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Understanding Louisiana National Guard Land Development Opportunities:

Notes to Real Estate Developers and National Guard Commanders

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Executive Summary

The purpose of this document is to facilitate effective communication and stream-line negotiation between Louisiana National Guard officials and real estate developers. With over 30,000 acres of land and 65-unit armories, the Louisiana National Guard is one of the largest property owners in the state. There are unique opportunities for public-private partnerships with the Louisiana National Guard and they are more accessible than ever, thanks to the creation of the Louisiana National Guard Foundation (a nonprofit organization tasked facilitating partnerships and advising Command and Staff negotiations).

The first portion of this document focuses on the benefits of developing National Guard real estate and the constraints developers may face when partnering with the Louisiana National Guard. There are many benefits of working with Louisiana National Guard land such as tax advantages, relaxed zoning, and recent changes to Louisiana State Law that allow the Louisiana National Guard to avoid traditional request for proposal (RFP) processes. This document presents a baseline understanding of the potential advantages of partnering with the Louisiana National Guard to develop military properties. By better understanding these benefits and constraints, Developers and Louisiana National Guard officials can facilitate more effective negotiations and maximize value for both parties.

The second portion of the document is written to inform National Guard commanders about the business of real estate development. Starting with the benefits and down siders of working with developers, this document also includes a short synopsis of the development process. By gaining a basic understanding of the business of real estate development, Commanders can pave the way for successful partnerships and gain advantages in real estate negotiations.

Dedication

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Table of Contents

Introduction

National Guard leaders and local real estate development professionals will find there are many opportunities for mutually beneficial relationships involving the development of Louisiana National Guard real property. By understanding the advantages and constraints that both sides face, fruitful public-private-partnerships can allow private sector developers to earn market-rate profits while mutually serving the needs of the military.

Real estate professionals will find that there are several unique benefits to developing Louisiana National Guard property. These benefits include relaxed zoning, potential tax advantages, reduced environmental risks, and streamlined request-for-proposal (RFP) requirements. There are also several constraints that must be noted, such as reduced site access and working around the operational needs of the Louisiana National Guard.

Public-private development partnerships present tremendous opportunities to National Guard commanders because they allow them to gain access to high quality building projects that do not require the expenditure of unit funding. Essentially, it allows them to unlock the power of private sector financing for a project that supports their operational needs. This may allow them to move more quickly to address the changing needs of their units. In addition, it may be profitable for developers to bring higher quality assets online for units because they can channel capital more efficiently. However, there are also drawbacks that must be addressed such as the loss of property flexibility and security issues.

By working into a better understanding of the constraints that face both parties, developers and commanders can streamline negotiations and create additional value that may have otherwise been unrealized. This document was drafted with the goal of bringing developers and commanders together to combine their resources in creative ways that either were not realized without public private partnerships.

Benefits of Developing National Guard Property

Zoning

Much of the land owned by the Louisiana National Guard was acquired from the Federal Government and is intended to be used for military purposes. Subsequently, the Louisiana National Guard is required by the covenants that run with the land to use these assets to support military operations. Recently, changes to the interpretation of "supporting military' operations have included housing soldiers, feeding soldiers, and even producing revenue that can be used for unit activities.[1]

Military installations, as a rule, do not fall under local zoning ordinances. In fact, zoning maps around many military installations such as, Ft. Bragg, NC and Ft. Benning, GA, show that large tracts of military land do not fall under any local jurisdictions control.[23] While it is possible for military posts to share jurisdiction with a municipality, concurrent jurisdiction is more common for recent DOD acquisitions, and that remains the exception rather than the rule. Most of the Louisiana National

[1] Interview with Dirk Thibodeaux.
[2] "Fayetteville, NC Comprehensive Zoning Map."
[3] "Columbus, GA Interactive Zoning Map."

Guard's lands were acquired by the state when the federal government began disposing of assets it no longer needed.[4] These older parcels have presumed jurisdiction that predate modern zoning ordinances.[5]

Prior to 1940, it was presumed that jurisdiction was ceded at the time the government acquired the property. Federal properties acquired after 1940, however, must have an affirmative acceptance of jurisdiction before the federal government will have legislative jurisdiction. Because Camp Beauregard, Jackson Barracks, and Camp Minden- among other Louisiana National Guard assets- were acquired by the federal government prior to 1940, the Louisiana National Guard retained the rights to exclusive jurisdiction after the properties were transferred to the state, unless specific efforts were made to enforce concurrent jurisdiction at the time of transfer.[6] This allows garrison commanders more right to govern these properties in accordance with the needs of the National Guard.

Both the Active Army and National Guard designate a specialized unit, known as the Garrison Command (GC), to oversee military installation operations. Essentially, the Garrison Commander acts as the Mayor and CEO for a military installation. The GC has broad authority with regard to decision-making and resource allocation.[7] Furthermore, regardless of whether a particular base has concurrent jurisdiction or enjoys exclusive jurisdiction rights, the Garrison Commander has traditionally been given a high degree of authority over real estate

[4] "Overview of Federal Real Property Disposal Requirements and Procedures."
[5] 40 U.S. Code § 3112 - Federal jurisdiction.
[6] "Jackson Barracks Was Established in the Early 1800's, While Camp Beauregard Was Established in 1917 and Camp Minden was acquired through eminent domain in 1939."
[7] "Leading the Planning Process: The Role of the Garrison Commander."

development on the post. Under normal conditions, the Garrison Commander has the final authority over what buildings will be built and where they will be located. This hierarchy of organization has the potential to make development much easier.

Since the Louisiana National Guard is designed to serve, protect, and benefit the general public, it is unlikely that a Garrison Commander will approve a project with major negative impacts to the surrounding community. However, developers will generally find it easier to work with a cohesive organization, led by highly focused leaders, who share a common goal.

Property Taxes

Real estate developers may also be able to avoid paying property taxes when developing on National Guard land. Because the state grants the right to tax property to local governments, according to the Supremacy Clause of the US Constitution, local governments do not have the right to tax state land.[8] However, if the improvements to the land are privately owned, it may be possible for localities to attempt to collect taxes on those improvements.

Recently, there have been cases of municipalities attempting to sue owners of military privatized housing developments for property taxes.[9] Most attempts to tax improvements to post housing are unsuccessful. However, it should be noted that there are several cases where the Supreme Court has ruled in favor of a state's right to tax the improvements to private improvements on federal lands.[10] Although these

[8] The Supremacy Clause of the US Consitution.
[9] "Base Contractor Slaps Fairbanks Borough with Property Tax Lawsuit."
[10] Baltimore Shipbuilding & Dry Dock Co. v. Baltimore.

cases do not set the precedence for developers to either be assessed property taxes, or avoid them, it does present a problem that should be addressed before undertaking a large scale development project to serve the needs of the Louisiana National Guard.

Environmental Risks

The Comprehensive Environmental Response, Compensation, and Liability Act, dictates that lands transferred to the Louisiana National Guard from the Federal Government continue to remain the federal government's responsibility to remediate, should contamination related to their use of the property be found.[11] The premise of the policy states that the "United States should assume full responsibility for the cleanup of contamination caused by federal activities, and not shift the burden of that responsibility to the recipient merely as a consequence of acquiring the property."

This reduces the environmental risk to the developer and potentially offsets development costs for the military. Although working with the Federal Government to remediate environmental contamination may take time, it will certainly be cheaper than undertaking the project at the state and local level.

RFP and Advertising Procedures

State regulations RS 29:40 allows the Louisiana National Guard to lease and operate its military assets without completing a competitive bidding process or

[11] "Overview of Federal Real Property Disposal Requirements and Procedures."

publicly advertising the transaction or intended use.[12] While it is likely that the Louisiana National Guard would open development opportunities up for competitive bidding, this statute allows the organization to limit the competing firms to well-qualified organizations and to have more control over with whom they work. This also presents an opportunity for developers to approach the Louisiana National Guard with a proposal, gain site control, and protect their predevelopment work in a way that is unique to projects serving the Louisiana National Guard. This streamlined, and more efficient approach saves both parties time and money.

Constraints to Development on LANG Property

Reduced Site Access

Developing on a secure site could the increase the costs of construction. Workers entering secure spaces may be expected to be background screened and drug tested. Developers should expect to pay a premium to access high quality contractors and subcontractors who can provide adequate personnel.

Accommodating Unit Activities

Developers working on a military post should be aware that the needs of the military come before the needs of the development. In the event of natural disasters or security threats that require changes in a unit's operations tempo, contractors may experience decreased access to their sites, increasing holding times for developers. Developers should budget more time for construction so that their contracting team will be able to work around any military activities that require immediate attention. If the developer is building a structure to suit a tenant that is not

[12] RS 29:40 Leasing for military purposes.

the Louisiana National Guard, the tenant should also be made aware of the compatibility issues that may disrupt their business.

Site Specific Risks

The majority of Louisiana National Guard property is located within a secure perimeter. While the added security helps the developer mitigate many risks, such as theft from the job site, it also limits the options available to a property owner or long-term master tenant. For example, if a development, such as a housing project, is intended to serve the needs of the Louisiana National Guard, investors and lenders may be concerned about the effects of changes in Louisiana National Guard mission.

More specifically, if a building is constructed to serve Louisiana National Guard needs, and it is located in a secure perimeter, it may have little or no commercial value if the NG mission changes and they discontinue billeting soldiers at the post. While the risk may be low for this type of change, it will be a concern to investors and developers and will like a point for negotiation. Matt Perrenod, a prominent LIHTC consultant and former commercial underwriter confirms "if commanders are seeking cooperation from private developers, some assurance of the Louisiana National Guards plan to continued use of a site may be needed."[13]

Similarly, investors and lenders will probably need to understand that the needs of the military come first on military installations. People unfamiliar with military operations will probably need to be informed about the circumstances that

[13] Interview with Matt Perrenod.

may cause their businesses to be interrupted, and the frequency that these instances may occur.

Benefits of Working with Developers

Increased Access to Funds

The first benefit of working with a professional real estate developer is their increased access to funds. Developers have access to private equity and debt that can be harnessed to serve the needs of the Louisiana National Guard. Under normal circumstances, National Guard Units do not take out bank loans and therefore have very little debt obligations. As a result, the money for the construction and maintenance of military housing must come directly from unit funds. According to Dirk Thibodeaux, the former Executive Legal Counsel for the Louisiana Military Department and current Deputy State Judge Advocate for the Louisiana National Guard, "The military department, as a state agency, is not allowed to borrow money without approval from the State Bond Commission. That is normally done in the Comprehensive Capital Construction Budget, commonly known as the Capital Outlay Bill."[14] Working with developers increases the unit's access to funding for housing and building projects, ultimately increasing the potential quality of the living quarters and operational facilities.

Garrison Commanders are restricted by the Army's lethargic PPBE/POM (Plan, Program, Budget, Execution/Program Memorandum Objective) process for budgeting. Military units are funded in five-year cycles and these cycles are not

[14] Interview with Dirk Thibodeaux.

responsive to immediate command priorities.[15] Subsequently, while the military has access to large amounts of funding, most of a commander's budget is driven, years in advance, by a budgeting process that cannot always address current needs of the unit. Fortunately, the PPBE/POM does not restrict developer-funding initiatives. Developer funding is agile, flexible, and can target emergent projects for the commander. This flexibility allows Garrison Commanders to direct development projects when and where they want them in accordance with their current requirements.

In addition, private funding does not compete with the commander's budget for operational requirements. The budget money distributed to the commander through the PPBE/POM process must cover all programmed and emergent installation and operation expenses. With a decreased need for construction expenditures (due to the injection of private funding for real estate development), a larger portion of the budget can be spent on training exercises, military schools, and equipment for soldiers.

Reduced Personnel Requirements

Another way that working with developers helps to increase unit funding is by reducing the management and personnel requirements associated with property management and property maintenance. A recent Congressional Budget Office (CBO) report shows that "the average cost to maintain an active duty soldier is $99,000 per year, a 31 percent jump between 2000 and 2014. The continual increase

[15] "Program Objective Memorandum (POM) / Budget Formulation."

is mainly caused by the increasing costs for military personnel, and operation and maintenance."[16]

Leveraging the management assets of real estate developers can help to reduce the personnel cost to units. It takes manpower to operate a multifamily complex, staff a gym, or run a dining facility. By shifting the cost burden of facility operations to private developers and investors, units can reduce their overall personnel requirements. Reducing even a few full-time government schedule (GS) or Military positions will substantially reduce the down range and long-term personnel costs to the National Guard. When you consider that the costs associated of retirement and health care, estimated to be almost ¼ of the overall DOD budget, working with developers could have a large impact on available funds for other activities.[17]

Project Cost Reduction

It should be no surprise that developers can deliver projects more cheaply because they benefit from economies of scale and specialization. However, developers also have the added advantage of working with private money. When using federal dollars for construction, the National Guard must comply with Whole Building Design Guide policy, regulations issued by the Department of Defense under the guidance of US Army Corps of Engineers. Developers, however, can deliver high quality products much faster and more efficiently because they are not using federal money, and are therefore not subject to all of the same scrutiny. Whole

[16] "Growth in DoD's Budget from 2000-2014."
[17] "Costs of Military Pay and Benefits in the Defense Budget."

Building Design Guide requires facilities funded with federal money to be built to LEED-NC 3 Standards.[18]

LEED is a great organization and the certification holds builders to a high standard. Nevertheless, it is estimated that LEED certification increases the total project cost by at least 2.5% by some sources, while others, such as the US Green Building Council, report that the LEED certification can make some projects infeasible by adding as much as 17% to project costs.[19] This is due to the higher costs of green building and higher design fees.

Although it is important to build sustainably, LEED certification itself can be an expensive and time-consuming process. A developer may build a similar building faster and more cheaply than a military organization by keeping sustainable principals in mind, but not applying for LEED certification. It's important to remember that although LEED is the gold standard for sustainability, it is possible to build a highly efficient building and to use healthy building materials without the LEED seal of approval.

In any case, if commanders intend to hold builders to a high standard for green building, LEED Certified or not, it should be understood that the construction costs will still be higher than traditional building methods and higher rents will be needed to offset the cost of construction.

[18] "USACE General Facilities Information Design Guide."
[19] "Green Building Costs and Savings."

Build Projects Quicker

Developers are used to working under time constraints. Because of the high costs of capital, real estate developers are incentivized to bring projects to completion very quickly. When a project must be completed quickly, or on a tight budget, commanders should consider ways to involve a private developer.

Receive Higher Quality Products

The US Army has benefited from the privatization of military housing for almost 20 years. In fact, the United States Air Force began working with private real estate developers in 1996 to bring higher quality products online to serve active duty personnel in FT Carson .[20] The AF used $617 million of federal funds and $8.3 billion of matching private investment to significantly upgrade or construct and manage 53,323 AF family housing units after Congress initiated a change to the DOD Military Family Housing Program.[21]

Much of the existing military housing is now privatized, or in the process of becoming privatized. In 2008, the US Army began experimenting with privatized military housing for unaccompanied non-commissioned officers (NCOs) with the goal of privatizing 99% of all military housing by 2016.[22] However, developers should not be limited to developing military housing.

The Military Privatized Housing Initiative was directed by congress to address the poor conditions of military housing at the time. As previously discussed, the

[20] "Community Housing Impacts of the Military Housing Privatization Initiative."

[21] "The U.S. Air Force Transformed Approach to Military Family Housing: An Organizational Routine Case Study in Change and Learning."

[22] "Army Testing Privatized Housing for Unaccompanied Soldiers."

military does not benefit from leverage in the same way that a developer can. This allows developers to make significantly higher investments in infrastructure, using combinations of debt and equity, and working outside of the military's farsighted budget constraints. The result is higher quality facilities for soldiers and their families.

The Downside of Working with a Developer

Lost Cash Flows

The Louisiana National Guard should be aware that it will lose cash flows associated with certain asset types if they choose to cede development rights to a developer. Military privatized housing, for example, is a tradeoff that allows developers to collect potential rents associated with military housing units in exchange for their investment in the renovation or the new construction of on-post housing units.

Reduced Flexibility

For developers to obtain the necessary funding to improve Louisiana National Guard property, the Louisiana National Guard must give developers site control. This, in turn, will result in a reduced control of the immediate space. Although this impact may be minimal, reduced control of the asset could have down range effects on the use of space and the unit's ability to move and train in the area.

Site Security Concerns

During the construction of any asset, workers from outside organizations will need access to the job site. If private companies are contracted to run continued operations of the facilities they build, their workers will need continued access as well. This presents an obvious security risk and may impose increased threats and security requirements.

Required Financial Returns

Commanders who are considering partnering with investors to complete projects to serve the needs of their units should be aware that developers, lenders, and investors will require healthy returns on the capital invested to construct new projects. It may not always be feasible to bring private investments on board to serve the needs of the military. Real estate investments are calculated in proportion to the total investments required for the project. Developers and underwriters take into account not only the acquisition price of the land and cost of construction, but proportionate return that their investment will deliver. If the minimum returns are not feasible, healthy partnerships may not be achieved.

It is often assumed that the developer and the property owner are one in the same. While this is sometimes the case, developers are sometimes hired by property owner and work for a fee.[23] In other cases, developers have a small ownership interest in the property, roughly equivalent to their equity contribution, and are paid a fee upon completion. In this case, the developer is working with a limited partner, who provides the equity funding needed to secure financing.

In almost every case, developers are working with a bank or lending institution of some sort. Banks require developers to contribute a sizable amount of equity at the beginning of a project, from 10-35% of the total project cost, to

[23] Peter, *How Real Estate Developers Think Design, Profits, and Community.*

minimize their risk.[24] While the development team owns the project in name, the bank holds the first lien position on the property until the loan is paid in full.

To receive financing from banks, there are several requirements that must be met. In addition to checking into a personal finances and experience, a bank will be underwriting a proposed project based on its projected earning potential. For large projects, this entails market analysis, site feasibility, and minimum debt service coverage ratio, or DSCR, that further offsets the lenders risk.

For multifamily projects, it is unlikely that a lender will approve a project with less than a 1.2 DSCR. This means that potential projects must be projected to earn 120% of the loan payment after paying for all expenses, taxes, and insurance.[25] Banks are not using DSCR requirements to protect investor's profits, but rather to protect the financial institution from risk. Anything from high vacancy rates, rent reductions, or construction overruns can decrease the money generated by real estate developments. Therefore, lenders underwrite projects conservatively and require them to show high profits, or they will not provide funding.

Similarly, investors have strict requirements for their equity contributions. Because banks require large down payments, it is common for developers to work with investors as Limited Partners or LPs. LPs have little control over the construction or operations of the property after they have contributed their equity, so they require a strict project evaluation on the front end.[26] LPs generally provide the

[24] *Professional Real Estate Development: The ULI Guide to the Business*.
[25] *Professional Real Estate Development: The ULI Guide to the Business*.
[26] *Professional Real Estate Development: The ULI Guide to the Business*.

majority of the down payment for the property. As the majority owner of the project, LPs may have additional requirements for investment, beyond the lenders requirements.

Investors can be quite choosy about the projects, as one might imagine. Because there are many competing investment opportunities, such as stocks and bonds, commodities, and competing real estate interests, investors require a competitive return rate. In fact, it is not uncommon for investors to require guaranteed returns of 12% or more for real estate investments.[27] It is also worth noting that developers are often the only ones that are personally liable for the bank loan. Limited partners, or LPs, generally want to limit risk. Thus, developers are often exposed to collection procedures from lenders if the development fails, while LPs remain insulated.

Because of the requirements of lenders, investors, and to protect the developer's interests, projects must be underwritten conservatively. It is important that all parties understand the risks that developers assume when they leverage private funding. Although many projects appear very profitable on paper, healthy margins often shrink over the course of development. Maintaining a healthy profit margin is not only a reward for a developer's hard work, capital investment, and project organization efforts, but also a tool to mitigate risks. Facilitating healthy public private partnerships requires assurance that developers are allowed to be compensated fairly for their efforts, and able to mitigate the risks they undertake.

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[27] *The Investor's Guide to Commercial Real Estate*.

Both commanders and developers should be realistic about the returns that are calculated, budgeting for investable errors, delays, and cost overruns. Not all projects will be feasible. Understanding the risks and requirements involved with leveraged financing will allow for more realistic terms to be set for public private partnerships with the national guard.

Conclusion

By understanding the constraints and benefits available to developers through partnering with the Louisiana National Guard, agents of the Louisiana National Guard will be able to facilitate better deals for both sides and stream line negotiations with developers. Similarly, developers can capitalize on the numerous opportunities available through effective partnerships with the Louisiana National Guard by becoming aware of the unique opportunities that are becoming available, and the reasons those opportunities exist. It is apparent that there are great partnerships happening across the country, and even the world, as the US military explores innovative ways to involve private development on military land. Using the US Army and US Airforce as examples, and by understanding the unique nature of working with the state-owned assets governed by the Louisiana National Guard, developers and Louisiana National Guard Staff members can facilitate equally fruitful partnerships that may have otherwise been missed.

Appendix A
A Synopsis of the Development Process

Predevelopment: In this stage of development, real estate developers are working to bring a concept into reality. This entails organizing all aspects of the project. Developers must start with gaining site control- signing a contract to establish their legal right to develop the site- and securing entitlement to build the structure. This means hiring an architect to design a building, working with local zoning officials to get a plan approved, and remediating any environmental risks on site before applying for funding. All of these activities are expensive and time consuming.

Predevelopment is the riskiest stage for developers because they personally fund all associated activities. If the project does not move forward for any reason, the developer will lose all money invested in this effort. Just like in any business, some ventures are unfruitful. However, in real estate, the developer takes all the risk in the beginning stages.

Financing: During the financing stage, most or all of the predevelopment work is done. The developer has site control and has assessed and mitigated all known risks. When potential risk cannot be entirely mitigated, it has at least been planned for and an effort has been made to start alleviating the concern.

Now the developer can approach lenders and investors. While banks can typically provide 65-90% of the funding needed to close a property, the developer will need to raise additional capital from alternative sources to complete his *capital* *stack*. These sources may include grant funding, second mortgages, and equity investments from limited partners.

Developers typically need to find a source of construction financing, to pay for the project while it is being built. After the project is built and occupied, there will be a second round of financing, or *take out*, that funds the project for a longer period. This allows lenders to shift risk for different phases of development and be compensated accordingly. Each lender, and the equity investors, may have different requirements and expectations for the development.

Closing: After predevelopment has been completely finished and an appropriate capital stack has been organized, a development is ready to move into closing. This is a big milestone for developers because they are typically repaid for funds invested in the predevelopment stage at closing. When closing occurs, the development project can move from concept to reality.

Construction: During construction the developer is responsible for seeing the project through to completion. Although the general contractor (GC), and not the developer, is directly responsible for controlling the construction, the developer, must be ultimately responsible for ensuring the work is completed effectively.

During this phase, the developer, the architect, and the GC will regularly meet to inspect the work and make necessary changes to the plans. The developer is responsible for leading the GC, solving any issues that arise with the city or the community, maintaining the critical path, and distributing funds.

Stabilization: As the property reaches the end of construction, marketing will begin. The developer will work with real estate agents and property managers to advertise the property and begin preleasing. After the certificate of occupancy has been issued and all inspections have been passed, renters can begin to occupy the building. Once the property has met a minimum occupancy requirement, usually around 80%, permanent financing can take out the construction loan. At this point the developer has the least amount of risk because the building is brand new and on its way to full occupancy. The development process is technically finished. It is usually at this time that the developer receives the majority of his development fee.

Loan repayment: Although the developer's risk has been significantly reduced after stabilization, it is now time for the building to perform. A property manager is usually hired to run the day to day operations of the building. However, in most cases the developer is usually on the hook to ensure building performance.

Many developers own less than 20% of the project, with the investors who filled the gap in financing owning the most significant share of the project. In these cases, it is not uncommon for the investors, or Limited Partners, to have a guaranteed return, meaning that they get paid after the bank, but before the developer. If for any reason the building underperforms, the developer is usually the last to be paid.

Appendix B

Real Estate Industry terminology

ROI- Return on Investment (ROI) is a performance measure, used to evaluate the efficiency of an investment or compare the efficiency of a number of different investments. ROI measures the amount of return on an investment, relative to the investment's cost. To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment. The result is expressed as a percentage or a ratio.

COC-Cash-on-cash return is a rate of return often used in real estate transactions that calculates the cash income earned on the cash invested in a property. For example, when an investor purchases a rental property, she might put down only 10% for a cash down payment. Cash-on-cash return measures the annual return the investor made on the property in relation to the down payment only.

LTV-The loan-to-value ratio (LTV ratio) is a lending risk assessment ratio that financial institutions and others lenders examine before approving a mortgage. Typically, assessments with high LTV ratios are generally seen as higher risk and, therefore, if the mortgage is approved, the loan generally costs the borrower more to borrow. Additionally, a loan with a high LTV ratio may require the borrower to purchase mortgage insurance to offset the risk to the lender.

LTC-The loan-to-cost (LTC) ratio is a metric used in commercial real estate construction used to compare the financing of a project as offered by a loan to the cost of building the project. The LTC ratio allows commercial real estate lenders to determine the risk of offering a construction loan. Similar to the LTC ratio, the loan-to-value (LTV) ratio compares the construction loan amount to the fair-market value of the project.

NOI-NOI is generally used to analyze the real estate market and a house's or building's ability to generate income. Real estate property can generate revenue from rent, parking fees, servicing and maintenance fees. A property may have operating expenses of insurance, property management fees, utility expenses, property taxes and janitorial fees. Income taxes do not impact a company's or real estate investment's NOI. However, property taxes are included in the operating expenses of a real estate investment's operating expenses.

EBITDA- Earnings Before Interest and Taxes (EBIT) measures the profit a company generates from its operations, making it synonymous with "operating profit." By ignoring tax and interest expenses, it focuses solely on a company's ability to generate earnings from operations, ignoring variables such as the tax burden and capital structure.

Time value of money-The time value of money (TVM) is the concept that money available at the present time is worth more than the identical sum in the future due to its potential earning capacity. This core principle of finance holds that, provided money can earn interest, any amount of money is worth more the sooner it is received. TVM is also sometimes referred to as present discounted value.

Hurdle Rate-A hurdle rate is the minimum rate of return on a project or investment required by a manager or investor. The hurdle rate denotes appropriate compensation for the level of risk present; riskier projects generally have higher hurdle rates than those that are deemed to be less risky.

NPV-Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. In short, it is all the money available to an investor above his required rate of return (hurdle rate), adjusted for time.

IRR-Internal rate of return (IRR) is a metric used in capital budgeting to estimate the profitability of potential investments. Internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero. IRR calculations rely on the same formula as NPV does.

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