



Governing Body

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Programme, Financial and Administrative Section
Programme, Financial and Administrative Segment

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THIRD ITEM ON THE AGENDA

Update on the headquarters building renovation project

Addendum

Supplementary information

1. The financial plan for the renovation of the headquarters building was first submitted as part of the comprehensive plan approved by the Governing Body in November 2010. The financial plan incorporated use of the following sources of income:

	Swiss francs (CHF)
Building and Accommodation Fund where amounts had been reserved from previous surpluses and net premium balances	70 800 000
Transfers from the “long-term” reserve for future major renovations pertaining to the headquarters building	8 300 000
The sale or disposal of two plots of land	76 800 000
The use of rental income from additional tenantable space following the renovation to service a loan	
Loan value	50 000 000
Total	205 900 000

2. Further to discussions on Wednesday, 18 March at the 323rd Session (March 2015) of the Governing Body, a summary of the developments relating to the financial plan is provided below.
3. The key variables in the financial plan are the likely proceeds from the sale or disposition of the two plots of land, the timing of receipt of the sale proceeds and the terms of any loan.

Land valuations

4. Given the commercial sensitivity of the land disposal only consolidated indicative amounts are disclosed in this document.
5. Consultations with the Swiss authorities and with potential purchasers of the land are continuing. Strong interest has been expressed for both plots of land with indications that agreement could possibly be reached on one plot, in particular, relatively quickly. Completion of both sales and the determination of the value attributable to the land are dependent upon the approval, or level of certainty of approval, that can be obtained from the cantonal authorities on the proposed use of the land, construction densities and other town planning parameters.
6. The expected value contained in the 2010 financial plan was based on independent valuations of both plots using data from international property advisory firms. Assumptions had been made as to the manner in which the value of the leasehold plot, owned by the Geneva Canton, would be shared with the ILO. It would appear that earlier indications received as to the intentions of the landowner, that were the basis of the Office's assumptions, could not be confirmed. This development may result in a lower total amount being realized from the sale of the ILO "share" of the value of this plot.
7. While there is some prospect of a relatively quick settlement with early receipt of the proceeds for one plot, if the current negotiations do not meet expectations as to fair market value, public competitive tendering processes will be launched for each plot. Further discussions would be held with the Canton on the share of the proceeds from sale of the leasehold plot to be attributed to the ILO. Such a process would inevitably involve delays in receipt of any sale proceeds. In a best-case scenario, it may be possible to complete the sales and receive settlement by 30 July 2015. A public process would inevitably result in a more standard sale and settlement procedure, with a considerably longer settlement period; possibly as long as three to four years.
8. An alternative financial plan reflecting a scenario with lower estimated sale proceeds would be as follows:

	Swiss francs (CHF)
Building and Accommodation Fund where amounts had been reserved from previous surpluses and net premium balances	70 800 000
Transfers from the "long-term" reserve for future major renovations pertaining to the headquarters building	8 300 000
The sale or disposal of two plots of land	56 800 000
The use of rental income from additional tenantable space following the renovation to service a loan	
Loan value	70 000 000
Total	205 900 000

Loan financing

9. The 2010 financial plan foresaw the possibility of a CHF50 million commercial loan. In 2013, the host Government revised its policy on financing building renovation projects of international organizations based in Geneva and now offers the possibility of loan financing at preferential rates. Host country financing is administered by the Foundation for Buildings for International Organisations (FIPOI).

10. The terms of a loan from the host Government include the following:

Maximum term	30 years
Interest rate	<ul style="list-style-type: none"> – the Swiss Confederation's refinancing rate (current rate 0.8 per cent) – established following parliamentary approval and fixed for the term of the loan – interest free until completion of the renovation
Drawdowns	Progressively throughout the project
Repayments	Annual (interest and principal)
Early repayments	Permitted
Late-payment penalties	Following a grace period of 30 days, penalty interest of 5 per cent on the late payment
Other clauses	Obligation to create a reserve for future major works at an agreed annual percentage rate (the ILO has such a reserve)

11. A loan would require the following annual repayments (including principal and interest) assuming principal amounts of CHF50 million and CHF70 million with three different interest rate scenarios.

Annual loan costs at indicative interest rates (CHF million)			
Main loan	0.6%	0.8%	1.4%
50	1.8	1.9	2.1
70	2.5	2.6	2.9

12. The financial plan also foresaw that the loan would be financed through rental income. Following the renovation of the building, it is anticipated that additional space will be available for rent. The Office estimates that improved space management will make it possible to lease the equivalent of two floors of the headquarters building to third parties. Estimates of rental income range from CHF380 to CHF530 per square metre. For the purpose of this updated financial plan, the Office has used an assumed minimum rent of CHF400 per square metre.¹

13. The parameters used for determining potential rental income per floor are as follows:

Net rentable area	3 600 square metres
Annual rent per floor	CHF1.44 million
Annual rent – two floors	CHF2.88 million

14. Based on the above details and the availability of the equivalent of two full floors for rental, the resulting income would be sufficient to meet the annual repayments on a loan of CHF70 million at an inflated interest rate of 1.4 per cent (compared to the current rate of 0.8 per cent).

Loan request

15. Given the uncertainty over the timing of the sale of the land and the access to sale funds, the loan request submitted to the host Government includes the long-term loan, initially estimated at CHF50 million, and sufficient bridging finance to cover any delay in the sale of the land, rounded to CHF130 million. The resources that flow from the sale of the land

¹ Source: Study jointly funded by the Geneva Canton and the ILO, September 2014.

will be used to repay the bridging component of the loan. The Swiss Government has confirmed that early partial repayments of the loan from the sale proceeds would be acceptable and the Office's intention in this regard has been disclosed to the Government in the loan request. As demonstrated above, should the land sales realize an amount less than initially foreseen (CHF76 million), a long-term loan of up to CHF70 million might be required and rental income would be sufficient to service a loan of this amount.