

Precarious Employment Practices in Property Management¹: Implications and Opportunities for Investors

Issue Brief

The growing use of precarious employment practices in the property management industry has negative impacts on workers' employment security, their health and their ability to provide sustainable livelihoods for their families. Precarious employment practices by property managers jeopardizes the quality and consistency of property maintenance services, having potential implications for tenant retention, market image and asset value. Internationally, important investor and multi-stakeholder initiatives have contributed to more responsible labour practices within the property management sector. These initiatives offer valuable insights for Canadian investors, real estate companies and property managers of the value and imperative of responsible employment and contracting standards within the industry.

1. Precarious Employment Practices in Property Management

In labour markets today, increasing numbers of people work under conditions far different from what we have traditionally expected - a single employer offering permanent full-time work. Instead, many workers face deteriorating working environments characterized by temporary or short-term work contracts, low wages, little or no benefit coverage, high risk of ill-health and workplace accidents as well as higher employment, wage and scheduling uncertainty. Commonly, this is referred to as “precarious employment” and the growth in this practice brings with it some very important issues for workers, employers, investors and policy makers.

In the property management industry in Canada, precarious employment practices occur systematically in the employment and contracting of janitorial, property maintenance and security staff². The issues that these property service workers face include low wages, limited or no access to social benefits, job insecurity, poor health and lack of training. In addition, property service workers are facing shorter shifts and higher expectations leading to unreasonable levels of work intensification. Often, property service workers have to work two or three jobs in order to earn an income adequate to live above the Low-Income Cutoff (LICO³).

These issues are compounded in an environment characterized by complex sub-contracting relationships that result in limited protection of workers against abuses of legal rights. Subcontracting in the cleaning industry has led, for example, to a growing practice where individuals are paying fees in order to bid on cleaning sub-contracts.

¹ The focus of this issue brief will be on office properties.

² Collectively, janitorial, property maintenance and security staff will be referred to as property service workers.

³ A LICO is an income threshold below which a family will devote such a large share of its income to the necessities of food, shelter and clothing that it would be “in strained circumstances”. In 2004, the LICO for a household of 2 adults and 2 children was \$32,506 before tax. See Stats Canada [publication](#).

The [Workers' Action Centre](#) in Toronto has documented incidents where employment advertisements stipulate that interested individuals have to bid for the contract. Some workers have paid up to \$3,000 for a contract resulting in no work or their money back.⁴

Similar practices have been documented in the security industry where firms advertise job openings and then advise applicants that they need to take a course at a cost of up to \$250. The applicants are told that completion of the course will lead to employment. However, cases brought forward to the Workers' Action Centre have shown that after completing the course, applicants either did not get work or were hired for wages less than those that were originally advertised.⁵

In some circumstances, contractors will falsely classify workers as independent contractors, thereby fraudulently avoiding employment-related taxes and depriving workers of their rights as employees. Contractors are willing to take these risks because the workers they target are largely vulnerable groups such as recent immigrants who are less likely and able to report abuses.

A fundamental factor that drives these types of precarious employment practices in the property management industry is the criteria that are set out by the property managers and owners in the contract bidding process. As long as cleaning and security contracts are awarded entirely on price, contractors will remain in a 'race-to-the-bottom' – cutting wages and other labour costs and using unethical or illegal practices in order to meet the promises they make on their tenders.⁶

2. Implications of Precarious Employment Practices for Investors

Institutional and other investors are increasingly looking to real estate assets to provide diversification and long-term steady returns to their portfolios. Two impacts of this trend are consolidation among real estate companies and increasing competition to add value to assets. Adding value to real estate assets encompasses not only adding value to permanent asset features such as location and amenities, but also to transitory features.⁷ The transitory features of an office property real estate investment are those services that building managers provide to their tenants – including janitorial, security and property maintenance services.

Consistent and high quality building maintenance and tenant services are important features of effectively managed properties and have impacts on tenant satisfaction and

⁴ Workers Action Centre, 2006, "Workers' Voices Newsletter". Available on-line at: <http://www.workersactioncentre.org/news/news2006MAY.pdf>.

⁵ Workers Action Center, November 2006, Workers' Voice Newsletter, Available at: <http://www.workersactioncentre.org/news/news2006NOV.pdf>.

⁶ LHMU and SFWU, "A Clean Start to the property services industry." Available on-line at: http://www.sfwu.org/files/ACleanStart_Web.pdf.

⁷ J. Gozan and M. Moye, 2000, *Impacts of Quality Building Management and Service on Real Estate Investments*, SEIU: Building Service Division and Pension Investment Program.

perception of asset value. Benefits of quality building maintenance and tenant services include:

- Improved building occupancy;
- Lease extension by major tenants;
- Heightened broker interest in properties;
- Increased number of active prospective tenants;
- Higher rents;
- Improved market image; and
- Greater physical integrity of property⁸.

A report written by American economist Melissa Moye and researcher Julie Gozan emphasizes the linkages between quality of work (i.e. decent wages, reasonable hours, benefits and training opportunities) and quality of building management.

Reputable contract service firms report that high-caliber building service is achieved through retention of experienced cleaning staff and fluid labour relations in the workplace. These conditions are realized when cleaning employees are adequately compensated and trained and when their employers demonstrate a respect for workers legal rights.

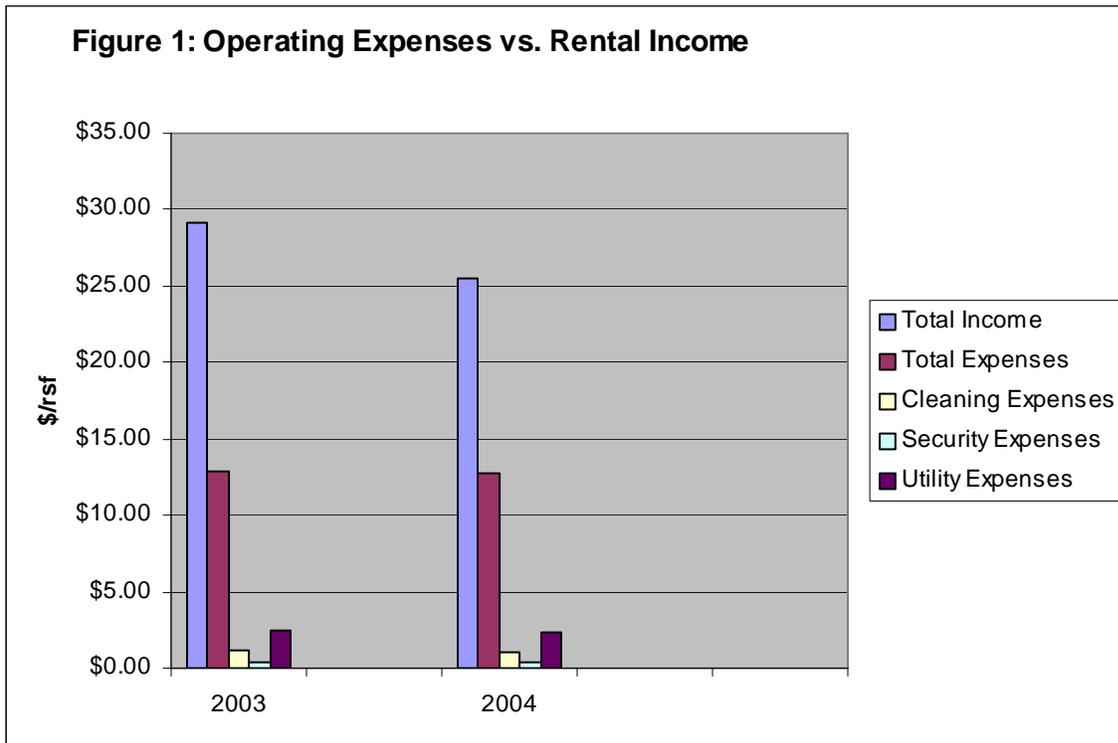
Conversely, working environments characterized by high employee turnover, overstretched and undervalued workforces and a lack of incentives for quality work will have both immediate as well as longer-term cost implications. The immediate cost implications include the costs of recruiting and training replacement employees as well as lost productivity during the replacement and training period. The longer-term cost implications are those associated with lower quality building services. These costs emerge from the inability of property managers to charge competitive or premium rental rates, difficulty retaining high quality tenants and high tenant turnover.

Investing in a stable workforce and improving the quality of building services also has cost implications for building managers and owners. Within the Canadian office property market the costs of cleaning and security services are relatively small compared to other operating costs and rental income (See Figure 1: Operating Expenses vs. Rental Income). For example, in 2004, the total income per rentable square foot (rsf) for private sector office properties was \$25.50 while total expenses were \$12.78/rsf. Of those expenses, \$5.13/rsf were fixed expenses (i.e. building insurance and taxes) and \$7.65/rsf were variable (i.e. cleaning and building repair costs). In 2004, cleaning costs accounted for 8% of total expenses and 4.3% of total income while security costs accounted for 3% of total expenses and 1.7% of total income.

In light of these expense and income comparisons, office property owners and managers do have the capacity to invest in higher quality building maintenance in

⁸ J. Gozan and M. Moye, 2000, *Impacts of Quality Building Management and Service on Real Estate Investments*, SEIU: Building Service Division and Pension Investment Program.

order to generate long-term asset value without significantly compromising short-term profit margins. From an investor perspective, the benefits of higher quality building services that will likely result from a workplace characterized by fair compensation, access to benefits, a safe working environment, low employee turnover and employment security will justify such a marginal increase in these costs.



Source: Building Owner and Managers Association, 2005 Experience Exchange Report, Canadian Office Market Highlights. See <http://www.bomacanada.ca/>.

Investors with a long-term horizon also need to consider the significant market risks that emerge from a growing reliance across industry sectors on precarious employment relationships. Company practices that contribute to growing worker insecurity, poor health and low incomes will transfer costs in the short and long-term onto families, communities and governments. Long-term investors must consider the impacts of such costs to the future health of their portfolios and recognize that they are not immune to these costs and the potential future market risks that they pose.

3. International Initiatives for Responsible Property Management

A number of initiatives have emerged internationally to promote more responsible contracting practices and labour standards within the property management and real estate industries. While these initiatives have been union initiated and led, they have also incorporated innovative partnerships between industry, labour and investors.

Some of these initiatives are summarized below and may provide valuable guidance – in terms of both process and content – for addressing this issue in Canada.

a. Justice for Janitors/Stand up for Security – SEIU, United States

The Service Employees International Union ([SEIU](#)) has been running two campaigns related to property services issues in the United States: Justice for Janitors and Stand-up for Security. SEIU represents over 180,000 building service workers in the US and Canada including 100,000 janitors who work in commercial office buildings. These campaigns were initiated in the 1980s and have been quite successful in addressing issues such as living wage and health insurance.

An important part of the SEIU's work in this area has been the development of *Responsible Contractor Policies* for institutional building owners and investors. The SEIU has worked in collaboration with public pension funds, private multi-employer pension funds and investment managers to develop these policies. Responsible contractor policies provide a framework for building managers to clearly stipulate the standards by which they expect contracting firms to abide by including fair wages, benefits and training opportunities. Investors who have adopted these policies recognize that a stable, adequately compensated and well-trained workforce will provide superior service that will contribute to enhanced investment performance.

At the same time, the SEIU has taken a market-based approach to improving standards rather than a building-by-building approach. Through this approach, the SEIU has also been successful at building mutually beneficial partnerships with the real estate industry. In Chicago, for example, the SEIU worked directly with property owners and managers through the Building Owners and Managers Association (BOMA) to raise standards for workers and to develop a training program to raise skill levels among workers.

b. Principles for a Clean Start: LMHU and SFWU, New Zealand and Australia

The Liquor Hospitality and Miscellaneous Union (LHMU) in Australia and the Service and Food Workers Union (SFWU) in New Zealand came together with the Union Network International (UNI) Global Union⁹ to launch the clean start campaign in the ten largest Australian and New Zealand cities. In addition to the public campaign targeting communities and government, the campaign sought to reach out to property managers and real estate investors through the articulation of the value of responsible labour practices for owners and investors as well as through the development of a responsible contractor policy.

c. UNI Property Services Global Union Model Statement, International

In March 2006, the Property Services Sector of UNI launched a campaign to raise the working conditions of service workers worldwide by targeting building owners and pensions funds with a model statement that recognizes the rights of contractors to

⁹ UNI is the global union for skills and services and has approximately 15 million members worldwide. UNI is divided by sectors and includes the property services global union.

have a living wage, labour rights and health and safety protection. The campaign targeted major financial institutions such as Deutsche Bank, ING and Goldman Sachs as well as companies and investors who own buildings in major corporate centers internationally.

4. Best Practices: Pension Funds and Real Estate Companies

Public sector pension funds have taken a leadership role in the United States in developing responsible contractor policies as part of their broader investment policy. As a result of this, many real estate companies and property management firms that have investment partnerships with some of these pension funds have had to adopt similar policies. The following provides a brief overview of some of the pension funds and companies that have responsible contractor policies in place for part or all of their real estate portfolios.

a. Public Sector Pension Funds in the United States

Many public sector pension funds in the US have adopted responsible contractor policies that support fair wages and benefits for workers employed by its contractors and subcontractors. These policies are defined within the principles of fiduciary responsibility related to the duties of loyalty and prudence, which require reasonable rates of return on investments. CalPERS defines a responsible contractor as “a contractor or subcontractor who pays workers a fair wage and a fair benefit as evidenced by payroll and employee records.”¹⁰ The following is a list of some of the pension funds and other investors with a responsible contractor policy:

- California Public Employees Retirement System ([policy on-line](#))
- California State Teachers’ Retirement System ([policy on-line](#))
- New York City Employees’ Retirement System
- Ohio Public Employees Retirement System
- Ohio State Teachers Retirement System
- Illinois State Board of Investment

b. Industry Leaders in the US

The following is a list of real estate companies that have adopted responsible contractor policies either across their entire portfolios or within specific jurisdictions. Most have done so in response to the SEIU citywide campaigns or because of joint investment partnerships with one of the above-listed pension funds.

- Hines National Office Properties: Hines and CalPERS have a partnership called [National Office Partners Limited Partnership](#), which posts opportunities for contractors to bid on projects run through the partnership. To bid on the contracts, companies must be potentially eligible responsible contractors.
- MacFarlane Partners: The firm requires that all of the development projects in which it has invested on behalf of CalPERS comply with the responsible contractor policy.

¹⁰ CalPERS, 2005, Responsible Contractor Policy.

- Prudential Real Estate Advisors: Uses responsible contractors in Chicago, New Jersey, Boston, DC, California, and Denver
- Duke Realty: Uses responsible contractors in Chicago and Minneapolis
- Equity Office: Uses responsible contractors in Chicago, Boston, California, New York and many other markets throughout the U.S.
- Morgan Stanley: Uses responsible contractors in New York, Chicago, Boston and DC.

5. Conclusion

The use of precarious employment practices in the property management industry exposes property service workers to unacceptable risks to their livelihoods, health and job security. These practices also pose important risks to investors. Precarious employment practices by property managers jeopardizes the quality and consistency of property maintenance services having potential implications for tenant retention, market image and asset value. Real estate investors have the opportunity to improve labour practices in the property management industry and protect long-term shareholder value by establishing appropriate policies and practices that clearly communicate high professional service standard expectations to contractors while also supporting fair wages, benefits and safe working environments.

The promotion of these standards by companies will contribute to tenant satisfaction, asset value and market image while also supporting Canadian workers to build positive working environments that contribute to sustainable livelihoods. Canadian investors have a valuable opportunity to take a leadership role in this area by working collaboratively with real estate and property management companies as well as other stakeholders to develop standards for employment and contracting practices.

6. Contact Information

Shannon Rohan, Programme Officer
Shareholder Association for Research and Education (SHARE)
t: 604.408.2456 ext 235
e: srohan@share.ca
w: <http://www.share.ca/>