

Will Military Base Closures Mortally Wound Local Real Estate Markets?

By BRUCE KENNEDY

Posted 6:00 AM 08/23/10 | Economy, Real Estate

The Department of Defense's Base Closure and Realignment Commission (BRAC) plans to close 20 military bases across the country by Sept. 15, 2011. Once a military facility closes, the ripple effect is felt throughout the surrounding communities: families lose neighbors, businesses lose customers and workers lose jobs. In this series of stories, DailyFinance looks at how closures have affected communities in the past, and at what some military families and the businesses that cater to them plan to do once their base closes.



U.S. Navy

Unlike the military base closures that occurred in the 1990s, the 20 bases scheduled to close next year come at a time of great economic uncertainty. Many U.S. cities and towns, from Hawaii to New England, are bracing for the vast hole that will be created in their communities when the local military packs up and leaves. Not only will it take a toll on already-suffering local economies but it could also send real estate markets spiraling even further downward, clouding all prospects that a housing recovery might occur anytime soon.

Those living in the community surrounding Atlanta's Fort McPherson could see residential and commercial real estate prices drop even more precipitously once the base closes in September 2011. Named for a Union general killed during the Battle of Atlanta, the base has been part of that city's tradition and culture for more than a century. Its 488 acres contain 40 buildings listed on the National Register of Historic Places, as well as a variety of administrative buildings and an 18-hole golf course. It has also been one of Atlanta's largest employers, with a total active duty payroll for 2004 reported at \$106.8 million.

The Bright Future Envisioned for Fort McPherson

Of course, there are big plans for the land once the military moves out. Like former BRAC sites, Fort McPherson plans to open up a space that has long been closed to its neighbors. With the City of Atlanta's backing, architecture firm HOK is planning a 130-acre green way, along with community centers and mixed-access commercial development, to reconnect Fort McPherson to the surrounding community.

Monte Wilson, the senior vice president of HOK, notes that while military bases have long been part of the community, they also tend to operate apart from it. "Because of the fence, the disconnect, the street grid and other things are not extended out into the community and the community...does not have access to the base or the amenities that are there," he says. "So the challenges are finding a way, as the base redevelops, to make those connections."

Some Atlantans are looking at Denver's redevelopment of Lowry Air Force Base, begun nearly a decade ago, as an example of what the post-BRAC Fort McPherson could become. But there is one key difference between Fort McPherson today and Lowry

ten years ago: the economy. Currently, Atlanta is facing a real estate meltdown. The 13 counties making up Metro Atlanta recently set a record for foreclosures, part of what one analyst calls "a self-feeding monster" in the real estate market.

An Uphill Battle

Alan Wexler, president and CEO of Atlanta-based Databank, notes the vacancy rate for the city's commercial real estate is currently hovering around 20% to 25% and that the Fort McPherson redevelopment is facing an uphill battle. "The best wisdom is nobody's going to do very much, in the large scale at least, with any of those properties right now," he says.

But Wexler, a 40-year veteran of the region's financial ups and downs, says the current situation reminds him of the early 1970s during the oil embargo. "[T]here were similar vacancies and a tremendous number of overbuilt houses and lots. It was the same scenario and it was 22% interest." And while banks are not lending, he says, they are flush with money. "It's not going to take long for them to say, 'hey, regardless [of the economy], real estate is a good investment.'"

The Pentagon is also aware of the importance of helping closed bases make a successful transition back into their local communities and economies. Dr. Gordon Von Stroh, professor of management at the University of Denver's Daniels College of Business, worked on the redevelopment of Lowry Air Force Base. The military, he says, doesn't have an alternative but to help with such redevelopment.

"The fact is, it's simply good business for them to clean up a situation and remove residue -- chemical and political," he says. "When there is a base closure, you have a lot of people who are concerned and displeased. From the political perspective, the military is trying to minimize some of the negative impacts, so they can get overall support for the base closure list and don't have too many members of Congress trying to derail the process."

Getting Over the Psychological Hurdles

After it was announced that the local Naval Air Station in Brunswick, Maine was targeted to close next year there was a lot of "woe and gloom" in town, says Michael Feldman, who sells real estate in the area. He says it's been difficult for Brunswick residents to come to grips with the impending loss of the Naval Air Station, but economically, things could be much worse.

Luckily, the base isn't the region's only economic engine -- there's also tourism and local colleges. And, in the years leading up to the recession, Midcoast Maine didn't go through the economic boom seen in much of southern New England. "We had half the boom, so we got half the bust," he says. "It's been tough, but the housing market in Brunswick is not bad. Local unemployment is the same as Portland, about 8.5 %, not the same as the distressed areas in the state."

"There's only one or two stores closed on Maine Street, not 50," he says. "Our downtown isn't deserted. Houses have dropped in value, 25% in 3-4 years, but that's less than most of the country."

And there are ambitious plans to redevelop the Brunswick site, as well. Last month, Kestrel Air announced plans for a \$100 million civilian aircraft manufacturing plant as part of the base's redevelopment -- a project that could create more than 300 jobs.

State officials are also trying to set up the Brunswick Naval Air Station as a composite technology center -- in part by establishing an engineering program on the Naval Air Station grounds with the University of Maine. Nearby Bowdoin College is also supposed to get some of the base's grounds, "with one proviso," says Feldman, "that they start building now, during the recession, when they need the business."

Also in this series:

Military Base Closures and the Towns They Leave Behind

Denver's Lowry Air Force Base Defies the Odds

California's Castle Air Force Base Learns a Hard Lesson in Reinvention

A Maine Town's Long Recovery After Losing Loring AFB

Tagged: Atlanta, Base Closures, BRAC, Brunswick, Brunswick Naval Air Station, closures, department of defense, employment, foreclosures, military, military base
