



*executive committee of
the directing council*

PAN AMERICAN
HEALTH
ORGANIZATION

*working party of
the regional committee*

WORLD
HEALTH
ORGANIZATION



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BUILDINGS AND INSTALLATIONS

Headquarters Governor Shepherd Building

Background

In 1968 the Directing Council at its XVIII Meeting requested the Director to study the Organization's long-term space requirements in view of the fact that space in the Headquarters building was insufficient.

In 1969, with the approval of the 61st Meeting of the Executive Committee (Res. XXI) and the XIX Meeting of the Directing Council (Res. XXIX), the Organization purchased the Governor Shepherd Building at 2121 Virginia Avenue (across the street from the Headquarters Building). This acquisition solved the short- and intermediate-term space requirements. It also provided the basis for solution of long-term requirements because the land would be available for eventual construction of a new building.

The Governor Shepherd Building was acquired as an investment to be operated on a self-financing basis, consequently no appropriation of funds was requested or required. It is operated by a professional building management firm. The Organization has converted apartments to office space on 3-1/2 floors, for which it has paid the cost of conversion plus a rental equivalent to the rate for apartments. This is substantially lower than the rental price for ordinary commercial space and over the 10-year period has saved PAHO over \$500,000. The income from operation of the building consists of rents from 5-1/2 floors of apartments, one floor for commercial enterprises, and 3-1/2 floors of office space. The excess of income over expenses is used to amortize the cost of the building.

The purchase price of the property was \$1,400,000 plus \$10,834 for expenses of acquisition. This was met by assuming an existing mortgage (at 5.5% interest) for \$437,766 and advancing \$973,068 by converting

reserve funds from investment in securities to an investment in this building. By the end of 1979 the amortization of the investment had returned \$783,474 to PAHO and had paid \$163,666 on the mortgage. Thus \$463,694 (\$274,100 mortgage balance and \$189,594 PAHO advance) remains to be amortized. The value of the property is estimated at \$2,394,000 (land \$1,726,275 and building \$667,725). Deducting the unamortized amount of \$463,694, PAHO's estimated net equity is \$1,930,305. This asset value has been achieved net of all costs to the Organization.

Current Status

A stage has been reached when decisions are required concerning the future of this property. The Governor Shepherd, built in 1939, still is in good structural condition. However, the operating systems and protection from weather will soon require substantial and costly repairs and replacement. More specifically, the systems requiring major repair or replacement are heating and ventilating, electrical power, plumbing, and elevators. Major work is also needed on the roof and exterior to ensure a weathertight building. Immediate cost for plumbing and weather proofing is estimated at \$100,000. Costs several times the amount will need to be incurred in the next few years for heating and ventilation, electrical power and elevators.

Before incurring these expenses it was considered timely to have a complete study of the potential use of this property in the best interest of the Organization. Accordingly, after an analysis of competitive bids and professional qualifications, the firm of Mills, Claggett and Wening, Architects, Engineers and Planners, was contracted to carry out a study of the Governor Shepherd property.

Purpose of the Study

The purpose of the study was to identify the best economic use of the property taking into account the Organization's estimated long-term need for 40,000 gross square feet of office space (net usable space of about 34,000). The Organization now uses a little over 35,000 gross square feet. The remaining space would be available for rental, or for sale in case of a condominium development. In the latter use, the Organization's ownership would be reduced to the office space and it would be relieved of the problem of operating rental property.

Analysis of Market Conditions

The study included an analysis of market conditions and the economics for all uses, as well as limitations due to zoning or other

legal constraints. The principal factor affecting economic return on rental apartments is the District of Columbia's rent control, which reduces sharply the economic return on such rental space. For rental offices there is no price control, but the zoning laws restrict the zone where the Governor Shepherd is located to noncommercial office use. Also because of the zoning laws the floor area ratio is more restricted for office use. For hotel use here is currently a legal prohibition on the conversion of rental apartments into hotel rooms. Condominiums have been increasing rapidly because they are not subject to price controls and they allow maximum floor area ratio use. There are restrictions on conversion of an existing building to condominiums.

Recommended Action

In order to adequately consider the analysis of the many alternatives proposed by the consulting firm of Mills, Clagett and Wening, it will be necessary to examine in detail the economic data which has been assembled in order to determine from among the range of possibilities which options would most benefit the Organization. In addition, the financial feasibility of the proposed alternatives would need to be carefully considered.

In view of the complex nature of the options set forth in the consultant's study, which was only recently prepared, it is proposed that three members of the Executive Committee be appointed as a subcommittee to analyze alternatives. On the basis of the findings and recommendations of the subcommittee, recommendations would be made to the 86th Meeting of the Executive Committee for appropriate action.