FOR AGENDA

EBAP/87/61

March 20, 1987

To: Members of the Executive Board

From: The Acting Secretary

Subject: Leasing of Additional Office Space

Attached for consideration by the Executive Directors is a paper on leasing of additional office space, which has been tentatively scheduled for discussion on Monday, March 30, 1987. A draft decision appears on page 6.

Mr. Kaiser (ext. 7461) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Leasing of Additional Office Space

(Prepared by the Administration Department)

March 20, 1987

Introduction

It has been evident for well over a year that there has been a pressing need for the Fund to lease additional office space. Given the restrictive stance of the FY 1987 Administrative Budget, management took the view that the fullest use of existing space must be made before consideration would be given to leasing additional space.

Consequently, every effort has been made to maximize the use of available space in the headquarters building and in the leased space in the International Square building to the point where even "public" space has been used. As a result, part of the Atrium and the Staff Lounge have had to be converted into offices, and it seems inevitable that one of the larger private dining rooms will have to be converted before the end of the current financial year to meet existing space requirements. Short of further encroachments on "public" space, or converting some of the few remaining departmental conference rooms to offices, all usable office space has been exhausted. Thus, the prospect of a modest increase in staff during FY 1988, the absence of any spare space in the headquarters building or at International Square, and the fact that about 350 staff members are having to work in space that is below generally accepted environmental standards, require that additional office space be leased as soon as possible.

Background

The aim of the Fund has always been to house all of its staff in owned premises, thus securing considerable economies as compared to the cost of leasing; this is particularly true in view of the high rental rates for office space in downtown Washington. The preferred long-term strategy has been to acquire the church property in the headquarters block and expand the headquarters building to fill that block. Such an addition to headquarters would provide space for up to 700 persons, all at a cost substantially less than it would take to build equivalent accommodations elsewhere in the immediate vicinity, let alone rent downtown office space on a long-term basis. There is reason to believe that the church authorities are currently more amenable to negotiating a sale than they were previously, but it would take between five and ten years to negotiate with the church, obtain appropriate zoning approval, and construct the extension. The medium-term strategy, therefore, has been to rely on leased space by adding to the Fund's leasehold at International Square.

In the latter part of 1982, the Fund leased approximately 67,500 sq.ft. of office space on the 5th and 6th floors at International Square, which now accommodate the Bureau of Statistics and the Bureau of Language Services, respectively. International Square was felt to be a good choice for the Fund because of its proximity, the quality of the space, and the potential for contiguous expansion, i.e., expanding the Fund's holdings by leasing contiguous space. Subsequently, the Fund added to its leased space two small parcels in International Square of about 2,600 sq.ft. and 5,000 sq.ft. These two parcels had been the only suitable space at International Square to come on the market until recently. The Fund currently accommodates about 240 staff members at International Square, leasing approximately 75,000 sq.ft. of space at a rate of about $31 per sq.ft. per year, or about $2.3 million annually.

Clearly, when leasing new space, there are very substantial advantages and economies in adding contiguous space to an existing leasehold rather than proliferating small blocks of offices in various locations. To achieve that aim, however, the Fund must be prepared to take advantage of opportunities to lease contiguous space at International Square as and when these arise.

Current Space Situation

There are four main factors that argue strongly for leasing new space now.

First, there is simply no office space in which to accommodate the small increase in staff currently envisaged in the FY 1988 budget. Indeed, if all current vacancies were filled, there would not be enough space to accommodate our currently authorized staff.

Second, there are about 350 staff members whose office environment falls below generally accepted standards of office occupancy as a result of one or more of the following conditions: the crowding of people and equipment, inadequate ventilation, and high ambient temperatures. These conditions exist in their most acute form in the Joint Library, the Bureau of Computing Services, the African Department, and in the Cable Room; but portions of the IMF Institute and the Western Hemisphere, Research, and Exchange and Trade Relations Departments are also affected. There is no doubt that these conditions involve hidden costs in the form of lower productivity, and staff discontent with these conditions has surfaced in a number of instances.

Third, the continuing program of office automation and computerization will require more space in a number of departments. Computers, printers, and ancillary equipment usually require 15 percent to 20 percent more space, and the introduction of this equipment in recent years has been one cause of pressure on existing space.

Fourth, there is no "reserve" of space whatsoever, either in the headquarters building or in International Square. Normally, any organization needs a certain reserve of space (even within an unchanged total staff)--to provide some flexibility to accommodate shifts in demands for space from one department to another, without the disadvantage of locating staff or units at a distance from their departments. A reserve is also essential to meet frequent ad hoc needs like visiting consultants and delegations from member countries, the Job Grading Appeals Committee, the Secretary of the Joint Compensation Committee, the Balance of Payments Study Group, etc. A prudent standard for such a "reserve" for an organization like the Fund is about 2 percent of office space in use.

It is calculated that about 70,000 sq.ft. would be required to accommodate the modest increase in staff, to accommodate the short-term effects of the continuing program of office automation, and to restore a reserve. The rationale for that amount is set out in the Attachment.

It is impossible for the Fund, or any organization, to acquire further space, of an acceptable quality and location, only in the precise amounts immediately needed at a particular time. Given the overwhelming advantages of adding to currently leased space at International Square, the practical reality is that decisions have to be made when space becomes available and is offered by the Carr Company, the lessor/developer of the International Square complex of buildings. If the Fund does not take advantage of such offers, there can be no certainty if, or when, in what amount, or at what rental rate, another offer will be forthcoming.

Space Available for Leasing at International Square

The market in office space in the vicinity of the Fund is somewhat "soft" at the present time. This is reflected in an offer from the Carr Company of 55,216 sq.ft. of space on the 6th floor of International Square adjoining the Fund's Bureau of Language Services. The acquisition of this space would result in the Fund's leasing the entire 6th floor of the building. The space is being offered at a rental rate of $29.50 per sq.ft. per year, which is below what the Fund is currently paying for space in International Square. In addition, the Carr Company is including concessions in its offer which will (i) provide a rent-free period until April 15, 1988, and (ii) will reduce the estimated fit-out costs by about $1.5 million. 1/

The amount of space offered would allow a major organizational unit to be moved out of the headquarters building to International Square. Experience has shown that moving a major unit would be the best way to restore flexibility in the allocation of office space in both locations. In particular, that corrective action would:

(i) permit the modest personnel growth envisaged over the next couple of years to be accommodated;

(ii) permit the automation process in departments to continue without potential space constraint;

(iii) relieve the worst cases of substandard environmental conditions; and,

(iv) leave a small reserve, primarily at headquarters, to allow some flexibility in dealing with unforeseen or temporary office space requirements.

It should be noted that about 5,800 sq.ft. of the space offered has been constructed into a kitchen and small cafeteria for the current tenant. Considering the fact that potentially 350-375 staff members will be working at International Square, it is recommended that this space should be used as a cafeteria for Fund staff. This should result in increases in productivity and efficiency as staff would be able to eat quickly on the premises rather than having to walk the three blocks between International Square and the Fund building for lunch daily. It would also help to relieve the overcrowding in the headquarters cafeteria.

Assuming that a decision could be taken by the Executive Board by April 1, 1987, the space should be ready for occupancy by November. No rent would be payable until April 15, 1988. The Fund would, however, incur the "fit-out" costs, of which about $200,000 would be incurred

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1/ Fit-out costs, which normally fall on the lessee, can range between $50 and $75 per sq.ft. They consist of all expenses associated with demolition of existing space; new partitions, ceilings, lighting, power, heating/ventilation/air conditioning (HVAC), sprinklers; furniture and furnishings; moving services; telephone and data communication costs; and space planning, architectural and engineering design services.

in FY 1987, and $2.4 million would fall in FY 1988. 1/ For FY 1989 and beyond, the annual rental cost would be about $1.6 million. As usual with such leases, the rent would be subject to an escalator clause linked to the Washington area Consumer Price Index.

An alternative offer of about 110,000 sq.ft. of contiguous space in International Square has also been received from the Carr Company, comprising the aforementioned 55,000 sq.ft. plus an equal amount of space in the same configuration on the 7th floor immediately above; moreover, the two areas are connected by a private internal communicating stairway. Although the amount of space is in excess of the Fund's immediate needs, which could for the most part be dealt with by subletting, the offer had certain attractive financial concessions, and it would have provided a number of longer-term advantages. In particular, it would avoid the possibility that within a few years the Fund might be once again facing extreme pressure on this existing space. If that situation arises, there can be no assurance that appropriate space will be available in International Square, or what the rent will be, or whether the favorable allowances presently being offered in the current "soft" market will still be available. Nevertheless, given the continuation of the present budgetary stance, it was concluded to limit the response to the offer of 55,000 sq.ft.

Conclusion and Recommendation

The Fund has a pressing need for additional space, which can best be met by enlarging its leased space in International Square, and an offer has been received from the Carr Company that will enable the Fund to achieve that aim. The amount of 55,000 sq.ft. being offered by the Carr Company is reasonably close to a conservative view of the space that is immediately needed. The offer also includes some significant financial concessions by the Carr Company. It is true that the leasing of this amount of space may provide only temporary relief; given even a modest expansion of staff in the next two years, the Fund could at the end of that time again be facing some of the difficulties it faces today. Nevertheless, it is recommended that the Executive Board authorize management to enter into a lease with the Carr Company for the 55,000 sq.ft. of space described above and to augment the FY 1987 Administrative Budget by $200,000 for initial fit-out costs, as outlined. It is planned that FY 1988 fit-out costs of about $2.4 million be included as an item in the FY 1988 Capital Budget.

1/ This would include the sort of fit-out costs described earlier plus incremental costs of security, messengers, cleaning and food services operations for the first year (FY 1988) less the concessions. The amount incurred in FY 1987 would be mainly as a result of space planning, architectural, and engineering design services.

Proposed Decision

In light of the foregoing, the following draft decision is proposed for adoption by the Executive Board:

Management is authorized to enter into a lease for approximately 55,216 sq.ft. of office space on the 6th floor at the International Square building (1850 K Street, N.W., and 1875 Eye Street, N.W.) and to augment the FY 1987 Administrative Budget by $200,000 as outlined in EBAP/87/61. As with previous leases, the lease may, if necessary, include a waiver of the Fund's immunity from suit on matters arising under the lease.

Fund's Current Space Requirements

In order for the Fund to accommodate personnel projected for FY 1988, to correct the most serious effects of current compression on space conditions, to accommodate the short-term effects of office automation, and to restore a prudent reserve, a minimum of 70,000 sq.ft. of additional leased space would be required, derived as follows:

1. FY 1988 Growth Projections

a. Based on the addition of: 3 B1-B5; 18 A9-A15; 4 A1-A8, plus 8 others requiring offices and some support space (storage, corridors, etc.)............................ 7,280 sq.ft.

b. Applying the 18 percent more space, primarily in outer office areas, required in the process of providing office automation to departments not currently fully automated.. 4,000 sq.ft.

2. Existing Space Compression 1/

a. Encroachment on public space................... 7,050 sq.ft.

b. Encroachment on space for Executive Directors' offices... 5,800 sq.ft.

c. Substandard space (affecting about 350 staff) owing to overcrowding of people and equipment combined with low air flow/high ambient temperatures..................... 23,484 sq.ft.

3. Two Percent Reserve

An amount of two percent of the Fund's total office space in use has been derived as a prudent running organizational reserve, currently computed to be 22,167 sq. ft. ... 22,167 sq.ft.

Total Requirement: 69,781 sq.ft.

1/ If one were to disaggregate the total area figures in each category and recompile them according to function or organizational unit; take account, on an area basis, what needs to be done to remove the functional and organizational anomalies; and include, where possible, any physical limitations to proper functional arrangements; more space than the amounts tallied in each category would be required to arrive at acceptable solutions.