



Sweeping Changes?

unionization and the bottom line

by Harold D. Hunt and Isilay Civan

"It was the best of times, it was the worst of times."

Dickens' famous opening phrase characterizes the modern-day divide over whether organized labor's decline during the last few decades has been good for the American economy.

If there is any question about whether organized labor is still relevant in the 21st century, consider the campaign to unionize Houston's office janitors. The outcome of the campaign will affect labor's ability to extend the movement into other areas and occupations affecting commercial real estate in Texas.

Unions in America

Fifty years ago, one out of every three private sector jobs in America was a union job, with the bulk of union employment being industrial based. Today the ratio is closer to one in 12. Public sector government workers, who represent about one-sixth of total U.S. employment, now make up almost half of the 15.7 million union members nationwide.

The drop in union labor within the private sector can be attributed to a number of factors, including technological advancement and global labor competition. The U.S. is transitioning from an industrial-based economy, which traditionally supported union labor, to one based on information and services.

In an attempt to revive private-sector membership, a number of labor unions are setting their sights on America's service sector employees. The Service Employees International Union (SEIU) was one of seven unions that broke away from the AFL-CIO in 2005 to form the Change to Win (CTW) labor federation. The two organizations have different ideas regarding the most effective way to reverse the decline in union membership and reestablish organized labor as a force in today's workplace. The seven CTW unions primarily represent women, immigrants and people of color working in the service sector.

Janitorial Representation

More than 225,000 janitors already belong to SEIU, which first began its "Justice for Janitors" campaign in 1985. Since that time, SEIU has negotiated labor contracts for janitors in 27 markets across the United States, including Washington D.C., Chicago, Los Angeles and New York. SEIU membership is about 1.8 million nationwide.

SEIU is targeting five national firms that provide janitorial services to about 75 percent of Houston's office buildings. They are ABM Janitorial Services, GCA Services Group Inc., One-Source Facility Services Inc., Pritchard Industries Southwest Inc. and Saniters Services of Texas LP.

In August 2005, the five contractors entered into a "neutrality agreement" with SEIU. Under the agreement, nonsupervisory janitorial employees in Houston were given the option to choose SEIU as their bargaining representative. This was done through a card-check procedure in which janitors could sign membership authorization cards indicating they favored union representation. The janitorial firms, having already negotiated union contracts with SEIU in other cities, agreed to take a neutral position on unionization with their Houston employees.

By the end of November 2005, about 3,000 of a total of 5,300 contract janitors had signed authorization



cards. The American Arbitration Association then verified the signatures were legitimate and represented a majority, paving the way for SEIU to represent the janitors in labor contract negotiations.

Texas is one of 22 "right-to-work" states where employees cannot be forced to join a union or pay union dues as a condition of employment. Nonunion employees must receive the same benefits SEIU negotiates for union workers.

Under the neutrality agreement, contractors are obligated to recognize the union even if the original employees who chose union representation quit and new employees replace them.

The Houston janitors employed by the five contractors currently earn about \$5.30 an hour with no benefits. Most janitors are employed part-time, and weekly pay averages about \$106 according to the SEIU.

Only office properties 100,000 square feet or larger and within a defined Houston market area will be bound by union agreements.

A detailed description of the Houston market area is included in the neutrality agreement. The area roughly includes all Houston office submarkets designated in the Black's Guide table of contents, excluding the Gulf Freeway, FM1960/Technology Corridor, the Northeast/East submarkets and 12 specified buildings in the southwest Houston and NASA-Clear Lake areas.

SEIU's goal is to minimize disparities between union and nonunion janitorial costs by eventually enrolling all janitors who service buildings in the defined market area. SEIU has agreed not to begin collective bargaining until 60 percent of the square footage of affected buildings in the market area is serviced by union janitors.

Effect on Expenses

The Houston chapter of the Institute of Real Estate Management (IREM) reports that janitorial expenses are about 75 cents to \$1 per square foot annually for both Class A and B office buildings. Total operating expenses are approximately \$10 per square foot for Class-A buildings and \$8 to \$8.50 per square foot for Class-B buildings. This means janitorial expenses range from 8 to 12 percent of total operating expenses for A and B

buildings in the Houston market.

SEIU officials stated it would be a victory to obtain a \$1 an hour raise and health benefits for the Houston janitors. The wage increase alone would escalate janitorial costs by about 20 percent annually.

The Houston Building Owners and Managers Association estimates that if fully paid health benefits are included, janitorial

costs could increase by as much as 50 percent. A 20 to 50 percent increase in janitorial expenses translates into a 2 to 5 percent increase in total operating expenses for Houston office buildings.

During the past ten years, total building operating expenses have increased 2 to 4 percent annually in Houston. Recent pressure on other expense categories such as electricity and insurance have prompted speculation that 2006 increases will be in the 10 to 15 percent range. Specific expense pass-through provisions negotiated in each lease will determine whether building owners or tenants shoulder the brunt of the increases.

Union Perspective

SEIU estimates that the turnover rate for Houston janitors is 200 to 300 percent annually. Assuming significant improvements in wages and benefits are secured through union negotiations, turnover rates would be expected to decline.

The efficiency of the workforce should improve, and the contractor's cost to train new employees should be reduced, creating a more stable and productive workforce. A gradual transition from part-time to full-time employees in such a high-turnover industry should limit the need for layoffs.

Janitors who move up to full-time status would become eligible for medical benefits. From a social perspective, a union contract including medical benefits should reduce the burden on the city's public health system and lower healthcare costs for taxpayers and businesses.

SEIU reports that the three Harris County public hospitals spent nearly \$500 million in 2003 to cover health care services for the uninsured. The CTW federation maintains that 92 percent of union workers nationwide receive job-related health coverage versus only 68 percent of nonunion workers.

Right-to-Work View

Union skeptics argue that organized labor distorts the labor markets. They assert that companies should be able to offer employment at a specified wage, allowing individuals to choose to work for that rate or look elsewhere. They maintain that individuals could further develop their skill sets or get additional education, which would increase their value in the labor market, to receive a higher wage.

As janitorial staffs transition from part-time to full-time, the total number of janitors needed in Houston will decrease. The city's high turnover rate demonstrates that a significant



number of janitorial workers likely consider their jobs as interim employment, to be kept only until a better job can be secured. Reduction in the number of janitorial positions could therefore lessen workers' chances to secure temporary employment while they upgrade their skills or education.

It is possible that many Houston janitors may forego union membership after weighing the cost of health-care coverage and union dues against their negotiated wage increase. The result could be "free-riders" — employees who work for the unionized contractors and benefit from higher union wages but who choose not to join the union.

Some janitors may prefer to continue qualifying for free health care programs rather than pay for medical coverage out of pocket.

End Result

SEIU may initially choose to negotiate relatively small increases in wages and benefits to gain a union foothold in Houston's private sector. The average annual raise for union contracts is about 3 percent nationwide, according to Bill Bux, head of the labor and employment law section for Locke Liddell & Sapp. SEIU may also forego collecting union dues early on to build membership.

If SEIU does successfully negotiate a labor contract, the long-term success of unionizing the Houston janitors still is not assured. However, if the movement is successful, look for union interest to extend to other areas of the state and other service personnel affecting commercial real estate, such as security guards and landscaping crews. Janitorial firms servicing other commercial property types will also be potential targets for unionization. 📍

Dr. Hunt (hhunt@tamu.edu) is a research economist and Isilay Civan is a graduate research assistant with the Real Estate Center at Texas A&M University.

THE TAKEAWAY

The Service Employees International Union is entering the traditionally nonunion Houston janitorial services market. The union maintains that higher salaries will increase worker productivity, while skeptics argue that businesses should be able to offer wages that prospective employees can choose to accept or seek employment elsewhere.



MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

Director, Gary W. Maler; **Chief Economist**, Dr. Mark G. Dotzour; **Communications Director**, David S. Jones; **Associate Editor**, Nancy McQuiston; **Assistant Editor**, Kammy Baumann; **Assistant Editor**, Ellissa Brewster; **Art Director**, Robert P. Beals II; **Graphic Designer**, JP Beato III; **Circulation Manager**, Mark Baumann.

Advisory Committee

Douglas A. Schwartz, El Paso, chairman; David E. Dalzell, Abilene, vice chairman; Joseph A. Adame, Corpus Christi; Tom H. Gann, Lufkin; Celia Goode-Haddock, College Station; Joe Bob McCartt, Amarillo; Catherine Miller, Fort Worth; Nick Nicholas, Dallas; Jerry L. Schaffner, Dallas; and Larry Jokl, Brownsville, ex-officio representing the Texas Real Estate Commission.

Tierra Grande (ISSN 1070-0234) is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Subscriptions are free to Texas real estate licensees. Other subscribers, \$20 per year. Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, Mays Business School or Texas A&M University. The Texas A&M University System serves people of all ages, regardless of socioeconomic level, race, color, sex, religion, disability or national origin. Photography/Illustrations: JP Beato III, pp. 1, 2, 3.