
BASIC ALLOWANCE FOR HOUSING (BAH): WHAT YOU NEED TO KNOW

WHAT IS BAH?

The Basic Allowance for Housing (“**BAH**”) is a benefit received by active-duty service members in addition to salary that is intended to cover basic housing costs, and is based on rental costs in local markets. The amount of BAH a service member receives depends on geographic duty location, pay grade, and dependency status. The Department of Defense (“**DoD**”) administers the BAH program, which is available to military service members who have dependents (with some exceptions). Service members have the option of applying their BAH towards the purchase of a new home or can spend more or less than their BAH on housing.

Approximately one-third of active-duty military families choose to apply their BAH to live in a Military Housing Privatization Initiative (“**MHPI**”) community. The financial stability and long-term viability of each MHPI project is dependent on the local BAH rate established by the DoD, and housing occupancy rates. MHPI rental costs cannot exceed a service member’s BAH allocation.

HOW IS BAH DETERMINED FOR SERVICE MEMBERS?

**RANK/
PAY GRADE** + **DEPENDENCY
STATUS** + **GEOGRAPHIC
DUTY LOCATION**

...and corresponds with the median rental costs and average utility cost in area.



DELIVERING VALUE FOR MHPI RESIDENTS

BAH is provided to service members regardless of whether they choose to live in privatized military housing. However, if service members choose to live within an MHPI community, their BAH is paid directly to the privatized military housing provider and covers all operating expenses, including utilities, amenities, preventive and ongoing maintenance, renovations, and upgrades. In addition, DoD and Service policies provide for family housing standards that are higher than contemplated by the BAH. For example, the BAH for an E-5 with dependents is calculated assuming that they will live in a 2-bedroom duplex or townhouse, but Army policy is to only approve MHPI development of 3-bedroom homes.¹

BAH COVERS ALL EXPENSES FOR MHPI COMMUNITIES, INCLUDING:



BAH payments received by privatized military housing providers are used to cover all expenses associated with managing each MHPI project. Any remaining BAH revenue is reinvested back into the MHPI project by the housing provider to ensure the long-term viability and desirability of the properties. This includes improvements like home renovations, new home construction, community centers and amenities.

¹<https://www.defensetravel.dod.mil/Docs/perdiem/BAH-Primer.pdf>

PROJECTED BAH GROWTH DROVE MHPI PROJECT SCOPES AT PROGRAM INCEPTION

At the inception of the MHPI program, the service branches determined the number of homes required and ranked their distribution for each installation. Based on projected available revenue (BAH) for each project, MHPI project developers worked with the Services to determine how many:

- 1) new homes could be built,
- 2) existing homes could be renovated,
- 3) legacy homes could be demolished, and
- 4) legacy homes would remain “as is.”

The financial assumptions that underpinned how the MHPI projects were structured have changed significantly since the program’s inception. It was originally projected that Congress and the DoD would increase BAH by 3% annually, which would roughly equal projected cost increases. BAH has not increased by that amount over the last ten years, but project expenses have increased well beyond the projected 3% per annum.

HOW IS THE BAH RATE DETERMINED

Congress and the DoD set the BAH for service members. Congress appropriates annual funding for the BAH while the DoD sets BAH rates annually for 39 specific geographic areas in the U.S. The data collected to determine BAH rates includes costs of available apartments, townhouses/ duplexes, and various single-family units in each relevant area.

Since the start of the MHPI, Congress and the DoD have occasionally adjusted the level of BAH funding and revised local rates annually, resulting in significant swings in the BAH rates in some geographical areas. From 2005 - 2014, Congress funded the BAH to cover 100% of housing costs for active-duty service members. Defense budget cuts drove BAH funding levels to be reduced by 1% annually from 2015 through 2019. Since 2019, BAH has only covered, on average, 95% of housing costs for service members and has experienced volatile year-to-year rate swings in some locations.

As an additional cost saving measure, BAH calculations have also been revised to eliminate certain fees paid by most private sector renters, including premiums for renter’s insurance. Service members who want renter’s insurance must now pay for it themselves.

RECENT BAH REDUCTIONS DRIVEN BY DEFENSE BUDGET CUTS



SKYROCKETING COSTS TO RENT, BUILD, AND MAINTAIN HOMES ADDS FINANCIAL PRESSURE TO TENANTS AND MILITARY HOUSING PROVIDERS

Service members and privatized military housing providers are under increasing financial pressure as the booming housing market increases prices for rental units and construction materials. Service members are increasingly priced out of affordable housing options as market rates for rental units hit historic levels. At the same time, the cost of construction materials used to build and maintain homes – like concrete, lumber, plywood, masonry products, and PVC and PEX products – has skyrocketed since the start of the year. Ensuring BAH accurately reflects local market rates has become even more important as market demand for rental units and the cost of construction materials continues to rise.

POLICY RECOMMENDATIONS

An increased, stabilized BAH rate would strengthen the purchasing power of military families and allow the MHPI projects to better budget, plan, and execute short- and long-term capital improvements to privatized military housing stock.

- 1. Service members deserve to have BAH 100% funded:** Currently, BAH is designed to cover, on average, 95% of housing costs for active-duty service members not living in MHPI housing. The DoD anticipated that remaining out-of-pocket costs would range between \$70 to \$158 per month.² However, a recent survey of military families conducted by Blue Star Families found that many military families pay between \$200-\$1,000 in monthly out-of-pocket housing expenses.³ Notably, 76% of survey respondents living off base and seeking a “desirable school district” reported paying more than \$200 per month in out-of-pocket housing expenses. The MHA agrees with the Blue Star Families’ recommendation that Congress restore BAH to 100% of local area rent.
- 2. Increase transparency in the BAH rate determination process to accurately reflect rental market rates:** In 2019, MHA member companies supported a measure requiring the U.S. Government Accountability Office (“GAO”) Comptroller General to review the BAH rate determination process to help increase transparency. In January 2021, the GAO released a report outlining recommended actions needed to improve the process for setting BAH payments for service members.⁴ The report noted the difficulties in accurately determining the cost of service member housing without a more transparent system for collecting and monitoring data used for setting rates. The DoD accepted the GAO recommendation to review and update their processes for determining BAH rates, and the MHA supports this initiative.

²Department of Defense. (2020). DOD Releases 2021 Basic Allowance for Housing Rates. <https://www.defense.gov/Newsroom/Releases/Release/Article/2447343/dod-releases-2021-basicallowance-for-housing-rates>

³Blue Star Families. (2021). 2020 Military Family Lifestyle Survey Comprehensive Report. https://bluestarfam.org/wp-content/uploads/2021/03/BSF_MFLS_CompReport_FULL.pdf

⁴U.S. Government Accountability Office. (2021). Military Housing:

Actions Needed to Improve the Process for Setting Allowances for Servicemembers and Calculating Payments for Privatized Housing Projects. <https://www.gao.gov/products/gao-21-137>