

STATEMENT FOR THE RECORD

By Denis Hickey, Chief Executive Officer, Lendlease Americas Inc.

House Appropriations Committee,

Subcommittee on Military Construction, Veterans Affairs and Related Agencies

Chairwoman Wasserman Schultz, Ranking Member Carter and distinguished Members of the subcommittee, Lendlease is pleased to be able to discuss the work we are doing to improve the Military Housing Privatization Initiative (MHPI).

Lendlease has been a proud partner of the Department of Defense (DoD) across the MHPI program for over 15 years. We currently manage approximately 40,000 homes in which over 120,000 military family members reside.

We are proud of the service we provide our residents and of our close working relationship with the DoD, Congress as well as the military families and communities throughout our portfolio.

Just over a year ago, Congress commenced an inquiry into the living conditions of military families across the United States. This inquiry revealed certain living standards that were clearly unacceptable, and which required immediate attention. Over the past year, Lendlease has reflected deeply on its performance. We have reviewed all aspects of our customer service, resident engagement and operational activities - each of which directly impacts the experience of military families in our communities.

We have undertaken significant consultation with our residents as we greatly value their feedback and insights into how we can continue to improve our performance. We have also collaborated with advocacy groups, such as the Safe Military Housing Initiative, to gain a deeper understanding of the issues facing certain military families living in our communities. In addition, we have worked extensively with our various military partners to review our leadership and operational structures to identify areas for improvement. We have worked closely with Congress – initially with the House and Senate Armed Services Committees and now with this distinguished subcommittee as well. This extensive collaboration has been instrumental in guiding us to understand the steps that we need to undertake to continually improve the resident experience.

We appreciate the work Congress has done to find sensible and viable solutions to the problems with privatized military housing. The final Conference Report of the FY20 National Defense Authorization Act (NDAA) contained many important provisions. Please allow me to assure you we are working with our military partners to ensure we are doing all we can to implement the MHPI reforms as quickly and effectively as possible.

This subcommittee has played a key role in reforming and improving military housing. As you know Madame Chairwoman, this committee worked with the House Armed Services Committee and appropriated more than \$140M in FY20 to fund new housing inspectors on our military bases. This was critical for several reasons.

As private sector partners of DoD, we want our military partners to have the resources they need to help us provide top service to our military families. We welcome new housing inspectors to work with our property management teams to ensure the needs of military families living in Lendlease communities are met. Furthermore, your committee did the important work to fund these new housing inspectors through “regular order” – the annual authorization and appropriations process. We strongly supported this subcommittee’s approach to funding while preserving each military families’ Basic Allowance for Housing (BAH).

Lendlease remains focused on working with Congress, our military partners and, above all, our residents and communities, to improve all aspects of our business and provide the highest quality housing possible to our military families living within our communities.

Lendlease Background

Lendlease is a leading global property company founded in Sydney, Australia in 1958. We have been operating in the United States since 1970. Lendlease Americas is a full tax paying U.S. corporation, directly employing nearly 2,000 people across the United States, 95% of whom are American citizens. We are proud of our long history in America.

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 extremely proud of the strong military ties between our countries. We at Lendlease are humbled by the opportunity to serve American military personnel and their families by providing quality, healthy, safe, and sustainable communities where military families live, work and thrive.

Our military housing business is headquartered in Nashville, TN. We have the privilege of overseeing and managing approximately 40,000 single-family rental homes and approximately 200 apartments across 28 installations in 12 states, from Upstate New York to Alaska and Hawaii. We are very proud that over 120,000 military personnel and their dependents call a Lendlease community “home.” In addition, many of our managers and employees also live in the local communities we serve—and many of them are veterans or military spouses who have themselves lived in military housing. They know first-hand the sacrifices our military families make every day.

These people have dedicated their careers to serving our military families. It gives me great pride to know that these men and women are thoroughly motivated to do right by our service men and women and their families every day.

The MHPI Program

The MHPI program was enacted out of a critical need to modernize old and dilapidated housing on military installations that, after decades of deferred maintenance and neglect, had fallen into disrepair. When DoD realized the full scope of the problem, it became apparent that it would never be able to tackle this massive backlog if it relied solely on appropriated funds. To do so

would only consign our military families to an ever-worsening housing crisis. Business as usual was no longer an option.

At that point, Congress and DoD made the decision to partner with the private sector to accelerate the process of providing quality homes. The enactment of military housing privatization through MHPI allowed for much needed private capital and private sector expertise to rebuild and refurbish military housing in a rapid manner in the short term and then to provide the necessary resources to maintain those homes over the long term.

After a full and open competitive procurement process, the military services selected private sector developers to handle construction, refurbishment, operations, and ongoing sustainment of their housing facilities.

Leveraging industry best-practices to organize these privatizations efforts, Project Companies were formed on an arm's length basis to own, develop, finance, and operate family housing on military installations. Often, the military service became a member of the Project Company. In our case, Lendlease is engaged as the asset manager and the development manager, and we partner with Winn Companies to perform the property management at the individual installations. The military service retains governance oversight and control over major decisions of the respective Project Company.

The Basic Allowance for Housing

While billions of dollars in private sector investment have been brought to bear as a result of MHPI, the lifeblood for the Project Companies comes from rent in the form of the Basic Allowance for Housing (BAH) of the residents that choose to live in these homes. The BAH is deposited into secured accounts and is used to pay for the following:

1. Operating expenses;
2. Debt service;
3. Approved management fees and agreed investment returns; and
4. Long-term reinvestment.

BAH funds are **not** distributed to the private sector developers. They remain within the project "lockbox" to service project debt, address on-going operations and maintenance activities, and fund future development work.

As the reinvestment account balance grows, the Project Company, in consultation with the military service and the local installation, assesses how those funds are best utilized to maintain and improve the quality of housing on the respective installation. The respective military services share approval authority for how reinvestment account funds are expended. These reinvestment account funds are generally used for further upgrades and new enhanced facilities over the remaining term of the projects.

Because the reinvestment accounts are critically dependent on occupancy and BAH, we have consistently advocated for full funding of BAH. Our concern is not for our bottom line – as our profits and incentives are not linked to the BAH in any way. Rather, we realize that only a steady, fully funded BAH will allow the Project Companies to maintain and improve these project facilities. Our military families expect and deserve first-class housing – not just today but for years into the future. That can only be achieved by a predictable and stable revenue stream – a fully funded BAH.

Environmental Challenges and Legacy Homes

One of the great successes of the MHPI program has been the creation of new housing on military installations. As older homes are torn down, they are replaced with new, modern dwellings that conform to the latest building codes and are built to meet the needs of a modern military family. To date, across Lendlease’s MHPI portfolio, we have invested more than \$7.2B to build over 15,000 new homes and renovate over 25,000 existing homes.

For all our progress to date, it is worth remembering that the MHPI program was not created to replace every existing home with a new one. It was always contemplated that a percentage of “legacy homes” (those built over the years by the Services prior to privatization), would remain in the MHPI portfolios until such time as funds became available to replace them. These legacy homes often contained historic environmental conditions, such as lead-based paint, asbestos, pesticide impacted soils, and other issues such as creosote. These legacy homes also contend with naturally occurring mold due in part to erratic climate conditions.

For these legacy homes, management plans have been prepared to effectively address these existing conditions in consultation with our military service partners and other consultants. Lendlease has implemented the recommendations contained in these management plans across our portfolio and continues to actively monitor and manage these issues.

For example, we have implemented innovative solutions as preventative measures for our approach to environmental concerns. Some of the new protocols include, but are not limited to:

- ✓ New lead-based paint inspections and repairs (as applicable) during change of occupancy, 90-day resident follow-up, and annual resident follow-up;
- ✓ New mold-inhibiting paint and primer to prevent mold and mildew;
- ✓ Utilization of enhanced HVAC filters designed to filter out mold spores and new ventilation systems in bathrooms, where needed;
- ✓ New radon protocols to increase periodic testing in homes using improved home assessment tools; and
- ✓ Expanded change of occupancy maintenance and improvement program.

We continue to be open and transparent with our residents regarding latent environmental issues and take all resident concerns extremely seriously. Our policy requires that any known presence of lead-based paint as well as asbestos is disclosed to residents prior to occupying their

home. Residents are encouraged to immediately report any suspected lead-based paint flaking, mold, or other environmental concerns. Those service orders are addressed as “urgent” – which means we respond with a maintenance technician within 24 hours. Residents are also given easy to follow instructions on how to avoid disturbing any asbestos containing materials.

We are committed to being proactive in tackling issues within our homes. Utilizing the latest GIS technology, we plan for critical system upgrades such as HVAC units and hot water heaters, while also creating registers for items such as environmental inspections. This information has resulted in a planned and organized maintenance and environmental management program.

Customer Service is Critical for Success

Lendlease’s customer-first culture underpins its vision to “create the best places” where military families can live, work, and thrive.

Nearly every military family has the option to use their BAH to live in on or off base housing. As a result, for an MHPI housing project to become the housing provider of choice and aggressively compete with the off-base housing options, it must consistently provide the best value and customer service to its residents and distinguish itself from the competition. There are no rental guarantees of any kind from DoD. If we want military families to live with us, we need to earn and maintain their business – and their trust.

As part of our efforts to continuously improve our customer service, and respond to the challenges from Congress, our DoD partners and our residents, we have recently taken the following steps:

- Resident Advisory Boards – At the center of our customer/resident engagement strategy is Lendlease’s investment to establish a Resident Advisory Board (RAB) in each of our military communities. These RABs are designed to give residents the opportunity to directly work with local property management teams to help shape their community, express their concerns, share their ideas and suggestions and to work directly with them to develop and implement effective solutions. We will discuss these RABs in greater detail below.
- Director of Customer Care – We have appointed a Director of Customer Care who administers our resident relations program across our entire MHPI portfolio and focuses 100% on working with our teams, employees and partners to deliver the highest standards of customer care to our military families.
- Increased customer service resources – We have renewed our focus on customer service and enhanced our customer service staff to over 1,600 - many of whom are now located on site. Additionally, we have reviewed our existing suppliers and subcontractor networks and supplemented those resources as necessary to assist with responses to general maintenance, environmental testing, painting, roof work, and other specialized services.

- Extensive training – We have invested in a series of new staff training modules across our entire portfolio, focused on assisting teams to improve their customer service skills and ultimately improve the customer experience for the residents in our communities.
- Introduction of smart phone resident app – Recognizing that our residents require tools to make their voices heard and ensure their service requests are being responded to appropriately and timely, Lendlease was the first of the MHPI partners to utilize a smart phone app, **Military Café**. We rolled it out more than two years ago, and have worked directly with the software creator to launch additional features this year such as the survey feedback options, repair progress tracking, a new resident resources section, and the ability to upload photos of their requests as well as our technicians to upload photos of a completed repair.
- Enhanced service order process – We have developed a new virtual dispatch solution to replace our current call center. This will also allow the use of a new scheduling tool for work order requests that allow the resident to customize and schedule repairs according to availability and repair type.
- Increased focus on reducing outstanding maintenance orders – We have significantly reduced outstanding maintenance orders and seek to continuously achieve and improve performance targets around response times.
- Crisis response plans – We have created Business Continuity Plans and Crisis Response Plans for each of our communities. As we learned from Hurricane Florence, our communities must be prepared to continue to perform its operations and to rapidly and efficiently resume mission-essential functions in the event of any incident, emergency, or disaster that significantly affects its residents, employees, infrastructure, facilities, or systems.
- Resident Satisfaction Surveys – We measure resident satisfaction using independent surveys conducted by CEL & Associates and SatisFacts. We work with our DoD partners to make sure they are independent and credible. While we are proud to routinely receive the highest scores in the industry on these surveys, we continuously strive to improve our performance.

Resident Advisory Boards

We believe that the effective establishment of these RABs is critical for creating the environment needed to foster collaboration between the resident community, the Military Service and Lendlease’s Project Companies. These boards provide a forum for all of us to collaborate to ensure that housing issues and quality of life concerns are quickly addressed, and best practices are shared and implemented.

The RABs are made up of resident representatives, and our goal is to have at least one neighborhood representative for every 400 families. For example, on an average base with 3,000 homes, the RAB would have eight neighborhood representatives. In addition to these eight neighborhood representatives, each Lendlease base project director and a dedicated Service

representative would also become members of the RAB. This group meets monthly to discuss base performance, new initiatives, community engagement as well as focusing on both what is working well and areas for improvement.

Thus, if a family has an issue with their home that they believe has not been satisfactorily resolved, they can bring their concern to their local RAB representative or directly to the Chair of the RAB. Our expectation is that any outstanding housing issues will be addressed via this process to the full satisfaction of the resident. If, in the unlikely event that the RAB cannot effectively address the issue, we have established an arbitration panel to ensure the matter is resolved fairly, quickly, and with finality.

This RAB structure was piloted at Lendlease's Atlantic Marine Corps Communities (AMCC) Camp Lejeune. As this Committee knows, significant time and attention has been focused on AMCC as last fall, Hurricane Florence wrought unprecedented damage to the base. More than 60% of the housing at Camp Lejeune (3,818 of the 6,182 homes) sustained damage totaling in excess of \$175M. This not only impacted families physically, but it also became apparent that our relationship with residents was rapidly eroding as a direct result of a lack of informed communication, which in turn created a perceived lack of action.

In the immediate aftermath of the storm, it was clear that AMCC had to find a way to treat every impacted resident on an individual basis—no small task for a project that had over 5,888 residents impacted to some extent by the storm. During this recovery effort, our initial Customer Care Center was established to address the sheer magnitude of the communication and coordination that had to occur between the project and the residents during the hurricane recovery effort.

To repair the massive number of damaged homes under extraordinary conditions was a severe test, but to repair trust and credibility with our residents was an even bigger challenge. We have made significant progress in both areas and several customer service initiatives implemented at Camp Lejeune have been adopted as best practices across our portfolio.

The actions and initiatives taken at AMCC demonstrate Lendlease's commitment to, and focus on, our residents and have informed our broader efforts across our portfolio to enhance our customer care. We have worked diligently to recover from a catastrophic weather event while simultaneously improving our relationship with Navy and Marine Corps partners, and reestablishing trust and credibility with our residents through performance and personalized customer care.

We believe the RAB is a critical component to an improved customer engagement strategy, which is why we have begun to roll out this concept across our MHPI portfolio. Currently, the RAB nominations and elections are complete across our portfolio of Army, Navy and Marine Corps bases. The Air Force has asked us to work with them to institute a slightly different RAB structure, so we are working with them to finalize the RABs at Air Force locations.

At Lendlease projects across the country, RAB meetings are taking place so that military families have an integral stakeholder role over the quality of life in their communities to enable us to further improve our customer service. For example, several Lendlease employees attended the first RAB meeting at Fort Hood on Feb 6th. It was attended by all RAB members, as well as several partners and representatives from the installation. All of whom judged it as a great first step. Now we must all work closely together to improve the quality of life at Fort Hood and at bases all over the U.S. Lendlease is committed to this effort.

Conclusion

Lendlease fully understands the challenges to the MHPI program that have come to light over the past year. We do not minimize them, and we are doing our part to find and implement viable and effective solutions.

Over the past year, we have actively worked with our residents, DoD partners and Congress to reform and improve our entire MHPI portfolio to better serve military families. While much has been accomplished, more remains to be done.

As noted above, Lendlease is proud of its work on behalf of service members and their families. We strive to continuously improve our performance so that our military families are proud to live in a Lendlease community.

Lendlease remains committed to working with Congress, our partners and, above all, our residents, to improve all aspects of our military communities. Our goals remain unchanged – to provide the highest quality housing to our military families living within Lendlease communities.