

## Multifamily Market Commentary – October 2015

### Sequestration and the Potential Impact on Military Housing

The end of fiscal year 2015 is right around the corner, and that means Federal Sequestration is once again looming. The United States Army is one of the many government agencies looking to trim its active force. U.S. Army reductions are not new, however plans of how the Army will phase out troops over the next three years are now official. The Army’s current number of active troops sits at approximately 490,000.

Over the next three years, through fiscal year 2017, the Army is aiming to reduce that number to 450,000 troops. The reduction of active duty troops will likely have negative effects on federal employment in Army/Military/Defense-centered metro areas around the country, in addition to employment in support services, including any locally based contracting firms. But other bases may actually expand. So what does that mean for these local housing markets and, more specifically, the multifamily sector?

#### Some Bases May Be Hit Hard...

Even though the reduction of active duty troops will be done over the next three years, some bases in certain metropolitan areas will likely get hit harder than others. Joint Base Elmendorf-Richardson, located in the Anchorage, AK metro, currently employs 4,600 active troops. Through fiscal year 2017 the base will see a substantial 59 percent reduction in troops, lowering the active duty number to approximately 1,900. Fort Benning, located in the Columbus, GA metro area, currently employs 12,700 active troops and by 2017 will reduce the active number by 29 percent to 9,000.

Rounding out the top three bases to be most affected by the Army’s reduction in active duty force is Fort Leonard Wood in the Springfield, MS metro area. As of fiscal year 2015, 5,200 troops are stationed at the base. However, with an expected 15 percent contraction in its active force, just 4,400 troops will remain stationed at this base in 2017.

The remainder of the 10 bases most affected by the active force cuts can be seen in the chart below.

#### **10 Military Bases Most Affected by Active Duty Reductions (%Change Fiscal Years 2015-2017)**

Military Bases	MSA/Location	2015 Fiscal Year Personnel	Total Cuts % (Fiscal 2015-2017)	2017 Fiscal Year Personnel
1. Joint Base Elmendorf/Richardson	Anchorage, AK	4,603	-59.00%	1,895
2. Fort Benning	Columbus, GA	12,655	-29.00%	9,040
3. Fort Leonard Wood	Springfield, MO	5,168	-15.00%	4,394
4. Fort Shafter	Honolulu, HI	2,233	-10.00%	2,004
5. Fort Hood	Killeen, TX	34,475	-9.00%	34,125
6. Schofield Barracks	Honolulu, HI	15,687	-8.00%	14,473
7. Fort Belvoir	Fairfax, VA	4,179	-6.00%	3,929
8. Fort Irwin	San Bernardino, CA	4,416	-6.00%	4,170
9. Fort Jackson	Columbia, SC	2,804	-6.00%	2,624
10. Fort Rucker	Ozark, AL	3,112	-6.00%	2,926

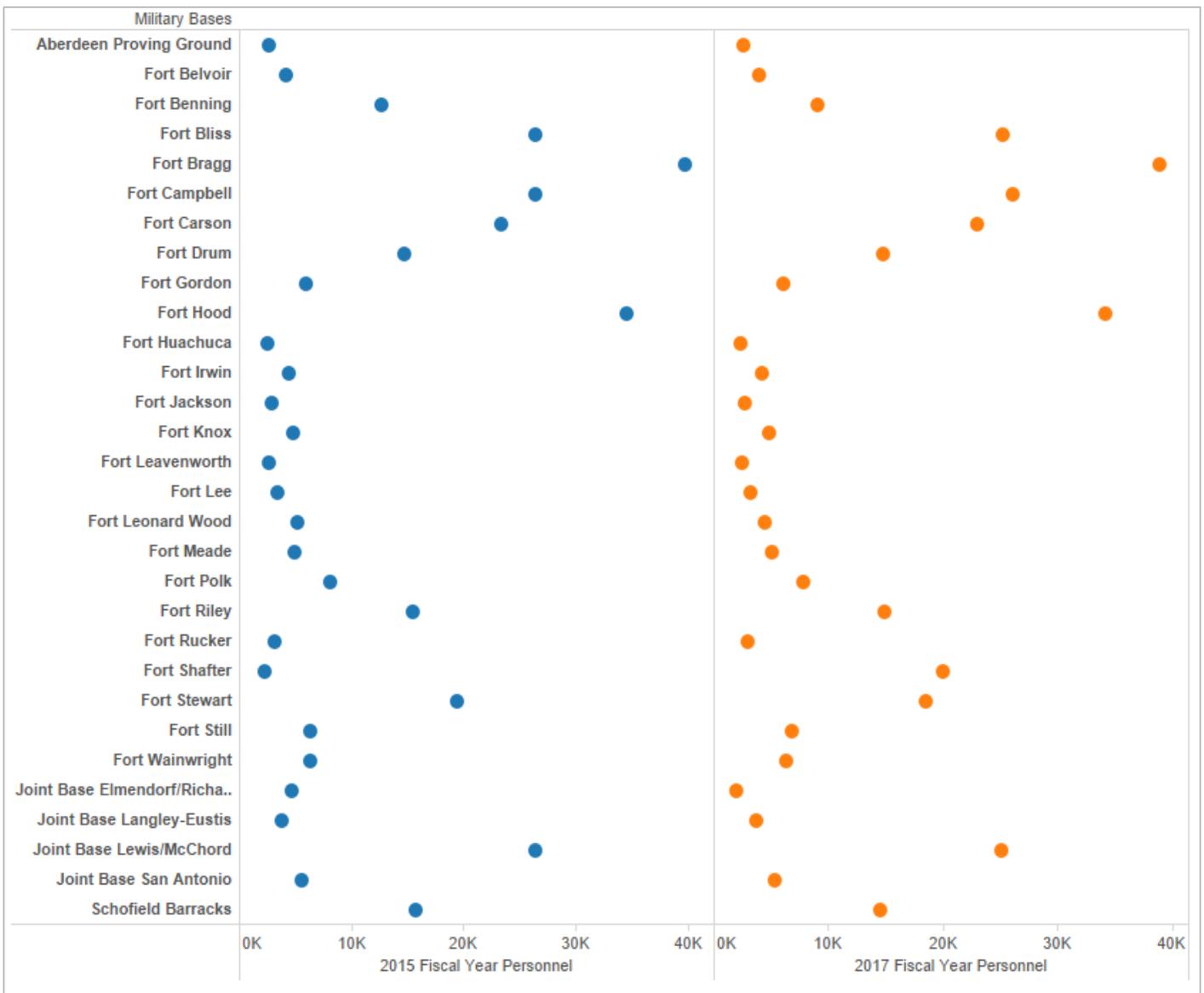
Source: [www.ArmyTimes.com](http://www.ArmyTimes.com)

## ... But Other Bases Will Actually Expand

Of the 30 bases detailed in a July 10, 2015 article in *The Army Times* regarding the Army's active duty reductions, three bases will expand over the next three fiscal years: Fort Gordon located in Augusta, GA will expand by 1.0 percent; Fort Knox located in Louisville, KY also will expand by 1.0 percent; and Fort Meade located in Fort Meade, MD will expand by 2.0 percent.

Nevertheless, the average percentage of contraction among the 30 Army bases is 6.9 percent. The 2015 fiscal year active duty personnel and 2017 fiscal year active duty personnel for these top 30 bases are noted in the graph below.

**Active Duty Personnel in Fiscal Year 2015 & 2017**



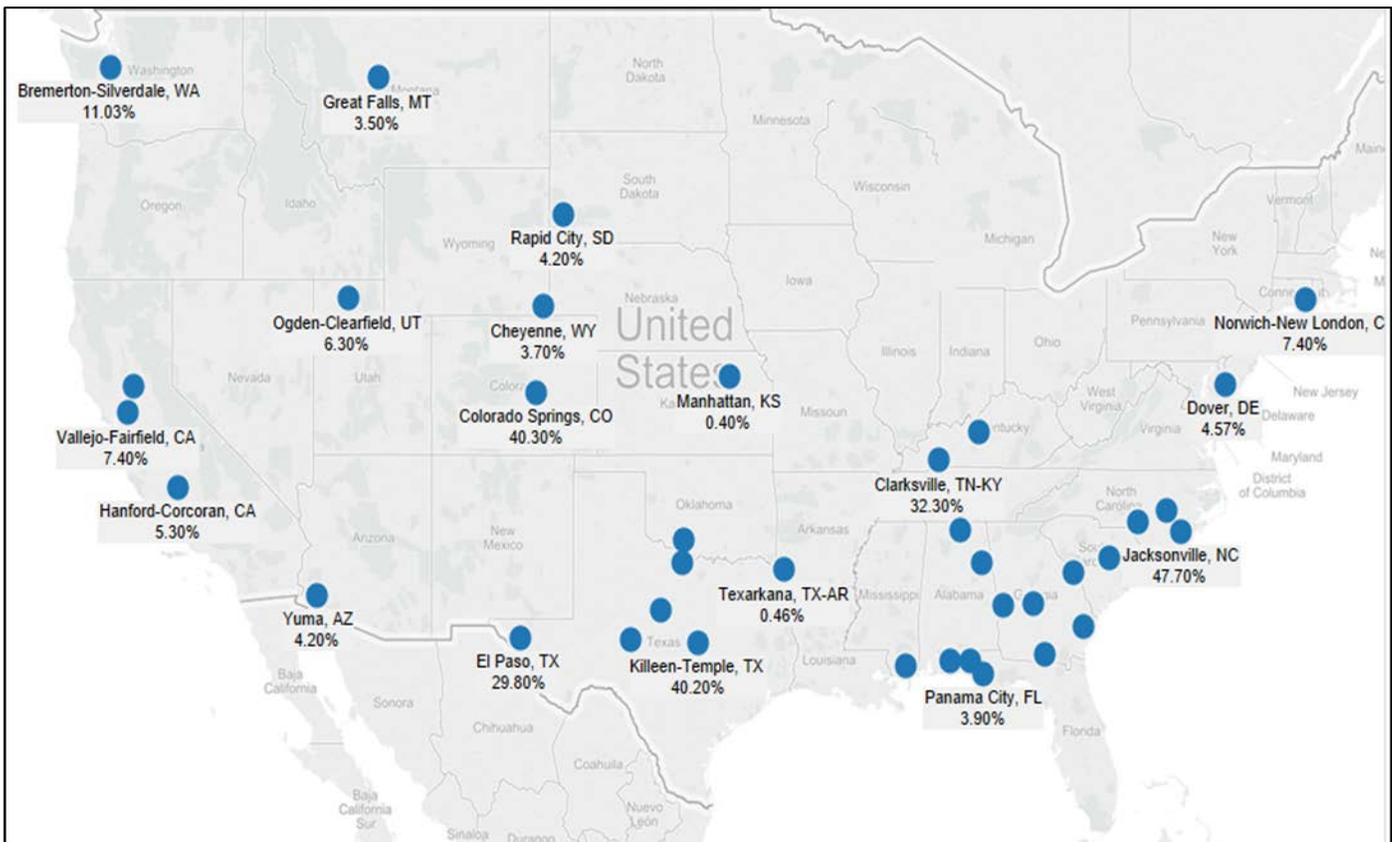
Big Impact on Military Employment...

Source: [www.ArmyTimes.com](http://www.ArmyTimes.com)

The reduction in the Army's troops over the next three years will affect military employment – both civilian and non-civilian – around the country. As a result of Sequestration and Base Realignment and Closure (BRAC) looming within the near future, many of the metro areas with higher military-concentrated local economies will lose more than just active troops. A few of the 30 most military-dependent metros can be seen on the map below.

For example, Fayetteville, NC, which is home to the country's largest base, Fort Bragg, has a military employment concentration just shy of 50 percent. The metro area with the second highest military employment concentration is Jacksonville, NC, with a concentration of 47.7 percent. Rounding out the top three is Colorado Springs, CO, at approximately 40 percent.

### **Military Employment by MSA as of Q1 2015**



Sources: BLS, Moody's Analytics

### **...Can Mean a Big Impact on Military Housing**

While the scheduled cuts over the next three fiscal years are expected to have an impact on the multifamily housing stock within all military-dependent metros, the metros with more economic diversity should be able to replace demand once the military cuts occur.

For instance, as seen in the table below, El Paso, TX has more than 37,000 multifamily units in its inventory. Fort Bliss is the leading employer in the El Paso metro, employing nearly 27,000 people. However, the next top nine employers in the metro are spread across various industries and the total number of employees mirrors that of Fort Bliss. With that being said, demand for multifamily housing in El Paso is expected to remain stable since there is sufficient economic diversity to offset the looming losses from a reduction at Fort Bliss.

Those metros whose multifamily housing demand is driven primarily by military employment are expected to struggle to replace that demand once the active duty cuts begin. For example, Fayetteville, NC has a multifamily housing inventory of nearly 15,000 units; however, approximately 48 percent of its economy is dependent on the military.

According to Moody's Analytics, Fort Bragg and Pope Air Force Base, Fayetteville's leading employers, employ nearly 62,000 workers. The next eight employers each employ fewer than 1,000 workers, highlighting the metro's lack of industrial diversity. With so much dependence on military employment, it may be difficult to replace the demand for the metro's multifamily housing sector as active duty cuts begin.

### **Rank of Top 20 Military MSA's by Multifamily Housing Stock**

<b>MSA</b>	<b># of MF Units</b>	<b>Military Employment</b>
<b>El Paso, TX</b>	<b>37,594</b>	<b>29.80%</b>
<b>Colorado Springs, CO</b>	<b>35,786</b>	<b>40.30%</b>
<b>Huntsville, AL</b>	<b>15,917</b>	<b>3.30%</b>
<b>Fayetteville, NC</b>	<b>14,475</b>	<b>48.20%</b>
<b>Columbus, GA-AL</b>	<b>13,664</b>	<b>22.80%</b>
<b>Augusta-Richmond County, GA-SC</b>	<b>12,203</b>	<b>12.43%</b>
<b>Vallejo-Fairfield, CA</b>	<b>11,374</b>	<b>7.40%</b>
<b>Killeen-Temple, TX</b>	<b>10,160</b>	<b>40.20%</b>
<b>Gulfport-Biloxi-Pascagoula, MS</b>	<b>9,974</b>	<b>10.40%</b>
<b>Panama City, FL</b>	<b>9,415</b>	<b>3.90%</b>
<b>Pensacola-Ferry Pass-Brent, FL</b>	<b>7,838</b>	<b>15.70%</b>
<b>Norwich-New London, CT</b>	<b>7,312</b>	<b>7.40%</b>
<b>Manhattan, KS</b>	<b>7,097</b>	<b>0.40%</b>
<b>San Angelo, TX</b>	<b>6,801</b>	<b>3.30%</b>
<b>Ogden-Clearfield, UT</b>	<b>6,531</b>	<b>6.30%</b>
<b>Clarksville, TN-KY</b>	<b>6,255</b>	<b>32.30%</b>
<b>Bremerton-Silverdale, WA</b>	<b>6,152</b>	<b>11.03%</b>
<b>Abilene, TX</b>	<b>6,138</b>	<b>4.56%</b>
<b>Wichita Falls, TX</b>	<b>5,931</b>	<b>4.40%</b>
<b>Rapid City, SD</b>	<b>5,592</b>	<b>4.20%</b>

*Sources: Census Bureau: American Community Survey 2009-2013 5 Year Estimates & BLS*

### **Top Three Military Bases – Multifamily Outlook**

#### **Fayetteville, NC (Fort Bragg)**

Fayetteville, NC is home to the largest military base in the country, Fort Bragg. Over the next three fiscal years, Fort Bragg is scheduled to lose 2.0 percent of its current military force. That 2.0 percent reduction is significant as Fayetteville, NC's local economy is very dependent on the base for employment. According to the Bureau of Labor Statistics, approximately 48 percent of Fayetteville's local economy is dependent on Fort Bragg and military employment. Since much of Fayetteville's local economy relies on military employment, multifamily housing demand may drop significantly in the 14,000-unit metro area.

## **El Paso, TX (Fort Bliss)**

El Paso, TX is also one of the larger military bases in the country, with an authorized personnel of approximately 26,000 troops. Through fiscal year 2017, the number of active duty troops will contract by 5.0 percent, reducing the total to 25,000. Fort Bliss is accountable for much of the local economy in El Paso – approximately 30 percent as of the first quarter of 2015. On the positive side, Fort Bliss' status as the main Army training facility in the western part of the country is expected to provide further insulation from cuts.

Additionally, El Paso is one of the more economically and industrially diverse military-dependent metros. Other large employers include the University of Texas at El Paso, El Paso Healthcare Systems, and Alorica, a call center with more than 1,700 employees. The metro also contains one of the bigger quantities of multifamily housing stock, with approximately 38,000 units. Due to its industrial diversity, housing demand should stay stable as there is not much new multifamily housing supply underway.

## **Hinesville, GA (Fort Stewart)**

Fort Stewart is the economic pulse of the Hinesville, GA metro area. Currently, Fort Stewart's active duty personnel is approximately 19,000 and through 2017 that number will contract by 5.0 percent. Even though Fort Stewart and military employment account for nearly 20 percent of the local economy, Hinesville lacks other primary economic drivers.

According to Moody's Analytics, Hinesville's industrial diversity is practically nonexistent, with a rating of 0.06. Once the Army begins to initiate the active duty cuts in the Hinesville metro, it is estimated that the workforce reductions will account for nearly \$850 million in annual economic losses. Although the multifamily housing supply is only 1,800 units, the high dependence on the military likely will be a significant blow to multifamily housing demand as the metro appears to lack other options for economic stability.

## **Further Challenges Imminent**

As of September 30, 2015, the Army announced it has cut approximately 15,000 troops, with approximately 25,000 additional cuts already planned through 2017. Coupled with the beginning of Sequestration, the beginning of fiscal year 2016 could potentially bring even more cuts to the Army, including active duty, Army civilian, and potential sequestration-related reductions. Metro areas that are dependent on the military as an economic driver and lack other value-add industries to generate economic growth are expected to feel the biggest impact from the Army troops reductions.

Multifamily housing in the military-dependent markets is already limited due to smaller population sizes and limited new multifamily housing supply. Military housing will likely face challenges over the next three years as military employment reductions take effect. However, those challenges will differ depending upon the location of those bases and the economic and industrial strength of those metros.

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