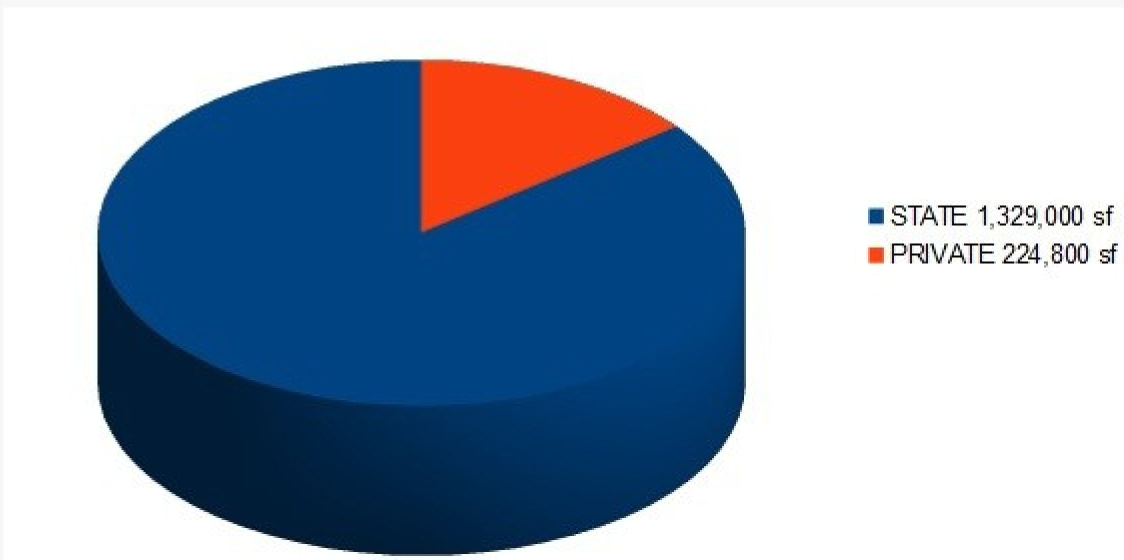
14th February 2014

The Elephant in the Room

The huge potential supply of State-built, unfinished office buildings in our capital is the '*Elephant in the Room*'. There are potent elements at play here in terms of the viability of the long-term and large-scale investments which have been made in Port-of-Spain by private and public capital.

At this point, taking account of offices over 25,000 sf in size, there are over 1,500,000 sf of incomplete offices in our capital. This article will examine the likely outcomes for our capital and those investors as the various projects are completed.



Incomplete Port of Spain offices at February 2014 (Over 25,000sf)

The State has 1,329,000 sf of incomplete offices in POS and the private sector has 224,800 sf. The State has virtually seven times more incomplete offices than the private sector and that is the 'Elephant in the Room'. This chart portrays the reality – the details are set out in the table below.

The legacy of the POS offices built during the previous administration is a matter which deserves serious consideration. The sheer volume of offices built by the State during the previous administration is sobering – 2.3M sf. Given that Nicholas Tower – that elliptical, blue tower on Independence Square – contains 100,000 sf, it means that the State built the equivalent of '*23 Nicholas Towers*' in our capital in that period of rapid development.

We also know that there was no attempt at public consultation or feasibility studies by the State or its agent, UDECOTT. At the Uff Enquiry, the Executive Chairman of UDECOTT, Calder Hart, admitted that a feasibility study had been done for only one of those projects. That project is the International Waterfront Centre (IWC), which comprises the two office towers of 890,000 sf, the Hyatt Hotel, New Breakfast Shed and car-parking/outdoor facilities. Hart also admitted, under oath, that the value of the land had been omitted from the viability study for the IWC, so it was a bogus exercise. The break-even rent is the amount which must be earned by a project to repay the cost of land, construction, professional fees and finance. The IWC, repeatedly boasted-of as UDECOTT's flagship project, is not a viable project, since its break-even rent exceeds the highest rents now earned by A-class offices in POS.

The Parliament has now relocated there during the Red House repairs and renovations. A number of other Ministries and Public Bodies have also started to occupy those offices.

The Office of the Prime Minister is now in the new 75,000 sf building on St. Clair Avenue, opposite to QRC grounds.

The rationale advanced by the Manning administration for that surge in office construction in our capital is that it would free the State from the payment of large monthly rents to private landlords. Although I made several requests, I was never able to get the actual figures for the rents paid by the State in POS. My own familiarity with that market allowed me to estimate the average rent at that time (2007-2009) at about $8-9 per sf. The break-even rents of those new buildings exceeded $25 per sf, so the costs of those office projects would never be recovered. I have read reports that the estimated cost of the Government Campus Plaza, which is the largest element in the POS offices, was recently stated by UDECOTT's Chairman, Jearlean John, to be of the order of $3.2 Billion.

We can reasonably estimate that the rate of rents paid by the State for office buildings has now increased since 2007, in terms of dollars paid per sf.

The completion of those State-owned office buildings is therefore a matter of the first importance, given the high carrying-costs. There is also the significant issue of the high opportunity cost of the State continuing to occupy rented offices alongside virtually-completed offices.

Port of Spain Office projects - 2014

STATE	***(Data derived from UDECOTT's replies to my queries.)***	
Proposed Occupant	**Location**	**Area in sq. ft.**
Customs & Excise HQ	Richmond Street *	189,000
Board of Inland Revenue HQ	Richmond Street *	374,000
Ministry of Legal Affairs HQ	Richmond Street *	332,000
Ministry of Social Development HQ	Richmond Street *	160,000
Ministry of Education Tower	St. Vincent Street (Opposite to the Trinidad Guardian building)	274,000
	SUB-TOTAL	***1,329,000***
PRIVATE	***(Data derived from my own research in this area.)***	
Proposed Occupant	**Location**	**Area in sq. ft.**
Speculative	Savannah East, Queen's Park East	68,000
Speculative	Queen's Park West	40,000
Speculative	#4 Elizabeth St, St. Clair	40,500
Speculative	#5 Grey St, St, Clair	25,000
Speculative	#3 Alexandra Street, St. Clair	51,300
	SUB-TOTAL	***224,800***
	TOTAL	***1,553,800***

* These four projects are part of the Government Campus Plaza

Against this background, we are now seeing an active policy of decentralization of POS offices by the present administration, with several Ministries and Public Bodies being relocated to south and central Trinidad. The decentralization discussion is one which has been going on since the 1970s and it is an important issue to be pursued, in my opinion. That said, one has to wonder how is the decentralization to be rationalized, given the existence of this over-supply of State-owned offices in our capital. That is a serious question which needs to be discussed if we are to achieve any proper resolution.

The completion of the State-owned offices is under the management of UDECOTT, the original developers, with recent disclosures from the Finance Minister of plans to sell the buildings and lease them back as a means of financing their completion. The terms of any such proposals would have to be carefully considered to avoid the mistakes and fraudulent behaviour of the past.

The completion and occupation of the State-owned office buildings in POS will pose an existential challenge to those private investors who have built offices for rent. The rental levels for offices in

POS are likely to decline significantly, which will impact on the revenues of those investors.