

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

House Armed Services Committee, Subcommittee Readiness
Hearing on “Privatized Housing: Are Conditions Improving for Our Military Families?”

December 5, 2019

Chairman Garamendi, Ranking Member Lamborn and distinguished Members of the subcommittee, my name is Denis Hickey, Chief Executive Officer of Lendlease Americas Inc. Thank you for inviting me to appear before you today.

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 and we currently manage approximately 40,000 homes that contain over 120,000 military family members. Overall, we are proud of the service we provide our residents and of our close working relationship with the DoD, the House and Senate Armed Services Committee as well as the military families and communities throughout our portfolio.

Ten months ago, Congress commenced an inquiry into the living conditions of military families across the United States. This inquiry revealed some living standards which were clearly unacceptable, and which needed to be immediately addressed. Over the last ten months, Lendlease has reflected deeply on its performance and has reviewed all aspects of its 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 appreciate their feedback and insights into how we can improve our performance. We have also consulted with advocacy groups, such as the Safe Military Housing Initiative, regarding their perspectives on the issues which are 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. This extensive collaboration has been instrumental in guiding us to understand the steps that we need to undertake to improve the resident experience across our communities. We address the initiatives that we have undertaken below in this statement.

Mr. Chairman, we appreciate the work this Committee has done to find sensible and viable solutions to problems and challenges addressed in the House version of the FY20 National Defense Authorization Act (NDAA). We are confident those proposed solutions and the initiatives we are undertaking will enhance the lives of military families while maintaining the financial viability of the MHPI program. We look forward to a continued dialogue with this Committee and with your colleagues in the Senate, as the NDAA is finalized and implemented.

Finally, while the MHPI has been a notable success for nearly two decades, and we are proud of our work on behalf of service members and their families living in our communities, we do realize there will always be opportunities to improve our performance. Lendlease remains focused on working with Congress, our partners and, above all, our residents and communities, to improving all aspects of our business and providing 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 very 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 132,400 military personnel and dependents call a Lendlease community home. In addition, many of our managers and employees also live in the local communities we serve and a large number of them are veterans or military spouses who have 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

As you know, 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. 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.

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

To organize these privatizations efforts, Lendlease formed arm's length Project Companies to own, develop, finance, and operate family housing on military installations. Often, the military service elected to become 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 corresponding military service retains governance oversight and control over major decisions of the 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 ongoing funding for the Project Companies comes in the form of rent from the residents - the Basic Allowance for Housing (BAH). 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
4. Long-term reinvestment

BAH funds are not distributed to the private sector developers. They 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 for how funds are expended from the reinvestment accounts.

Our current forecast is that a further \$16.4B of surplus net operating income (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 projected occupancy rates. Funds in the reinvestment accounts will be used for further upgrades and new enhanced facilities over the remaining term of the projects.

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 ones 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 renovated 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 environmental conditions, such as lead-based paint, asbestos, pesticide impacted soils, and other issues such as creosote.

For these legacy homes, plans to effectively manage these existing conditions were prepared 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:

- ✓ 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 used during change of occupancy
- ✓ 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
- ✓ Improved home assessment tools
- ✓ Expanded change of occupancy scope

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, in homes 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 and those service orders are addressed as “urgent” and we respond with a maintenance technician within 24 hours.

We are committed to being proactive in tackling issues within our homes and communities. 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.

Every service member, other than command-designated personnel required to live on an installation, has the option to live on or off base, as they can use their BAH to reside in off-base housing. As a result, for an MHPI housing project to become the housing provider of choice and aggressively compete with the homes off the installation, it must consistently provide the best value and customer service to its residents and distinguish itself from the competition.

As part of our efforts to continuously improve our program 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 significant 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 our team to help shape their local community, express their concerns, share their ideas and suggestion and to work directly with our local management team to develop and implement effective solutions (see more 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.

- **Increased customer service resources** – We have renewed our focus on customer service and have increased our customer service staff to over 1,600, some of whom are now located on site. Additionally, we have refreshed our suppliers and subcontractors 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 in our communities.
- **Introduction of smart phone resident app** – Recognizing that our residents need to have the tools to make their voices heard and ensure their service requests are being responded to appropriately, 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 addition of survey feedback options, progress tracking of the repair, new resident resources section to provide escalation paths, and the ability to upload photos of their request as well as our technicians to upload photos of a completed repair. Use of the Military Café app has increased by 123% this year alone.
- **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 new scheduling tool or 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 or rapidly and efficiently resume mission-essential functions in the event of any incident, emergency, or disaster that significantly affects its employees, residents, 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, and we routinely receive the highest scores in the industry on these surveys.

Resident Advisory Boards

We believe that the effective establishment of these Resident Advisory Boards is critical for creating the environment needed to foster collaboration between the resident community, the Service and Lendlease. These boards provide a forum for all of us to work together to ensure that housing issues and quality of life concerns are quickly addressed, and best practices are shared and celebrated. As the RABs are made up of resident representatives, our goal is to have at least one neighborhood representative for every 400 families. For example, on an average

3,000 home base, 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 what may need to be improved.

For example, if a family has an issue with their home which they believe has not been satisfactorily resolved, they can bring their concern to their local RAB representative or directly to the Chair or 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 AMCC Camp Lejeune. As this Committee knows, significant time and attention has been focused at Camp Lejeune 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 as a direct result of 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 homes in extreme demand and 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 Lejeune have been adopted as best practices across our portfolio. At this time, Lendlease remains on track to have all housing repairs completed by the end of this year.

The actions taken and initiatives 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 improving our relationship with Navy and Marine Corps partners, and reestablishing trust and credibility with our residents through performance and personalized customer care.

Conclusion

Mr. Chairman, we fully understand the privatized military housing challenges that have been brought to light since the SASC inquiry commenced.

Over the past year, we have actively worked with our residents, DoD partners and with the House and Senate Armed Services Committees to reform and improve our entire MHPI portfolio to better serve military families for the life of the program. We realize that the eventual enactment of the FY20 NDAA will require further reforms to how we operate and interact with our residents. Lendlease will do its part to implement these various provisions as quickly and efficiently as practicable.

Mr. Chairman, as we noted above, Lendlease is proud of its work on behalf of service members and their families and strives to continuously improve performance. Lendlease remains committed to and focused on working with Congress, our partners and, above all, our residents and communities, to improve all aspects of our business and to provide the highest quality housing possible to our military families living within our communities.