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THE POSTAL SERVICE'S SURPLUS REAL ESTATE

Executive Summary

The U.S. Postal Service requires most of the real estate it owns for postal operations, but some is excess. Properties not needed for postal operations should be identified and transformed into revenue. That would simultaneously help the Postal Service financially and assist the economy by putting scarce resources to better uses. In addition, if the tax-exempt Postal Service owned less real estate, that would increase the tax bases of financially strained state and local governments.

The Postal Service, which is part of the federal government, already generates some revenue from its excess real estate. Its Realty Asset Management office collected \$87 million in 2002: \$26 million from real property sales and \$61 million from leases and rentals. This amount is small, though, compared to the agency's size and property holdings. Regrettably, the agency has not provided key information needed to evaluate whether it should be doing better. Its real estate portfolio includes over 8,300 facilities, more than 220 million square feet of interior space, and about 900 million square feet of land.

The agency's real estate has a book value of \$15 billion. If the properties were valued at market prices, their value would undoubtedly be seen to be much higher. However, there has never been a comprehensive appraisal of the current value of the Postal Service's huge real estate portfolio.

A recent audit by the Postal Service's Office of Inspector General (OIG) found deficiencies in how the agency disposes of excess real estate. A number of reports from the U.S. General Accounting Office (GAO) have criticized real property practices in the federal government. In a rare instance in which the Postal Service provided a comparison of book and market values, it reported that the excess properties it sold in 1999 fetched prices that were seven times their book values. Unlike the U.S. Postal Service, the German postal service, Deutsche Post, has raised billions by selling surplus real property. Earlier this year, a member of the President's Commission on the Postal Service asked if the agency could obtain more financial support from its real estate holdings.

Until more information is developed and released, the question of whether excess real estate should be a much larger revenue source for the Postal Service cannot be answered. What is needed as a reference point is an *independent* appraisal of the current *market values* of the Postal Service's properties, along with an *independent* analysis of which of the properties are excess.

It is strange that although the Postal Service says it needs more revenue, and has used that as an argument for dubious proposals like seeking to expand in markets outside its monopoly, it has not looked more closely at disposing of excess real estate.

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At one of the hearings held by the President's Commission on the United States Postal Service, Commissioner Richard Levin outlined a number of issues he hoped the Commission could examine. One is whether the Postal Service is obtaining as much financial benefit as it should from its real estate portfolio.[1]

This is an excellent question. The Postal Service's real estate holdings are enormous. Yet, there has been no comprehensive assessment of how much its properties are worth at current market prices, how many of those properties the agency actually needs to carry out its operations, and how much income the Postal Service could realize by selling, leasing, or renting properties it does not need.

The agency, which is part of the federal government, requires much of its real estate for postal operations. However, some of its facilities are idle, underutilized, or used for activities that could be conducted just as well at less valuable locations.

The possibility that the financially troubled Postal Service is sitting on a store of untapped wealth is worth a closer look.

A huge real estate portfolio. The Postal Service accurately describes itself as "one of the nation's largest institutional holders of real estate."[2] In 2002, it owned over 8,300 facilities, more than 220 million square feet of interior space, and about 900 million square feet of land.[3] According to the U.S. General Accounting Office (GAO), the Postal Service is among "the four largest property-holding agencies in terms of building square footage" within the federal government.[4]

Its real property holdings are worth billions of dollars. At the end of fiscal year 2002, the agency listed on its books, at historical cost less depreciation, $22.9 billion of property and equipment.[5] In testimony before the President's Postal Commission, a consultant from JP Morgan Chase reported that the book value of the real estate alone is about $15 billion.[6] Of course, many of these properties have appreciated, sometimes greatly, since they were acquired. Hence, a reasonable guess is that the current market value of the government enterprise's real estate considerably exceeds book value, especially for properties that were obtained long ago, such as those it inherited from the old Post Office Department. In a rare instance in which the Postal Service provided a comparison of book and market values, it reported that the market prices it received on the excess properties it sold in 1999 were seven times the properties' book values.[7]

How much is the Postal Service's real estate worth at market prices? Nobody knows! Robinson and Stanley report that there was no systematic asset appraisal when the Postal Service was formed from the old Post Office Department. Instead, "[t]he assets transferred ... were set by legislation at the original cost basis minus depreciation or the valuation included in the book of accounts of the Post Office Department... Remarkably, no attempt was made to generate an independent valuation of the Post Office Department's Assets at the time of Postal reorganization."[8] Nor has a comprehensive assessment been undertaken since then. Presumably, the Postal Service attempts to estimate the market values of some of its real properties on occasion, but it does not do so on a systematic basis and does not share its results with the public. When Postmaster General John Potter delivered his annual report to Congress in 2002, Senator Susan Collins (R-ME) asked him if the government enterprise tracks the market values of its properties. He responded, "The Postal Service does not routinely assess the market value of the individual properties it owns."[9]

Excess real estate is a minor revenue source at present. The Postal Service currently extracts some value from its excess holdings. In 2002, its Realty Asset Management office generated total revenues of $87 million.[10] This consisted of $26 million from real property sales, $40 million from leases (about three fourths to government tenants and the remainder to private-sector tenants), and $21 million from rents.[11] This income is welcome. Nevertheless, it is a small number compared to the organization's huge size and massive real estate portfolio.

The Postal Service reports that it does try to "maximize the return on underutilized and surplus real property assets ... [by] leasing or subleasing excess postal space to government and public tenants, and selling surplus real property."[12] Similarly, the "Transformation Plan" that the Postal Service issued in April 2002 claims the organization uses a "systematic internal approach ... to identify, analyze, maximize the return on, and reduce the costs associated with, postal real property assets."[13]

It is unclear, though, how much attention the Postal Service's leadership has given to this issue. When Senator Collins asked Postmaster General Potter whether asset sales could finance capital improvements or pay down debt, he answered that while "Postal Service policy is to make any excess cash available [for these purposes] ... gains (or losses) from the disposal of assets are nominal relative to these expenditures. In the last two years, disposal of land and buildings has yielded proceeds of less than $30 million."[14] Mr. Potter's reply (which apparently refers to sales) talks only about what the Postal Service has already done; it does not discuss whether there are attractive opportunities for it to do more.

Property owners in the private sector are constantly looking for opportunities to realize maximum value from their holdings. For example, when a private-sector business owns a property that has become "too valuable" for its own use, it often sells or rents the property to others and relocates its own operations. A concern with the Postal Service is that because it is a government agency, it may not be as diligent in identifying and obtaining value from excess property as would a private owner.

Benefits of renting, leasing, or selling excess real property. Conceptually, the Postal Service's excess real estate may be divided into three categories:

- Some properties are unoccupied or only partially used and are not likely to be needed for postal operations in the near future.
- Some properties are used at present, but would become excess if the agency rationalized its network of facilities.
- Some postal facilities occupy very valuable locations that others could put to better use. Underutilization cannot properly be measured solely by an organization's own operations. The value that others attach to a property is also relevant. If another user could generate more output from the postal site and if the postal facility could operate just as well on a less expensive site (including relocation costs), then the Postal Service is not fully utilizing the old site compared to the alternatives; it should move its operations and transform the old property into a revenue source.

Regardless of why a property is underutilized, it makes sense to put it to better use. The benefit for the Service, of course, is that it can obtain extra revenue without having to raise postal rates.

Allowing others to bid for excess or underutilized postal real estate is also good for the economy. Because real estate is a scarce resource, putting it to the highest valued use results in greater productivity. When properties sit idle or underused, the economy cannot produce as many goods and services as it can when a bidding process allocates the scarce assets those who can use them best.

In addition, it would help state and local governments meet their revenue needs by putting more real estate on the tax rolls. Because the Postal Service is a federal entity, it pays no property taxes on the real estate it owns. When it sells surplus properties to private-sector businesses, however, those properties become taxable.

The Postal Service sometimes rents or leases out excess property instead of selling it. While this may be appropriate in some cases, asset sales are a preferable solution unless there are strong reasons to the contrary. First, private-sector owners are generally better at holding and managing properties than government agencies. Second, when the Postal Service retains a surplus property, that property stays off state and local tax rolls, and the tax exemption is a drain on state and local tax revenues. If the property is rented out, the tax exemption also distorts real estate markets because it gives properties owned by the Postal Service an artificial advantage over privately owned properties. (The problems that would ensue for state and local governments and for the efficient allocation of real estate if the Postal Service were to leverage its tax advantage by buying and then renting out property it does not need were discussed in an earlier *Congressional Advisory*.[15])

The Office of Inspector General uncovers shortcomings. A recent audit by the Postal Service's Office of Inspector General (OIG) found deficiencies in the agency's internal procedures for disposing of excess properties.[16] Specifically, the OIG examined 454 properties that had been acquired under the Postal Service's advanced site acquisition and land banking programs for $150 million. The audit's purpose was to investigate "if Postal Service real property was needed and being utilized and, if not, was reported for disposal."[17] The OIG found many cases of persistent underutilization in the sample. "The audit revealed 30 properties purchased for $45 million that were not developed and utilized by the Postal Service and had not been referred for disposal ... one for almost 18 years."[18] (The Postal Service referred several of the 30 properties for disposal during the audit.)

Concerns at the GAO about real property management within the federal government. Such problems are not confined to the Postal Service. Over the years, the GAO has found so many and such severe problems with federal real property that it now classifies it as a high risk area: "Long-standing problems ... include excess and underutilized property, deteriorating facilities, unreliable real property data, and costly space."[19] Moreover, the scarcity of even basic information makes effective oversight difficult: "[D]ecisionmakers such as Congress and OMB do not have access to quality data on what real property assets the government owns, their value, whether the assets are being used efficiently, and what overall costs are involved in preserving, protecting, and investing in them."[20] The deficiencies in property management often found at federal agencies makes it harder to accept on faith the Postal Service's assurances that it performs very well.

The case of Deutsche Post. Those who wonder if the U.S. Postal Service has fully tapped the value of its real estate holdings sometimes point to the example of Deutsche Post, the German postal service. Several years ago, in anticipation of partial privatization, Deutsche Post received permission from the German government to acquire private firms and enter new markets. (Deutsche Post is still mostly owned by the German government, but a minority share was sold to private investors.)

Almost immediately, Deutsche Post launched a worldwide, multi-billion dollar buying spree, and it has so far purchased dozens of companies, in whole or part. With its announcement earlier this year that it would acquire Airborne for $1.05 billion, its actual and announced purchases now total approximately $7.5 billion.[21] Where has Deutsche Post obtained all this money? Some undoubtedly has come from high rates that it charges consumers within its postal monopoly. But Deutsche Post claims that the main source has been real estate it inherited from the German government, that it has raised billions by rationalizing its holdings and selling many unneeded properties.[22]

The huge amount that Deutsche Post has raised by selling excess real property does not necessarily indicate that the U.S. Postal Service is in a similar position. Still, it does suggest that the U.S. Postal Service's property holdings merit a closer look.

Better information is needed. The main obstacle in trying to evaluate whether the Postal Service is properly identifying and extracting value from excess real estate is lack of information. What is needed as a benchmark is an *independent* appraisal of the current *market values* of the Postal Service's properties, along with an analysis of which of the properties are excess. At the very least, fact-finding studies, perhaps undertaken by the GAO or commissioned by the President's Postal Commission, would be extremely useful.

Market-based information developed through a *systematic, independent* appraisal process would help policymakers, and go far toward answering the question Commissioner Levin raised. An independent assessment would serve as a cross-check on the Postal Service's in-house, non-transparent property-management efforts, and also be a helpful management tool for the Postal Service itself. When market-based information is gathered, it should be shared with the general public to improve transparency in government, and also to provide more sets of eyes to spot any errors or missed opportunities. To overcome the political obstacles likely to be encountered in disposing of excess facilities, many have suggested establishing a panel similar to the successful military base closing commissions to oversee the process.

Generating money from excess real state would be superior to the revenue raisers the agency favors. Given the Postal Service's claims that it needs new revenue sources, it is strange that the agency has not paid more attention to its real estate portfolio. Instead, it has pushed for other options, such as being allowed to expand aggressively in markets that are beyond its mail monopoly and already served by private-sector firms.[23] Expansion by the Postal Service is troubling at many levels. It could easily hurt the agency's bottom line by adding more to costs than to revenues. The resulting losses would threaten taxpayers and consumers within the postal monopoly. Moreover, expansion would hurt the overall economy as the relatively inefficient Postal Service used its government-based privileges to displace more efficient private-sector companies. In contrast, turning surplus Postal Service real estate into cash is a win-win proposition. It would benefit the agency, taxpayers, postal consumers, and the general economy.

Conclusion. Private-sector companies are energized by the profit motive to use their real estate and other assets as efficiently as possible. Part of the process is regularly asking if some real estate holdings are not needed and could earn higher returns by being rented, leased, or sold to others. The U.S. Postal Service faces weaker market incentives and more political constraints. Although it insists that it does an excellent job at converting underutilized real property into revenue, it has furnished too little information about the market values and utilization rates of its thousands of real properties to enable regulators, Congress, and the public to determine if it should be doing better. To answer that question, there should be a comprehensive, independent assessment of the Postal Service's real property holdings and an evaluation of which are excess and how much they are worth at current market values. That information is needed for proper oversight of the Postal Service and would increase openness and accountability at the government agency.

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Endnotes

1. Commissioner Levin broached this topic at the Commission's public hearing in Washington, D.C. on February 20, 2003, when he described a long list of topics that might be considered by the panel's Business Model Subcommittee, of which he is chairman. Mr. Levin, who is President of Yale University, is on the temporary Postal Commission, as are the eight other commissioners.

2. United States Postal Service, *United States Postal Service Transformation Plan*, April 2002, p. M-26, accessed on the Internet at www.usps.com/strategicdirection/transform.htm.

3. U.S. Postal Service, *Comprehensive Statement On Postal Operations, 2002*, p. 29, accessed on the Internet at http://www.usps.com/history/cs02/usps_cs2002.pdf.

4. U.S. General Accounting Office, "Federal Real Property: Better Governmentwide Data Needed For Strategic Decisionmaking," GAO-02-342, April 2002, p. 9, accessed on the Internet at http://www.gao.gov/new.items/d02342.pdf.

5. U.S. Postal Service, *United States Postal Service Annual Report, 2002*, p. 38. An exception is that if the Postal Service believes the value of an asset has been impaired so that market value is less than cash value, it marks down the amount shown on its books.

6. See President's Commission on the United States Postal Service, "Meeting Minutes," May 28, 2003 Hearing, Washington, D.C., summary of testimony of Winthrop Watson, Managing Director, JP Morgan Chase, accessed on the Internet at http://www.treas.gov/offices/domestic-finance/usps/pdf/may_28_minutes.pdf.

7. Specifically, the Postal Service reported that in fiscal year 1999 its Realty Asset Management office obtained revenues of $142.5 million from the "Sale/finance of excess property" and that "[t]he sale of excess property [in fiscal year 1999] has produced revenues in excess of book value of over $120 million." (U.S. Postal Service, *Comprehensive*

Statement On Postal Operations, 1999, p. 30.) Based on these numbers, the properties had a book value of approximately $20 million (derived as $142.5 million market prices minus $120 million or so by which market prices exceeded book prices). Therefore, market values averaged about seven times book values on these properties. Realty Asset Management was contacted, and a representative there confirmed these numbers. However, he cautioned against assuming the seven-to-one ratio would be the average for the Postal Service's entire real estate portfolio because he thought some of the properties sold in 1999 had unusually high market values relative to their book values. He added that, except in this one case, he was not aware of any publicly released data comparing market to book values for Postal Service real estate. In addition, he said that Realty Asset Management had prepared some material for the President's Commission based on the information it had on hand (which were not actual appraisals of all or most properties), but the results were not made public.

8. Alan Robinson and Krisshawn Stanley, "Who Has the Advantage? Evaluating the Playing Field Facing Parcel Competitors in the United States," Direct Communications Group, January 2003, p. 47, originally presented at the 10th Conference on Postal and Delivery Economics, Center for Research in Regulated Industries of Rutgers University, accessed on the Internet at http://www.postcom.org/public/articles/2003articles/who%20has%20the%20advantage.pdf.

9. "Questions For The Honorable John Potter From Senator Susan Collins," U.S. Senate, Government Affairs Subcommittee On International Security, Proliferation And Federal Services, Hearing To Receive The Postmaster General's Annual Report To The Senate, September 27, 2002.

10. USPS, *Comprehensive Statement, 2002*, *op. cit.*, p. 29.

11. *Ibid.* The U.S. General Services Administration (GSA) frequently assists Realty Asset Management in its efforts. Much of the rental income comes from a few major properties. (See U.S. General Accounting Office, "Public-Private Partnerships: Key Elements Of Federal Building And Facility Partnerships," GAO/GGD-99-23, February 1999, pp. 7, 47-55, accessed on the Internet at http://frwebgate.access.gpo.gov/cgi-bin/useftp.cgi?IPaddress=162.140.64.21&filename=gg99081t.pdf&directory=/diskb/wais/data/gao.)

12. USPS, *Comprehensive Statement, 2002*, *op. cit.*, p. 29.

13. USPS, *Transformation Plan*, *op. cit.*, p. M-26.

14. "Questions For The Honorable John Potter From Senator Susan Collins," *op. cit.*

15. See Stephen J. Entin, "Post Office Buys Mall Of America," *IRET Congressional Advisory*, No. 136, September 30, 2002, available on the Internet at ftp://ftp.iret.org/pub/ADVS-136.PDF. The paper uses a humorous and (so far) fictitious example to make its point, but the point is a serious one.

16. Office of Inspector General of the Postal Service, "Disposal Of Excess Real Property," Audit Report No. CA-AR-02-002, January 28, 2002, accessed on the Internet at http://www.uspsoig.gov/foia_files/CA-AR-02-002.pdf.

17. *Ibid.*

18. *Ibid.*

19. U.S. General Accounting Office, "High-Risk Series: Federal Real Property," GAO-03-122, January 2003, p. 1, accessed on the Internet at http://www.gao.gov/pas/2003/d03122.pdf.

20. U.S. General Accounting Office, "Federal Real Property: Better Governmentwide Data Needed for Strategic Decisionmaking," *op. cit.*, pp. 2-3.

21. See Uta Harnischfeger and Betty Liu, "Upwardly Mobile D Post Still Aiming For The Summit," *Financial Times*, March 26, 2003, accessed on the Internet at http://search.ft.com/search/article.html?id=030326001150.

22. Comments of Deutsche Post board member Hans-Dieter Petram to German financial paper *Handelsblatt*, cited by PostCom, "Postal News from February 2001," accessed on the Internet at http://www.postcom.org/archive/news2001/news02-01.htm.

23. For a fuller discussion of the Postal Service's persistent expansion efforts and why they are economically undesirable, see Michael Schuyler, "Empire Building At The Postal Service," *IRET Policy Bulletin*, No. 87, May 19, 2003, available on the Internet at ftp://ftp.iret.org/pub/BLTN-87.PDF.
