

*executive committee of  
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88th Meeting  
Washington, D.C.  
June-July 1982

Provisional Agenda Item 13

CE88/21 (Eng.)  
5 May 1982  
ORIGINAL: ENGLISH

GOVERNOR SHEPHERD BUILDING. PROGRESS REPORT

The Director submits for consideration of the 88th Meeting of the Executive Committee a progress report on the development of the Governor Shepherd Building, in accordance with Resolution XXIX of the XXVIII Meeting of the Directing Council (1981) and Resolution II of the 87th Meeting of the Executive Committee (1981) (Annexes I and II).

During the period October 1981 through May 1982, contacts were established with developers and solicitations for bids were sent to seven developers selected for their general reputation and experience in this type of project in Washington. The solicitation described the project and requested bids for participation in the equity of the project, on the theory that having a developer-equity partner would be the most prudent means of assuring that risks and costs are minimized. After receiving written responses, extensive meetings were held with four of the developers.

In order to further analyze the situation and to prepare for meetings with bankers and insurance companies, PAHO contracted a real estate economic consultant firm, Gladstone Associates, to prepare a "mortgage package" and to assist in negotiations with potential funding sources and mortgage bankers. It is expected that this process will be completed in May 1982.

The Organization made extensive inquiries in connection with the possible acquisition of one or both of the adjacent properties initially considered--the Hirsch and Gulf Oil properties. It has been determined that the Hirsch property is not for sale at a reasonable price. The owners of the Gulf Oil property, after extensive negotiations, did not respond to the Organization's offer to purchase at a concessional rate, but indicated their willingness to sell the property outright at full market value. Since the property sale price is considered too high, the Organization considers that no further action should be taken to pursue the purchase of these properties at this time.

Finally, in accordance with the terms of Resolution XXIX, operative paragraph 6 (c), the Director has convened the Working Group on development of the Governor Shepherd Building to meet in Washington, D.C., on 17 and 18 June 1982, in order to analyze the data gathered by the Secretariat and further advise him on this project.

Annexes



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XXVIII Meeting

XXXIII Meeting

CE88/21 (Eng.)  
ANNEX I

## RESOLUTION XXIX

## GOVERNOR SHEPHERD BUILDING

## THE DIRECTING COUNCIL,

Noting that the Governor Shepherd Building, 2121 Virginia Avenue, N.W., Washington, D.C., 20037, owned by the Pan American Health Organization, requires substantial and costly repairs and replacement of operating systems, including heating, ventilating, electrical power, plumbing and elevators,

Considering that a consulting firm of architects, engineers, and planners has conducted a feasibility study of development possibilities for the Governor Shepherd property, and has recommended a number of options for development;

Having examined the report of the Executive Committee (CD28/37), and having heard the recommendations of the Working Group established by Resolution I of the 85th Meeting of the Executive Committee;

Noting that certain details of the proposed project cannot be placed in final form at this time; and

Considering that the present members of the Working Group have a thorough knowledge of the background and are fully informed as to the factors which must be considered in the development of the Governor Shepherd site and that continuity of membership is important,

## RESOLVES:

1. To express its thanks to the Director, the Executive Committee and its Working Group for the work accomplished in relation to the Governor Shepherd site.
2. To approve the recommendations of the Working Group in relation to the project for development of the Governor Shepherd site.
3. To establish a Subcommittee of the Directing Council on the Governor Shepherd site, which will
  - a) Consist of the present members of the Working Group, i.e., the Representatives of Chile, Jamaica, and the United States of America;
  - b) Serve to advise the Director and the Governing Bodies of the Organization on matters relating to the project;

- c) Submit its reports to the Executive Committee, and keep the Directing Council informed of its activities.

4. To authorize the Director to take all actions necessary to develop the project and to accomplish the demolition of the existing Governor Shepherd Building and the construction of a new building which provides the following contents:

- a) At least 60,000 square feet shall be reserved for present and possible future use by the Organization; the portion of this space not used by the Organization shall be rented at prevailing rates for office or other accommodations in accordance with zoning requirements;
- b) At least 60,000 square feet of space shall be devoted to residential apartments to be sold or otherwise disposed of as expeditiously as possible in order to finance part of the cost of construction;
- c) The remainder of the building may be devoted to other appropriate public or private uses, including lease or sale of commercial space, as specifically approved by the Executive Committee.

5. To authorize the Director:

- a) To acquire and take title to one or both of the adjacent properties studied by the Working Group and to incorporate such adjacent property into the project, provided that the acquisition can be accomplished in a timely fashion, and will ultimately enhance the overall financing terms, value and use of the project, and provided that the Executive Committee specifically approves the final terms of such acquisition;
- b) To undertake negotiations with foundations, international organizations, financial institutions, including commercial banks, and other possible sources of revenue, in order to develop financing for the project on the best possible terms, provided that the terms so negotiated shall impose no special assessment on Member Governments and shall have no negative impact on the regular budget or the effective conduct of the Organization's program, and provided that the Executive Committee specifically approves the final financial arrangements;
- c) To execute and deliver on behalf of the Organization all documents, instruments and agreements necessary for the project, including, but not limited to, the necessary borrowing of funds and any necessary sale of Organization property or ownership rights related to the project, as specifically approved by the Executive Committee.

6. To authorize the Executive Committee:
  - a) To review and approve, within the terms of this resolution, the documents, instruments and agreements and final financial arrangements related to the project, the design of the building, and any proposal for significant adjustments in the proportionate use of space in the building;
  - b) To have full power and authority to act on behalf of the Organization regarding the project;
  - c) To delegate to the Subcommittee on the Governor Shepherd site any and all of its powers and authority regarding the project (except as specifically described in paragraphs 7 and 8 below), including those set forth in this resolution and in PAHO Financial Regulation 6.9.

7. To further request the Director, in the event that he determines that financial or other circumstances will render the project described in this resolution impossible or not in the best interests of the Organization, to make further proposals regarding the use or other development of the Governor Shepherd site to the Subcommittee, for its advice and thereafter to the full Executive Committee, for its decision.

8. To request the Executive Committee to report to the Pan American Sanitary Conference and the Directing Council on the status of this project.

(Approved at the fifteenth plenary session,  
1 October 1981)



EXECUTIVE COMMITTEE OF  
THE DIRECTING COUNCIL

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87th Meeting

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CE88/21 (Eng.)  
ANNEX II

RESOLUTION II

SUBCOMMITTEE ON THE GOVERNOR SHEPHERD SITE

THE EXECUTIVE COMMITTEE,

Having examined Resolution XXIX of the XXVIII Meeting of the Directing Council;

Noting that the Directing Council has established a Subcommittee on the Governor Shepherd Site to advise the Director and the Governing Bodies of the Organization on matters relating to the development of the Governor Shepherd Site; and

Considering that it is essential that action on the development of the Governor Shepherd Site occur as expeditiously as possible,

RESOLVES:

1. To delegate to the Subcommittee of the Directing Council on the Governor Shepherd Site its power and authority to act on behalf of the Organization regarding the project, in accordance with the provisions of paragraph 6 (c) of Resolution XXIX of the XXVIII Meeting of the Directing Council, with the understanding that the Subcommittee may, at its own discretion, refer any matter so delegated back to the full Executive Committee for its decision.
2. To request the Subcommittee to submit a full report on its activities at the next Meeting of the Executive Committee.

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88th Meeting  
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Agenda Item 13

CE88/21, ADD. I (Eng.)  
24 June 1982  
ORIGINAL: ENGLISH

GOVERNOR SHEPHERD BUILDING. PROGRESS REPORT

In conformance with Resolution XXIX of the XXVIII Meeting of the Directing Council in September 1981, the Subcommittee of the Directing Council on the Governor Shepherd Site met at PAHO Headquarters on 17-18 June 1982.

The Meeting of the Subcommittee, consisting of representatives of Chile, Jamaica and the United States of America, was opened by Dr. Héctor R. Acuña, Director of the Organization. Mr. William E. Muldoon reviewed briefly the activities which the Organization has undertaken since October 1981. In addition, the new consultants which have been retained by the Secretariat were introduced and made available to the Subcommittee to answer any questions. Besides the architectural consultants of Mills, Clagett and Wening, Chartered, the law firm of Shaw, Pittman, Potts and Trowbridge, and economic consultants, Gladstone Associates, have been retained.

The Subcommittee was presented the results of bid solicitations made by PAHO to local developers regarding the mixed-use project as approved by the Directing Council. Of the six bids received, most were not interested in and all cast doubt on a mixed-use project, due to the current financial market situation. Due to high interest rates, the bidders felt that the sale of condominiums would be highly risky.

Gladstone Associates was asked to prepare a feasibility study and to assist in negotiations with potential funding sources. Gladstone Associates received responses from seven organizations, including mortgage brokers, commercial banks and an insurance company, indicating that both office and condominium projects were difficult to fund at this time, but that an office project was more likely to receive financing.

The Subcommittee reviewed charts which highlighted the financial difficulty of several existing condominium projects in the metropolitan area, resulting from lack of sales due to high mortgage interest rates.

The Subcommittee was also presented with two additional preliminary proposals from nonconventional sources, one foreign and one U.S. But since there was insufficient information available, the proposals could not be reviewed in substance.

It became clear to the Subcommittee that the present information indicated that a FAR 6.0 mixed-used building was still the most potentially beneficial venture for PAHO, but, due to the financial market, it did not appear likely that a source of funding for the project could be obtained.

On the other hand, a FAR 3.5 office building appeared to be fundable, but potentially not of optimum benefit to PAHO, since it would likely require additional monetary resources from the Organization for the office space occupied by PAHO and/or sale of the land at its current face value. Some doubt was also expressed about the future market for office space that would not be occupied by PAHO, since there is considerable construction of new office space in the area already underway, and this may lead to an oversupply. However, office rental was deemed to be less risky than the sales of condominium apartments.

It was also clear that combinations or variations of these two options were available, and in the eyes of the Subcommittee should be explored further. These included:

- Construction of a mixed-use building with less than the 6.0 maximum FAR (which would provide at least some return from condominium sales, while reducing the risk of non-sale of these apartments);
- Consideration of condominium office space within a 3.5 FAR building, which would provide quick return of capital to PAHO and reduce overall PAHO outlays for the space that it would occupy;
- Exploration with Member Governments of PAHO of the potential interest in purchase of condominium apartments in the building (which is close to offices visited frequently by officials and visitors from Member Governments) to establish whether there is a possibility of sufficient pre-sale that might minimize the risk of construction of condominium apartments;
- Entry into partnership with other interested parties in order to minimize any negative financial impact on PAHO and to ensure maximum occupancy of the available office space;
- Association with European and other nontraditional sources of finance (assuming these would prove to be in PAHO's overall interests).



It is the view of the Subcommittee that all of these sub-options should be further explored.

A third basic option (beyond the FAR 6.0 mixed-use and the FAR 3.5 office structure) remains: that of not proceeding with any new building at the current time, but of making necessary repairs to the current structure and of keeping the market conditions under review for possible construction of a new building of greater financial advantage to PAHO at some point in the future.

The dilemma facing the Subcommittee, as a representative of the Governing Bodies, was the degree of authority to grant to the Secretariat in the face of the many options available. On the one hand, negotiations in real estate development require fast action relatively unencumbered by the need to refer action to disparate committees for approval. On the other hand, the relative options are at this point basically unstudied and uncomparated, and the financial impact on PAHO of any of the options is unknown and none may turn out to be to PAHO's ultimate benefit.

In the face of this dilemma, the Subcommittee developed a set of guidelines to assist the Secretariat in being more flexible while, at the same time, staying within the basic framework of what the Subcommittee saw as the desires of the Governing Bodies. Under the guidelines, the ultimate project would:

1. Provide PAHO with office space amounting to 30,000 square feet now, with potential expansion up to 50,000 square feet, at low overall cost.
2. Include financing on the best possible terms, provided that the terms so negotiated impose no special assessment on Member Governments and have no negative impact on the regular budget or the effective conduct of the Organization's program.
3. Be accomplished with all reasonable speed in order to avoid potentially expensive future maintenance of the current Governor Shepherd building and to minimize disruptions to the PAHO staff and the neighborhood.
4. Avoid public relations problems involving the termination of leases of the current tenants in the building.
5. Recognize that PAHO would prefer to maintain majority ownership to the land it now holds.

6. Ensure that PAHO obtains a reasonable return on the equity it puts into the project, including the value of the land, the space and the saleable tax benefits.
7. Minimize the amount of "real estate management" work that must be handled by PAHO staff.

If action on the project proceeds, the selection of a "preferred developer or partner" in view of the Subcommittee, is likely to be the first major step following review of the comparative analysis by the Subcommittee. This should be pursued with the utmost care, with preference going to a developer that has an excellent reputation, strong financial backing, experience in construction and administration of similar buildings in this area, and a willingness to assume some degree of risk regarding sale and/or rental of the property. The preferred developer should then present various architectural and financial options so that a choice may be made as to the ultimate form of the project.

To facilitate these tasks, the Subcommittee decided to recommend that the Executive Committee adopt the resolution at the end of this report. This resolution would ensure that PAHO and appropriate consultants continue to explore the available options and combination of options, particularly the financial impact of each on PAHO. The resolution would also ensure opportunity for approval by the Subcommittee of the major decisions involved in the project, including the ultimate form of the project to be developed, and the final financial and other arrangements in proceeding with the Resolution of the XXVIII Meeting of the Directing Council. The final financial and other arrangements also would be confirmed by the full Executive Committee.

In proceeding along the lines of the proposed resolution, it should be recognized that a decision by the full Executive Committee could result in the termination of action on the project until circumstances more propitious to PAHO were present. However, it should clearly be seen that the intention of the Executive Committee, following upon the detailed steps in this report, is that PAHO proceed in good faith with development of a project involving a new building and that only in the presence of clear disadvantage to PAHO would the decision be made to abandon the project.

In recognition that more than \$160,000 had been spent in development of this project, up to the end of May 1982, the Subcommittee expresses the hope that the Director will manage to keep costs to PAHO to a minimum in pursuit of further action under the proposed resolution.

The resolution proposed by the Subcommittee is as follows:

Proposed Resolution

GOVERNOR SHEPHERD SITE

THE EXECUTIVE COMMITTEE,

Considering Resolution XXIX of the XXVIII Meeting of the Directing Council and Resolution II of the 87th Meeting of the Executive Committee on the plans for development of the Governor Shepherd site;

Having heard the report and recommendations of the Subcommittee of the Directing Council on the Governor Shepherd Site, established in Resolution XXIX of the XXVIII Meeting of the Directing Council;

Noting that due to financial and other circumstances, the project described in Resolution XXIX of the XXVIII Meeting of the Directing Council appears at this time not to be feasible or in the best interest of the Organization;

Noting the need for more flexible authority to meet changing conditions and developments as they occur; and

Acting pursuant to the authority vested in the Executive Committee by paragraphs 6 and 7 of Resolution XXIX of the XXVIII Meeting of the Directing Council,

RESOLVES:

1. To express its thanks to the Director and the Subcommittee for the work accomplished in relation to the Governor Shepherd site.

2. To reaffirm the authority granted to the Director to pursue negotiations for development of the Governor Shepherd site, under the conditions and provisions set forth in paragraph 5 of Resolution XXIX of the XXVIII Meeting of the Directing Council.

3. To request the Director to develop detailed comparative data on all feasible options for development of the Governor Shepherd site, including proposals already received, or appropriate revisions of those proposals, as indicated in the report of the Subcommittee, and to keep the Subcommittee informed of his progress.

4. To authorize the Subcommittee to provide approval of (a) the ultimate form of the project to be developed, and (b) the final financial and other arrangements in proceeding with a new building, with item (b) to be passed upon by the full Executive Committee.