OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Vacant Land Parcels

Audit Report

September 30, 2013

Report Number SM-AR-13-005

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

September 30, 2013

Vacant Land Parcels

Report Number SM-AR-13-005

BACKGROUND:

The U.S. Postal Service owns more than 8,000 facilities; they also own land nationwide and uses two types of capital investments for land — advanced site acquisitions and land banking. Advanced site acquisitions involve the purchase of land for new or expanding facilities. Land banking is the acquisition of land in anticipation of long-term future needs.

The vice president, Facilities, has the authority to dispose of excess land. Disposition may be by sale, exchange, or other means determined to be in the best interest of the Postal Service. Our objective was to assess the Postal Service's opportunity to generate additional revenue by disposing of vacant land.

WHAT THE OIG FOUND:

The Postal Service has an opportunity to generate about $16.9 million in revenue by selling 11 vacant land parcels, including three parcels in Hawaii. Specifically, management could generate $2.6 million by selling three vacant land parcels and an additional $14.3 million by selling eight vacant land parcels once market conditions improve. Holding these eight properties was based on their physical characteristics, locations, and the state of the local market. The Postal Service did not have current plans to use any of the 11 vacant land parcels, which were purchased between 12 and 24 years ago. Seven parcels were declared excess and have been previously listed for sale; however, these properties have not been relisted since 2011 due to market conditions. Four parcels have never been listed. Although area operations are responsible for declaring excess land, area officials have not declared the four vacant land parcels as excess because they want to hold the properties for future use — even though there are no current plans. The Postal Service has 10 additional vacant land parcels we did not review that may present an opportunity to generate revenue through disposal.

Given the financial challenges facing the Postal Service and the unlikely expansion of operations, area operations and Facilities management can generate additional revenue by selling the vacant land parcels they have no plans to use.

WHAT THE OIG RECOMMENDED:

We recommended area management declare four vacant land parcels as excess. We also recommended Facilities management list three parcels for sale now, develop a strategy to sell eight parcels when market conditions improve, and evaluate 10 additional vacant land parcels for disposal.

Link to review the entire report

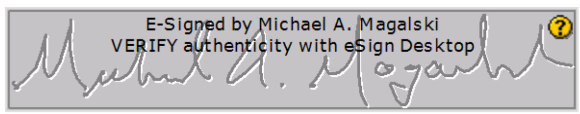
OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 30, 2013

MEMORANDUM FOR: DEAN J. GRANHOLM
VICE PRESIDENT, PACIFIC AREA OPERATIONS

JO ANN FEINDT
VICE PRESIDENT, SOUTHERN AREA OPERATIONS

TOM A. SAMRA
VICE PRESIDENT, FACILITIES



FROM: Michael A. Magalski
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Audit Report – Vacant Land Parcels
(Report Number SM-AR-13-005)

This report presents the results of our audit of the U.S. Postal Service's Vacant Land Parcels (Project Number 13YG017SM000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Monique P. Colter, director, Supply Management and Facilities, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction

This report presents the results of our audit of the U.S. Postal Service's vacant land parcels (Project Number 13YG017SM000). The objective of this self-initiated audit was to assess the Postal Service's opportunity to generate additional revenue by disposing of vacant land. See Appendix A for additional information about this audit.

The Postal Service owns more than 8,000 facilities; it also own land nationwide and uses two types of capital investments for land — advanced site acquisitions and land banking. Advanced site acquisitions involve the purchase of land for new or expanding facilities. Land banking is the acquisition of land in anticipation of long-term future needs or expansion of services rather than for a specific project. The Postal Service has efforts underway to right-size its mail processing and retail networks, which may decrease unneeded properties.

The Facilities organization, led by the vice president of Facilities, has the authority to dispose of property excess of Postal Service needs. Disposition may be by sale, exchange, or by other means determined to be in the best interest of the Postal Service.

Conclusion

The Postal Service has an opportunity to generate about $16.9 million in additional revenue by selling 11 vacant land parcels, including three parcels located in Hawaii. Specifically, the Postal Service could generate $2.6 million in revenue by selling three vacant land parcels in the current real estate market and an additional $14.3 million by selling eight vacant land parcels once market conditions improve. The Postal Service did not have current plans to use any of the 11 vacant land parcels we reviewed. Seven parcels were declared excess and have been previously listed for sale; however, these properties have not been relisted since 2011 due to market conditions. Four parcels have never been listed. The Postal Service has 10 additional vacant land parcels we did not review that may present an opportunity to generate revenue through disposal.

Properties to Sell in Current Market

The Postal Service could generate $2,658,636 by selling the Elk River, MN; Norman, OK; and Islip, NY land parcels in the current market. (See Table 1).

- The Elk River, MN property, located in the Western Area, was acquired in 2000. The Postal Service declared this property as excess. The last date the property was listed was April 2011. The property has a discounted fair market value of [redacted] The highest and best use for this property is to develop for commercial use.

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[1] The discounted fair market value uses a discount rate that reflects the final rating to show the likelihood of sale and a potential range of sales based on fair market value. We used the discounted fair market values to be conservative.

- The Norman, OK property, located in the Southern Area, was acquired in 1990. The Postal Service has not declared this property as excess, and it has not previously been listed for sale. The property has a discounted fair market value of [redacted] The highest and best use for this property is to develop for office or institutional use. The U.S. Postal Service Office of Inspector General (OIG) also has an ongoing audit examining the training conducted at the Norman, OK facility.

- The Islip, NY property, located in the Northeast Area, was acquired in 1999. The Postal Service has declared this property as excess. The last date the property was listed was August 2011. The property has a discounted fair market value of [redacted] The highest and best use for this property is to develop for residential use.

Table 1: Properties to Sell in the Current Market

Postal Service Area	Location	Year Acquired	Land Declared Excess	Discounted Fair Market Value	Opinion of Highest and Best Use[2]
Western	Elk River, MN	2000	Yes	[redacted]	Commercial use
Southern	Norman, OK	1990	No	[redacted]	Office or institutional use
Northeast	Islip, NY	1999	Yes	[redacted]	Residential use
			Total	**$2,658,636**	

Source: OIG analysis.

Properties to Hold Until Market Conditions Improve

The Postal Service has an opportunity to realize an additional $14,307,898 by selling the Kahului, HI; Cooper City, FL; Stuart, FL; Kihei, HI; Pahoa, HI; Incline Village, NV; Mendocino, CA; and Pinetop, AZ properties. Holding these eight properties was based on their physical characteristics, locations, and the state of the local market. (See Table 2).

- The Kahului, HI property, located in the Pacific Area, was acquired in 1989. The Postal Service has not declared this property as excess and has not previously listed the property for sale. The property has a discounted fair market value of [redacted]

- The Cooper City, FL property, located in the Southern Area, was acquired in 1999 or 2000. The Postal Service has declared this property as excess. The last date the property was listed was February 2010. The property has a discounted fair market value of [redacted]

[2] The highest and best use is the use of the property that would provide the highest value.

- The Stuart, FL property, located in the Southern Area, was acquired in 1999. The Postal Service has declared this property as excess. The last date the property was listed was November 2010. The property has a discounted fair market value of [redacted]

- The Kihei, HI property, located in the Pacific Area, was acquired in 2001. The Postal Service has not declared this property as excess and has not previously listed the property for sale. The property has a discounted fair market value of [redacted]

- The Pahoa, HI property, located in the Pacific Area, was acquired in 1989. The Postal Service has not declared this property as excess and has not previously listed the property for sale. The property has a discounted fair market value of [redacted]

- The Incline Village, NV property, located in the Western Area, was acquired in 2001. The Postal Service has declared this property as excess. The last date the property was listed was June 2011. The property has a discounted fair market value of [redacted]

- The Mendocino, CA property, located in the Pacific Area, was acquired in 1989. The Postal Service has declared this property as excess. The last date the property was listed was August 2011. The property has a discounted fair market value of [redacted]

- The Pinetop, AZ property, located in the Western Area, was acquired in 2000. The Postal Service has declared this property as excess. The last date the property was listed was April 2011. The property has a discounted fair market value of [redacted]

Table 2: Properties to Hold Until Market Conditions Improve

Postal Service Area	Location	Year Acquired	Land Declared Excess	Discounted Fair Market Value
Pacific	Kahului, HI	1989	No	[redacted]
Southern	Cooper City, FL	1999 or 2000	Yes	[redacted]
Southern	Stuart, FL	1999	Yes	[redacted]
Pacific	Kihei, HI	2001	No	[redacted]
Pacific	Pahoa, HI	1989	No	[redacted]
Western	Incline Village, NV	2001	Yes	[redacted]
Pacific	Mendocino, CA	1989	Yes	[redacted]
Western	Pinetop, AZ	2000	Yes	[redacted]
			Total	**$14,307,898**

Source**:** OIG analysis.

The Postal Service acquired these land parcels between 12 and 24 years ago in anticipation of long-term future needs; however, the parcels remain unused. Further, the Postal Service does not have current plans to use the 11 vacant land parcels. Seven of the parcels have been declared excess and were previously listed for sale but have not been relisted on the market since 2011. Area Operations management did not declare the four remaining land parcels as excess because they wanted to keep the parcels for future need; however, they gave no indication as to the specific need.

Properties to Evaluate

The Postal Service has 10 additional vacant land parcels we did not include in our review. The Postal Service purchased these parcels between 1976 and 2000. Based on the results of our review of the 11 judgmentally selected vacant properties, there may be an opportunity for the Postal Service to generate revenue by disposing of these 10 properties. (See Table 3).

Table 3: Properties to Evaluate

Postal Service Area	Location	Year Acquired	Land Declared Excess
Western	Apache Junction, AZ	2000	Yes
Western	Central, AZ	2000	No
Pacific	Tehachapi, CA	1993	Yes
Great Lakes	Marengo, IN	2000	Yes
Great Lakes	Kokomo, IN	1998	No
Southern	Hilton Head, SC	1996	No
Southern	Garland, TX	1976	No
Northeast	Loiza, PR	2000	Yes
Northeast	Viequez, PR	2000	Yes
Northeast	San Juan, PR	1998	Yes

Source: OIG analysis.

Postal Service policy is to dispose of excess real property under the terms and conditions that provide the greatest value to the Postal Service. Disposition may be by sale, exchange, outlease, or by other means determined to be in the best interest of the Postal Service. The Facilities organization is responsible for coordinating with the local district and area office when disposing of excess property. Postal Service Facilities officials stated that they were aware of these properties and evaluated many for disposition. Officials had previously listed some of these properties for sale and indicated that properties would be relisted for sale when deemed appropriate.

Given the financial challenges facing the Postal Service and the unlikely expansion of operations, Area Operations and Facilities management can achieve an organizational initiative to generate additional revenue by selling prime vacant land parcels now and developing a strategy to sell other unused parcels as real estate market conditions improve. See Appendix B for monetary and other impacts.

Recommendations

We recommend the vice president, Southern Area Operations:

1. Declare the land parcel located in Norman, OK as excess.

We recommend the vice president, Pacific Area Operations:

2. Declare the three land parcels located in Kahului, HI; Kihei, HI; and Pahoa, HI as excess.

We recommend the vice president, Facilities:

3. List the Elk River, MN; Norman, OK; and Islip, NY parcels for sale.

4. Evaluate the eight parcels in Kahului, HI; Cooper City, FL; Stuart, FL; Kihei, HI; Pahoa, HI; Incline Village, NV; Mendocino, CA; and Pinetop, AZ and develop a strategy to sell the properties when market conditions improve.

5. Evaluate the 10 additional parcels in Apache Junction, AZ; Central, AZ; Tehachapi, CA; Marengo, IN; Kokomo, IN; Hilton Head, SC; Garland, TX; Loiza, PR; Viequez, PR; and San Juan, PR to determine whether they are suitable for sale.

Management's Comments

Management did not state whether they agreed or disagreed with the findings, recommendations and monetary impact in their initial response. In subsequent correspondence, management did not state whether they agreed or disagreed with the findings. Additionally, management stated that they cannot agree or disagree to the monetary impact until Facilities takes the properties to market, via auction or listing and determine what the market is willing to bear. Management did not agree or disagree with recommendation 1, disagreed with recommendation 2, and agreed with recommendations 3, 4, and 5.

Management stated that they cannot agree or disagree with recommendation 1 until Facilities has finalized its evaluation to determine whether the land parcel in Norman, OK is more valuable as a separate parcel or as part of larger sale. They will complete this analysis on or before June 30, 2014. Management also stated as of August 28, 2013, the Norman, OK parcel was declared as no longer needed.

Management, disagreed with recommendation 2, stating that the Kahului, HI property is an airport site currently being used for postal operations in support of the entire island of Maui. Additionally, the Pahoa, HI and Kihei, HI parcels are being held for required expansion needed to support increased volume.

Regarding recommendation 3, management agreed to list the Elk River, MN; Norman, OK; and Islip, NY parcels for sale. Facilities is preparing the Elk River, MN and Islip, NY properties to be part of the next auction package. Facilities will evaluate the Norman, OK property to determine whether it is more valuable as a separate parcel or as part of a larger sale. If determined that marketing the property as a separate parcel is in the best interest of the Postal Service, Facilities will take appropriate steps to prepare for the sale. They will implement this recommendation by June 30, 2014.

Management agreed with recommendation 4 to develop a strategy to sell properties, except those located in Hawaii as referenced in recommendation 2. Management stated that several properties have been previously listed for sale, and all properties will be evaluated to determine the overall best-selling strategy. Facilities has already developed a strategy for each property. Management did not provide a target implementation date, because they deemed this recommendation to be complete.

Management also agreed with recommendation 5 and stated that the 10 additional parcels were previously identified and evaluated for sale. Facilities will continue to evaluate the land parcels to determine the best overall strategy to either prepare them to be part of the next auction package or hold the properties until market conditions improve. Management noted that three parcels were identified as not marketable. Management did not provide a target implementation date, because they deemed this recommendation to be complete.

Management agreed that optimization of vacant land is an important initiative within the Postal Service and that if all properties were available in markets that are active, such properties would generate millions of dollars of revenue. Management believe they have been proactive in implementing a process to identify parcels that are no longer needed. Specifically, Facilities has implemented a comprehensive program that identifies and monitors its vacant land portfolio based on operational need and market demand including an auction program, which is being used to reintroduce many of these properties to the market. See Appendix C for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1, 3, 4, and 5; however, we disagree with management's response to recommendation 2. Regarding recommendation 2, the OIG believes that given its financial challenges, it is unlikely the Postal Service will build new facilities on the Kihei and Pahoa, HI properties. Additionally, the current structure on the Kahului, HI property where mail is received from the airlines and tendered to highway contract route carriers is a tent. The Postal Service purchased this property 24 years ago. There are no records that the Postal Service attempted to build a structure on this property until 2005, and the building was never constructed due to lack of funding.

The Postal Service purchased the Kihei and Pahoa, HI, properties 12 and 24 years ago, respectively. As is the case with the Kahului property, there are no records of an attempt to build a facility on the Pahoa property until 2005. The building was never constructed due to lack of funding. Even though operations at both the Kihei Carrier Annex and the Pahoa - Hilo Rd #13 Post Office have outgrown their current facilities, it is unlikely the Postal Service will construct replacement facilities in view of its current financial condition. We view the disagreement on significant recommendation 2 as unresolved but do not plan to pursue it through the formal audit resolution process.

The OIG considers recommendations 1, 3, 4, and 5 significant, and therefore requires OIG concurrence before closure. Management deemed recommendations 4 and 5 closed based on their responses; however, they need to submit documentation to support their decision in disposing each property. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

The Postal Service owns more than 8,000 facilities; it also owns land nationwide and uses two types of capital investments for land — advanced site acquisitions and land banking. Advanced site acquisitions involve the purchase of land for new or expanding facilities. Land banking is the acquisition of land in anticipation of long-term future needs or expansion of services rather than for a specific project. The purpose of land banking is to gain control of land in high cost or land scarce areas when it becomes available. The vice president, Facilities has the authority to acquire land up to $5 million. All approved projects are funded by headquarters, not locally.

The manager of the organization responsible for the facility is responsible for declaring land excess to the needs of the Postal Service. The Facilities organization, led by the vice president of Facilities, has the authority to dispose of property excess to Postal Service needs. Disposition may be by sale, exchange, or by other means determined to be in the best interest of the Postal Service.

Objective, Scope, and Methodology

Our objective was to assess the Postal Service's opportunity to generate additional revenue by disposing of vacant land. To accomplish our objective, we:

- Used the Electronic Facilities Management System (eFMS) and identified 341 properties listed as containing no buildings.
- Used an Internet website[3] to view maps of the 341 properties and identified 28 potential unused land parcels without structures.
- Sent questionnaires and conducted interviews with Postal Service officials and eliminated six of the 28 properties from review based on input received.[4]
- Judgmentally selected 12 land parcels to obtain appraisals based on potential value. One property was removed when real estate experts were not able to determine whether the property could be sold.
- Determined the salability and fair market value of the 11 parcels using real estate experts.
- Calculated the potential monetary benefits from the sale of these land parcels.

[3] Google Maps.
[4] Two properties were listed for sale. One was sold. One property was a parking lot. Two properties had structures built on them.

We conducted this performance audit from January 2013 through September 2013 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 29, 2013, and included their comments where appropriate.

We assessed the reliability of eFMS data by confirming information with Facilities Service Office and area and district office personnel. We also compared eFMS data with information obtained by the real estate appraisers. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
Land Optimization - Northern Virginia District	DA-AR-12-003	9/28/2012	$2,931,250
Report Results: The Postal Service can improve procedures for identifying and disposing of excess land space. Two of the six Postal Service-owned properties reviewed in the Northern Virginia District, the Dulles Processing and Distribution Center (P&DC) and land slated for the Ashburn Main Post Office, have excess land space of 442,570 square feet (SF), or about 17 percent of the exterior space of those properties. By initiating disposal action for excess land space for these two properties, the Postal Service has a one-time opportunity to realize a revenue increase of at least $2,931,250 in the Northern Virginia District. The Postal Service initiated the process of selling the Ashburn property on October 12, 2011. Management disagreed with our report recommendation and the potential revenue that could be generated from the sale of excess land at the Ashburn site and the Dulles P&DC.			
Land Optimization – Central Illinois District	DA-AR-12-001	9/19/2012	$42,337,385
Report Results: The Postal Service can improve procedures for identifying and disposing of excess land space. Ten properties have excess land space of 4,892,583 SF based on Postal Service policy. This excess land represent 49 percent of the total square footage of the sites visited. By initiating disposal action for excess land space, the Postal Service has a one-time opportunity to realize at least $42,337,385 in increased revenue in the Central Illinois District. Management disagreed with two of the three report recommendations. Management also disagreed with the methodology we used to calculate the amount of excess land and the potential revenue that could be generated from the sale of excess land space.			

Appendix B: Monetary and Other Impacts

Monetary Impact

Recommendation	Impact Category	Amount
3	Increased Revenue[5]	$2,658,636

Other Impact

Recommendation	Impact Category	Amount
4	Potential Additional Revenue[6]	$14,307,898

We calculated the monetary and other impact using the fair market value for each property. The fair market value of each land parcel was obtained by performing a Monte Carlo simulation. The Monte Carlo simulation shows the odds for distribution of outcomes on the sale price of the property given the market conditions. The simulation created a distribution of values if each property were sold 5,000 times in current market conditions. The discounted fair market value uses a discount rate that reflects the market conditions to represent a minimum obtainable value.

We calculated the $2,658,636 monetary impact for increased revenue using the discounted fair market value for the three properties the Postal Service should sell (See Table 4). We used the discounted fair market value to be conservative in our calculation.

Table 4: Calculation of Monetary Impact

Postal Service Area	Location	Fair Market Value	Discounted Fair Market Value
Western	Elk River, MN	[redacted]	[redacted]
Southern	Norman, OK	[redacted]	[redacted]
Northeast	Islip, NY	[redacted]	[redacted]
	Total	**$3,275,000**	**$2,658,636**

Source: OIG analysis.

We calculated the $14,307,898 of other impact for potential additional revenue using the discounted fair market value for the eight properties the Postal Service should sell once real estate market conditions improve. (See Table 5).

[5] Increased revenue from existing functions or revenue generated from new sources, perhaps because of implementing a new marketing initiative.
[6] Revenue the Postal Service could potentially generate for goods delivered or services rendered based on suggested improvements.

Table 5: Calculation of Other Impact

Postal Service Area	Location	Fair Market Value	Discounted Fair Market Value
Pacific	Kahului, HI	[redacted]	[redacted]
Southern	Cooper City, FL	[redacted]	[redacted]
Southern	Stuart, FL	[redacted]	[redacted]
Pacific	Kihei, HI	[redacted]	[redacted]
Pacific	Pahoa, HI	[redacted]	[redacted]
Western	Incline Village, NV	[redacted]	[redacted]
Pacific	Mendocino, CA	[redacted]	[redacted]
Western	Pinetop, AZ	[redacted]	[redacted]
	Total	**$17,980,000**	**$14,307,898**

Source: OIG analysis.

Appendix C: Management's Comments

September 24, 2013

JUDITH LEONHARDT, DIRECTOR - AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL, UNITED STATES POSTAL SERVICE
1734 NORTH LYNN STREET
ARLINGTON, VA 22209-2020

SUBJECT: Vacant Land Parcels
Draft Audit Report Number SM-AR-13-DRAFT

Thank you for the opportunity to review and comment on the subject draft audit report. Management appreciates the efforts the Office of Inspector General (OIG) has taken with respect to evaluating vacant land parcels. We agree that optimization of vacant land is a critical and important initiative within the Postal Service and believe we have been proactive in implementing a process to identify parcels that are no longer needed by the Postal Service and that have value on the open market in an effort to generate revenue. The following is in response to the above subject audit and management's comments with respect to the findings of such audit.

Management agrees that if all properties were available to market in markets that are active, such properties would generate millions of dollars of revenue. OIG currently estimates $16.9M. However, of the $16.9M, approximately $9.6M, representing 57 percent of the total is based on OIG's valuation of three parcels in Hawaii that at such time operations is not willing to release for sale. Specifically, Kahului, Hawaii [redacted] is an airport site that is currently being used for postal air operations in support of the entire island of Maui. Both Pahoa, [redacted] and Kihei, Hawaii [redacted] are parcels that are being held for required expansion needed to support increased volume.

Management previously marketed the 5 remaining properties totaling $7.3M based on OIG estimates. At the time there was no interest in these properties primarily due to being located in depressed markets with little demand. Management has continued to monitor market conditions and will re-introduce the properties when key indicators, including velocity and value, begin to strengthen.

The report identified 10 additional properties that were not included in their review. The OIG judgmentally selected these properties based on their findings of other vacant land, and indicated there may be opportunity to generate revenue. Management has a process through which it continues to monitor its portfolio of vacant properties to determine whether or not the properties are needed and/or marketable. All 10 properties were identified previously and evaluated for sale accordingly.

Audit Recommendations. Management's comments with respect to the recommendations outlined in the audit report are noted below:

Recommendation 1: Declare the land parcel located in Norman, Oklahoma as excess.

475 L'ENFANT PLAZA, SW
WASHINGTON, DC 20260-001
WWW.USPS.COM

Management Response: There are 7 parcels of land that comprise the Norman Oklahoma facility. The report is not specific as to which parcel it is referring. However, in reviewing the map, at this time the only parcel that could be determined to be excess is parcel G04. CBRE submitted a BOV on all parcels associated with this property on April 29, 2013. G04 was determined to have an estimated market value equal to [redacted] As of August 28, 2013, the NCED communicated that they do not need this parcel. Facilities will evaluate to determine if more valuable as a separate parcel or as contributing part of the whole. If determined that marketing the property as a separate parcel is in the best interest of USPS, Facilities will take appropriate steps to prepare for sale.

Recommendation 2: Declare the three land parcel located in Kahului, Hawaii, Kihei, Hawaii, and Pahoa, Hawaii as excess

Management Response: As previously mentioned Kahului, Hawaii is an airport site that is currently being used for postal air operations in support of the entire island of Maui. Pahoa, Hawaii and Kihei, Hawaii are parcels that are being held for required expansion needed to support increased volume.

Recommendation 3: List the Elk River, Minnesota, Norman, Oklahoma and Islip, New York parcels for sale.

Management Response

- **Elk River, Minnesota** – Marketed the property from December 2009 until April 2011. There was no interest. The property is located in a market that continues to be weak, evidenced by lack of real estate transactional activity. Facilities is preparing to be part of the next auction package.

- **Norman, Oklahoma** – As previously discussed above, Facilities will evaluate to determine if more valuable as a separate parcel or as contributing part of the whole. If determined that marketing the property as a separate parcel is in the best interest of USPS, Facilities will take appropriate steps to prepare for sale.

- **Islip, New York** – Marketed the property from February 2010 to April 2011. The property contains wetlands and with the buffer required makes the land challenging for developers to derive value. Additionally, the land has split zoning (Residence B and Industrial 1). Hence, there was little to no interest, with no written offers. Facilities is preparing to be part of the next auction package.

Recommendation 4: Evaluate the eight parcels in Kahului, Hawaii, Cooper City, Florida, Stuart, Florida, Kihei, Hawaii, Pahoa, Hawaii, Incline Village, Nevada, Mendocino, California and Pinetop, Arizona and develop a strategy to sell the properties when market conditions improve.

Management Response: As previously stated, the three parcels in Hawaii currently are needed. Operations is not willing to release for sale. With respect to the other five parcels, Facilities continues to evaluate as summarized below.

- **Cooper City, Florida** – This property was initially listed for sale in October 2007 and was terminated in February 2010. The value at that time was [redacted] but the market was saturated with competing opportunities. Additionally, the marketability is challenging due to the property having mixed zoning. The north portion of the parcel is zoned as Planned Residential Development (PRD) and the south portion is zoned as Office Park (OP). One offer was received, but was significantly below appraised value. Recently, CBRE has reported that overall demand in market for multi-family and retail zoned land is improving, but value has declined. CBRE completed a BOV in October 2012 indicating estimated value for this parcel is [redacted] based on current mixed zoning (PRD and OPF). Facilities is completing due diligence and preparing it for sale to be sold at highest and best use.

- **Stuart, Florida** – This property was listed for sale in July 2008 and was terminated in November 2010 due to little to no interest. No offers were received during such time. The appraised value was [redacted] CBRE reports that currently there is an abundance of land for sale with little demand; therefore, the market continues to be soft. CBRE completed a BOV in October 2012 indicating estimated value for this parcel is [redacted] Currently, Facilities is evaluating to determine overall best strategy to either 1) prepare to be part of the next auction package or 2) hold until market improves.

- **Incline Village, Nevada** – Property was listed for sale in April 2010 and removed in June 2011 with no interest. CBRE reports that currently this market is experiencing increasing activity. Facilities is in process of re-evaluating for sale.

- **Mendocino, California** – Property was initially listed for sale in 2002 and subsequently removed. It was listed again in 2008, received one offer at appraised value [redacted] but buyer terminated due to zoning issues prior to close of escrow. The listing was subsequently cancelled in August 2011 since there was no other interest. Facilities researched the zoning issues and determined in order to capture highest and best use value, the property should be re-zoned. Facilities is in process of researching the steps needed, timing and probability of success to re-zone this property.

- **Pinetop, Arizona** – Property was listed for sale in December 2007 and subsequently removed in April 2011 with no interest. The property is located in a market that continues to be weak, evidenced by the lack of real estate transactional activity and depressed values. Currently, Facilities is evaluating to determine overall best strategy to either 1) prepare to be part of the next auction package or 2) hold until market improves.

<u>Recommendation 5:</u> Evaluate the 10 additional parcels in Apache Junction, Arizona, Central Arizona, Tehachapi, California, Marengo, Indiana, Kokomo Indiana, Hilton Head, South Carolina, Garland Texas, Loiza Puerto Rico, Viequez Puerto Rico and San Juan Puerto Rico to determine if they are suitable for sale.

<u>Management Response</u>: Through Facilities' ongoing process, all properties were previously identified and evaluated for sale as follows:

- **Apache Junction, Arizona** – Previously marketed for sale from January 2008 through April 2011 with only one offer [redacted] that was significantly below appraised value [redacted] Market conditions remain weak. Currently, Facilities is evaluating to determine overall best strategy to either 1) prepare to be part of the next auction package or 2) hold until market improves.

- **Central, Arizona** – Property consists of approximately 21,000 sf valued at [redacted]. Facilities evaluating marketability. Facilities is evaluating to determine overall best strategy to either 1) prepare to be part of the next auction package or 2) hold until market improves.

- **Tehachapi, California** – Previously marketed for sale from 2007-2009 with no interest, evidenced by no inquiries and no offers. Currently CBRE reports the market continues to be weak with no demand. Facilities is evaluating to determine overall best strategy to either 1) prepare to be part of the next auction package or 2) hold until market improves.

- **Marengo, Indiana** – Property is located in a very depressed market with declining values and low demand. Facilities is evaluating to determine overall best strategy to either 1) prepare to be part of the next auction package or 2) hold until market improves.
- **Kokomo, Indiana** – Property is landlocked and therefore, not marketable.
- **Hilton Head, South Carolina** – No excess land identified that is marketable.
- **Garland, Texas** – No excess land identified that is marketable.
- **Loiza, Puerto Rico** – Previously marketed for sale from February 2008 through September 2011. Was under contract, but prospective purchaser terminated due to lack of funding availability based on Puerto Rico's weak economy. Currently CBRE reports the market continues to be weak. Facilities is evaluating to determine overall best strategy to either 1) prepare to be part of the next auction package or 2) hold until market improves.
- **Viequez, Puerto Rico** – Previously marketed for sale from June 2008 through August 2011 with little to no interest, evidenced by no written offers. Currently CBRE reports the market continues to be weak. Facilities is evaluating to determine overall best strategy to either 1) prepare to be part of the next auction package or 2) hold until market improves.
- **San Juan, Puerto Rico** – Previously marketed for sale from February 2008 through September 2011 with little to no interest, evidenced by no written offers. Currently CBRE reports the market continues to be weak. Facilities is evaluating to determine overall best strategy to either 1) prepare to be part of the next auction package or 2) hold until market improves.

In conclusion, management notes that Facilities has implemented a comprehensive program that identifies and monitors its vacant land portfolio based on operational need and market demand, and is aware of the properties identified in this report, as many were either listed for sale previously or currently in process of being prepped for sale. Facilities continues to evaluate demand within the various markets and will re-market when deemed appropriate. Additionally Facilities has implemented an Auction Program, which is being used to re-introduce many of these properties to the market, driving value in weak markets evidenced by low transaction velocity. Finally, Facilities has been aggressively marketing vacant land and all steps that can be taken have been taken to date.

Please note management does not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act.

Dean Granholm Vice President, Operations Pacific Area	Jo Ann Feindt Vice President, Operations Southern Area	Tom A. Samra Vice President, Facilities

cc: Megan Brennan
Drew T. Aliperto
Richard P. Uluski
Sally K. Haring
Michael A. Magalski