

RCI Program Financial / Fee Information

December 2002

The Army understands that rates of return differ based on a number of variables. For purposes of evaluating Statements of Qualifications provided in response to Residential Communities Initiative (RCI) solicitations, an industry standard range of fees is provided below. These fees will not be considered in isolation and will in no way be a determinant of actual fees or fee structures negotiated during the Community Development Management Plan (CDMP). Developers are encouraged to exercise creativity in crafting both their fee structure and organization structure in order to maximize funds available for improving the quality of life for soldiers and their families.

1. **Property/Asset Management** - The Army expects that there will be a fee or series of fees associated with the property management and asset management as in the private sector. However the developer describes the fees associated with the management of the operations of the project and the operations of the entity for the project, the Army expects that, when combined, the fee(s) will be in a range of 3% to 5% of gross rent for available units less vacant units. Moreover, a material portion of this/these fee(s) should be performance based. In addition, given DOD's zero out of pocket BAH initiative, the Army expects there to be a mechanism built into this fee structure that will guard against "windfall profits" going to the developer as related to this initiative.

2. **Development Management** - The Army expects a development management fee structure that will range between 3% and 5% of the total development costs. The amount included in total development costs will be agreed upon during the development of the CDMP for the project as will the reimbursement, if any, associated with the development staff for the project. The entire development fee should be at risk to the developer in the event that the scope milestones, agreed upon prior to closing, are not achieved due to events within the developer's control.

3. **Construction Management** - The Army expects that the fee paid to the general contractor will be within a range of 3% to 6% of the total hard cost of construction. A material portion of this fee should be performance based. The amount included in total hard cost will be agreed upon during the development of the CDMP for the project. The Army expects that the annual reimbursement of direct costs associated with the construction (i.e. general conditions and/or overhead) will be evaluated and approved as a budget item each year of the construction.

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4. **Other Fees** - The fees listed above are intended to cover the full array of services provided by the selected developer and accordingly the Army does not expect to pay any other fees to the selected developer out of project funds. In the event that the selected developer has another fee proposed, it will be included and evaluated within one of the three categories listed above.

5. **Return on Invested Equity** - Any cash split proposed by the developer should be treated as the mechanism for the developer to receive a return on his at-risk equity. If there is no contributed equity, the developer should not expect to receive a share of excess cash flow. The developer will be expected to propose a return on his invested equity that is consistent with the risk and duration associated with his investment in this project. The Army does not believe that the risk of capital invested in these projects is commensurate with the equity risk associated with residential development in the private sector. The Army expects the offeror to include a cap on the annual return on investment the developer expects to receive. Caps based on statistics such as "internal rate of return" are not appropriate given the long-term nature of the ground leases.

6. **Summary** - The information provided above is intended to assist the offeror in responding to a Request For Qualifications (RFQ). The Fees and Return on Invested Equity will be reviewed and evaluated both individually and in their entirety for comparison purposes during the selection process and ranked according to the overall financial impact that the proposal has on the project. The selected developer from the RFQ process should expect that, as with all other aspects of their RFQ plan for the project, that the specific details, including the final amount of each fee, will be concluded during the CDMP phase. For additional Program Information, contact the RCI office at 703-692-9898.