

Post office closures threat adds to property market woe

By Alan Rappeport in New York

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The possible closing of more than 400 post offices across the US in an effort to cut costs could further dent the struggling commercial property market as rising retail vacancies continue to weigh on prices.

The US postal service has said it is placing 413 of its 37,000 retail locations under review for "consolidation" as it faces a record loss of \$6bn (£3.7bn) this year. The mail carrier has seen a dramatic drop in package volume owing to cost-conscious Americans cutting back in favour of cheap alternatives such as e-mail.

"At the end of the day, it's just more retail space that's going to be available that's going to put pressure on already embattled landlords," said Victor Calanog, director of research at Reis, property research company.

The US postal service operates the biggest retail network in the country, but now faces an overhang of excess capacity because mail volume is on pace to be down by 10 to 12 per cent this year. The US government accountability office warned in May that the postal service, which has a \$1.5bn cash shortfall, should "take action now rather than hoping that mail volume will revive sufficiently when the economy recovers".

Greg Frey, a spokesman for the US postal service, said that closing offices was the only choice with revenues projected to be down by more than 7 per cent this year. Of the properties facing closure, the US postal service rents about half of them and owns the rest, meaning that it will be forced to break leases or sell space while the commercial property market is plunging.

Since peaking in 2007, commercial real estate prices across the US have fallen by 35.5 per cent, according to the Moody's/Real; commercial property price index. Reis estimates that retail vacancy rates at regional malls are now at a 17-year high of 10 per cent and will surpass that level next year.

The post office closures would add to the growing chunks of empty retail space left behind by businesses that have been forced to close during the recession. In January, Circuit City, the bankrupt electronics retailer, said it would close its last 567 locations, leaving landlords with gaping holes in the "anchors" of their malls.

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