

DETERMINING PROJECT PRIORITY

A long-term program of acquiring property abroad through the construction or purchase of chancery buildings, official residences for heads of mission, and staff quarters was approved in principle by the Treasury Board in August, 1966. An acquisition program estimated at \$98 million has been prepared by the Property Management Division.

In preparing this program, the advantages of owning versus renting were assessed for each post and a schedule was prepared showing the priority that should be given to the acquisition of property at various posts as determined by this assessment. On the basis of our interviews with senior personnel it would appear that the following factors were used in this analysis:

	<u>Chanceries</u>	<u>Official Residences</u>	<u>Staff Quarters</u>
Cost	x	x	x
Availability of suitable space	x	x	x
Security	x	minor	-
Public relations	x	x	-
Expiration of present lease	x	x	x

Each of these factors is discussed briefly below.

The cost of owning versus the cost of renting property is based on a 20 year projection of such costs for each post. In both cases the projection takes into account pre-occupancy costs, occupancy costs, post-occupancy costs, and residual values. Capital investment costs are taken at their face value at the time the analysis is made, whereas the 20 year rent is determined from a projected trend based on past rent increases. The residual value of rented accommodation consists of sale of lease, key money or other applicable credits. In the case of owned buildings, the residual value is taken as half of the building acquisition cost plus the full land cost.

While the rental figures used in the analysis reflect the anticipated increase in rent over the next 20 years, the residual value used in determining the cost of acquiring property does not take fully into account the appreciation of property values that would normally accompany any increase in rent. Since property values have been appreciating at a very rapid rate in almost all parts of the world, without any apparent end in sight, any analysis that tends to under-rate the importance of this factor can produce misleading results.