Elder Research Inc. (ERI) is the US's leading consulting company in data mining, predictive analytics, and text mining. ERI helps government agencies and Fortune Global 500® companies solve real-world problems by amplifying the productivity of their analysts.

Elder Research Prioritizes Building Lease Negotiations with Highest Potential Savings

ERI created a risk model to help the USPS Office of Inspector General prioritize review of facility leases that are due for renewal. ERI's risk model gives actionable information to business analysts renegotiating lease rates to help them identify facilities with the most risk or highest financial impact.

Challenge
The Postal Service currently owns and leases more than 33,000 facilities that encompass over 285 million interior square feet. These facilities are spread across the 50 states and U.S. territories. Over recent years there has been a significant decline in workload, raising the question of whether the building inventory is optimized and if all 33,000 facilities are still necessary for operations.

The Postal Service currently investigates a random sample of leases nearing expiration, starting 24-36 months in advance to ensure enough time to conduct a thorough examination. The Postal Service has enough resources to investigate approximately 10% of the roughly 4,000 leases up for renewal each year. ERI was tasked to build a model to select and prioritize the optimal 10% for investigation.

Our Solution
ERI built an analytical model to prioritize which 400 of the 4,000 leases should be investigated, along the way determining which operational indicators were useful to predict results 24-36 months into the future. The resulting lease renewal model identifies facilities with the greatest impact in operations and cost; identifies risk of fraud between the Postal Service, the lessor, and other entities; predicts future interior square footage needs; and compares market values to current lease rates. All this information is summarized in a risk score, which allows business analysts to renegotiate the lease with expert knowledge.

Results
The lease renewal risk model demonstrated that the Northeast Area could very likely realize cost savings in 52% of its facility lease renewals. Of those, the risk model indicated above-market rates for 250 leases that are expiring within 2 years, which represents $6.6 million in potential savings over the duration of the leases. Thirty-nine of these leases were significantly underused facilities based on decreases in revenue, mail volume, and hours worked. Nationwide, the lease renewal model has a projected return of $99 million over a five year period – an enormous ROI.

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