

Fort Sam Houston had a problem. A couple of old buildings, both unused, couldn't be demolished because of their historical significance. Plus, maintaining them would be expensive. The solution? Use Enhanced Use Leasing.

EUL: New Life

FOR MILITARY BUILDINGS

By Thomas Swoyer Jr.

In the late 1990s Fort Sam Houston, Texas, was in a difficult position. Several buildings that became unsuitable for their intended purposes due to the consolidation of hospital operations left the post few options. The buildings were in an historic district, thus demolition was undesired. Likewise due to historic preservation requirements, it was highly unlikely that potential tenants would bring enough funding to support the nearly \$100 million needed to restore and renovate the buildings for redevelopment. Thus, the installation turned to leasing the buildings to a private sector developer.

In 1999, when the notice of availability for lease and the request for qualifications were released by the Army Corps of Engineers Fort Worth District on behalf of the post, few knew about Enhanced Use Leasing (EUL).

Fort Sam Elects EUL

By selecting EUL, the installation engaged the private sector to evaluate the redevelopment potential of the buildings and allow market forces to dictate their ultimate reuse. Even so, Fort Sam will retain full ownership of buildings while the structures are redeveloped and put into productive economic use. In addition, the post will collect a lease

payment from the developer in the form of cash or in-kind services, and it will acquire full use of the buildings at the end of the lease term. Thus, the post's history and the two buildings remain intact, and the entire process is handled at one time and at almost no cost to the government.

Fort Sam Selects Developer

The Army selected Weston Solutions and Orion Partners to partner with the post to redevelop and restore the historic buildings, consisting of about 500,000 sq ft.

One of the initial steps of the EUL process requires the development of a business and lease (B&L) plan by the developer. The plan allows both federal and private sector interests to study the physical and financial viability of the transaction. The B&L plan consists of an internal and external infrastructure plan, an environmental restoration plan, an historic preservation plan, a plan to conform with Army goals, and financial and marketing plans. The approved plan became the basis of the master lease between the Army and the Weston/Orion Team.

The B&L plan took nearly nine months to finalize and gain the necessary approvals. Following its approval, the

The former Brooke Army Medical Center is now in the Enhanced Use Leasing program.



Photos courtesy U.S. Army

Army and the Team worked together to negotiate individual 50-year leases for each of the two buildings.

Once the B&L plan and leases were in place, the task of finding tenants for the buildings and implementing the redevelopment plan fell totally on the shoulders of the Team. As the tenant searches began, the terrorist attacks of 9/11 caused the closure of the gates at Fort Sam. What had been an open post was then a military installation closed to public access.

But then opportunity came to the Team in the form of new force protection requirements and the need to relocate military organizations from less secure to more secure facilities. The need to relocate a major command proved to be the kick-start needed to lease all of the major portions of the space in the Brooke Army Medical Center (BAMC) where the two buildings were, and another area called the North Beach Pavilion.

Interest to lease facilities came to the Team from several groups including private sector companies, local public institutions and other Army commands. However, negotiating the leases proved less than a simple. For federal tenants (including Army commands), lease negotiations quickly focused on the “scoring” issue. Scoring is a process by which the federal Office of Management and Budget (OMB) reviews potential federal leases and, based on their terms, determines whether a lease is scored a capital lease or an operating lease. If a capital lease, the federal tenant needs to budget money to pay the entire term of the lease in the first year of the lease. If scored as an operating lease, the federal tenant can make the lease payments from its year-to-year operating budget.

One federal tenant committed to taking space in the North Beach Pavilion. However, lease negotiations and sorting out the scoring issue with OMB required 18 months.

Under EUL, the lobby (shown here) and other areas of the BAMC are undergoing complete renovation as well as historic restoration.



Two other tenants followed closely behind, and while once again scoring was a substantial issue, it was overcome in both cases in less time. Despite the fact that this EUL broke new ground within several federal sectors, the Team closed the three leases early in 2003, allowing it to privately finance the redevelopment of the North Beach Pavilion and former BAMC.

Turning the old hospital and barracks into modern office buildings requires complete environmental remediation; demolition and replacement of all non-historic, non-load bearing structures and systems inside the buildings; and, restoration and historic preservation work needed to preserve the historic character of the buildings. The finished product will be historic buildings with completely new and modern facilities and systems. The redevelopment of the two buildings is expected to cost nearly \$30 million. The first tenants are expected to occupy the buildings early in 2004.

Lessons Learned

Some of the lessons learned at Fort Sam Houston may be both appropriate and valuable to installation commanders who are considering the use of EUL facility redevelopment. The lessons learned here include:

- The land or buildings must be able to support financially viable reuse;
- The infrastructure serving the land and/or buildings must be capable of serving the redevelopment;
- The installation commander should have a clear understanding of the potential cost savings related to EUL and the potential cash flow or in-kind services that will result; and
- The B&L plan must be flexible enough to support changes in the marketplace.

In theory, EUL was enacted to be an asset management tool that could allow the military to reduce or eliminate costs from underused assets while also possibly generating revenue by leasing them. The reality of EUL has proven that it is a far more powerful tool than originally thought, and that EUL can be applied to a variety of circumstances for the mutual benefit of all stakeholders.

Fort Sam Houston's successful EUL of the former Brooke Army Medical Center and Beach Pavilions can be taken as a model of implementing Title 10 USC 2667. EUL could be an attractive asset management tool for many DOD installations. **TME**

Thomas Swoyer Jr. is director, Impaired Property Redevelopment, Weston Solutions Inc., in San Antonio, Texas; thomas.swoyer@westonsolutions.com or 210-308-4318