

# Commercial Real Estate:

## Reliable Union Security Adds Value in a Challenging Environment

Real estate owners and managers face unprecedented challenges today. Grubb & Ellis forecasts the 2010 year-end office vacancy rate at between 18.5 percent and 19 percent—the highest on record since the firm began tracking the national market in 1986. The average lease term, the average lease size and total leasing activity all declined as tenants became more conservative in planning for their space needs. Major real estate owners, built by recent mergers and acquisitions, now jockey for market dominance in an altered economic landscape. Increased competition forces building owners to work hard to attract and retain tenants—often by offering concessions such as rent-free periods, higher tenant improvement allowances and better services.

In this context, tenant expectations for security services have increased. Tenants are more aware of safety and security issues at the workplace and expect building owners to maintain the presence of a professional and reliable security workforce. Officer duties have expanded beyond staffing lobby desks, monitoring entrances through CCTV, and patrolling buildings and parking structures. High-quality contractors may train staff in first aid/CPR, weaponless self-defense, and ways to handle confrontations without force. Officers act as the eyes and ears of a building, noting and responding to suspicious activity. Guards are expected to address theft, accidents and medical situations by reaching out to first responders, and assisting tenants and visitors. In high-rise buildings, security officers play a crucial role in safely evacuating tenants.

In a competitive real estate market, the customer service aspect of the security officer's job has become increasingly important. Security officers are often the first individuals tenants and visitors encounter when entering an office lobby, and owners expect officers to serve as the public face of the building. The president of Broadstone Realty says, "The officers make the first impression; a significant portion of their job is to be friendly, courteous, smiling and have their eyes up—not down at a magazine." A senior manager at property management firm Unico agrees, noting, "The officers are the first point of contact for our clients, and they well represent [our] desire to provide exceedingly helpful customer service."

*"As ... the recession has driven people to desperate measures, robbers are infiltrating corporate offices... Sometimes the perpetrators are armed, heightening fear among office workers ...."*

**Wall Street Journal**  
November 2009

*"Given the current 10-plus percent unemployment, high rate of foreclosures, personal bankruptcies and economic uncertainty, domestic violence is on the rise. The workplace becomes an easy access point for violence."*

**Jim Satterfield**  
President and COO of Firestorm, a crisis management consultant firm

*"Office buildings present a unique opportunity for laptop thieves. After gaining building entry, they can often wander from floor to floor looking for opportunity."*

**Security Director's Report**

# The Benefits of Reliable Union Security Are Easily Affordable



For less than one additional penny on each rental dollar, commercial property owners can cost effectively contract for reliable union security officers.

Chart A shows the modest share of rental dollars devoted to security in three cities:\*

City	Security Cost (Average) per square foot	Total Rent (Average) per square foot	Security cost as percentage of rental dollar	Security cost on rental dollar
Los Angeles	1.51	26.43	5.71%	\$0.06
Boston	1.18	27.35	4.31%	0.04
New York City	1.16	45.16	2.57%	0.03

Chart B shows the difference in security costs psf between using a nonunion contractor and using a contractor that pays union scale with benefits. Building owners can invest significantly more in security while incurring only a slight increase in operating costs. For example, in these three major markets, increased costs represent only about one penny or less on each rental dollar.

Union Wage vs. Nonunion Wage (based on two officers guarding 100,000 sf building) Nonunion Wage Estimated at \$10/hour (about \$2 above minimum wage in most states)			
City	Difference (cents psf) between union and nonunion wages	Difference (percentage) in security costs when paying union wages (vs. nonunion wage)	Union security costs psf (vs. nonunion cost)
Los Angeles	\$0.14	9%	.005 or less than 1 cent
New York City	0.24	20%	.005 or less than 1 cent
Boston	0.26	22%	.01 or 1 cent

Charts C and D use Los Angeles to show the cost difference to a building owner between hiring a nonunion security contractor who provides no paid benefits to its employees, and hiring a contractor at union scale with health benefits. Investments in reliable union security can be recouped through increases of less than a penny on the rental dollar.

Start Wage	\$11.50/hr
Health Insurance Cost Paid by Employer	\$295.78/month
Security Cost	\$1.51/psf
Rent	\$26.43/psf
Labor Burden (Costs to Employer of Social Security, Medicare, Federal and State Unemployment, Workers Compensation), expressed as percentage of wages	12.5%

Los Angeles: Union Wage and Benefits vs. Nonunion Wage (Estimated at \$10/hr) Two Workers in 100,000 sf building	
Nonunion Wage Costs: (2 workers x \$10 x 40 hours x 52 weeks) + (12.5% labor burden)	\$46,800
Union Costs: (2 workers x \$11.50 x 40 hours x 52 weeks) + (12.5% labor burden) + (2 workers x \$295.78 health benefits x 12 months)	\$60,918.72
\$64,98.72 union costs—\$46,800 nonunion costs	\$14,118.72
\$14,18.72 security cost increase/100,000 sq. ft.	0.14
14 cents/sq. ft. security cost increase/\$1.51 security cost psf	9.3%
\$14,118.72 security cost increase/\$2,643,000 rental income (\$26.43 x 100,000)	0.005

\* Union wage data is shown as reported in citywide collective bargaining agreements between area security contractors and SEIU USWW-LA, SEIU 615 Boston and SEIU Local 32BJ New York City (Realty Advisory Board Agreement). Employer Health Benefit Contribution data was reported by SEIU USWW-LA, SEIU 615 Boston and SEIU Local 32BJ New York City (Realty Advisory Board Agreement). Market cost of security and rental data obtained from BOMA 2009 Experience and Exchange Report. "Labor Burden" was calculated using BLS data: <http://bls.gov/news.release/cecec.nr0.htm>