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EBAP/87/61
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May 15, 1987

To: Members of the Executive Board

From: The 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 Friday, June 5, 1987.

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

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INTERNATIONAL MONETARY FUND

Leasing of Additional Office Space

(Prepared by the Administration Department)

Approved by Graeme F. Rea

May 15, 1987

I. Introduction

At EBM/87/57 on March 30, 1987, in the course of the Executive Board discussion of the leasing of additional office space, all speakers supported the staff's proposal to lease approximately 55,000 sq.ft. of office space at International Square and a decision was taken to that effect. 1/

A number of Executive Directors, however, noted that the amount of space seemed barely enough to cope with the immediate needs of the institution. Given that a larger amount is currently available for lease at International Square, they suggested that the feasibility of leasing this larger amount be considered further in light of the financial implications and projections of the Fund's longer-term manpower needs. In addition, interest was expressed in the possibility of acquiring the property owned by the Western Presbyterian Church adjacent to the Fund's headquarters, with a view to building an extension to headquarters that would permit all Fund staff to be housed in the same building.

This paper presents financial data on the larger offer of office space comprising 110,432 sq.ft. at International Square, and discusses briefly the Fund's manpower needs. It also proposes that the Executive Board authorize a feasibility study of the acquisition of the church property.

The Fund is finalizing the lease for 55,000 sq.ft. of space with the Carr Company. Carr has indicated that, if a decision were taken in the near future to extend the leased area to comprise the whole 110,432 sq. ft. currently available, it could agree to include in the overall lease arrangement the concessional elements described below. There is, however, no guarantee that the additional space will remain on the market pending such a decision by the Fund.

II. Leasing of Office Space

1. Financial factors

In EBAP/87/61, it was estimated that about 70,000 sq.ft. was required to accommodate the modest increase in staff foreseen for FY 1988, to cope with the short-term effects of the continuing program of office automation, to correct the overcrowding of staff in some

1/ See EBAP/87/61 (3/20/87) Leasing of Additional Office Space.

departments, and to restore a reserve of space to provide desirable flexibility (see Attachment). The last two items accounted for 45,600 sq.ft. of the total of 70,000 sq.ft. Thus, in recommending the leasing of only 55,000 sq.ft., the staff recognized that some overcrowding would continue, and a fully adequate reserve of space would not be achieved. Moreover, these calculations made no provision for further additions to staff in later years. It was felt, however, that the recommendation for leasing only the smaller amount of space was consistent with the Fund's stance of budgetary stringency.

The terms of the larger offer of 110,432 sq.ft. from the Carr Company were not described in detail in EBAP/87/61, although it was explained that it comprised the 55,216 sq.ft. of space on the 6th floor which the Fund has now agreed to lease, plus an equal amount of space of identical configuration on the 7th floor. The two areas are connected by a private internal stairway.

For comparative purposes, the relevant characteristics of both blocks of space are provided in the table below:

Factor	Smaller Block (6th floor)	Larger Block (6th and 7th floors)
Rentable area	55,216 sq.ft.	110,432 sq.ft.
Core space	12,929 sq.ft.	19,979 sq.ft.
Net usable area 1/	42,287 sq.ft.	90,453 sq.ft.
Rental rate	$29.50 per sq.ft. per year	$28.50 per sq.ft. per year
Rent-free period	Until 4/15/88	Until 5/15/88
Annual rental	$1.63 million	$3.15 million
Fit-out costs 2/		
FY 1987 3/	$200,000	$200,000
FY 1988 4/	$2.4 million	$3.5 million
Concessional fit-out cost reduction 5/	$1.5 million	$3.0 million

1/ Rentable area less "core space," which consists of: cafeteria, elevators, stairs, toilets, utility/mechanical closets, elevator lobbies, and access corridors.

2/ 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.

3/ Consisting mainly of space planning, architectural, and engineering design services.

4/ Fit-out costs described in footnote 2, above, plus incremental costs of security, messengers, cleaning and food services operations for the first year (FY 1988) less the concessional fit-out cost reduction provided by Carr.

5/ The Carr Company has agreed to perform, at its cost, a portion of demolition, construction and electrical work involved in the creation of offices for Fund occupancy of the newly leased space which, for typical Fund office layouts, has been valued at the amounts shown.

As the table indicates, there are two main financial consequences of leasing the larger amount of space. The estimated "fitting-out" costs to the Fund would rise from $2.6 million to $3.7 million; the fact that they would not rise proportionally with the amount of space is largely because of the additional financial concessions ($1.5 million) that would be provided by Carr to reduce these costs. The initial annual rental would rise from $1.63 million to $3.15 million, although this increase would be offset by subletting some of the additional space, and the net additional annual cost to the Fund could probably be limited to about $800,000. The rental rate on the larger block would be $28.50 per square foot per annum, which is $1 per square foot less than on the smaller block and $2.50 per square foot less than the rate the Fund currently pays on other areas leased at International Square.

The larger block provides a higher proportion of usable office space than the smaller block (82 percent compared to 77 percent), principally because the smaller block incorporates a cafeteria and kitchen. The usable area of the larger block is about 20,000 sq. feet more than the Fund's current space requirement (including a reserve) of 70,000 sq. ft. as estimated in the Attachment, while the usable office space in the smaller block falls about 27,000 sq. ft. short of that estimate. Thus, the larger block would initially provide more space than currently needed. As mentioned above, it would be possible to sublet the surplus space, thus offsetting in part the increased rental, and the terms of the subleases could be arranged so that space would become available to the Fund when it seemed likely to be needed. It is, of course, true that subleasing will entail some administrative inconvenience, and some potential risks in finding lessees. Nevertheless, to acquire the larger amount of space now would have the great advantage of assuring the future availability of contiguous space in International Square.

2. Manpower factors

At the discussion of the Executive Board on the leasing of new space, several Executive Directors asked for an analysis of future manpower needs. A detailed analysis of this subject would have to attempt to establish priorities acceptable to the majority of the membership among the activities currently engaged in by the Fund. It would require judgments on a wide range of unpredictable factors, including the future growth of Fund membership, the future role of the Fund, and the future growth of and demands for the Fund's financial resources, and a review of such matters as the actual use of manpower, the future impact of dataprocessing, and the extent to which some activities might advantageously be contracted out. In addition, as some Executive Directors have suggested, consideration might also be given to some explicit limitation or "cap" on the future growth of manpower in the Fund. To be meaningful, any such "cap" would necessarily imply a willingness to cut back on some activities as needed to accommodate those mandated by the Articles and others to which the Executive Board wishes to give special priority. In this connection, it seems relevant to observe that the wishes of the Fund's membership, as expressed by successive Executive Boards, have generally been supportive of the full range of the Fund's activities and have rarely favored cutbacks in any of them.

When considering this offer, a review of past trends in staff growth may provide a sufficient indication of the Fund's likely need for space over the next few years. Since FY 1976, the ceiling on regular staff alone has grown from 1,396 to 1,711.5 as of May 1, 1987 --an increase of 22.6 percent, or about 2 percent per year. The total manpower utilized by the Fund has grown more rapidly; data are not available for earlier years, but since 1983 the growth in total manpower has been about 3.8 percent per year. In FY 1988, the projected increases in the staff ceiling and total manpower were 1.2 percent and 1.6 percent, respectively. If future growth were limited to an average of 1 percent annually in the staff ceiling, which would be a very conservative assumption in relation to past experience, some 85 new staff would be added over the five-year period through FY 1993. Currently, the average square footage per staff member varies considerably from department to department depending on the degree of crowding and the nature of the department's work. However, an average amount of 330 sq.ft. per person would be about the norm. Thus, an increase of 85 staff over the five-year period would involve an additional need for space of about 28,000 sq.ft. This would not take into account any other pressures on space that might arise for causes other than an increase in the staff ceiling, e.g., increases in the non-staff manpower component or additional space for electronic data-processing equipment.

3. Analysis and conclusions

As explained in EBAP/87/61, the principal advantages in securing the smaller amount of space are that it is reasonably close to a conservative view of the space that is immediately needed and it responds to the need for continuing budgetary restraint. The other advantages--its location contiguous to existing offices and the financial concessions--are shared with the larger amount of space. The principal disadvantages are that it will not be possible to relieve all overcrowding or establish more than a minimal reserve of space to provide flexibility and meet future contingencies. In addition, as indicated above, further pressures on space seem likely to develop in the medium term, and there can be no assurance that an appropriate amount of space would be available at International Square at the time it was needed or that any available space would be accompanied by a rental rate or allowances and concessions as favorable as those being offered in the current "soft" market.

The larger, 110,432 sq.ft., block of space would provide much more flexibility in eliminating the Fund's current space difficulties by allowing for the move of two large organizational units to International Square, thus creating more scope for the relief of overcrowding and establishing an adequate reserve. The reserve could also be divided between International Square and headquarters. The larger amount of space would be adequate to accommodate a modest annual growth in the Fund's requirements for space for about five or six years. Initially, however, the new space would be more than is needed, and about 25,000 sq.ft. would have to be sublet. It appears possible to do so at rental rates which would substantially offset the Fund's rental cost for the space. Nevertheless, the fitting-out costs would rise from $2.6 million to $3.7 million, and the initial annual rental would rise from $1.63 million to about $2.44 million, after making an allowance for estimated income from subleasing.

The main attraction of the additional 55,216 sq.ft. of space, therefore, is that it would provide the Fund with room for modest expansion in a suitable location and conformation. The leasing of office space is the only medium-term option available to the Fund and, given the uncertainty of the long-term objective of obtaining the church property, is also the only assured long-term option at this point. Leasing the larger amount would reduce the Fund's risk in having to go to an uncertain marketplace at a time of future need. Moreover, although future market conditions cannot be predicted, the current "soft" market gives the Fund an opportunity to acquire the additional 55,216 sq.ft. at what could well be a lower cost than would be possible if the same amount of space were to be added to the Fund's leasehold at some future date. There is also the more specific risk that there would be no space available in International Square when it was needed and Fund office space would have to be further fragmented in different buildings.

Thus, the issue for the consideration of Executive Directors is whether greater weight should be placed on keeping budgetary expenditures in respect of office space at the minimum needed to meet immediate needs, or whether it would be preferable to accept additional expenditure in the shorter term to provide greater assurance that the likely need for space in the future can be met in an advantageous manner over a more extended period. Of course, Executive Directors' views as to how they envisage the work of the Fund developing over the next several years will also be an important consideration.

III. Exploratory Activity on Acquisition of the Church Property

In the mid-1960s, the Fund began a program to acquire all the property in the block bounded by G, H, 19th and 20th Streets, N.W., where the headquarters building is now located. The Fund succeeded in purchasing all the property in the block except the lot, fronting on H Street, upon which the Western Presbyterian Church is built and the adjacent alley. At that time, the leadership and the congregation of the Western Presbyterian Church were willing to negotiate an arrangement with the Fund which would have resulted in the Fund's ownership of the church property. However, their position changed when they found that any proceeds from the sale of property or development rights of the church would accrue to the parent organization of Presbyterian churches in the Washington area, the Washington Area Presbytery, and that those proceeds could be allocated as the Presbytery saw fit and not necessarily to the benefit of the member church concerned. The negotiations were broken off, and the Fund proceeded to construct its headquarters building on the balance of the block. With the completion of the Phase IIA extension and the underground IMF Visitor's Center in 1983, the Fund has exhausted its development authority in the block unless it can acquire the Church property.

Recently, the Washington Area Presbytery relaxed some of the earlier restrictions on financial transactions of its member churches, which could eliminate the long-standing obstacle to the Fund's acquisition of the Church property. It appears that, subject to some limitations, a member church is now allowed to sell its land and buildings for a replacement church within the same general area as its present location. In order to take advantage of this situation, the Fund should explore what would be needed to establish a new Western Presbyterian Church facility in the Foggy Bottom area in exchange for ownership of the church property adjacent to the Fund's headquarters building. If that outcome seems to be feasible, an examination should be undertaken of what would be involved in completing the development of the block by an addition to Headquarters Building.

It is therefore recommended that the Executive Board authorize expenditure on a study to be undertaken over the course of the next three to six months, to determine the feasibility of acquiring the church property and the measures needed to attain this objective. Such a study would include the following tasks:

1. identification of desired features/facilities needed in a new church, in order to establish design and site criteria;

2. identification of potential sites for a new church;

3. investigation of the zoning implications and potential problems surrounding construction of a new church, and development of schematic architectural, engineering, space planning, and site drawings;

4. preparation of cost and time estimates for constructing the new church on the new site; and

5. investigation of the zoning implications and any potential problems in connection with Fund acquisition of the church property, and future Fund development in the block, with advice as to actions that may be necessary to preserve the Fund's options regarding acquisition of the church property.

It is estimated that the study, which would involve expertise that is not available in the Fund's staff, would cost $150,000, and would form the basis of a recommendation to management and the Executive Board on an appropriate course of action.

Draft Decisions

The following draft decisions are put forward for the consideration of the Executive Board:

1. (If Executive Directors agree that an additional 55,216 sq.ft. of space should be leased at International Square):

Management is authorized to enter into a lease for approximately 55,216 sq.ft. of office space on the 7th floor at the International Square building (1850 K Street, N.W., and 1875 Eye Street, N.W.). The FY 1988 Capital Budget will be augmented by the amount of $1.1 million for fit-out costs as outlined in EBAP/87/61, Supplement 1. 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.

2. (If Executive Directors accept the recommendation for the feasibility study on acquiring the church property):

Management is authorized to undertake the feasibility study related to the acquisition of the Western Presbyterian Church property, as outlined in EBAP/87/61, Supplement 1. The FY 1988 Administrative Budget will be augmented by the amount of $150,000 to cover the estimated cost of the study.

Attachment

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 2 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.