHIPS ARE STRUCTURED

Prior to their inception, the structure of each Partnership was developed by agreement with the anticipated managing member, the Government Member, and the lender. This structure includes a mortgage in connection with the debt raised to finance the project, and a trust indenture or lockbox/servicing agreement governing Partnership funds, in addition to a variety of service agreements that are entered into in order to provide property management, asset management, development and construction/renovation work.

The residential lease form offered to tenants also was developed and approved by the Services and the lenders during the formation of the Partnership. These leases, in addition to the project agreements referenced above, typically cannot be amended by the Partnership without the approval of the Managing Member, the Services, as well as the lender.

EXAMPLE OF MILITARY HOUSING PARTNERSHIP STRUCTURE*



**MHPI partnership structures vary by Managing Member and Government Member. For example, some partnerships do not contain a ground lease or equity contribution.*

HOW ARE MILITARY HOUSING PARTNERSHIPS FUNDED?

It is important to note these Partnerships are not funded through annual Congressional appropriations because they are not government contracts and privatized military family housing is not federally assisted housing. Each Partnership's initial development projects (renovation and new construction) were funded through private equity and debt raises secured by planned rental income, which is very similar to how a homeowner secures a mortgage to purchase or build a home.

Once established, the Partnerships receive market-based rental income from residents, either via an allotment of a service member's Basic Allowance for Housing ("**BAH**") or direct payment by non-service member residents. As a result, the financial stability of each Partnership is largely dependent on housing occupancy rates and the local BAH rate established by the DoD.

Since occupancy rates can fluctuate based on the Services' needs, particularly during any force realignment, each Partnership is typically permitted to lease to non-active-duty tenants, who become eligible to lease homes based on a "tenant waterfall" policy. Tenants typically become eligible according to the following priority list: unaccompanied military personnel, active National Guard and Reserve, military retirees, federal government civilians, and civilians.

FINANCING MILITARY PARTNERSHIPS: LONG-TERM LEASES ENABLE PRIVATE CAPITAL RAISES

The MHPI was designed to enable Partnerships to leverage private sector capital to make large, up-front investments to improve and sustain military family housing. By granting the Partnerships' 50-year ground leases, the Government Member allowed private sector partners to work with lenders to attract the significant investment needed from private institutional investors, like retirement funds, which financed the large-scale construction and renovation of homes and community amenities, saving taxpayers billions of dollars.

In return for initial financing, the lender/debtholders were assigned a long-term interest in the projected rents from each Partnership, as well as the right to consent to various activities regarding the Partnership's operations. Those rights are generally governed by various documents, typically including a Loan Agreement, Trust Indenture and Lockbox and Servicing Agreement. The contracts establish procedures for the use of rental income to meet Partnership agreements, as well as for amendment to material Project agreements.

"$32 billion in total investment: The MHPI initially leveraged $4 billion in government funding with $28 billion in private investment."

HOW DO PARTNERSHIPS USE RENTAL INCOME?

Partnerships use rental income from the BAH and direct resident payments to pay operating expenses, conduct capital repair, make loan payments to service debt, and pay legal expenses and service fees. Partnerships are responsible for paying all project expenses, not the Managing Member. As a result, project expenses directly impact the financial health of Partnerships. Once these initial expenses are paid, debt service and equity distributions are made, and all remaining revenue from rental income is reinvested into the Partnership to pay for future improvements, like renovation and new construction.

All operating budgets are subject to the oversight and approval of the Government Member. Similarly, the Government Member is actively involved in reinvestment planning and approves the scope and timing of all redevelopment projects, as well as any extraordinary expenses. It is at the discretion of the Government Member to determine how the budget is distributed and allocated across projects.

HOW ARE SERVICE COMPANIES SELECTED AND PAID?

Managing Members were selected as part of a competitive procurement process. Once selected, each of the Partnerships in the MHPI program enters into service agreements to help manage the Partnerships and its assets. While each Partnership is structured differently, they can include Asset Management, Property Management, Construction, and Development Agreements. In most cases, the agreements cannot be amended or changed without the approval of both the Managing Member and the lender/debtholders. In instances of default or malfeasance, the Government Member or the lender/debtholders may have the opportunity to replace the Managing Member of a Partnership.

The service agreements define the fees paid to the Managing Member, which include an incentive component that allows the Government Member to exert additional control over the Partnership. Incentive measures are established by the Government Member. Managing Members are evaluated on various metrics, including resident surveys and customer service satisfaction scores – which are provided by third-party vendors engaged by the Partnership on behalf of the Government Member.