



September 30, 2009

TOM A. SAMRA
VICE PRESIDENT, FACILITIES

SUBJECT: Management Advisory Report – Market Rental Rates for 117
Leased Postal Service Facilities (Report Number SA-MA-09-002)

We are providing the attached summary prepared for the U.S. Postal Service Office of Inspector General (OIG) by NGI-Solutions (NGI) (Project Number 09YG005SA001). The OIG initially identified 117 facilities where the annual lease cost appeared to be significantly higher than the fair market value when compared to Postal Service leases in the respective areas.¹ The OIG's objective was to determine whether the Postal Service was paying above-market rent for these facilities when compared to commercial rates. The OIG contracted with NGI to assess the market rental rate of the 117 leased Postal Service facilities. See [Appendix A](#) for additional detail information about these leases.

NGI reviewed the detailed information the OIG provided on the 117 leases and the initial analysis of Postal Service leases that identified the 117 leases as “suspicious” or significantly above market. Based on a review of lease attributes, they determined the market rental rate for each of the 117 Postal Service facilities. It analyzed and verified data from reliable public and private sources and provided the OIG its analyses, conclusions, and recommendations.

The assessment of market rental rates found that 35 of the 117 leases reviewed (or 30 percent) had costs above the range of the market rates.² The 35 leases were, on average, 26 percent above market rates, which represents \$476,000 of the \$1.8 million total annual rent for the 35 leases and 7 percent of the \$7 million total annual rent for the 117 leased facilities. It noted that 21 of the 35 above-market leases were in rural areas where the lack of available facilities could result in an above-market rental rates. They also found that 68 of the leases (or 58 percent) were within the market range and 14 of the 117 leases (or 12 percent) were below the market range.

¹ OIG final audit report titled *Postal Service Lease Process* (Report Number SA-AR-09-006, dated September 29, 2009). The OIG found the Postal Service could enhance their procedures to ensure leases are more economically beneficial to the Postal Service and made four recommendations agreed by management.

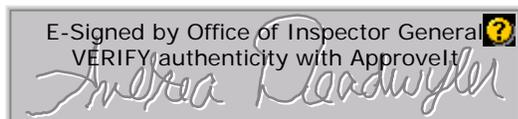
² As of August 21, 2009.

Based on this analysis, the Postal Service:

- Should use market rental rate data obtained from commercial sources rather than rely on its own existing lease rate data when evaluating existing and new leases.
- May be paying above commercial market rent at locations across the country. There may be opportunities to reduce its annual lease expense over time if leases are renegotiated and lowered due to the overall lower level of rates in most parts of the country due to the current economic situation and through more analysis and interaction between the lease acquisition function and the retail location selection function.

The OIG plans to perform a subsequent review related to the issues identified in this report. Therefore, the OIG is not making any recommendations regarding the issues raised in the NGI report. We discussed these observations and conclusions with management on September 24, 2009, and included their comments where appropriate. Management chose not to provide written comments.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions, please contact Stephen Chow, Acting Director, Inspection Service and Facilities, or me at (703) 248-2100.



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Attachment

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Appendix A has been redacted