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UNITED STATES GENERAL ACCOUNTING OFFICE

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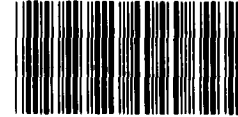
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GENERAL GOVERNMENT DIVISION

October 17, 1980

B-200864

The Honorable John G. Tower
United States Senate



113657

Dear Senator Tower:

Subject: [Acquisition of Land for Postal Facility in Tyler, Texas]
(GGD-81-14)

In accordance with your request of April 7, 1980, we investigated Mr. E. B. Yale's allegation that the U. S. Postal Service paid at least three times the market value for the land it acquired in January 1980 for a new postal facility in Tyler, Texas. In addition, while it was not specifically part of your request, we inquired into the Postal Service's rationale for selecting the site on M. L. King, Jr. Boulevard rather than less costly land offered to the Service.

As part of our review, we interviewed Mr. Yale and the Service officials responsible for selecting, appraising, and purchasing this land. We also contacted various independent appraisers and realtors in the Tyler area, including the appraiser of the acquired site, and reviewed Service policies and procedures for selecting, appraising, and purchasing real property.

While we found some evidence that the price paid for the land may have been high, a Service analysis as well as an independent appraisal valued the land at approximately the price paid. We do, however, question the Service's basis for increasing the value of the selected site above the valuation assigned by the independent appraisal to allow for payment of the seller's full asking price.

We also believe that the Service may not have given adequate consideration to other tracts of land that were offered at less cost. The Service's limited documentation justifying the site selection, however, prevented us from conclusively determining whether the Service gave adequate consideration to less expensive tracts of land that would appear to have been suitable for this postal facility.

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SITE SELECTION

In its April 28, 1979, advertisement for bids the Service stated that the preferred area for the site, located in north Tyler, was bounded on the north by Loop 323, on the east by the Missouri Pacific railroad tracks, on the south by West Lincoln Street (name changed to M. L. King, Jr. Boulevard in August 1979), and on the west and southwest by U.S. 69, a six-lane highway also called Gentry Parkway. The preferred area, which covered about 1.5 square miles, was selected because

--its proximity to Interstate 20 would facilitate mail processing operations, and

--its proximity to the Forest Hills Station, which will be closed when the new facility is completed, would provide for servicing customers who now use the Forest Hills Station.

According to the newspaper article announcing the advertisement for bids, the Sectional Center Manager/Postmaster said that bids would also be accepted outside the preferred area as far south as Front Street (Highway 31).

By May 25, 1979, the Service had received eight bids. Of the sites offered, three were in and five were outside the preferred area. The bids ranged from 21 cents to \$1.32 per square foot. (See enclosure I for drawing showing the preferred area for the site and the approximate locations of the eight sites offered to the Service.)

Officials of the Service's Dallas Field Real Estate and Building Office (FREBO) who were responsible for the solicitation of bids also reviewed the sites offered and prepared a site suitability report. In their report, these officials evaluated the suitability of the sites offered and concurred with the Postmaster's choice for the site. The selected site consisted of 5.65 acres located just outside the preferred area, with an asking price of \$1.12 per square foot. The selected site was preferred by the Postmaster because of its accessibility to customers (it was the closest site to the Forest Hills Station). Most of the other sites offered posed operating problems or were otherwise considered unacceptable. Cost did not appear to be the primary factor considered in making the selection.

Although the parcel of land selected on M. L. King, Jr. Boulevard is a fully acceptable site for the new main post

office and vehicle maintenance facility, the documentation providing justification for selecting this site over the less expensive sites was not very extensive. For example, the site bid as number five was located within the preferred area and offered for 72 cents per square foot (total purchase price about \$100,000 less than the selected site). This site consisted of 5.52 acres with about 600 feet of frontage on Gentry Parkway and was about one-half mile from the selected site.

The only documentation available as to why this site was not selected is the Postmaster's comment that it would present ingress-egress problems. The Postmaster informed us that this site was located on a curve and a stop light would be needed on Gentry Parkway to make it an acceptable location for postal operations. He did not want to accept the risk involved in selecting this site without a commitment from the city to install a stop light. He believed that it would have been very difficult to obtain such a commitment from the city. Service officials, however, did not contact the city of Tyler's Traffic Engineer to determine if this potential problem could be solved. The Traffic Engineer advised us that Gentry Parkway was designed to handle heavy retail traffic and that he was positive that if any ingress-egress problems existed with the site in question they could have been solved.

The only written material available in the Service's files to explain the rationale leading to the site selection were the very brief statements contained in the FREBO site suitability report. (See enc. II.)

APPRAISAL OF SELECTED SITE

To insure that no more than fair market value is paid for any land with an estimated value of over \$100,000, the Service is required to obtain an appraisal by a qualified appraiser. For the land in question, FREBO officials contracted with a local appraiser who is certified as a Member of the Appraisal Institute. In addition to obtaining an independent appraisal, FREBO, as part of its site suitability report, performed a site valuation analysis. Both the FREBO analysis and the independent appraisal resulted in valuations which approximated the \$275,000 price asked for the property.

The FREBO site suitability report, completed in July 1979, concluded that the value of the selected site should be from \$1.10 to \$1.20 per square foot or a total value of about \$270,000 to \$295,000. Accordingly, FREBO felt that the selected site should appraise for the asking price.

The contract appraiser's report to the Service showed that he believed the market value 1/ of the selected site to be \$270,000 (about \$1.10 per square foot) as of October 15, 1979. In arriving at that value, the appraiser used the market data approach to site valuation. This approach involves analyzing carefully selected, bona fide sales of properties which are as similar as possible to the property being appraised. The comparable sales are then adjusted for such variables as date of sale, location, size, and other factors affecting desirability or utility. Using this approach, the appraiser values land as if vacant and available for its highest and best use.

The appraiser's report stated that the selected site had a low traffic count compared to sites on Gentry Parkway, that the vacant land on M. L. King, Jr. Boulevard probably would not sell until all the land on Gentry Parkway was sold, and that the selected site was not suited to commercial use. The contract appraiser concluded that the best use of the selected site (that is, the use that would reasonably be expected to produce the greatest net return) was for apartments. However, the contract appraiser told us that apartment site sales were not used in his comparable sales analysis because of (1) the limited number of such sales in north Tyler and (2) the differences in land values between north and south Tyler. Other realtors and appraisers we interviewed also stated that land in north Tyler is much less expensive than in south Tyler because north Tyler is a slower growth area.

The contract appraiser therefore used sales of smaller commercial tracts which were used for retail outlets in his comparable sales analysis. He selected and analyzed nine sales of property, three on North Wolford Street and six on Gentry Parkway. These parcels ranged in size from 0.17 acres to 1.46 acres. The three parcels on North Wolford Street sold for 30 cents to 32 cents per square foot in 1978. Wolford Street is a two-lane city street that runs at an angle off Gentry Parkway. Between 1975 and 1977, the six parcels on Gentry Parkway sold for 46 cents to \$1.53 per square foot.

1/Market Value was defined as "the highest price estimated in terms of money which the property will bring if exposed for sale in the open market by a seller who is willing but not obliged to sell, allowing a reasonable time to find a buyer who is willing but not obliged to buy, both parties having full knowledge of all the uses to which it is adapted and for which it is capable of being used."

To arrive at an indicated value for the selected site, the contract appraiser adjusted all nine sales according to date of purchase, location, size, and utility. He then selected the three sales on Gentry Parkway adjoining the selected site for final value determination. These three sales were made to the same buyer, had frontage on Gentry Parkway, and were used for a small retail shopping center. As shown in the following table, the three parcels sold for 46 cents to \$1.22 per square foot.

<u>Sale Number</u>	<u>Date of Sale</u>	<u>Total Price</u>	<u>Total Square Feet</u>	<u>Price Per Square Foot</u>
1	1/29/76	\$41,077	41,077	\$1.00
2	9/02/75	77,688	63,610	1.22
3	8/15/75	25,000	54,816	.46

It should be noted that the analyst who prepared the FREBO report did not believe that sale number three reflected fair market value. He felt that the land was sold at a price which was less than 50 percent of its value.

The largest of the three commercial sites used by the contract appraiser in his final value determination was 1.4603 acres (63,610 square feet). We found some evidence which suggests that had apartment sites (considered as the highest and best use of the selected site) or larger tracts of land been used as comparable sales, perhaps a lower value would have been placed on the postal site. According to several Tyler realtors and appraisers, as well as actual sales data available, apartment sites in south Tyler, where land is more expensive, currently sell for \$16,000 an acre (37 cents per square foot) to \$27,000 per acre (63 cents per square foot). We identified one 12 acre apartment site in north Tyler about one mile from the selected site which sold in 1978 for \$14,000 per acre (32 cents per square foot). We also identified four recent sales (1978 and 1979) of larger tracts (2.5 to 4.1 acres) on Gentry Parkway which were not used in the appraisal. The selling prices of these tracts ranged from 30 cents to 53 cents per square foot.

The contract appraiser told us that his primary consideration in using the three sales for a final value determination was that the three parcels of land adjoined the postal site. He stated that while (1) smaller tracts are more valuable per square foot than larger tracts he took that into consideration in his analysis and (2) there may have been sales of larger tracts more comparable in

size to the postal site, he felt they were located too far from the postal site to be indicative of its value.

FREBO officials do not believe that the Service paid too much for the selected site. They expressed the view that a good appraisal report was received and said they relied on the appraiser's professional credentials and expertise.

SERVICE'S ADJUSTMENT
TO APPRAISED VALUE

The contract appraiser adjusted his computations downward in arriving at the appraised value of the 5.65 acre selected site because in his opinion the site would have less utility than the smaller tracts on Gentry Parkway he had used for comparable sales. On review of the appraisal report, FREBO officials disagreed with the contract appraiser's opinion and increased the appraised value by \$13,000. In explaining the rationale for this adjustment, FREBO officials said that the adjustment was made for plottage, that is, the value of an assembled site in excess of the sum of the values of parcels comprising the assemblage. This adjustment increased the value to \$283,000 and allowed the Service to pay the full asking price of \$275,000 for the selected site rather than the appraised value of \$270,000.

We believe that the FREBO officials' justification for the adjustment is questionable. The Tyler realtors and appraisers we contacted told us that small parcels of land in the area are generally more desirable and demand a higher price per square foot than larger tracts like the selected site. Again, however, this is an area which involves a high degree of professional judgment.

While FREBO officials did not disagree that the addition of the plottage factor was questionable, they believe the adjustment (about 2 percent) was insignificant.

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No further distribution of this report will be made until 10 days from the date of this letter unless you

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publicly release its contents earlier. At that time we will send copies to the Postmaster General and make copies available to others upon request.

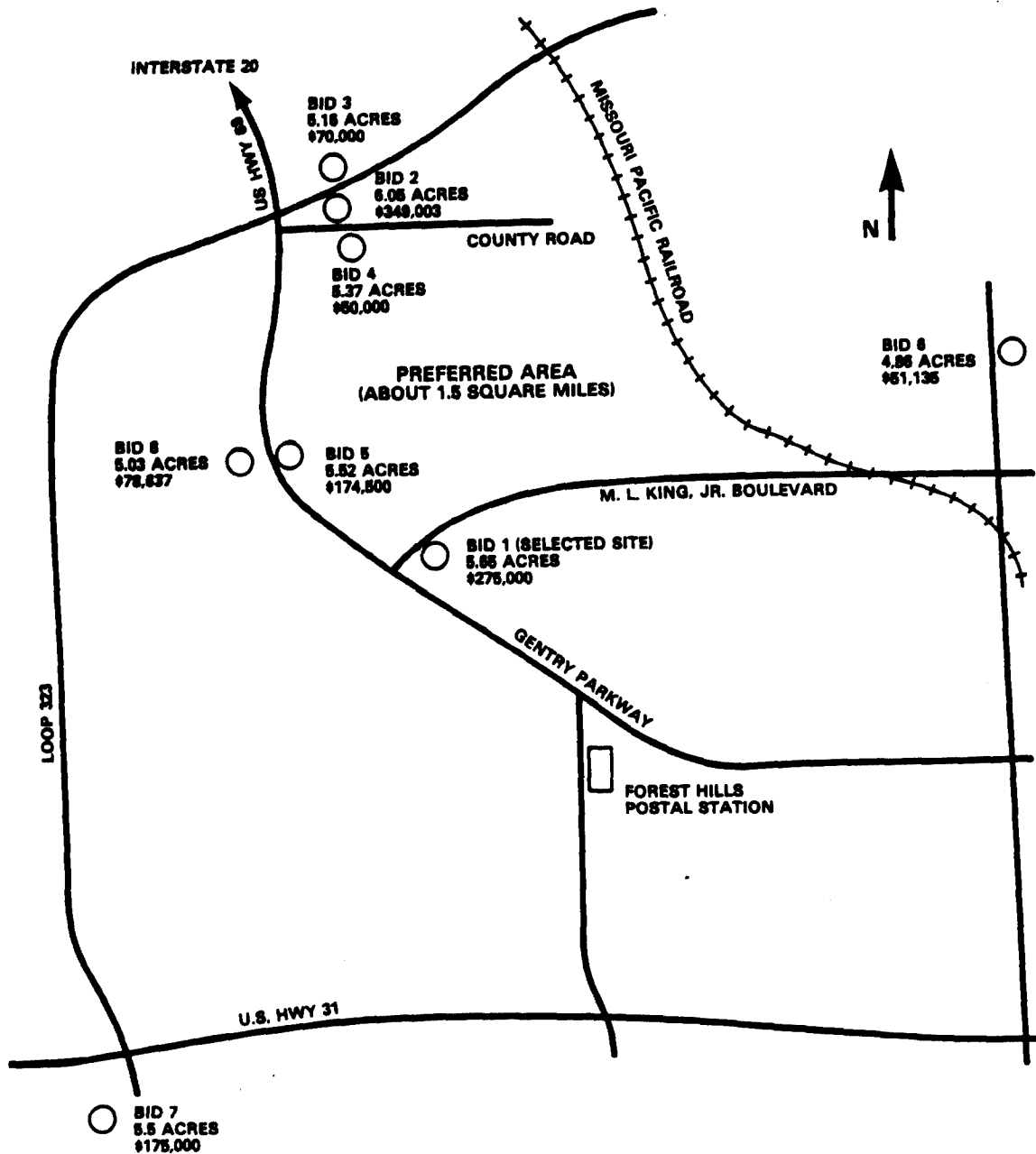
Sincerely yours,



William J. Anderson
Director

Enclosures

**DRAWING SHOWING PREFERRED AREA
FOR POSTAL FACILITY AND APPROXIMATE LOCATIONS OF
EIGHT SITES OFFERED TO THE SERVICE**



SCALE: 1 INCH - APPROXIMATELY 2,000 FEET

DESCRIPTION OF EACH SITE OFFERED AND COMMENTS ON SITE ACCEPTABILITY CONTAINED
IN THE DALLAS FIELD REAL ESTATE AND BUILDINGS OFFICE'S SITE SUITABILITY REPORT

<u>Site</u>	<u>Vendor</u>	<u>Location</u>	<u>Size</u>	<u>Asking price</u>	<u>Zoning</u>	<u>Remarks</u>
#1	McCullars & Caldwell Estate Agent: Albert E. Salch P.O. Box 1048 Tyler, TX 75710 Phone: (214) 592-3897	2100 Blk. of W. Lincoln (across from zoo)	5.65 Ac. (246,114 sq. ft.)	\$275,000 (\$1.12/sq. ft.)	Commercial	Excellent site--no apparent problems with utilization. SC Manager's preference due to accessibility by customers. I agree with this selection.
#2	James Fair & Jack King P.O. Box 689 Tyler, TX 75710 Phone: (214) 592-3811	South side of Loop 323 directly east of Ramada Inn approx. 1/4 mile east of intersection of Loop 323 and HWY 69	6.05 Ac. (263,513 sq. ft.)	\$349,003 (\$1.32/sq. ft.)	Light industrial	A good site--but one with problems for customers attempting to exit onto the Loop. SC Manager's remark: "The Lincoln site is my first, second, and third choice--the one on the Loop (#2) would be my fourth choice."
#3	James Fair P.O. Box 689 Tyler, TX 75710 Phone: (214) 592-3811	North side of Loop 323 approx. 1/4 mile east of intersection of Loop 323 and HWY 69	5.16 Ac. (224,769 sq. ft.)	\$70,000 (0.31/sq. ft.)	?	SC Manager would not consider any offer on north side of Loop 323. I agree.
#4	Harry S. Phillips 433 Citizens Bank Bldg. Tyler, TX 75702 Phone: (214) 597-2351	Near intersection of Loop 323 and HWY 69. Fronting on narrow county rd., behind and south of Ramada Inn.	5.37 Ac. (234,000 sq. ft.)	\$50,000 (0.21/sq. ft.)	?	SC Manager not inter- ested in site due to poor accessibility to public. ("It's hidden-- you would have to search to find it.") I agree.

ENCLOSURE II

ENCLOSURE II

<u>Site</u>	<u>Vendor</u>	<u>Location</u>	<u>Size</u>	<u>Asking price</u>	<u>Zoning</u>	<u>Remarks</u>
#5	Gilbert & Minnie Kasperek Ivy S. & Jewel F. Price Agent: Walker Realty Co. 2105 E. Fifth Street Tyler, TX 75701	East side of Gentry Parkway (2900 Block)	5.52 Ac. (240,436 sq. ft.)	\$174,500 (0.72/sq. ft.)	Commercial	SC Manager feels that definite problems would exist with ingress- egress. I agree.
#6	Lester J. Mays & L.B. Browne P.O. Box 337 Tyler, TX 75710	East side of North Broadway (at the end of North Broadway)	4.86 Ac. (211,860 sq. ft.)	\$51,135 (0.24/sq. ft.)	?	Site is far removed from preferred area. Owner stated additional 52,500 sq. ft. available if needed, but did not specify price.
#7	Terry's Interstate, Inc. P.O. Box 6395 Tyler, TX 75711	West side of Loop 323 South of HWY 31	5.5 Ac. (240,000 sq. ft.)	\$175,000 (0.73/sq. ft.)	?	Site is far removed from preferred area.
#8	Ernest & Louise Fisher 3000 W. Gentry Parkway Tyler, TX 75710	West side of Gentry Parkway (2900 Block)	5.03 Ac. (219,472 sq. ft.)	\$78,637 (0.35/sq. ft.)	?	Configuration of site is 172' x 1,276'--not usable.

ENCLOSURE II

ENCLOSURE II