

29

BROADWAY

COMBINING TRADITION
WITH INNOVATION



Jeffries Avlon

2001



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Executive Summary

This business plan analyzes the cleaning services function at 29 Broadway. The objective is to outline key considerations that upon further inquiry will test the Managing Agent's assumption that substantial economies, comparable quality of services, and increased landlord control will be realized by replacing current outsourcing of the cleaning services function with a landlord managed and administered cleaning services model.

Present Cleaning Function Narrative

The Cleaning Function at 29 Broadway is presently outsourced to an independent cleaning services contractor.

Routine contract services include daily after hours cleaning of tenant spaces, corridors, and lavatories. Additional services include specialized contract services (elevator cabs, entrance lobby, mechanical spaces and stairways), window cleaning (Local 2), and special surface cleaning (Marble Walls).

In addition, certain tenants contract for specialized cleaning directly with the cleaning contractor.

A crew of approximately 8 - 10 full time Local 32 B/J union employees performs the cleaning service. The Local 32 B/J union employees are permanently assigned to 29 Broadway by the union and remain with the building notwithstanding a change of service provider.

Economic Assumptions

An analysis of similar (Class B) buildings in the area using CoSTAR⁽¹⁾ Property and 2000 BOMA⁽¹⁾ Experience Exchange Report suggests the typical amount for cleaning services is approximately \$2.50/rsf - \$2.75/rsf of occupied space when contracted to an outside cleaning service contractor.

If 29 Broadway were fully occupied in 2000, this measure would suggest cleaning services at 29 Broadway of approximately \$700,000 - \$770,00 based upon 280,000/rsf.

At 29 Broadway, cleaning expenses for fiscal year 2000 were as follows⁽²⁾:

Cleaning Expenses	
Routine Contract Service (Tenant Space)	698,980
Specialized Contract Services (Elevator Cabs, Etc.)	30,944
Window Cleaning	71,434
Special Surface Cleaning (Marble Walls)	11,853
Total Cleaning Expenses	813,211

Economic Assumptions Con'd

In fiscal year 2000, 29 Broadway had an average occupancy of +/- 190,072⁽⁴⁾ sf of rentable space or an average occupancy for the year of 68%.

At 29 Broadway, fiscal year 2000 contract cleaning services, specialized cleaning services, window cleaning, and special surface cleaning cost per square foot of total building rentable space was \$2.86/sf (+/- \$800,000/280,000 sf = \$2.86).

When viewed on the basis of building occupancy, the unit cost becomes \$4.21/sf (\$800,000/190,072=\$4.21). If this \$4.21/sf were extended against total building rentable sf, annual cleaning expenses theoretically would be \$1,178,800 (\$4.21/sf x 280,000 sf = \$1,178,800).

In fiscal year 2000 each employee cost approximately \$100,000 per annum based upon a full-time staff of 8 (+/- \$800,000/8= \$100,000); Based upon a full-time staff of 10⁽²⁾, each employee cost approximately \$80,000 per annum (+/- \$800,000/10= \$80,000).

Value Assumptions

When value is weighed against an estimated industry standard unit of cost measure of approximately \$2.50/rsf - \$2.75/rsf, it appears that \$4.21/rsf is relatively high.

When value is weighed against cost per worker, it appears on the surface that \$80,000 - \$100,000 per worker is a relatively high amount for the service provided.

The following table⁽⁵⁾ represents Local 32 B/J wages for cleaning workers:

	1 YEAR/9 EMPL.	3 MO/1 EMPL.	1 WK/1 EMPL.	1 HR/1 EMPL.
RATE				16.9230
FICA ER				1.41
SUTA				
FUTA				
HEALTH		1443.16		2.78
PENSION			38.95	0.97
ANNUITY			10.00	0.25
WC INSUR.	12300.00			0.66
DISAB. INSUR.	571.93			0.03
TOTAL				23.0230

A worker earning \$23/hour earns approximately \$47,840/year (\$23/hr x 8/hrs = \$184/day x 5 days/week = \$920/week x 52 weeks = \$47,840). With a crew of 10 workers the annual cost of wages is \$478,400. Including approximately \$25,000/year⁽⁶⁾ as an allowance for cleaning supplies (plastic bags, cleaning solvents, rags, paper towels, etc.), and \$50,000 as an allowance for window washing, specialized services and special surface cleaning, the annual cost is budgeted at approximately \$550,000.

Value Assumptions Con'd

When weighed against the administrative and supervisory costs associated with delivering cleaning services, which would be absorbable given and the nature of the Jeffries Avlon, Inc., operation, it appears that an opportunity exists to capture the economic benefit of integrating cleaning services into our existing overhead structure, and to incur the benefit of at least comparable services and landlord control resulting from the implementation of the landlord cleaning services model.

Landlord Model

The Landlord cleaning model places the Local 32 B/J union workers on the company payroll and assumes the responsibilities of administrating and supervising the building cleaning services function with no substantive increase in current overhead.

Administration responsibilities include payroll accounting/processing and processing and paying supplier invoices. Supervisory responsibilities include hiring of replacement workers, directing worker activities, ordering and stocking supplies, and worker supervisory and scheduling activities, all of which activities fit into the current Jeffries Avlon, Inc., overhead structure.

Landlord Model Example

An example of a company that converted from the Outsourcing Model to the Landlord Model is The Durst Organization. Although considerably larger in scope, The Durst Organization is a good example of a firm that has benefited both economically and in improved services and tenant satisfaction by taking this function in-house in 1993.

A luncheon meeting was held June 5, 2001 with Mr. Michael V. Terzano, Director of Services and Special Projects, The Durst Organization, and Ms. Susan M. Reilly, Quality Control Manager, Royal Realty Corp., Durst's in-house cleaning company, to discuss the commercial building cleaning services function and gain insight into general considerations concerning bringing the cleaning function in-house.

Landlord Model Considerations

In addition to confirming some general industry standard measures of cleaning services costs, Mr. Terzano and Ms. Reilly of The Durst Organization set forth the following general considerations relating to bringing the cleaning function in-house:

1. Meet with tenants to determine current satisfaction levels and special cleaning service requirements.
2. Meet with Local 32 B/J business agent and with Realty Advisors Board prior to commencing a changeover to protect current staffing. NOTE: Local 32 B/J union employees are assigned to 29 Broadway and are to remain with the building through any changeover in service provider.
3. Discuss insurance liabilities with legal and insurance professionals
4. Determine special services (taxed) versus lease services (not taxed)
5. Consider Impact on Accounting Department: Prepare to establish new tenant cleaning accounts, set-up payroll with new employees, update computer programs to accommodate additional employees.
6. Obtain all employee information for payroll and personnel files
7. Establish company or division to differentiate between cleaning services and landlord/managing company.
8. Establish management structure, i.e., QC Manager, Building Supervisors
9. Inform the Union of the changes
10. Inform tenants of changeover
11. Terminate current cleaning contracts and inform contractors in writing
12. Implement In-House cleaning Operation

Appendices

- (1) CoSTAR Property database inquiry of Class B area buildings; 2000 BOMA Experience Exchange Report page 216, New York, N.Y. Downtown 100,000-299,00 SQ. FT.
- (2) Timberline Accrual Basis Budget Comparison Report Detail of May 31, 2001 prepared by R. Nicholson; Page 1, Disbursements, Operating Expenses.
- (3) Based upon informal interviews conducted with building staff and cleaning workers.
- (4) Schedule of Occupancy & Absorption Rates prepared by H. Cohen.
- (5) Local 32 B/J "Other" wage rates prepared by M. Shtilman.
- (6) Line item for supplies rough figure.