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HEADQUARTERS BUILDING

The present Headquarters Building was completed in 1965 at a cost of $6,906,170. Shortly after completion, it was recognized that additional space would be needed, and in 1969 the Organization bought the Governor Shepherd Apartment Building (now 2121 Virginia Ave.) with a view to expansion. The first offices were transferred to the Governor Shepherd Building in the early 1970s. Over the years the Organization increased its use of space in that building until eventually more than half was used for offices. By 1980 it was clear that the Organization would soon face major expenditures for heating, electrical, plumbing and air conditioning systems as the Governor Shepherd Building had been built in 1939 and was designed for residential purposes.

As a result, in the early 1980s it was decided to use a developer to construct a new building. The replacement of the Governor Shepherd Building was accomplished at little expense to the Organization's budget by using a development agreement. This arrangement also provided 30,000 square feet of office space at a very low net rent, retained legal title to the land in the name of the Organization, and provided for eventual transfer of the building at 2121 Virginia Ave. to PAHO for the payment of $1.00. In May 1987 various offices moved into the new building at 2121 Virginia Ave.

The Headquarters Building is now 25 years old. During the 1990s the air conditioning, heating and elevator systems will reach the end of their expected life cycles. In addition, some major expenditures will be necessary for plumbing and electrical systems. The Organization has obtained the services of a consulting engineering firm which estimates the cost of replacing or upgrading the systems mentioned above at $2,519,370 in 1990 dollars. This total does not include work on the outside and roof of the building and the facade of Room A, which will require repair and caulking. It is safe to assume that the Organization will have to spend in excess of $3,000,000 in 1990 dollars on major maintenance of the Headquarters Building during the 1990s.

In addition to the Headquarters Building, which contains about 140,000 square feet of usable space, the Organization currently leases 30,000 square feet of office space at 2121 Virginia Ave. and subleases 10,000 square feet at the Watergate Office Building for a total of about 180,000 square feet. Additionally, there are small amounts of leased space for storage, photographic dark rooms, etc. While the Organization currently enjoys a very favorable sublease of 10,000 square feet in the Watergate Building, it expires in June 1991. It is anticipated that rental payments for that space will double to market value next year.

Although employment has been stable in most PAHO programs for some years, there has been growth in the Global Program on AIDS and other specialized programs supported by extrabudgetary resources. Available space is already overcrowded with some negative impact on the working conditions, especially for Emergency Preparedness, Public Information, the Expanded Program on Immunization, the Global Program on AIDS, the Pan American Health and Education Foundation, etc. No space is available or is insufficient for basic and needed support services such as a full-service cafeteria, health room, exercise room, daycare center, offices for short-term consultants, meeting rooms and expansion. It is expected that in 1992 renting at least an additional 10,000 square feet of office space will be unavoidable. Because virtually all land and office space in the immediate area of the Headquarters Building is owned or controlled by either the United States Government or George Washington University, the Organization's space options are exceedingly limited. The current rent per square foot per year now averages about $30 in this part of Washington and has been rising about 7% a year.

The Organization has engaged a consulting firm of space planners to review our current leases, anticipated space needs in 1992, and current market conditions. Projecting based upon known and anticipated space needs in light of historical and current rental rate trends, the Organization would have to pay a total of $21,213,895 in rent between 1990 and 2000. Offsetting this cost is an expected income from the Virginia Avenue land and miscellaneous reimbursements of $8,542,405. The net rental outlay the Organization can thus expect to pay in the decade of the 1990s is $12,671,490. In essence, the rental cost of 30,000 square feet at 2121 Virginia Ave. is very largely covered by the land lease payments, as was anticipated in the development agreement. The net cost of $12,671,490 arises principally from current and anticipated rental space requirements other than 2121 Virginia Ave.

In view of these maintenance and rental costs, it seems prudent at this time to review all options available to the Organization. Broadly speaking, there are four principal options. They are:

1. Do Nothing. This choice would not be cheap. As described elsewhere in this document, present and anticipated rental needs during the next decade will cost $21,213,895, less an income of $8,542,405. The

cost projections may very well be underestimated, since office space is very scarce in this neighborhood. These costs also do not include indirect and difficult-to-quantify expenses associated with separation of units, extra communications charges, shuttle transportation, and the negative results of poor and crowded working conditions. Finally, there would be about $3,000,000 in maintenance and repair costs.

2. Reconfigure the Present Headquarters Building. This would be a complex and lengthy process. The long, rather narrow nature of the Headquarters Building defeats the optimum use of space-efficient modular offices. Additionally, for modular offices the heating and cooling systems on every floor, not just the central equipment, would have to be totally replaced. The reconfiguration would cost $10,000,000 to $15,000,000 in addition to the $3,000,000 in maintenance costs already described. Moreover, most or all of the staff would have to be relocated for a period of approximately two years while the reconfiguration work was in progress. Rental of temporary space would cost at least $10,000,000 for two years plus various moving and relocation costs. This option is very expensive, it would impact the regular budget to a significant degree, and it would not fully resolve the Organization's space needs for the next decade because the basic shape of the building constrains the most efficient use of space. In other words, it would still be necessary to rent some outside space during the next 10 years.

3. Sell the Present Headquarters Building and Lease Space. It would certainly be possible to sell this building and lease space in the commercial market. The difficulties of this approach are largely financial, but they are significant. An investment of $50,000,000 (the presumed value of this building) invested safely at today's rates of about 8% per year would provide $4,000,000 in income. However, the rental of 270,000 square feet of space per year at $30 a square foot is $8,100,000. Thus, the income from the sale of this building is insufficient to cover the cost of leasing space and the difference (about $4,000,000 annually) would have to come from the regular budget. There are other significant disadvantages to leasing including annual increases of rent, the loss of a distinctive and free-standing building as a symbol of the Organization, and the costs of adapting commercial space, especially in the case of the Governing Bodies' main chamber. The history of the last 25 years of the Headquarters Building is highly instructive. It cost almost $7,000,000 in 1965 and is now worth about $50,000,000, a seven-fold increase. The Consumer Price Index (CPI) in the United States increased about 3.5 times in the same period. In other words, this building appreciated at twice the rate of inflation and at the same time provided the Organization with very low-cost space. It is difficult to imagine any other investment that could have proven so sound and productive.

4. Construct a New Headquarters Building. The consulting space planners estimate that the Organization would need approximately 270,000 square feet to meet present and future space requirements. A new, fully

completed building of this size would cost about $48,000,000 in 1992 dollars. The site cost would be in addition to that of the building. An appropriate site in the center of Washington D.C. would probably cost in the range of $30,000,000 to $40,000,000. In the suburbs the site cost would be about $8,000,000 to $20,000,000. In either case there is a requirement that there be a metrorail station, bus service, and reasonably priced hotels and restaurants nearby. In any event, site availability provides for a range of choices. The total cost of a site and building, therefore, could range from $56,000,000 to $88,000,000. For a suburban location, the cost ranges from $56,000,000 to $68,000,000.

Assuming that the Headquarters Building is worth $50,000,000 and the estimated rental costs for the next 10 years are $21,000,000 plus $3,000,000 in maintenance costs, most of which would be eliminated, it is apparent that financing the project is feasible on the face of it without impacting the regular budget. These calculations do not take into account the Organization's land lease at 2121 Virginia Avenue, which is worth $10,000,000 to $15,000,000.

The option of construction of a new Headquarters Building seems the most feasible. A number of potential buyers, including the Government of the United States, has expressed an interest in this building. The two guiding principles in proposing the construction of a new Headquarters Building are that there be no financial impact on the regular budget and that there be a suitable site with easy accessibility for personnel and near institutions with which PAHO works. Finally, the next few years appear to be favorable financially for the construction of a new building.

It is beyond the scope of this document to set forth all of the many options that exist. It is sufficient to say that it appears possible to construct a new Headquarters Building without adversely impacting the regular budget. In fact, the reverse may well be true. There are several general possibilities, each with sub-options for approaching a new building project. For example, if the Government of the United States were to offer a suitable site in partial exchange for the present Headquarters Building, it would facilitate the speed of completing a new building. On the other hand, if the Government of the United States were not able to offer suitable land, or another buyer made a superior offer, then the Organization would need to locate its own site. This is also perfectly feasible, but it might take longer. Other options include the use of a developer to construct the building, retaining the Organization's land lease at 2121 Virginia Ave. and using the income and funds set aside for current rental space to purchase the new building over a period of years. Another alternative would be the so-called "turn key" approach. In essence, the Organization would give exact plans to a developer or company to construct the building for an exact price, and payment would be made upon satisfactory delivery. The options above are only intended to be illustrative, as there are other alternatives.

Because of the importance of this decision to the Organization and because of its technical and financial complexities, the Director suggests that the Conference may wish to endorse the proposal to construct a new Headquarters Building, provided that there is no adverse impact on the regular budget and provided that a suitable site can be obtained. It is further suggested that the Conference instruct the Executive Committee to establish a three-country working party to assist the Secretariat in preparing a specific, detailed proposal for the Executive Committee for its consideration and approval as soon as practicable.