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ES161094

January 11, 2022

Gary Gensler, Chair
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Via Email: chair@sec.gov

Re: Greater disclosure on human capital management measures

Dear Chairman Gensler:

We write in support of your call for greater disclosure on human capital management measures. While we applaud efforts to create consistent, comparable disclosures on all environmental, social, and governance (ESG) measures, we would like to highlight the need for disclosure on human capital management of contracted services in the commercial real estate sector.

There is broad consensus that human capital management is important to the bottom line and a large body of research shows that human capital management is commensurate with better corporate performance including better risk mitigation. We believe that requiring these disclosures would fulfill the Commission's mission of investor protection and serve the public interest.

The Service Employees International Union (SEIU) represents two million healthcare, public sector, and property services workers across the United States, Canada, and Puerto Rico. This includes more than 250,000 janitors, security officers, and other service workers who clean and maintain office buildings and other real estate. As President of Local 32BJ of SEIU, we represent over 70,000 janitors and cleaners on the East Coast, including over 59,000 working in commercial office buildings.

The Covid-19 crisis underscored the importance of clean, safe environments. In commercial office buildings, janitors have worked throughout the pandemic to keep buildings disinfected and security officers have been responsible for enforcing mask mandates and maintaining peace during a time of heightened tension. These workers put their own health and safety on the line in service of the greater good.

Despite the important role that these workers serve in commercial office buildings, their work is often contracted out to outside contractors. Contracted cleaning has been on the rise since the 1960s.¹ Even with the economic downturn in 2020,

demand for janitorial services has grown with the increased awareness about infection control. Janitorial services is projected to become an \$83 billion industry over the next 5 years.ⁱⁱ

Today, nearly 50% of all janitors in the United States work for contractors.ⁱⁱⁱ Most janitorial contractors' work comes from the commercial real estate industry. Over 50% of industry revenue is expected to come from commercial clients in 2021, the largest share of which is commercial office clients.^{iv} Over 70% of cleaning contractors report that commercial office is one of their strongest segments.^v

Cleaning is not the only service that is contracted out in office buildings. Commercial office buildings are host to dozens of other contracted services, including security, landscaping, engineering, window washing, and facility management. Despite the importance of these services to the ongoing maintenance of the building, the contracting out model creates a race to the bottom. Contractors bid based on price, creating an environment that encourages contractors to submit low bids that cut corners to save on cost to the client. These low standards translate to poor working conditions for contracted janitors, and it is no surprise that contractors report that the average turnover rate is as high as 200%.^{vi} These shortcuts may save building owners money in the short term, but over time, can lead to missed opportunities to properly maintain an asset.

Despite the prevalence of contracted services in commercial office buildings, there is no disclosure about the contractors who work in these buildings. Without any clear disclosures on contractors, it is impossible for investors to know whether office owners are cutting corners on these essential services by using low road contractors. For investors seeking long-term value in real estate, understanding whether owners are taking these shortcuts would be useful information when making investment decisions.

By contrast, some investment and asset managers have taken a proactive approach to addressing contracting standards by adopting Responsible Contractor Policies (RCPs). These policies seek to create standards for quality services as well as improve workforce stability and reduce the risk of labor disruption. SEIU maintains a list of responsible contractors for the markets in which our local union affiliates operate. In most of these markets, there are dozens of responsible contractors from which property managers and building owners can choose. Contractors are rated as responsible if they follow the practices outlined below:

- **Compensate their workforce** at or above prevailing wages and benefits including health insurance, compensated days off and other benefits.
- **Seek to maximize continuity at workplaces**, prioritize worker safety and promote continuous improvement in the quality of their workforce.
- **Respect and encourage** the right of their employees to bargain collectively.
- **Provide employees** with a bona fide complaint/grievance procedure.
- **Support the environmental** and energy efficiency policies of building owners.

We know that industry leading, significant owners in major markets across the country are already choosing responsible contractors. SEIU has partnered with some of these owners to reinforce the need for high standards as well as to pilot innovative programs, such as the Green Janitor Education Project, which promotes the role of janitors in sustainability initiatives in office buildings.

We believe that foundational information for investors should be mandated across all companies including workforce size and composition (including the disclosure of agency and contracted staff), worker turnover, diversity, total workforce costs and worker health and safety.

Human capital risks are not limited to a company's direct employees. Major shifts in the organization of work over the past decades, including the rise of outsourcing, subcontracting etc., have multiplied those risks. There is a growing concern that the company's contracting partners may not always be aligned with the company's stated goals and objectives, specifically on human capital issues. This misalignment may increase financial, operational or reputational risk.

DWS Group, a real estate investment manager, is an example of a company where investors would benefit from workforce disclosures. The company has a policy in regards to the standards for its contracted workforce at its real estate properties that promotes union neutrality.^{vii} While DWS Group uses responsible contractors at some of its buildings, one of the contractors^{viii} it uses at two of its buildings in Miami was alleged to have violated workers' rights to organize a union under federal labor law^{ix}. That contractor reached settlements in both charges filed against it in 2019 and 2021, agreeing not to violate federal labor law moving forward. In light of this example of a potential discrepancy with DWS's own policy, it is important to create disclosure requirements that capture the material facts of a company's contracted workforce in order to compare them to the policy that the company promotes.

We recommend the Commission consider the following policies to assist investors in appropriately understanding risk as they invest in commercial real estate:

1. Workforce disclosure should include mechanisms for workers/auditors to verify workforce disclosure claims to ensure that investors have accurate data from companies reporting on workforce issues. Otherwise, the risk is unmanaged because the data is unverified and could be inaccurate.
2. Within that context, some specific suggestions:
 - a. The SEC should require companies to disclose contractor policies that pertain to workforce standards, such as wages and benefits, adequate safety protections and worker's freedom of association rights, for the company's main contracted services. Investors should be aware of these policies, or lack thereof.
 - b. In addition, the SEC should require companies to disclose the specific conditions of workers employed by contractors. Investors should know whether a company utilizes contractors that:
 - i. Pay workers below the wages and benefits for the comparable job within the local market;
 - ii. Have been cited by the National Labor Relations Board for violating workers' right to organize; or
 - iii. Have been cited by the Occupational Health and Safety Administration for unsafe working conditions.

Companies should disclose whether they are using contractors that fall under these categories, along with the contractors' specific violations and wages and benefits.

Janitors and other property services workers are the “eyes and ears” of a building. When these workers are respected and valued, it can also create value for investors through higher quality asset maintenance. We believe that greater disclosure on human capital management practices for contractors will give investors a more complete understanding of ongoing maintenance of assets and should be an important aspect of investing due diligence.

Sincerely,



Kyle Bragg

President

CC: Hester M. Peirce, Commissioner; Elad L. Roisman, Commissioner; Allison Herren Lee, Commissioner; Caroline A. Crenshaw, Commissioner

ⁱ Welton, Dan. 1960s: Contract Cleaning Comes of Age. [Sanitary Maintenance](#). Posted 6/11/13. Last visited 12/15/21.

ⁱⁱ IBIS World. Janitorial Services in the US Industry Report. April 2021. p. 9

ⁱⁱⁱ SEIU analysis of Bureau of Labor Statistics data.

^{iv} IBIS World. Janitorial Services in the US Industry Report. April 2021. p. 19-20

^v Zudonyi, Corinne. 2020 Building Services Contractor Report. [Contracting Profits](#). 7/6/2020. Last Accessed 12/15/21.

^{vi} Multiple contractors' website report that the average industry turnover rate is 200%. These include: [Stathakis](#), based in Toledo, OH; [All Building Cleaning Corp](#), based in Miami; [BMS Building Services](#), based in Arlington, VA; [JaniTek](#), based in Stockton, CA; [Vanguard Cleaning Systems](#), based in CA; [Janitorial Manager](#), a janitorial software solutions company based in OH; [First Green](#) based in KY. All websites last accessed on 11/29/21.

^{vii} RREEF America REIT II, Inc. Responsible Contractor Policy

^{viii} RREEF America REIT II Quarterly Report, 4Q 2020

^{ix} National Labor Relations Board Settlement Agreement, in the Matter of Coastal Building Maintenance, Inc., Cases 12-CA-279037, 12-CA-245064 and 12-CA-245906