

WESTON SOLUTIONS, INC.

ENHANCED USE LEASING

Turning Underutilized Real Estate into Valuable Assets



an employee-owned company

> Exploring Underutilized Assets

Active military installations are increasingly faced with the upkeep of buildings and land that are now underutilized due to changing base missions or structural age. A lack of utilization solutions, historic preservation requirements, or environmental impairment may also be hindering valuable use of these assets. As a result, facility costs rise and the overall efficiency of the installation decreases.

Weston Solutions, Inc. (WESTON®) has led the successful negotiation and redevelopment of underutilized assets, turning them into thriving economic generators that benefit the military and the surrounding communities. Enhanced-Use Leasing (EUL) is an effective economic process used to revitalize these assets and not only avoid operational costs but earn the economic rewards of making the facility or land viable again.



Enhanced Use Leasing allows private developers to assist the DOD in rejuvenating unused buildings and earn the economic rewards from leasing the property.

> Enhanced Use Solutions

EUL—enabled by law 10 USC 2667—allows the DOD to lease fixed assets and equipment for extended periods to private-sector or public interests. Presumably, these assets are underutilized or in need of upgrade and can no longer serve the mission requirements for which they were originally intended. The law assumes that full divestiture of the asset through sale or excess is not in the best long-term interest of the military; therefore, long-term leasing to the private sector provides a solution with a variety of benefits to all stakeholders.

The EUL process is quite flexible and can be adapted to fit a multitude of circumstances. The key criterion for a successful EUL project is the inherent potential value of the asset to be leased. This potential value can take a number of forms based on external, internal, actual, and perceived factors. Many times, the potential value is vastly different from the originally intended use of the asset. For example, a building originally constructed as a hospital may have more value as a hotel rather than a hospital.

> Economic Driver

EUL is almost exclusively driven by economics. If the economics of the project do not work, the project will not proceed. However, the economics can take many different forms and shouldn't be thought of merely as financial investments. It is important to note that the economics of every project are different and return expectations are different as well, but if there is one overarching guideline, it is this: the financial return generated by the redevelopment asset must be competitive with prevailing market returns.

An EUL project competes with every other potential development, redevelopment, and investment opportunity in a given market space. All of these projects are competing for the same scarce investment dollars, and therefore the EUL project must produce the same risk/return values that the market is commanding. For each incremental increase in risk, there must be an accompanying increase in return.

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> Potential Candidates for Enhanced Use Leasing

- Facilities subject to historic preservation requirements
- Facilities that require renovation to be useable
- Open land
- Facilities with environmental contamination
- Facilities suitable for reuse in roles different from their original function



WESTON is skilled at recognizing the hidden value in your real estate assets and developing a reuse plan that will make economic sense.

► The Offices at Fort Sam: Enhanced Use Leasing Helps Redevelop Historic Properties

Weston Solutions, Inc. (WESTON®) led the redevelopment of historic hospital facilities at Fort Sam Houston, San Antonio, Texas, by spearheading the first Enhanced Use Leasing (EUL) agreement between the U.S. Army and a private developer. Three abandoned buildings, including the famous former Brooke Army Medical Center (BAMC), were in disrepair and contaminated with lead, asbestos, PCBs, and mercury, leaving underutilized assets and high maintenance costs. Eyeing the potential rewards of preserving a historic site in a great location and thriving market, WESTON harnessed the required skills—planning, development, design, finance, construction, operations, and management—and assembled the partners necessary to redevelop more than 450,000 square feet of space in three buildings.

Historic Preservation Meets Modern Reality

Known as the home of Army medicine, Fort Sam Houston houses numerous medical facilities, including BAMC and the Beach Pavilion Complex. These buildings, built in the 1930s, were replaced with a modern medical facility in 1994 and stood unoccupied for almost 10 years, impacting the installation's maintenance budget and restricting new construction.

WESTON and Orion Partners—combining forces to form the Fort Sam Houston Redevelopment Partners—developed a business and lease plan and obtained \$60 million in financing for rehabilitation, preservation, and environmental restoration. As prime contractor, WESTON led a San Antonio-based team that included Orion, a real estate development firm; Cross & Company, a real estate brokerage firm; and Ford, Powell & Carson, a historical architectural firm. The team's goal was to manage the redevelopment for the maximum benefit of the Army while remaining sensitive to the surrounding neighborhoods, other interested stakeholders, and the greater San Antonio community.



Constructing a market-specific business and lease plan is key to turning underutilized real estate into thriving assets with tangible benefits.

The buildings could be cost-effectively rehabilitated, and if so, who might the tenants be. WESTON and Orion then actively investigated and negotiated the final leases, and set about finding and securing tenants. After the tragedy of September 11th, post access was limited and the partners modified the Business and Lease Plan and searched for tenants that could take advantage of the high level of security.

A Model Success

Keeping project momentum on the fast track, it took WESTON and Orion just 9 months from the day the first tenant lease was signed to the day of occupancy. Now, the BAMC and North Beach Pavilion buildings are redeveloped, and these top-grade facilities are 100% occupied. Tenants include the U.S. Army South (USARSO) and the U.S. Army Medical Information Technology Center (USAMITC), which provides worldwide IT support to the Army Medical Department.

The Fort Sam Houston medical complex redevelopment stands as the Army's most successful EUL project to date and serves as a model for future military and private-sector relationships.

Multifaceted Benefits

By using EUL, Fort Sam Houston has set a course for aggressively modernizing infrastructure management using progressive acquisition practices that produce the best value for defense investments. These new military infrastructure management approaches are critical to readiness and modernization.

- Fort Sam Houston remains the buildings' owner while the private developer invested the funds to convert the buildings from medical to administrative use.
- Fort Sam Houston earns value in the form of cash and/or in-kind services up to \$250 million over the next 50 years.
- The U.S. Army reduces the costs required to maintain unusable facilities, and avoids the considerable cost of remediation of environmental issues.
- Removal of these vacant historic structures from the installation's overall asset inventory allocation enables development of new facilities that can support new state-of-the-art missions.
- Buildings will be redeveloped and maintained, and turned back to the Army at the end of the lease term in immediately usable condition.
- Fort Sam Houston benefits from expanded facilities to house new mission support contractors, potential conference/training facilities, and reduced associated logistical support costs for transportation, lodging, and services previously provided off-post.



WESTON led the redevelopment of the historic former BAMC hospital at Fort Sam Houston.

>Stakeholder Benefits

An EUL project is begun at the installation level and then approved at higher command levels. A determination of availability must be made that addresses physical condition, including environmental and historic preservation issues. After the asset is determined to be suitable for leasing, a partner must be selected to help guide the installation through the often-complex redevelopment process. A business and lease plan is then developed that will address the assignment of risk and adjust the returns accordingly based on the likely potential value of the overall project. In the simplest terms, the military contributes the assets, the private sector contributes the finances and expertise, and together, in a partnership, they both can reap the rewards.

The primary benefit of EUL is that all the stakeholders win. The installation gains benefits, the private sector gains benefits, and indirectly related third parties can benefit as well.

Installation Benefits

- **Reduced operating costs:** The continued operation and maintenance costs are transferred to the private entity.
- **Income through cash payments or in-kind services:** The installation can receive its portion of the return in a variety of forms, from cash to services.
- **Investment in asset upgrade or continued maintenance:** Presumably the asset no longer meets the mission requirements or requires significant overhaul that is unlikely to be funded.
- **Synergies from co-location of new organizations that augment installation missions:** If buildings are leased, potential tenants could be organizations, both public and private, that support ongoing missions.
- **Access to capital and resources:** The lease itself provides a vehicle for access to capital and human resources that would otherwise require contracting through traditional budgetary processes.

Private-Sector Benefits

- **Valuable investment opportunity:** Reuse of impaired or underutilized military assets are often excellent investment opportunities.
- **Investment returns:** The risk/return ratio often yields good returns for the developer.
- **Development of alternate business relationships:** The EUL process often opens up other avenues for a private interest to do business with the military.

Third-Party/Community Benefits

- **Installation efficiency:** The community gains a sense of security about the future of an installation if it operates as efficiently as possible.
- **Community/installation integration:** There are numerous intangible benefits from joint community and installation activities.
- **Community business infrastructure development:** Installations are integrated in the heart of a business community.



To gain EUL success, the military contributes the real estate assets and the private sector supplies the finances and expertise.

For More Information, Contact:

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