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FINANCE AND ADMINISTRATION COMMITTEE
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CONSTRUCTION OF PERMANENT HOUSING FOR EXECUTIVE DIRECTORS

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Introduction

1. In FAC4 (Honolulu, Hawaii) the Secretariat was asked to conduct an “*internal study into the feasibility of the Commission procuring a suitable property to provide for the housing needs of the occupants of the Executive Director position over time, which would be presented to the FAC5*”. The Secretariat has concluded its study and presents the findings in this paper.

2. There are two main reasons for providing suitable housing for the Executive Director. First, the Commission has struggled and continues to struggle to secure adequate housing in Pohnpei. Housing is a limiting factor in attracting staff, particularly staff with families, to Pohnpei. Second, the Executive Director (ED) is part of the Diplomatic Corps in Pohnpei. The ED is expected to represent the Commission at functions and to host functions for other dignitaries. This has proven to be difficult as housing suitable for an ED is rarely available on the local market.

3. The current monthly housing allowance for the ED is USD2,000 a month.

Costs for building a permanent house for the Executive Director

Process

4. Following the WCPFC7 meeting, the ED and the Finance and Administration Officer (FAO) considered a range of options to procure suitable housing for the ED of the Commission. The first consideration was location and access to schools and services and that means the house needs to be located in Kolonia. The second consideration was security and safety and this means that the property had to be able to be secured and be in an area where similar properties were located. The ED and FAO inspected a number of properties that met these basic criteria.

5. Under Pohnpeian law, only FSM citizens may own land. Embassies or international organisations such as ours can qualify for Development Leases. The lease enables the Commission to lease land for up to 55 years from owners and construct dwellings on the leased property. As part of the lease, the lessee must invest USD220,000 into the property within the first five years. The Commission also has the ability to secure a standard lease which can be for a period of up to 25 years and does not require an investment into the property.

Costs for Land

6. In preliminary discussions with landowners, the cost of land is around USD2.60-5.63 per square meter per year for property that would be suitable for an ED’s house. For a long

term lease, the price would be increased by around 1% a year over the term of the lease. The pieces of land the Commission found suitable are around 3,200 square meters. This would equate to an annual cost of around USD18,000. In addition, some landowners request an initial payment of 5 or 10 years of the value of the lease in advance or an upfront payment for clearing of the block and for relocation and this can be up to USD90,000.

Costs for a House

7. In talks with builders, the estimated cost for a house built by local builders for the ED’s house is roughly USD280,000-330,000. The builders noted that the high cost of construction is related to the fact that almost all materials needed for the construction of a house would have to be imported to Pohnpei. A second option would be to enter a lease with an existing house that needs to be rehabilitated. The cost of rehabilitating an existing house would cost roughly USD120,000-150,000.

8. Options

- a. Currently there are two options to the Commission. The first option is to enter a long term lease for land and build a house. A landowner with an acceptable piece of land has offered this land at a rate of USD5.63 per meter or USD1,500 a month. The estimated cost for building a house is USD280,000-330,000. There are other parcels of land available in this price range and if this option was agreed they could be considered but at this stage are not preferred due to location.
- b. The second option is to enter a 25 year lease for land to refurbish an existing house. The Commission would then meet the cost of the house upgrade on the understanding that the rent stayed at a lower rate. Such a property has just become available and the landlord has given the Commission first option on the piece of land with a house that needs to be rehabilitated. The cost of rental for the land with the existing house is USD1,000 a month. The estimated cost for the upgrades to the house are USD 120,000-150,000.

The tables listed below provide the initial and estimated annual costs. The numbers do not include inflation and the increased cost in maintenance that will be needed as the houses age.

A. 55 year lease

Item	Initial Cost	Annual Cost	Average monthly cost over the term of the lease
Land lease	\$18,000	\$18,000*	\$1,500
Upfront payment	\$90,000		\$136
House construction cost	\$300,000		\$455
Maintenance		\$3,000	\$250
Total	\$408,000	\$21,000	\$2,341

*Annual costs do not include any annual increases. A 1% increase a year may be negotiated with the landowner.

B. 25 year lease

Item	Initial Cost	Annual Cost	Average monthly cost over the term of the lease

Land lease	\$12,000	\$12,000*	\$1,000
Upfront payment	\$0		
House construction cost	\$150,000		\$500
Maintenance		\$3,000	\$250
Total	\$162,000	\$15,000	\$1,750

*Annual costs do not include any annual increases. A 1% increase a year may be negotiated with the landowner.

Sources of funding

In preparing this paper with real commercial options for the Commission members to consider the Secretariat considered a range of funding mechanisms.

After 7 years of looking, no suitable ED house has become available for lease at the rates the Commission has established under the current rules. A current ambassador's house in Pohnpei, on a long term lease, rents at the rate of USD5,000 per month. From a commercial perspective, the options listed below are affordable. Over the 25 year term of the lease, option B saves money on what would be paid by the Commission in rent for the ED's established housing allowance.

The most commercially viable options are outlined below for your consideration.

9. For option A, the Commission needs to:

Secure a long term lease on the block of land, draw up plans , engage a builder and construct the property all up this will take probably 12 months if the funding was agreed at this meeting.

To fund Option A there are potentially two sources of funding to fund the construction of a house for the ED should the Commission wish to pursue this option.

- a. The first would be to consider utilising any excess money in the working capital fund. Currently we hold a minimum of USD1,114,000 in this fund as a contingency as we have to have operating capital in the first part of the year while waiting for funding to become available. Currently the Working Capital Fund is above the USD500,000 threshold set by the Commission.
- b. Alternatively the members may wish to establish a voluntary housing fund. This would allow members to contribute to a Housing Fund and when the fund contained sufficient capital the Commission could contract the construction of a house for the Executive Director. This second option would mean that the land that is now available and has been considered by the ED and FAO to meet the Commissions guidelines for suitable housing locations may not be available for lease when the Housing fund has sufficient capital for the commission to proceed. If the Commission leased the land now to secure it and the housing fund was slow in maturing it could take 3-5 years to construct the house and the Commission would have outlaid up to five years of lost rent (USD90,000).

10. For option B, the Commission would lease the existing house and land package at USD1,000 a month, develop plans contract a builder and commence construction. Local builders have advised that the project would be finished mid-year 2012.

To fund Option B the Commission would need to allocate the money from the Working Capital fund as described in 9 (a) above or make an allocation in this year's budget. If not this option will be lost and the property owners will lease the house on the Pohnpei housing market.

Other options

11. As noted above, the Commission has to decide if it wants to invest in a house for ED's. If the Commission decides to move forward with funding an ED house, it is better to fund the project in full. Holding a property while waiting for the funding to be available will be a costly option as the Commission will need to pay two rents while waiting for full funding. However, if the Commission is to decide not to proceed with this project then the decision should be made at this meeting so that local land holders can be made aware of the Commission intentions and the matter can be allow to drop.

12. If the Commission takes this decision it may wish to make a higher rental allowance available to the Commission commensurate with current lease prices in Micronesia to try to conclude a long term lease arrangement on a suitable house for the Executive Director.

Recommendations

13. The Committee is invited to:

- (i) Note the results of the costs for building or rehabilitating a permanent house for the ED; and
- (ii) make the appropriate recommendation to the Commission on the issues raised by this report.