

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS YEZER TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T31-1-5)

The United States Postal Service hereby provides the responses of witness Yezer to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T31-1-5, filed on February 14, 2000.

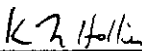
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Kenneth N. Hollies

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T31-1. Please refer to your testimony at page 2, lines 7-11.

(a) Please identify by name and provide citations to the "significantly smaller group of papers" that have considered office rents in selected cities.

(b) Please explain how the predictive model developed in your research for the Postal Service is consistent with the research in the papers identified in part (a) of this interrogatory.

(c) Please explain how the predictive model developed in your research for the Postal Service is inconsistent with the research in the papers identified in part (a) of this interrogatory.

RESPONSE:

(a) (1) William C. Wheaton, Raymond G. Torto, and Jon A. Southard, "The CB Commercial/Torto Wheaton Database," *Journal of Real Estate Literature*, Volume 5. 1997. Pages 59-139.

(2) William C. Wheaton and Raymond G. Torto, "Office Rent Indexes and Their Behavior Over Time," *Journal of Urban Economics*, Volume 35. 1994. Pages 121-139.

(3) Brian Brennan, Roger Cannaday, and Peter Colwell, "Office Rent in the Chicago CBD," *AREUEA Journal*, Volume 12. 1984. Pages 243-260.

(b) Following the literature, I use data on individual leases and explain rent per square foot of space in terms of lease terms, physical characteristics of the property including interior space, and location.

(c) My estimates cover the entire country, as opposed to one city or a group of 56 cities, and model rents within cities in terms of distances from the central CBD measured precisely in miles as opposed to rents in predetermined city districts. I use rent per square foot rather than the logarithm of rent per square foot as a dependent variable. My rent data is all from a given renter, the Postal Service, as opposed to heterogeneous

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

renters in other studies. I have more information on property characteristics and lease terms than others have had and this means that my model has more independent variables. I use robust estimation techniques to deal with measurement error and I strongly suspect that other authors use casewise deletion.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T31-2. Please refer to your testimony at pages 2 and 3 lines 20-21 and lines 1-2, respectively. Please explain whether you agree with the Postal Service's decision to use the econometric model developed in your research to predict rent per square foot for specific facilities rather than an index of rental price differences over space. In your answer, please compare and contrast the advantages and disadvantages of the former and latter.

RESPONSE:

I was commissioned as an expert witness because of my knowledge of real estate economics and not as an expert on the regulatory process faced by the Postal Service. Nevertheless, the difference in using facility-specific rental estimates versus a rental price index appears straightforward. Use of facility-specific rental estimates means that post office box costs will reflect both spatial variation in rental prices and rent variation due to the quality of the specific space in the facility. For example, space in a shopping mall is generally significantly more expensive than space in general retail facilities. Should the extra convenience and extra cost associated with location in malls and office buildings be reflected in P.O. box pricing? It seems to me that this is appropriate.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T31-3. Please refer to your testimony at page 3, lines 9-10. Has your research for the Postal Service been used to predict rent per square foot at facilities that do *not* provide post office box service?

RESPONSE:

In the course of my research, I estimated rents for all Postal Service facilities in the data base given to me and these estimates were forwarded to Postal Service staff. In cases where there was more than one facility per ZIP Code, I reported estimated rent for the facility with the most post office boxes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T31-4. Please refer to your testimony at page 3, lines 11-17.

- (a) Please confirm that the Postal Service offers post office box service in facilities that are postal-owned. If you do not confirm, please explain.
- (b) Please explain how your econometric model predicts the rent per square foot in postal-owned facilities having post office boxes. In your answer, please explain any assumptions about the age, location, condition, and suitability of postal-owned facilities having post office boxes as compared to leased facilities having post office boxes.

RESPONSE:

- (a) Many facilities that appear to be postal-owned in my database have post office boxes.
- (b) My econometric model is used to predict rents in all facilities, whether they are rented or postal-owned. The data do not include information on the age of buildings or the condition. I am not sure what the term suitability means in this context. Given the property address information, I use geographic information systems to determine location precisely. There is also information about setting of the facility that differentiates shopping malls, office parks, free standing retail buildings, etc.

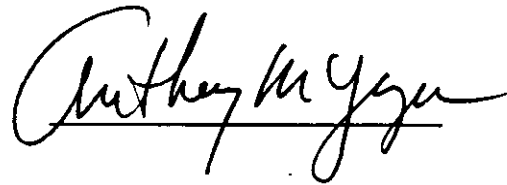
**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T31-5. Please refer to your testimony at pages 6 and 7, lines 19-20, and line 1 respectively. Please explain how knowing the "distance north-south or east-west from the [Central Business District]" improves the prediction of rent per square foot.

RESPONSE: In some cities the spatial pattern of office rents looks like a large cone with the point at the center of the Central Business District (CBD). In such cases, distance north-south or east-west was not statistically significant and was dropped from the list of independent variables used. However, the pattern in other cities looks like a cone but the point of the cone is displaced from the CBD center. In such cases, either (or both) north-south or east-west distance was significant in the regression estimates and was included in the final estimating equation. In a few cities, particularly on the coast, distance east-west is very important because it reflects access to the coast.

DECLARATION

I, Anthony M. Yezer, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script that reads "Anthony M. Yezer". The signature is written in black ink and is positioned to the right of the declaration text.

Dated: 2/25/00

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Kenneth N. Hollies
Kenneth N. Hollies

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3083 Fax -5402
February 25, 2000