

STATEMENT FOR THE RECORD

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Joint Subcommittee Hearing

Subcommittee on Military Personnel Subcommittee on Readiness

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Madam Chairwoman Speier, Chairman Garamendi, Ranking Member Banks, Ranking Member Lamborn and distinguished Members of the subcommittees on Military Personnel and Readiness. My name is Carolyn Tregarthen, and I am the Managing Director of Lendlease Americas' Communities ("Lendlease") business. In this role, I have direct oversight of all Lendlease work with the U.S. Department of Defense (DoD), including military family housing. Thank you for inviting me to appear before you today to discuss the current status of our housing projects, our implementation of FY 2020 and FY 2021 National Defense Authorization Act (NDAA) reforms and our work to enhance communications with military families who live in our communities.

Lendlease is pleased to share updates on the initiatives we are implementing to continuously improve the military housing we provide through the Military Housing Privatization Initiative (MHPI). Lendlease has been a proud partner of the DoD for more than 20 years. We have a close working relationship with the DoD and Congress – including the House Armed Services Committee. We are most proud, however, of our close working relationships with the military families we are honored to serve.

Through our Communities business, based out of Nashville, Tennessee, 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. Over 123,000 military personnel and dependents call a Lendlease community home. 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 themselves lived in military housing. They know first-hand the sacrifices our military families make every day.

As you are aware, in 2019 Congress commenced a series of hearings into the living conditions of military families across the United States. These inquiries revealed findings that needed to be addressed. Congress acted quickly, passing landmark reforms to the MHPI program in the FY20 NDAA. Lendlease worked closely and cooperatively with the House and Senate Armed Services Committees throughout that process. We believe strongly that the reforms in the FY20 NDAA made the MHPI program better for military families.

During this time, Lendlease has reflected deeply on our own performance. We do our utmost to take care of the military families in our communities and, while we are pleased with the results from both the DoD and Lendlease resident surveys, we strive to continuously improve

our operations so all our military families are provided with the quality housing experience they expect and deserve.

Accordingly, we reviewed all aspects of our customer service, resident engagement and operational activities - each of which directly impacts the experience of our military families. We have undertaken significant consultation with our residents and appreciate their candid feedback. We also consulted with advocacy groups such as the Safe Military Housing Initiative regarding their perspectives on issues facing military families living in our communities. In addition, we worked extensively with our various military partners to review our leadership and operational structures. This ongoing and broad collaboration has been instrumental in guiding our continuous improvements.

Lendlease has also implemented strategies across our portfolio in support of DoD's efforts to increase energy security and resiliency and reduce energy consumption.

Distinguished Chairs and Ranking Members, these two subcommittees should be proud of their role in this process. The FY20 NDAA contained many important provisions to improve military housing. Perhaps the most important provision is the Tenant Bill of Rights, which includes a critical dispute resolution procedure to ensure residents can have grievances resolved fairly and with finality. Lendlease was the first private sector partner to propose a dispute resolution regime back in 2019, so we are pleased that this critical provision was included in its current form. Lendlease was also one of the first to provide formal certification to each military service, agreeing to all proposed measures in the Tenant Bill of Rights, as well as being the first to provide the seven-year "history of the home" to prospective residents.

We have made broad-ranging improvements over the last two years, to meet the NDAA requirements, highlights which are included below:

- Provide a seven-year history of the home to all prospective residents for the home they are considering leasing
- Ensure inspections of most homes by our military partners before they are made available for lease to a new resident
- High quality property management services performed by appropriately trained, courteous customer service and maintenance staff
- Multiple, convenient methods to communicate directly with the landlord maintenance staff, and to receive consistently honest, accurate, straightforward, and responsive communications
- Access to an electronic work order system in which a resident may request maintenance or repairs of a housing unit and track the progress of the work
- Resident is informed of the required time frame for maintenance or repairs when a maintenance request is responded to by the property manager
- Relocation into suitable lodging or other housing at no cost to the resident until the maintenance or repairs are complete, when required due to habitability concerns

- Advance notice to the resident of any entrance by a project company team member into the housing unit, except in the case of an emergency or abandonment of the housing unit
- We do not use nondisclosure agreements in connection with leases of privatized military homes
- Installation of carbon monoxide detectors in homes, in accordance with each jurisdiction
- Military services have access to the electronic work order database system

Additionally, we have implemented the following customer focused improvements over the past two years, many of which directly enhance some of the provisions included in the FY20 NDAA, some of which are elaborated on further in this submission:

- Establishing Resident Advisory Boards (RABs) for Army and Navy installations, and working in tandem with the Air Force to support their Resident Councils program
- Adding a Customer Care Director leadership role, and Customer Care roles at all our housing communities
- Ongoing Customer Experience training for all staff
- Activation and ongoing development of a resident portal and smart phone app for all residents
- Implementation of a resident communication tool, RedFlag, enabling both targeted and installation wide communication to residents
- Implementation of our Maintenance University program to assess and develop the skills of all maintenance staff
- Improving the maintenance service request process to ensure residents receive timely updates with useful information and are afforded multiple opportunities throughout the experience to provide feedback, ask questions or identify issues or challenges

With that backdrop, I would like to address some of the concerns you have heard from current or former residents at Fort Hood Family Housing. We are aware that certain Fort Hood families are not satisfied with their living experience in family housing. I will address this in more detail later in this statement, but at this point I would like to give context to some of these concerns.

Let me be clear, the experiences of these families while living at Fort Hood is a top priority for me personally and for every member of my team. We take the concerns of these families very seriously.

I regret very much that a small number of Fort Hood residents have chosen to resort to litigation rather than work with us directly to address their concerns. Nothing is more important to us than ensuring the military families we serve have the safe and quality housing they deserve; and we make every effort to respond to and address all concerns in a timely manner.

If we are not able to satisfy those concerns, there are many avenues open to our residents. Any family at any Lendlease community – including at Fort Hood Family Housing – can use the dispute resolution procedures that are outlined in their Resident Guide and are part of the Tenant Bill of Rights. This is a right that this committee helped give to military families in the FY20 NDAA.

In conclusion, MHPI has been a notable success for two decades. Lendlease remains focused on working with Congress, our military partners and our residents to further our efforts to continuously improve military housing and to deliver on our vision to create outstanding communities where military families thrive.

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 1,300 people across the U.S. 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 ties between our countries. We at Lendlease are humbled to serve American service members and their families by providing quality, healthy, safe, and sustainable communities for military families.

MHPI

As you know, MHPI was enacted out of a critical need to modernize old and dilapidated housing on military installations 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 annual appropriated funds. To do so would only consign our military families to an ever-worsening housing crisis. Accordingly, Congress and DoD made the decision to partner with the private sector. Congress's enacting of MHPI allowed for much needed private capital and private sector expertise to rebuild and refurbish military housing more quickly and cost-effectively than would have otherwise been possible.

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.

COVID-19 and Emergency Response

The last twelve months have been full of challenges for all Americans. Dealing with unprecedented challenges requires agility, commitment, and the ability to adapt. We are confident in the soundness of our organizational structure and in our response capabilities, both of which have been challenged throughout the COVID pandemic.

As the coronavirus took hold across the country, Lendlease moved quickly and proactively. Before DoD issued its Stop Movement Order last March, Lendlease made a series of changes to its operations to better accommodate military families during the pandemic. We are proud that our Lendlease employees and our customer service teams never abandoned their posts. They remain steadfast in working through the pandemic - taking all appropriate health and safety precautions – in order to serve our military families.

Throughout the pandemic, our team has continued providing essential services to our residents and communities. Our teams continue to respond to urgent and emergency service orders in quarantine-level homes utilizing proper PPE. However, despite operating in a pandemic, the needs of our residents did not decrease and our commitment to serving them did not waiver.

- 16,758 homes went through the Change of Occupancy Maintenance (COM) process as compared to 17,526 COMs completed in 2019
- 337,914 service orders were completed compared to 380,826 completed in 2019
 - 94.9% of these service orders were completed on time in 2020, despite homes in quarantine status, residents with confirmed COVID infections and periods of reduced staffing due caused by COVID infections among team members
- 17,068 move-ins completed compared to 17,944 completed in 2019
- 17,232 move-outs completed compared to 18,861 completed in 2019
- 1,028 homes rent ready on May 31, 2020 in preparation for lifting stop movement order
- Over 1,000 virtual or low/no contact resident events and contests

In addition to operating in the COVID environment, our housing community at Fort Hood was hit by unprecedented winter storms. The impacts of the winter storms in Texas three weeks ago created a very fluid and often dangerous situation – as millions across the state were impacted. But as many of our housing advocates will attest, our team overcame significant hurdles like water and power outages and impassable roads to attend to the needs of our residents, whose safety and wellbeing were our priority – even while many members of our

team faced similar challenges in their own homes. The recent major disaster declaration in Texas by President Biden as a result of the winter storm required us to promptly marshal our resources and emergency response operations.

- We communicated with residents in advance of the storm through our mass email/text system RedFlag and through Facebook to help them prepare their homes, to remind them how to reach emergency maintenance, how to obtain weather updates and to keep them informed about the availability of essential services and installation resources.
- We worked closely with the Fort Hood Department of Emergency Services to ensure our teams could travel safely on post to respond to residents.
- When the storm hit, six Maintenance Technicians stayed on the project in a vacant home to respond to emergency service orders for seven days. This was critical to our residents as the ice and storm conditions dramatically restricted access to the installation and our residents' homes.
- Immediately after the storm, we supplemented our team with specialized contractors to restore heat, shut off water leaks and repair broken pipes.
- Additionally, we have supplemented our team with third party licensed environmental contractors to assess potential moisture issues that may arise and therefore require specialized repairs as a result of storm damage. We are utilizing moisture testing in homes to determine if there is water damage and to also pinpoint the location where moisture damage or buildup is occurring, allowing for the most efficient and quality repairs.
- There are currently 17 families displaced to temporary lodging as a result of the storm damage. The project is covering all costs for temporary lodging for these families, including a per diem allowance. We – along with our Army partner – are in daily contact with these families to ensure a high level of customer care.
- We continue to leverage resources across our portfolio to provide dedicated teams to assist with full restoration of homes that were damaged as repairs are underway.

Strategically Enhancing Customer Care

In 2020, Lendlease launched a new Customer Care Program based on a commitment to five pillars: Safe and Healthy Homes, Quality and Consistent Service Experience, Communication and Education, Organizational Culture of Caring, and Sense of Community. Under this program, we successfully identified and are implementing new ways of listening to and engaging with our 123,000 residents across more than 40,000 homes.

In addition to hiring seasoned customer care professionals to guide our program at the highest levels of the organization, we also recently appointed local customer care resources to drive the cultural transitions for each of our project sites. Collectively, these team members serve as

advocates for customer care, working with Project Company leadership, installation leaders and residents to identify and implement solutions that are timely and professional.

These new roles, in addition to existing customer focused team members, help ensure residents receive specialized and focused attention and quick resolution to issues and challenges.

Our enhanced customer care approach includes several new solutions:

- Resident Advisory Boards – At the center of our resident engagement strategy is a significant investment in establishing Resident Advisory Boards (RABs). RABs are designed to give residents an opportunity to work directly with our team to help shape their local community, express their concerns, share their ideas and problem solve with our management team. Residents in each neighborhood elect representatives to work with the Lendlease Project Company and the installation's Military Housing Office. Currently, there are over 70 RAB members across our Army and Navy portfolios.
- Customer Experience training – We have developed a series of staff training modules focused on customer service skills enhancement, which are mandatory for all team members.
- Introduction and improvement of a resident portal and smart phone app – Lendlease was the first of the MHPI partners to utilize a resident portal and smart phone app, Military Café, in 2018. We continually work with software engineers to launch regular app updates so that the tool represents best practices in mobile customer care.
- Quality and timely resident communication – We transitioned to a single platform for mass resident communication, RedFlag, in January 2020. RedFlag is a notification system for residents to receive standard mass resident communication and emergency notifications via text and email as well as mass voice calling from the start of their residency.
- Maintenance Solution Center – This is a new virtual dispatch solution to replace our outsourced call center and allows residents to schedule work order requests, customize and schedule repairs, and talk directly to a team member if they need guidance or have specific questions. The Solution Center creates a single environment for all service orders to be received and managed by in-house staff across our portfolio. This technology affords opportunities to better troubleshoot problems and ensure technician with the right skill set and tools arrives at the home at the earliest possible opportunity.
- Maintenance University – This is a resource tool for team member enrichment, learning and development. As of today, 5,035 total maintenance university courses have been completed by 232 individuals.
 - Phase 1 launched in 2019 and includes 33 entry-level courses, covering topics such as general repair, painting, carpentry, electrical, and plumbing. These self-paced courses are mandatory for any newly employed General Maintenance Associate.

- Phase 2 launched in January 2020 and includes the addition of 32 new self-paced courses and offers more advanced content in general repair, carpentry, electrical, plumbing, and flooring.
- Phase 3 will focus on developing skills for career advancement.

The Basic Allowance for Housing

While billions of dollars in private sector investment have been brought to bear as a result of MHPI, ongoing funding for 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:

- Operating expenses
- Debt service
- Approved management fees
- Investment returns
- Long-term reinvestment in our military communities

The remaining BAH funds are not distributed to the private sector developers. They remain within the project to fund future development work. Operating “profit” does not leave the project but instead is available to pay debt service related to the work in the project, with the remainder falling to the reinvestment account to be used exclusively for the near and long-term improvement of the homes.

As the reinvestment account balances grow, Lendlease and its military partner assess how those funds can be best utilized. The military service provides approval authority for development plans and how funds are expended from the reinvestment accounts.

As you know, BAH is a critical benefit to increase quality of life and assist in retention, recruitment and readiness of service members by enabling them to help cover the cost of suitable housing in the private sector. It is prescribed by geographic duty location, utility cost, renter’s insurance, pay grade and family considerations. The annual BAH survey/process is performed by DoD through a third-party contractor. Private housing partners have little-to-no input or visibility into how BAH rates are determined. BAH can vary widely year over year, leaving Project Companies in financially- challenged positions receiving less BAH than was intended when the project was established. The importance of BAH was reinforced in a recent GAO report (GAO-21-137: Published: Jan 25, 2021) that provided recommendations to revise the process in which BAH is established and recommended Congress consider “revising the calculation for payments for privatized housing projects so that the payments are based on national average rates, consistent with the calculation for the BAH rate reduction.”

We agree wholeheartedly with that recommendation.

In addition, Lendlease has consistently advocated for full funding of BAH. This is one area of the FY20 NDAA that we would like to work with you to improve. The FY20 NDAA changed DoD policy and allowed for two distinct BAH regimes. Project Companies that were deemed by DoD to be “fully-funded” would receive 97.5 percent BAH, while only those found to be “underfunded” would receive 100 percent BAH. To be candid, we are concerned that this policy could jeopardize the long-term financial stability of MHPI, which always anticipated future investment from the reserve accounts to meet the needs of the homes throughout the terms of the Ground Leases with our military partners. With a lower BAH for many projects, that means fewer dollars in the reserve accounts. MHPI is now roughly 20 years old – meaning the program must remain viable and sustainable for at least another three decades. With BAH as the lifeblood of the program, reserve accounts must remain robust in order to sustain our facilities for a generation or more.

Distinguished Chairs and Ranking Members, as recommended by the GAO, only a fully funded BAH will allow us to maintain, improve, and provide for long-term sustainment and development in our communities. Quality military family housing can only be achieved through a predictable and stable revenue stream – and that means a fully funded BAH with a clear transparent annual BAH rate determination process.

Environmental Challenges and Legacy Homes

One of the great successes of the MHPI program has been the creation of new housing on military installations. The program envisions that older homes will be demolished and replaced with new homes 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 \$7.4b to build over 15,000 new homes and renovate more than 25,000 existing homes.

We are continuing this historic private sector investment. As many of you know, with the Army we recently announced new private financing that will bring an additional \$1.1b to make further housing improvements across several installations in our portfolio, including at Fort Hood, Fort Campbell, Fort Wainwright, Fort Drum, Fort Knox and several Army installations in Hawaii. This infusion of cash will be 100 percent deployed across the entirety of our Army portfolio. This has always been part of our improvement strategy for the inventory, much of which was built decades before we obtained ownership. We are pleased we were able to secure this financing at this critical time, and we want to be very clear that this is a lender commitment backed by private investors that must be repaid. This investment will enable Lendlease to deliver new and improved housing and communities under an accelerated timeline. The capital will expedite important housing and community improvement projects, including renovating more than 12,000 existing homes and constructing more than 1,200 new homes across these military housing communities. In addition to this accelerated investment,

we currently have approved outyear development work underway at all six of our Army projects. For FY21-26 that total comes to ~\$510m.

As part of our outyear development work in Hawaii, Lendlease has partnered with Ameresco to modernize and improve energy and water systems for more than 5,800 homes at Island Palm Communities. This \$150m energy security and modernization project provides turnkey energy efficiency improvements and new solar energy systems with minimal upfront capital investment by the Project Company. The project is estimated to reduce energy consumption by over 32 percent through HVAC replacement and other energy efficiency upgrades. It will reduce water consumption by an estimated 28 percent and provide an additional 6.4 MW of rooftop solar systems. It is estimated to improve positive cash flow annually by an average of \$4.5m per year, money that stays in MHPI program goes towards funding additional future improvements in homes and neighborhoods for military families.

Also in Hawaii, at Hickam Communities, the Project Company has submitted a proposal to the Air Force for a similar project, which will replace nearly every existing HVAC system with a new high-efficiency system with no up-front capital investment. This project is designed to reduce grid electricity consumption by 30 percent and billed water consumption by 37 percent. It will further accelerate Hickam Communities' progress towards grid independence, resilience, and drive to Net Zero, while supporting the Air Force's energy priorities. Last, but certainly not least, it will provide an improved quality of life for residents, with superior thermal comfort and indoor air quality.

For all the progress to date, it is worth remembering that MHPI was not created to replace every existing home with a new one. It was always contemplated that some "legacy homes" (those built 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, and pesticide impacted soils. Environmental Management Plans that include preventative measures to effectively manage these legacy homes were prepared in consultation with and approved by our military partners. Some of the new protocols include:

- New lead-based paint inspections and repairs during change of occupancy, 90-day resident follow-up, and annual resident follow-up.
- New mold-inhibiting paint and primer used during change of occupancy to prevent mold and mildew.
- Utilization of enhanced HVAC filters designed to trap mold spores and new ventilation systems in bathrooms, where needed.
- New radon protocols to increase periodic testing in homes.
- Expanded change of occupancy maintenance and improvement program, inclusive of inspections of most homes by our military partner before they are made available to be leased to a new resident.

- New improved moisture testing to assist our teams to pinpoint the location where moisture damage or buildup is occurring, allowing for the most efficient and quality repairs.

We continue to be open and transparent with our residents regarding environmental issues in legacy homes. As noted, the FY20 NDAA requires us to provide residents with seven years of maintenance history on their home prior to lease signing – and Lendlease is the first company to do so. Our policy also requires that any known presence of lead-based paint or asbestos is disclosed to residents prior to occupying their home as well as how to avoid disturbing these materials. Residents are encouraged to immediately report any additional 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.

Utilizing the latest Geographic Information System (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 program to manage the many issues associated with legacy homes.

This hopefully provides some context for a discussion about Fort Hood, which I appreciate is an area of concern for many of you, as it is to me and every member of our team.

At Fort Hood, we are taking tangible action to improve housing for our military families.

Like many installations, Fort Hood has a significant percentage of legacy homes. More than 4,300, or 75 percent of the total privatized military family homes on Fort Hood predate Lendlease’s involvement with MHPI. This does not include almost 1,000 homes that we demolished and replaced. Of those 4,300 legacy homes, we have renovated more than 2,500.

Some of these homes have environmental conditions that are prevalent in older homes, which will worsen as the homes continue to age. In order to proactively address those older homes, we are working with the Army to ensure a significant portion of the \$1.1b in new financing (noted above) will go to improve the military family housing at Fort Hood. We are confident that several hundred legacy homes at Fort Hood Family Housing will be demolished and replaced with new homes - and many more will receive renovations.

I recently travelled to Fort Hood along with our CEO Denis Hickey. We met with the leadership of the Fort Hood Resident Advisory Board (RAB), established in February 2020, and the III Corps Command Group. The eleven (11) members of the Fort Hood RAB, who were chosen by their neighbors to represent them, continue to give us invaluable feedback and will guide us every step of the way as we work together to improve the housing at the installation.

Conclusion

Distinguished Chairs and Ranking Members, Lendlease is committed to creating communities, with quality homes and vibrant neighborhoods for our military families. We want our military families to be proud to live in a Lendlease community – just as we are proud to serve them.

Great strides have been made across MHPI since Congress began examining this issue two years ago. Lendlease shares this Committee's steadfast commitment to our military families, military readiness and accountability and transparency. We have over 1,600 team members across our portfolio working each day to provide the best service possible. We will make mistakes but will always course correct where needed and continually look for innovative ways to improve our service. Our goals and yours remain the same – we both want our military families to have a first-rate housing experience. They expect as much, and they deserve no less.

It is our hope that the testimony provided here today is a comprehensive and compelling overview of our commitment.

We welcome the continued dialogue with Congress and our military partners as we work together to improve the quality of life for all military families at every Lendlease community.