

PRIORITIZING BUILDING LEASE RENEWALS

FOR HIGHEST POTENTIAL SAVINGS

Elder Research created a risk model to help the USPS Office of Inspector General prioritize review of facility leases that were due for renewal. The risk model enabled business analysts renegotiating lease rates to focus on facilities with the most risk or highest financial impact.

INDUSTRY

- » Government

BUSINESS NEED

- » The USPS only had staff to examine 10% of annual lease renewals for potential cost savings and risk

SOLUTION

- » Built a predictive model to prioritize lease renewal review for examination by predicting future interior needs, comparing market values, and identifying fraudulent lessors

BENEFIT

- » Focused auditors on leases with highest risk and potential savings
- » Projected savings was \$99 million over 5 years

THE CHALLENGE

The Postal Service owned and leased more than 33,000 facilities that encompassed over 285 million interior square feet. Over recent years there has been a significant decline in workload, raising the question of whether the building inventory was optimized and if all 33,000 facilities were still necessary for operations. Due to resource limitations, the Postal Service was only able to investigate a random 10% sample of leases nearing expiration starting 24-36 months before their expiration date. Elder Research was tasked to build a model to prioritize the optimal 10% for investigation.

THE SOLUTION

Elder Research built a predictive model to prioritize leases that should be investigated by determining which operational indicators were useful for predicting results 24-36 months into the future. The resulting lease renewal model identified facilities with the greatest impact on operations and cost; identified risk of fraud between the Postal Service, the lessor, and other entities; predicted future facility space requirements; and compared market values to current lease rates. This information was summarized in a risk score, which allowed business analysts to more effectively renegotiate the lease.

RESULTS

The lease renewal risk model demonstrated that the Northeast Area could potentially realize a 52% cost savings on its facility lease renewals. Of those, the risk model indicated above-market rates for 250 leases that were expiring within 2 years, which represented \$6.6 million in potential savings over the duration of the leases. The model rated 39% of those leases as significantly underused facilities based on decreases in revenue, mail volume, and hours worked. Nationwide, the lease renewal model had a projected return of \$99 million over a five year period – an enormous return on investment.

ABOUT ELDER RESEARCH

Elder Research is the U.S.'s leading consulting company in the science, practice, and technology of advanced analytics. We have helped government agencies and

Fortune Global 500® companies solve real-world problems across diverse industries by amplifying the productivity of their analysts.

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