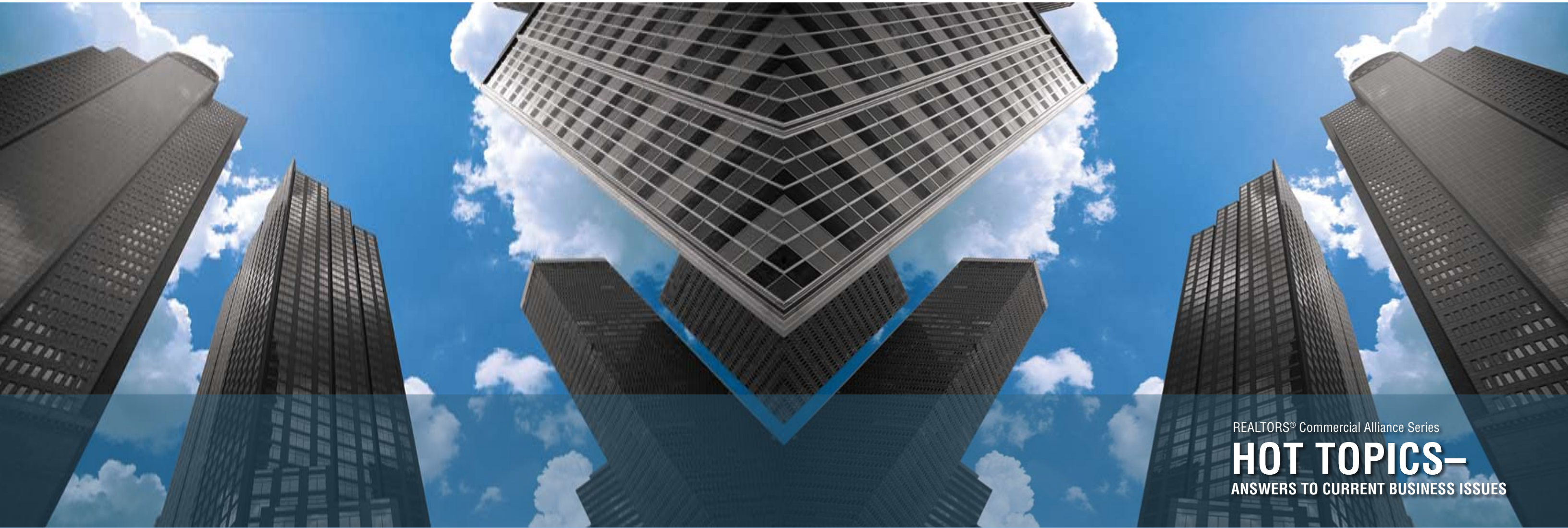




Realtors Commercial Alliance
 The commercial division of the National Association of REALTORS®
 430 North Michigan Ave.
 Chicago, IL 60611-4087
 www.realtor.org/rca
 rca@realtors.org
 888/648-8321



REALTORS® Commercial Alliance Series
HOT TOPICS—
 ANSWERS TO CURRENT BUSINESS ISSUES

**MILITARY BASE REALIGNMENT
 AND CLOSURES**



**Real Strength.
 Real Advantages.**

The Base Realignment and Closure process is designed to enable the U.S. Department of Defense to reorganize its installations and forces for greater efficiency. The 2005 round of military base closing under BRAC, which was finalized in November 2005, resulted in the announced reconfiguration, expansion, or closure of almost 800 facilities, including 25 major bases in the United States. At the same time, 13 bases are being expanded by at least 4,000 jobs each. These dislocations—whether positive or negative—represent both significant challenges and real opportunities for the affected communities as well as for commercial real estate professionals.

Undoubtedly base closures can have an immediate, negative effect on real estate values, multifamily rents, and retail revenues. Longer term, however, the potential redevelopment of these often vast sites offers extraordinary opportunities for commercial and residential redevelopment or reuse. By diversifying the sources of employment in an area and freeing up valuable land for its highest and best use, many closures may ultimately have more benefit for the community than retaining a base. This is especially true in this BRAC round when so many base closures are located in prime urban locations in the West and Northeast, notes H. Cales Givens, vice president and principal with the Denver office of EDAW Inc., which has advised on the redevelopment of 30 military installations.

Redevelopment also gives commercial practitioners a variety of business opportunities. Of 73 closed bases recently surveyed by the Department of Defense's Office of Economic Adjustment, which provides support to communities affected by BRAC, 72 had office or industrial parks as a component of their redevelopment plan. In the early stages of a base's closure process, communities can turn to real estate professionals for their expertise in valuing base land for purchase and in conducting marketing studies used to determine the viability of reuse

strategies. As the redevelopment progresses, real estate professionals may find opportunities as developers or land brokers, leasing agents for the commercial and multifamily components of a site, or as managers of completed development components.

In this publication, we'll explore some of the main issues that real estate practitioners should keep in mind as they pursue involvement in base realignments in their communities.

What are the likely immediate impacts of a base closure on real estate markets in affected communities?

Civilian job loss at the bases that will close in the next six years is estimated at almost 85,000 by the BRAC Commission. However, base closures may not be as traumatic as some people think. A May 2005 Congressional Research Report, "Military Closures, Socioeconomic Impacts," reported 2001 study findings that income multipliers—the impact of income from the base spent in the community—was less than one for bases closed between 1971 and 2001. The problem is more acute in rural areas, where bases are major employers. A 1993 study by Peter Sternberg and Thomas Rowley found that rural base closings lost more than twice as large a portion of total county employment through civilian on-base job cuts as did communities in metro areas.

The good news is that the problem is generally temporary. The federal government estimates that the bases closed in prior BRAC rounds have recovered 85 percent of the 130,000 direct lost civilian jobs by Oct. 2004, according to an OEA publication. Note that this figure does not reflect secondary jobs lost in the local economy. Another plus in this round of base closures is that many of the bases are much smaller guard and reserve facilities, which may lessen the impact of closures on community employment.

What are the steps in a base's redevelopment, once it has been designated for closure?

In general, base closures are a multiyear project, with a timeline of six years from congressional acceptance of the base's closure (Nov. 9, 2005 for this round) to the military's vacating the property. It may take years after that date before title to land is actually conveyed (see Figure 1). Indeed, the Government Accountability Office estimates that 28 percent of land from prior BRAC rounds was still in the hands of the military in Sept. 2004, although some of that land was being used for civilian purposes. Moreover, the large number of recommendations in this BRAC round will make implementing all the actions a challenge, says Tim Ford, executive director of the Association of Defense Communities (www.adc.org), a membership organization supporting communities with active, closed, and closing defense installations.

By statute, certain specific steps must be followed in implementing a military base transfer (see Figure 2). While many of these processes can overlap, they could take years to complete, so don't wait to get started. It's also important to recognize that this process was intended for larger closures and that there may be more flexibility in transfers involving single buildings or small amounts of acreage, notes Patrick O'Brien, director of the Office of Economic Adjustment. OEA (www.oea.gov) issued a complete manual outlining the process for base disposals in late February.

Under the BRAC statute, a Local Redevelopment Authority, which must be recognized by the DOD, is responsible for preparing the community's redevelopment plan for a base and potentially for directing the implementation of this plan. This implementation may include providing infrastructure for the base, identifying businesses and public users that will provide jobs and serve as magnets for other users, and capitalizing on existing base assets.

EIGHT STEPS TO BASE REUSE:

- Approval by the President and Congress of BRAC recommendations for base closures.
- Federal screening for potential reuse of the site by other branches of the military and federal agencies (According to the MIT study, this reuse absorbs an average of 30 percent of installation land.)
- Establishment of a local redevelopment authority in a base area and its recognition by the Department of Defense
- Solicitation of local groups representing the homeless and other local groups under public benefit transfer mandate (The Department of Housing and Urban Development must approve whether the redevelopment plan serves the needs of the homeless.)
- Development of a strategic plan by LRA with the participation of outside groups
- Public hearings on redevelopment plans and approval of plan
- Determination of fair market value of the property as a basis for negotiation
- Transfer of all or parts of the property to LRA or other entity

Adapted from *From Barracks to Business*, Massachusetts Institute of Technology Military Base Redevelopment Project

How is a local redevelopment authority created?

LRAs are sometimes appointed by state or local government. Different individuals with different skills may be appointed for the planning or the implementation phases of the project. In some cases, as in the redevelopment of Fort Devens near Boston, an existing public authority, in that case the Massachusetts Land Bank, may be tapped to oversee the process. According to a 2000 MIT study, *From Barracks to Business*,

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public-authority LRAs are more likely to act as their own master developers, whereas local-government LRAs are more likely to hire a private developer to fill this role.

To help ensure success, LRAs and their boards of directors should have a broad-based membership that reflects both planning expertise and the concerns of various stakeholders in the community, including commercial real estate professionals. It's also critical for LRAs to establish sound relations with base commanders and their transition teams to ensure that the transition of a property benefits both the military and the community, says Arnold Tesh, CRE, managing director of FTI Consulting in Washington, D.C. Some LRAs address this issue by hiring retired military personnel, who "speak the language," as part of their redevelopment team.

In developing a reuse plan, it's critical that a community consider not only what it would ideally like to see occur, but what is within the bounds of economic feasibility, environmental conditions, and market realities. It's in assessing the market viability of options that real estate professionals can play a key role, suggests Tesh.

At the same time, advises Richard Gsottschneider, whose RKG Associates has assisted in numerous base redevelopment projects, communities need to have a vision and not be limited by the most obvious solutions. "Just because a site has a runway doesn't mean it should become an airport," he says, despite the fact that he was a guiding force behind the successful reconfiguration of the Pease Air Force Base in Portsmouth, N.H., into an international trade port.

How are property values established for bases?

In the last rounds of BRAC closures, the federal government placed an emphasis on property transfers that created jobs for the community. As a result, services often transferred base land at little or no cost to LRAs through a process of economic development conveyance, which was created by legislation in the 1990s. In fact, redevelopment

plans that emphasized housing were often in disfavor with EDCs because they only created temporary jobs during the redevelopment, says Paul Reimer, a consultant to Ra Partners in the Bay Area, who's worked on several base redevelopment projects.

However, in the current BRAC round, Congress has put a new emphasis on selling military land at fair market value by requiring that the DOD obtain FMV from EDCs. Perhaps the Navy's successful auction of 3,700 acres from the former El Toro base in the booming real estate market of Irvine, Calif., to Lennar Corp. for a record \$649 million has convinced the military that more bases have an economic value beyond simply shedding operating costs. This decision makes it much less likely that communities will be able to acquire base land at little or no cost under an economic development conveyance, notes George Schlossberg, partner in the Washington, D.C., law firm Kutak Rock LLP. "It will be much more difficult for communities to plan for redevelopment since a property's use will be much more subject to the vagaries of the market," says Schlossberg. Fair market valuations will also eliminate the potential for local communities to rebound from the economic loss of base closure by receiving and marketing a base's real estate assets, notes Reimer.

This shift in emphasis has once again placed a prime importance on the accurate computation of fair market value. This change, in turn, creates potential opportunities for real estate appraisers, says Steven Norris, CRE, MAI, of Norris Realty Advisors in Pasadena, Calif. In the past, conflicts arose between federal government evaluations, which sometimes assessed property based on its current use, and appraisers' valuations, which emphasized highest and best use for redevelopment. Environmental remediation concerns and the need to dispose marginal residual property can also have a significant effect on reuse value, although most appraisals assume that the environmental problems will be eliminated, says Norris.

"Sometimes properties are worth a lot less than the

original appraisal indicates," says Norris. "In some cases, the highest and best use of a remote rural base may be to return it to a cornfield. In other cases, urban-oriented bases can have substantial hidden value."

What are the biggest challenges in a base redevelopment?

One of the biggest hurdles in transferring military bases to private use is the presence of environmental contamination on many properties. Because many military bases existed before the passage of U.S. environmental laws, pollution levels from fuels, asbestos, and other hazards are often a major barrier to redevelopment. In addition, some sites have munitions dumps or firing ranges.

Under the Comprehensive Environmental Response Compensation & Liability Act, also known as Superfund, the federal government must assure that the base property is safe for human health and safety. The problem, notes Craig Seymour, principal with RKG Associates in Durham, New Hampshire, is that CERCLA budgets do not always have enough money to fully fund cleanup costs in a timely way. These deficiencies can add years to environmental remediation and property transfer.

Legislation that now allows for early transfers of property before environmental cleanup has helped to expedite property transfers in some cases. This authority permits the LRA or developer to take title to the property, perform environmental cleanup itself, and be indemnified (along with its lessees and transferees) from liability for known environmental problems on the site. The cost of cleanup is still paid by the federal government if a public entity receives the property, although the lack of funds to pay for work is still a tremendous factor in slowing the process of reuse, notes Schlossberg. Property sold to developers at fair market value reflect the developer's cleanup costs in the price. Early transfer has become more feasible since the insurance industry created products to protect developers from the cost of remediating any unknown pollutants found during cleanup. Visit the

DOD's site and review the "DOD Early Transfer Authority Guide" for more details.

Some developers, including Shields, believe that with some exceptions, pollutants at military sites are often no worse than those found at former industrial sites or even urban infill locations. In fact, says Shields, the rigors of cleanup under the National Environmental Policy Act actually create less risk at military sites than at many privately owned brownfields. However, the much larger scale of many bases makes the remediation problem much tougher at bases, notes Reimer.

Another factor that presents particular challenges during base redevelopment is the common presence of substandard structures on many bases and the cost incurred in demolishing them. During the conversion of a former air base to the Pease International Tradeport, the poor quality of the existing housing units, roads that were not easily usable for residential traffic, and an emphasis on creating jobs rather than housing all prompted the Pease Development Authority to use part of its Economic Development Authority grant to demolish base housing, says Pease Development Authority Deputy Director Dan Mullen.

Integrating the base into the community is also difficult, both in terms of image and because the self-contained nature of base services such as utilities and roadways often don't mesh with existing city grids, notes Givens. The cost to revamp utilities that do not meet local or state codes and connect them with city services can be significant.

Other redevelopment challenges include the uncertainty about which parcels will be available for redevelopment and when property will be available for conveyance to nonmilitary entities. Both of these factors make it difficult to attract private developers and investors, who want certainty before they commit. In some cases, properties can be transferred on leases of up to 10 years with an option to buy, a strategy that has been used successfully at

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the Memphis Depot. “It’s a process that doesn’t lend itself to rapid property transfers and that reduces the number of people interested in participating,” says Shields.

What are some important factors in making the reuse of former bases successful?

The reuse options for former bases cover every imaginable use, from successful housing and mixed use projects to transport hubs, airports, prisons, and parks. (See Figure 4 for some successful base conversion summaries.) While the opportunities presented by each base are unique, certain principles have stood the test of multiple reuse efforts.

Speak with one voice. Get a community consensus and stick to it. Focus groups with LRAs conducted by the Office of Economic Adjustment often cited this point as critical for base success. When there isn’t a community consensus, delays can put redevelopment on hold. For example, at the El Toro base in Orange County, Calif., conflicts between county officials who wanted to convert an existing airstrip into a public airport and community residents who wanted open space and residential development spent almost ten years and millions of dollars in the courts.

Avoid jurisdiction conflicts. Although Lowry Air Force Base was partly in Denver and partly in Aurora, Colo., the two municipalities overcame past differences by agreeing on equal representation in the decision making for the base, which today includes 4,500 residential units, office and retail space, and two community colleges. Conversely, disputes over control by several jurisdictions greatly prolonged the redevelopment process at Fort Ord, Calif., where only about 25 percent of the land had been redeveloped ten years after the military vacated the site.

Seek out early wins that make a property seem viable, suggests Givens. For example, at the Myrtle Beach (S.C.) Air Base, Fred Glover, CCIM, of McCaffery Interests, scored an early success by selling an existing dental clinic to the Veterans Administration for use as a community

clinic while working for the Air Base Redevelopment Authority. At Fort Ord in California, a successful early user was a community college.

Look for location. Just as in any other real estate deal, a prime location can go a long way to ensuring success, says Glover. The close proximity to waterfront locations was a big factor in preleasing over 60 percent of the 375,000 feet of retail at the property as well as attracting droves of mostly second home buyers for the planned 1,600 townhomes and condominiums. On the other hand, selling out a prime location for a use that is not in the best long-term interests of the community may have a negative impact on the rest of the redevelopment.

Redefine the property’s image and create a vision of what it could be, suggests Hilarie Portell, director of public relations and marketing for the Lowry (Colo.) Redevelopment Authority. When the authority took over the base, it was surrounded by barbed wire and had 1,000 vacant buildings. Portell emphasized a sense of community by preserving the historic base chapel as well as converting a hangar into an aviation museum.

Divide property into manageable parcels so more developers can participate, suggests Shields. The huge size of some installations makes it impossible for any but the largest private companies to participate. At the Glenview Naval Air Station, which Shields helped redevelop as a Meisrow Stein adviser to the village, the 1.5 square mile site was subdividing into 24 parcels.

What are some strategies for successful base expansions?

Thanks to the closing of bases and the return of numerous troops from Europe, a dozen bases, including Ft. Riley in Manhattan, Kansas, are expecting to see expansion of 2,000 military personnel or more, plus their families, in the next six years. Since an average of 60 percent of military personnel lives off base, the strains on communities and taxpayers to provide housing, infrastructure, schools, medical care, and shopping for these families can be immense. Real estate professionals

can play a critical role in helping relocating military personnel feel at home in a community, says O’Brien. It’s also vital to remember that housing must be priced to reflect housing allowances, he notes.

Properties in communities with base expansion also need to be constructed in locations that take advantage of existing infrastructure and current community growth patterns, suggests Seymour, who is working with the communities around Ft. Riley to develop a master growth plan. Without a master plan, developers will just seek out the communities with the least restrictive zoning and build there, he says.

Another challenge facing expanding bases is that since the phenomenon is new, there is not as much support or structure in place to assist in planning. The OEA does provide technical assistance in developing growth management strategies upon request, says O’Brien. On the other hand, the outcomes are easier to predict. OEA also offers financial support to communities that will see a growth of more than 2,000 military or contractor personnel or of personnel levels that exceed 10 percent of employment within 15 miles of the base.

What roles can commercial practitioners play in the redevelopment process?

Historically, the real estate community has often stood on the sidelines as base redevelopment evolved, says Tesh. However, he believes that most military commands and communities would welcome the expertise of commercial real estate professionals in the process. “The real estate community knows best from the development standpoint,” he says.

Some ways in which commercial practitioners might get involved include:

- **Appointment to the local redevelopment authority.** Although these appointments are often political in nature, communities are increasingly aware of the value of the market expertise real estate professionals can bring to the process. “Serving on a board of

WHERE TO LEARN MORE ABOUT BASE REUSE:

- Association of Defense Communities (www.adc.com), formerly the National Association of Defense Installations, is an organization made up of stakeholders in the base redevelopment process. Its Web site and conferences provide a wealth of information on base reuse successes and new issues confronting the industry.
- The Catalog of Federal Domestic Assistance (www.cfda.gov) provides a directory of federal agencies that offer assistance in some aspect of closure/realignment.
- The Department of Defense maintains a site, www.defenselink.mil/brac, dedicated to news and resources related to BRAC activities.
- The Department of Labor (www.brac-coach.org) assists businesses and workers in finding local programs for retraining and other workforce services.
- The Economic Development Administration (www.eda.gov) offers a variety of programs to assist communities facing job loss as a result of BRAC. The site also provides access to a valuable 2000 study conducted by M.I.T, called *From Barracks to Business*. This book provides a comprehensive overview of the BRAC process as well as numerous case studies of BRAC redevelopments.
- The Office of Economic Adjustment (www.oea.gov) is part of the Department of Defense charged with assisting communities to plan for and carry out changes that result from job losses or gains that result from DOD decisions. One valuable download is “Responding to Change: Communities & BRAC.”
- The Urban Land Institute (www.uli.org) offers several articles and case studies on early bases reuses. (Open to ULI members only.)

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directors that advises an LRA lets a real estate practitioner be a hero, instead of being perceived as the bad guy,” says Givens.

- **Commercial practitioners with special expertise** may also act as consultants to LRAs and municipalities in deciding if planned reuses are viable in the market and if RFPs for redevelopment conform to industry norms. In communities where bases will be expanded, practitioners can also share their expertise with the community in helping it determine the most viable locations to site new housing and retail. A 1999 study by the OEA concluded that LRAs that included private developers saved on staffing resources, reduced the uncertainty of the market viability of reuse plans, and facilitated the transition to the development stage.
- **Valuation of military base land.** With a new emphasis on valuing land for its highest and best use, practitioners with the specialized appraisal skills to evaluate major mixed-use renovation projects will be in demand.
- **Negotiating a final sales price for the land.** Commercial real estate brokers will be in demand for their negotiating skills as communities and the military try to arrive at a final transfer price and terms for the sale of a base in the new climate of maximizing returns to the military.
- **Development of the site,** either as a master developer that oversees the entire process, a joint venture partner with the LRA, a consultant to the LRA in overseeing the project, or a developer of a portion of the repositioned site. Decisions on which development strategies LRAs pursue are generally dictated by the complexity of the project, the financial capabilities of the LRA and the staff expertise available, according to “The Role of the Private Sector in Base Redevelopment,” a March 2006 report from the ADC.
- **Oversight of construction and leasing at redeveloped sites.** At the former Myrtle Beach Air Base, Glover, who began by overseeing the redevelopment for

the local LRA, is now development manager, coordinating the construction, sale, and leasing of the retail and residential development on behalf of McCaffery Interests.

What additional resources can NAR provide in helping practitioners learn more about military base redevelopment?

Because of the impact of base closures and expansions on real estate markets, the NATIONAL ASSOCIATION OF REALTORS® has created a variety of resources and programs to educate and assist its members about BRAC.

On the education side, REALTOR.org offers resources such as “Field Guide to Military Base Closings” (www.realtor.org/leweb.nsf/pages/fg419), which provides links to many resources. The NAR Government Affairs Division has also just published a new monograph on the BRAC process, entitled REALTORS® ‘ Guide to Military Base Closings and Realignments. The publication includes basics about BRAC and case studies of successful redevelopment projects.

NAR also offers financial assistance to communities affected by BRAC through three separate programs. NAR’s Land Use Initiative provides free consultation services to real estate associations whose communities are facing significant land use changes. The Strategic Planning Program offers contributions to REALTOR® association for Smart Growth activities. In addition, NAR’s Smart Growth Program offers grants of \$3,000 for Smart Growth activities. For more information on financial assistance visit <http://www.realtor.org/sg3.nsf> or call 202-383-1278.

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To contact NAR Commercial Real Estate staff, call 888/648-8321. For an online version of this publication, visit www.REALTOR.org/RCA.