



August 25, 2009

TOM A. SAMRA
VICE PRESIDENT, FACILITIES

SUBJECT: Sale of the Old Chicago Main Post Office
(Report Number SA-WP-09-001)

This letter presents the risks we identified during our limited review of the auction of the Old Chicago Main Post Office scheduled for August 27, 2009 (Project Number 09YG028SA002). Our objective was to assess the U.S. Postal Service's decision to dispose of the property through an absolute auction.¹

The Postal Service vacated the 73-year old, multi-story, 2.7 million square foot Old Chicago Main Post Office in May 1996. Based on the information we received from Facilities, the Postal Service has spent approximately \$2.5 million per year to maintain the facility, plus a one-time expense of \$13.77 million on emergency repairs. Over the past 10 years, the Postal Service has attempted to sell this property through development deals and have been unsuccessful. Facilities management recently decided to pursue an absolute auction of the property "as-is," in an attempt to eliminate both the expense associated with maintaining the property and a required \$9 million environmental remediation liability.²

We believe an auction is a viable option for the sale of real estate; however, we are concerned that there are significant risks associated with the Postal Service's planned auction of the Old Chicago Main Post Office. Specifically:

- **No Minimum Bid Was Established.** The terms of the auction allow for the property to be sold as-is to the highest bidder, and without a minimum bid.³ As a result, a 2.7 million square foot building in downtown Chicago could be sold for a very low price. The advertisement for the auction indicates the replacement value of the property is \$300 million.

¹ An auction in which the sale is made to the highest bidder and no minimum price is stipulated.

² According to Facilities management, there is a \$9 million environmental liability associated with the property for asbestos remediation.

³ Prospective bidders are required to have a cashier's check in the amount of \$250,000 at the auction.

- **No Third-Party Valuation.** No appraisal or valuation of the property has been conducted. The Postal Service is auctioning the property without substantiated knowledge of the property's market value or the Chicago real estate market.
- **No Review of Alternatives.** There was no formal review or analysis of alternatives associated with the decision to dispose of the Old Chicago Main Post Office by auction. As a result, the Postal Service has no assurance that more beneficial options for disposition of this property do not exist.
- **Market Risks.** The sale of the Old Chicago Main Post Office during a recession and downturn in real estate values increases the risk that the Postal Service will not receive a fair market sales price.

Based on the concerns outlined above, we believe this sale could expose the Postal Service to financial and public relations risks. In particular, the sale of the Old Chicago Main Post Office for an amount significantly less than the broker's advertised replacement cost given the Postal Service's current financial condition could cause adverse publicity and inquiry. This would be difficult to defend against because there is no minimum bid associated with the auction; no third-party valuation of the property was performed; and no detailed analysis of alternatives was conducted to justify the decision to go forward with the auction.

We suggest the Vice President, Facilities, reconsider the auction of the Old Chicago Main Post Office scheduled for August 27, 2009, if the risks identified in this letter cannot be reasonably mitigated. The U.S. Postal Service Office of Inspector General is planning to conduct an audit of real estate disposals in a series of audits regarding Facilities Optimization.

If you have questions or need additional information, please contact Stephen Chow, Acting Director, Inspection Service and Facilities, or me at (703) 248-2100.

E-Signed by Office of Inspector General 
VERIFY authenticity with ApproveIt


Andrea Deadwyler
Deputy Assistant Inspector General
for Support Operations

cc: Steven J. Forte