



News and information for members of the Association of United States Postal Lessors

Increase Your Profitability

Lease negotiations are an on-going activity for the US Postal Service. Approximately 20% of the nearly 30,000 postal leases are renewed annually, and the USPS is well prepared for these discussions with seasoned real estate professionals and attorneys. Lessors who are educated about the intricacies of the lease and negotiating strategies will have more successful outcomes than those who simply sign the renewal lease as offered to them by the USPS.

Three major considerations when determining a profitable rental income are 1) accounting for the costs of periodic repairs when determining rent so as to recoup repair costs or build reserves for repairs, 2) the fair market value rent as determined by comparable rents, and 3) the cost of any commission (should the Lessor elect to pay one), usually amortized over the life of the new lease.

Know the property. The condition of the property must be assessed to determine any major upcoming maintenance. Dividing the cost of those repairs by the number of years over which the individual repairs can be amortized gives the annual cost for that repair. Dividing that annual cost by the building square footage gives a per square foot amount to incorporate into the rent (if possible) to build a repair cost reserve.

Determine Fair Market Value. A local realtor or a postal facilities consultant can help determine the fair market rental value of the facility based upon comparable rents and other factors. In addition, the AUSPL website has a Fair Market Value tool to give a rough estimate of comparable post office rents.

To Pay or Not to Pay a Commission. Should the Lessor elect to pay a commission to JLL, whether it is a percentage or a flat amount, an amortization of that amount should also be a component of the rent over the life of the lease. While paying a commission is not required, some Lessors make the choice to pay. It is reasonable for those Lessors to recoup the commission amount through rent over the lease term.

Know the Lease. What reading the entire lease lacks in entertainment value is made up for by the peace of mind that comes with understanding the parties' respective rights and obligations under the lease, including their responsibilities for maintenance. Over the years, the USPS lease has increased in size to over 40 pages. With the expanded length come new terms, many (if not most) of which add to the responsibilities and costs borne by Lessors. Not knowing those obligations can

cost the Lessor and significantly impact the Lessor's rate of return. For parts of the lease that are vague, AUSPL can provide clarification on lease questions. In addition, AUSPL maintains a list of professional consultants who can also answer questions about the lease and lease negotiations, provide maintenance advice, and provide other leasing assistance.

The **AUSPL Annual Conference** is the perfect time to learn how to make the lease work in favor of the Lessor. Become a better negotiator! **Join us at the upcoming Conference in Orlando, FL April 20 and 21, 2022. ■**



Meet Gary Phillips, Board Member and former AUSPL President



What years did you serve as President/Board member?

I was president from 2016 to 2019.

How did you get started in postal leasing?

Past President, Terry Phillips, is my father and a developer of

scores of leased post offices. Some of my earliest childhood memories include trips to post office job sites where my education in post office construction started at the end of a push broom. I started as a laborer and eventually, after graduating from Arizona State University in 1980, joined the family construction business which was still actively building and leasing post offices. More than forty years later, the Postal Service remains a large part of our work program. I was born into the post office business and blessed to spend much of my career working alongside my dad, a mentor like no other when it comes to learning post office construction and leasing.

What did you see as being the central issue for Lessors during your time as President/Board Member?

Transformation of the United States Postal Service to be a more relevant and financially viable organization to serve future generations. Our network of leased facilities is unrivaled by any other delivery service which makes our partnership with the USPS key to successful reorganization and long-term financial viability. E-commerce is a driving force of economic expansion, and the USPS is an indispensable player in this space. Our buildings give the postal service a bricks and mortar footprint necessary to deliver to every American, every day. Reorganization is not possible without action by Congress which is why I have devoted much of my time to working with House and Senate members to be sure any new legislation is written to support continuation and growth of the postal leasing program.

Have those issues been resolved? Or, if not, can they be resolved?

AUSPL has made great progress, but, there is still much work ahead on the road to Postal reorganization. We continue to work on educating members of Congress about the importance of postal leasing. Our members have supported AUSPL leadership with time, money, and knowledge in this effort, but the job is far from finished. Congress turns over every two years and many newcomers need to hear about postal leasing and the need for reform. AUSPL must continue to engage with postal management from the Board of Governors, Postmaster General, and Facilities Department executives to advocate for better support of their Lessor partners. Postal reform and reorganization is the promised land, and we certainly have not arrived yet. But, in my opinion, it is the only solution for ensuring our long-term success as Lessors.

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What can Lessors do to improve their experience as a Lessor?

EDUCATION! Education regarding understanding your lease agreement, education regarding good maintenance practices, education about dispute resolution, education for good negotiating practices, and learning more about the postal service organization, your customer. I have met frequently with post office executives and the headquarters office to discuss all aspects of leasing. At just about every meeting, I was encouraged to tell our Lessors to be prepared to manage their investments just as real estate professionals do or retain outside property management to do so. The good news is AUSPL provides all the tools you need to succeed. Attend the annual conferences, regional meetings, and lobbying events in Washington DC. Take advantage of these

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Please join us

Wednesday, April 20th & Thursday April 21st, 2022

AUSPL Conference 2022 will be held at the Renaissance Orlando at SeaWorld in Florida.

Register early to be included in 2 Special Prize Drawings!

To be eligible, register by Thursday, March 10 for the Friday March 11 drawing.

Prize #1: Two hotel nights during the conference at the Renaissance at Sea World Hotel.

Prize #2: Conference registration fee for 2022 conference.

**Renaissance at SeaWorld Hotel
6677 Sea Harbor Drive, Orlando, FL 32821**

**Register for the Conference by calling AUSPL at 800-572-9483
or online at www.auspl.com under "Events."**

Register by March 28, 2022 – \$225 per person. After March 28, 2022 – \$250 per person.

Non-members must join AUSPL.

Non-members who register for the 2022 AUSPL Conference pay an additional membership fee of \$100 per family/group.

Gary Phillips, continued from previous page.

opportunities to stay up to date on postal leasing issues. The cost is always reasonable, and the return is great.

Any additional comments/advice/warnings/encouragement you would like to share with Lessors?

Over the past months, COVID has changed our lives and the way we conduct business. Yet with all the disruption during the past 18 months, the Postal Service has not missed or been late with a single rent payment. This is an impressive track record un-matched by most other tenants, and the investor community has noticed. The value of our post offices has risen.

There are challenges ahead and Lessors can gather at the AUSPL Conference in April to tackle them together. Additionally, AUSPL will be planning educational events in the near future, and I will look forward to seeing you there. ■

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AUSPL

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AUSPL CONFERENCE

ORLANDO, FLORIDA | APRIL 20 - 21

AUSPL Network

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Association of United States Postal Lessors

AUSPL Insurance Program

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DID YOU KNOW?

- ★ To find an article from a previous newsletter, look on the AUSPL website under "Members Only/Member Resources." Articles are shown by issue date. In addition, there is an Index where articles can be accessed by topic.
- ★ The USPS must exercise a renewal option no later than the exercised date stated in the lease. If the USPS misses the date for exercise of the option, the option is no longer valid and cannot be exercised by the USPS.
- ★ One solution to keep gutters from freezing is to install heat tape in the gutters.
- ★ Lessors whose leases were written or renewed after 2017 can assume they will have responsibility for removal of snow from the roofs of their buildings. Other leases written prior to 2017 may also assign such snow removal responsibility to the Lessor.