



## Report to the GAVI Alliance Board

4-5 December 2012

<b>Subject:</b>	<b>Health Campus option for Geneva office space</b>
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<b>Agenda item:</b>	15
<b>Category:</b>	For Decision
<b>Strategic goal:</b>	Alliance operations

### Section A Overview

#### 1 Purpose of the report

- 1.1 The Geneva Health Campus presents an option to meet GAVI's future office space needs. Participation in the Campus would require GAVI to make a commitment during 2013. This and alternative options are presented in this paper for Board consideration and decision.

#### 2 Recommendations

- 2.1 The Secretariat recommends that the Board:
- **Approve** the delegation to the CEO of the authority to negotiate and execute, if appropriate, the contractual arrangements necessary to relocate its Geneva office to the Health Campus, in consultation with the Chair of the Board and the Chair of the Audit and Finance Committee.

#### 3 Executive Summary

- 3.1 GAVI currently leases its office in Geneva, at a cost of US\$ 2.5 million<sup>1</sup> per year. The lease will expire on 31 December 2016 and will be automatically renewed for a further five years unless notice to terminate is given by either party by 31 December 2015.
- 3.2 The Geneva authorities are fostering the establishment in Geneva of a Health Campus located close to WHO and other International Organisations. The Campus will be a hub for (non-commercial) organisations engaged in Global Health. Because the Canton of Geneva is making the land available at a low lease cost, rental rates to

<sup>1</sup> The current US\$ equivalent of the Swiss franc rent.

International Organisations at the Campus will be significantly lower than for comparable office space in the region.

- 3.3 The lower rental cost is estimated to offer savings to GAVI of US\$ 0.5 to 0.7 million per year or approximately 22% to 27% of the current cost. Further efficiencies may be expected from sharing facilities with other tenants and from the ability to host large meetings on site. One-time costs (for relocation, fitting-out and a period of overlapping rent) are likely to consume the rental savings of the first 2 to 3 years.
- 3.4 While cost-effectiveness is central to GAVI's business model, the Health Campus presents strategic as well as financial considerations for GAVI. A risk is that co-location with other organisations could diminish GAVI's organisational identity or the visibility of its comparative strengths. On the other hand, proximity to partners and other actors in Global Health offers an environment for richer collaboration that could benefit GAVI's stakeholders and reinforce the positioning of Global Health. Consideration of the non-financial aspects will also be important in informing the Board's decision.
- 3.5 Construction of an office building with capacity for 1,080 people is due to commence in 2013, with completion planned for mid-2015. The Global Fund to Fight AIDS, Tuberculosis and Malaria has conditionally agreed to rent space for up to 700 people. Other health-focused organisations may rent portions of the remaining space.
- 3.6 GAVI has the opportunity rent space in this building to meet its need to accommodate about 200 people (including staff, sub-contractors and consultants). To secure space, GAVI would need to sign an agreement to lease, potentially during the first half of 2013. The initial lease term would be for 10 years, renewable for 5-year terms thereafter; GAVI's current lease is also renewable for 5-year terms.
- 3.7 If GAVI does not pursue this opportunity, then it may renew its existing lease for the five-year period following 31 December 2016 and seek a reduction on that rent, or seek other premises if then available on better terms. However, there is no current indication that a lower rent would be feasible and there is a possibility that the rent could increase.

## 4 Risk implication and mitigation

### Operational and financial risk

- 4.1 **Suitability of premises:** The risk of the premises being unsuitable for GAVI's needs is mitigated by existence of the design of the building, the reputation of the building contractor already selected, and the involvement in the project of FIPOI - the Swiss government agency responsible for supporting the accommodation needs of International Organisations. The GAVI CEO and other members of senior management have met with the architects of the building and were satisfied the space could be arranged in a manner suitable to the needs of GAVI.

- 4.2 **Certainty of rental cost:** Prior to GAVI entering into a contractual commitment, the maximum amount of the initial rent and the basis for subsequent adjustments will be established. This mitigates the risk to GAVI of uncertainty in future rental costs.
- 4.3 **Overlapping rental obligations:** A financial risk arises from the duration of the period for which GAVI would pay rent on both the existing and future offices for an overlapping period following occupancy of the new building and prior to termination of the existing lease. This can be mitigated by seeking to negotiate GAVI's entry date for the new building and, to the extent feasible, an early termination of the current lease.
- 4.4 **Early lease termination:** The initial lease duration for the Health Campus building is ten years, with five-year renewal periods thereafter. GAVI's current lease is already on a five-year renewal basis. Hence, GAVI would initially incur a ten-year, rather than a five-year, rental obligation. In the event that GAVI needed to terminate the lease early, it would be liable to pay rent for the remainder of the obligation period unless another tenant was found. The support of the Swiss government agency FIPOI in finding other tenants helps to mitigate this risk.

### Reputational and identity risk

- 4.5 A risk to the favourable perception and reputation of GAVI arises from co-location with other organisations that are also prominent in the Global Health sector. This could cause stakeholders or observers to insufficiently distinguish between the individual organisations, their relative strengths and weaknesses and the challenges they face. The risk can be mitigated by GAVI continuing to communicate its mission, business model and results through its own communications channels which support the unique GAVI identity.
- 4.6 A risk arises from co-location with a tenant that occupies a much larger share of the same building. This could be the case with the Global Fund occupying up to 65% and GAVI 20%, whereby the building could be perceived as 'the Global Fund building' to GAVI's potential detriment. The risk can be mitigated by separation of reception areas, appropriate signage and branding, and the modular nature of the six office floors with each subdivided into three sections to which separate access can be controlled.
- 4.7 There is a risk that GAVI's standing as an innovative public-private partnership focused on delivering value-for-money could be diminished by GAVI moving to space within a larger building, with a longer initial commitment than under its current lease. This could lead to GAVI being considered to have a more bureaucratic, long-term outlook. At the same time, the move could also be viewed as consistent with GAVI's commitment to achieving cost savings and efficiencies that can be directed towards meeting programmatic needs. Communication of these benefits will be important towards mitigating this risk.

### **5 Financial implications**

- 5.1 The Health Campus option is financially advantageous to GAVI because of the substantial rent reduction it offers. One-time costs for moving, fitting-out and a potential overlapping rental period are likely to be recovered within two to three years, dependent mainly on the duration of the period during which GAVI would have to pay rent for the old and new buildings. Thereafter, GAVI would benefit from rental savings of about US\$ 0.5 to 0.7 million per year (see Section B, paragraph 3 for further details).
- 5.2 Securing lower-cost accommodation and the potential for other efficiencies made possible by co-location would support GAVI's value-for-money objective.

### **Section B Content**

#### **1 Geneva Health Campus**

- 1.1 As part of the development plan for the area in which the principal International Organisations are located, the Canton of Geneva will grant a 60 year leasehold right to a plot of land close to the WHO, UNAIDS and other International Organisations in order to develop a Health Campus. The initiative is in line with the city's wish to continue being an attractive location for Global Health initiatives.
- 1.2 The Canton of Geneva will grant the lease at a low cost that will enable office accommodation constructed on the site to be offered to International Organisations (such as GAVI) at a rent significantly lower than market rates for comparable accommodation.

#### **2 The building being developed**

- 2.1 In 2010, the Swiss Government agency charged with assisting International Organisations with their accommodation needs (FIPOI) organised a competitive process to select a developer for the first building of the Campus. Switzerland's largest construction company, Implenia, was selected.
- 2.2 Since then, the building has been designed and an area development plan and impact study submitted to the local municipal authority. The project is now entering a phase during which building permits are expected to be obtained and an investor selected through a tender process by mid-2013. Construction would then begin, with completion foreseen from mid-2015.
- 2.3 The building will comprise approximately 25,500 square metres in six stories of office space, each split into three wings, and a common ground floor and mezzanine level. The building will have space for approximately 1,080 personnel and will include a cafeteria and a conference space for up to 450 attendees.

- 2.4 Advancement of the project to date has been enabled by The Global Fund to Fight AIDS, Tuberculosis and Malaria entering into a development contract with the developer (Implenia) in 2010. Through that contract, the Global Fund has conditionally promised to lease approximately 65% of the building, with a right of first refusal on the remainder, by agreeing to enter into a lease agreement with the investor that will own the building.
- 2.5 The investor, who will become the owner of the building, will be selected through a tender process conducted by the developer, and subject to acceptance by the Canton of Geneva. The tender is expected to be completed in the first half of 2013. Potential investors may include Swiss insurance companies and pension funds. If GAVI were to proceed, it would need to make a commitment in the first half of 2013 to lease the space and ultimately conclude a lease agreement with the owner.
- 2.6 In 2009, in response to the invitation of the Global Fund, GAVI's then CEO indicated to FIPOI and the Global Fund GAVI's interest in leasing part of the building, subject to obtaining the necessary governance clearances. GAVI has since then also maintained contact with the developer (Implenia) and its architects. FIPOI has indicated and recently confirmed to GAVI the interest expressed by other organisations in potentially locating there.
- 2.7 Depending on demand and investor interest, further buildings may be constructed on Health Campus sites in the future. However, it is unlikely that a second building, if it were to be developed in the future, would be ready for occupation by 2016, prior to the next renewal of GAVI's current lease for 2017-2021.

### **3 Cost savings and payback associated with Health Campus building**

- 3.1 The development contract between the Global Fund and the developer sets maximum amounts for the investment cost (covering development and construction costs of the building) and for the rate of return to an investor. These factors combine to set an upper limit on the rent.
- 3.2 The actual rent will be determined by the actual rate of return that is established through the tender process that will select the investor (which is due to be completed by April 2013), and the final investment cost. Thereafter, the rent is subject to adjustment in line with the Swiss consumer price index<sup>2</sup>.
- 3.3 Given the decline in interest rates since 2010, the actual rate of return to the investor may be lower than the maximum rate and will be influenced by competition between investors willing to finance and own the building.
- 3.4 Based on the foregoing and allowing conservatively for the possibility that the actual investment rate of return might be agreed at a half or one percentage point below the set maximum<sup>3</sup>, the rent to GAVI would be in

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<sup>2</sup> The Swiss consumer price index increased by 6.3% in total over the past decade, and has declined by 0.6% since December 2010.

<sup>3</sup> This is a conservative assumption given the decline in Swiss franc interest rates since 2010.

the range of CHF 1.7 to 1.8 million per year. GAVI's current annual rent is CHF 2.3 million (after adjustment for services included within the Health Campus rent). Hence the savings to GAVI would be in the range of CHF 0.52 to 0.64 million per year, as indicated in the table below, equivalent to US\$ 0.5 to 0.7 million per year.

<b>Estimate of cost savings</b>		Prior to final determination of rental rate			
<i>in Swiss francs</i>					
A	<b>Current annual rent</b>	CHF	2,343,000	2,343,000	2,343,000
	<b>Health Campus</b>	<i>Rent scenarios</i>	<i>Better</i>	<i>Mid</i>	<i>Worse</i>
		<i>If investment return is agreed at:</i>	<i>1% below Maximum</i>	<i>0.5% below Maximum</i>	<i>Maximum rate</i>
B	<b>Health Campus annual rent (200 work stations)</b>	CHF	1,700,000	1,761,389	1,821,881
C (=A-B)	<b>Saving on rent per year</b>	CHF	643,000	581,611	521,119
	<b>Saving on rent per year, at current US\$ equivalent</b>		<b>US\$ 0.7m</b>	<b>US\$ 0.6m</b>	<b>US\$ 0.5m</b>
	<b>Saving as % of current cost</b>		27%	25%	22%
	<b>One-time costs</b>				
		Overlapping rent, if for 6 months	850,000	880,694	910,940
		Allowance for moving and fitting costs	350,000	350,000	350,000
D	<b>One-time costs Total</b>	CHF	1,200,000	1,230,694	1,260,940
D/C	<b>Pay-back period</b>	Years	1.9	2.1	2.4
		Pay-back period, if 3 months of overlapping rent	1.2	1.4	1.5
		<b>Pay-back period, if 6 months of overlapping rent</b>	<b>1.9</b>	<b>2.1</b>	<b>2.4</b>
		Pay-back period, if 9 months of overlapping rent	2.5	2.9	3.3

<<<< 2 to 3 years >>>>

- 3.5 One-time costs, to cover a period of overlapping rent and allowing for moving-in costs to the new building, are estimated at approximately CHF 1.2 million, if the overlapping rental period was 6 months.
- 3.6 On that basis, the rental savings would be sufficient to pay-back the one-time costs over a period of about 2 to 3 years. (Per the table above: 2.4 years if the investment return is agreed at the maximum rate; 2.1 years if at a half percentage less than the maximum rate; and 1.9 years if at a whole percentage less than the maximum rate).
- 3.7 If the investment return is agreed at less than one percentage below the maximum rate, then the savings would be greater than US\$ 0.7 million per year, and the payback period would be less than 1.9 years.
- 3.8 As illustrated at the end of the table, if the period of overlapping rent is 3 months (ideal scenario), then the payback period could be less than 2 years, even if the rent was established at the maximum rate of investment return. Conversely, if the period of overlapping rent is 9 months, the pay-back period could extend for 3 years. Accordingly, a pay-back period of approximately 2 to 3 years can be envisaged, after which on-going savings to GAVI would be about US\$ 0.5 to 0.7 million per year.

### 4 Other benefits

- 4.1 The foregoing savings and pay-back calculations do not take account of further cost savings that may be gained from the potential sharing of facilities with other tenants. Such shared facilities could include elements of information and communications infrastructure, as well as maintenance, cleaning, security and other services.
- 4.2 Included within the rent is access to shared facilities which GAVI does not currently enjoy, such as large meeting rooms, a cafeteria and, potentially a library. Co-location with personnel of other health focused organisations offers opportunities for greater informal interaction and shared learning on matters of common interest.
- 4.3 The location is close to the World Health Organisation, is well served by public transport, and is nearer to the airport than the current offices, while further from downtown Geneva.
- 4.4 The building is designed to meet a high standard of environmental efficiency and offers a pleasant work environment that can be arranged to suit GAVI's needs.

### 5 Options open to GAVI

- 5.1 **Option 1:** Lease space in the Health Campus building: GAVI would enter into an agreement with the selected investor, most likely during the first half of 2013. Negotiation of a move-in date would be important towards minimising the period of overlapping rental with the current office building. The preferential rent rates available to International Organisations at the Health Campus make this option attractive to GAVI from a financial perspective.
- 5.2 **Option 2:** Remain in current office building: GAVI would, no later than 31 December 2015, renew the lease on the current building for the five year period 2017-2021. While a rent reduction would be sought, the outcome would depend on market conditions at that time. Currently<sup>4</sup>, the office space vacancy rate for the Geneva area is (only) 2%. Hence, there is no current indication that a rent reduction could reasonably be expected, and especially savings of the 22% to 27% magnitude possible under Option 1; and a rent increase cannot be excluded.
- 5.3 **Option 3:** Seek to rent space in another building at lower cost, to coincide with termination of the current lease at the end of 2016. Depending on availability of suitable office space at the right time, this could reduce one-time costs for overlapping rent. However, as for option 2, it may not be feasible to obtain rent savings upon moving to another building comparable to the savings possible under Option 1. On the other hand, this option would enable GAVI to maintain its own unique office space and

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<sup>4</sup> Source: Geneva Office Market Profile – Q2 2012, Jones Lang LaSalle

additional savings could be sought through other cost effective options such as moving some functions to other locations.

- 5.4 Because of the significant cost savings, and taking into account the potential benefits for the perception of Global Health as well as the identity risks to GAVI, the Secretariat considers Option 1 to be most favourable, especially from a financial perspective. It will be important for the Board to also consider the non-financial aspects, notably those outlined in Section A, paragraph 4 and in Section B, paragraph 4.

### **Section C Implications**

#### **1 Impact on countries**

- 1.1 The availability of appropriate office space to enable the GAVI Secretariat to function effectively and efficiently is important towards enabling GAVI to provide support to countries. Savings on overhead costs, such as office rent, make more resources available for immunisation.

#### **2 Impact on GAVI stakeholders**

- 2.1 The savings on rent expenditure, in the region of US\$ 0.55 to 0.65 million per year, would become available to support immunisation programmes.

#### **3 Impact on Secretariat**

- 3.1 The nature of the Health Campus office space is comparable to that of GAVI's current offices while offering a more economical use of space in the absence of an atrium that is a feature of GAVI's current building. At time of the move, there would be a temporary disruption for staff.

#### **4 Legal and governance implications**

- 4.1 If it is decided to rent office space for GAVI in the Health Campus building, legal agreements will need to be concluded with the developer of the building, the investor and, possibly, the Global Fund. The Secretariat will work closely with outside Swiss legal experts to ensure GAVI's interests are properly protected in these agreements. The Chair of the Board and the Chair of the Audit and Finance Committee will be briefed on the nature of GAVI's commitments and the external lawyers' recommendations.

#### **5 Consultation**

- 5.1 Discussions with a number of Board members indicate that the cost savings offered by lower rent of the Health Campus are worth pursuing, noting that GAVI's strong independent profile should be maintained.

#### **6 Gender implications**

- 6.1 There are no gender implications.