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Home Loss on Sale Costs Continue to Escalate: Could Your Relocation Policy and/or Process be Part of the Problem?

No on-going topic in relocation has had more press or been the subject of more discussions than home Loss on Sale. We define Loss on Sale (LOS) as the dollar difference between the amount a transferee paid for his/her home and what the home sold for. This is not to be confused with negative equity, which is the difference between what the home is under contract for and all the outstanding financial obligations on the property (such as all mortgages and lines of credit) which will need to be satisfied before the home can close. While both are serious conditions, we will limit our discussion to the Loss on Sale benefit to the transferee and the relationship between this cost and relocation policy/process.

The continued, depressed state of residential real estate markets reinforces the grim reality that recovery (returning back to “normal” or “break even” home prices) within most of the country may still be a long time away.

The Current Loss on Sale Situation:

- Companies that do not have a Loss on Sale benefit in their policy are under increasing pressure from transferees and their line managers to adopt this benefit so that relocations necessary to “run the business” can proceed.
- Companies now have access to Pre-Decision tools which are an excellent method to assess potential Loss on Sale (and/or negative equity) issues before the relocation begins. To learn more, ask about SIRVA’s Pre-Decision services.
- Companies with Loss on Sale programs have seen dramatic cost increases over the past few years. The Employee Relocation Council (ERC) reports that from 2007 to 2009 the largest increase in company cost for any transferee relocation benefit was Loss on Sale—up a staggering 52% in just two years. With an average cost of nearly \$31,000 (not including tax gross-up) it is now the largest expenditure, rivaling the cost of a home sale for a homeowner relocation.

What More can be Done?

It has been said that we can elect to focus on what we can change or become frustrated with what we cannot change. If we apply that reasoning to mounting company Loss on Sale costs, the conventional wisdom has been that Loss on Sale is not a controllable element, but rather a direct result of the specific Loss on Sale policy provided in the relocation program. Most experts in the relocation industry see Loss on Sale as being controlled based *solely* on the decisions companies make on *what features and how many dollars* in Loss on Sale benefits they will provide to their transferees. Some examples of these decisions are allowing/not allowing capital improvements, sharing/not sharing the loss with the transferee, having/not having a deductible up front, and/or having/not having a cap on the benefit.

In addition, when companies do not have specific Loss on Sale wording in their policy, the critical need to “make the relocation happen” based on the specific business objective often leads to exceptions which in many cases are neither reasonable nor consistent. Often these Loss on Sale payments and gross-up’s are seen as “transferee specific” and necessary, but they can amount to hundreds of thousands of dollars for a company. As a result, there needs to be a clear understanding of why a properly designed Loss on Sale policy must be consistent with other policy elements.

Loss on Sale issues can be approached in many ways; one is by using “root cause” analysis. Is it conceivable that more than one root cause may impact Loss on Sale costs? Or stated another way, is the runaway cost associated with Loss on Sale programs based solely on real estate market conditions *and* a company’s LOS policy, or are there other factors? Can a company do more than just wait out the real estate downturn, determine what their LOS policy will provide and then helplessly wait for the results?

SIRVA believes that Loss on Sale costs *can be controlled* to a greater extent than is generally thought possible — regardless of the condition of the residential real estate market or the existing LOS policy. How? The answer is by looking carefully at the home-sale policy, the outlined process and what really occurs (e.g. exceptions). In other words, Loss on Sale costs can be directly impacted by *how* the home-sale process is structured in the relocation policy. Does the home-sale process *support* minimizing home Loss on Sale or does it drive program costs higher than they otherwise need to be? And are the exceptions granted consistent with a policy designed to minimize these losses?

The Following are Critical Elements Necessary for Home Sale Programs/ Processes to Minimize Loss on Sale:

Make Sure the Home-Sale Process in the Policy is Known in Advance and Stick to it:

A policy which is unclear, not followed or individually negotiated is extremely damaging to a company’s relocation cost-control effort. A policy must clearly outline the exact process—stating what the requirements are in order to access the home-sale benefits and what home-sale actions by the company and the transferee must occur and when (best shown in 30 day increments from listing).

Have a Minimum Required Marketing Time in Guaranteed Home Buyout Programs:

The industry has long recommended that transferees make every attempt to find an outside buyer, as this typically results in a higher value than the guaranteed offer and creates greater transferee satisfaction. It is important to remember that the *higher* the outside offer the *less* the Loss on Sale that has to be paid out to the transferee, which is an additional cost-benefit to the company. When transferees are not required to make a diligent, bona fide effort to secure an outside sale, company Loss on Sale costs increase because the guaranteed offer becomes the primary offer instead of the secondary or backup offer (for which it should always be intended).

Include Requirements (not Guidelines) Which Increase the Probability That an Outside Buyer will be Found:

An obvious step most companies have taken is to control the listing price by making it a function of the Most Probable Sales Price as determined by Broker Market Analyses (BMA's). This is best performed by a network of knowledgeable and proven relocation-trained agents. For this reason, more companies are re-evaluating the appropriate listing caps for market conditions and revising the common 105% listing cap down to 103% or lower. And companies are further mandating listing price reductions as a function of the value of the guaranteed offer when received. In effect, they are aligning listing prices to known and quantifiable market realities as determined by experts—namely, quality in-network agents and approved appraisers. This, in turn, is more likely to generate an outside buyer sale. By taking these actions both the transferee and the company “win”—securing that outside buyer maximizes the price the transferee receives for their property *and* minimizes the home-sale cost to the company.

When a transferee does over list his/her property, resulting in an outside buyer not being found, then a company pays for this through increased cost in two ways. First, there is the increased likelihood that the property will go into inventory as the guaranteed offer will be taken by the transferee when no outside buyer is found. Secondly, the Loss on Sale will be greater since the guaranteed offer is almost always lower than an outside sale. A transferee is generally not concerned about what a company's LOS program is based upon—the buyout offer or the outside offer—as long as the transferee benefit is under the maximum (cap) allowed and they receive the full benefit. However, it is more beneficial (less costly) for a company to pay the Loss on Sale based on an outside offer than a guaranteed (buy-out) offer. Therefore, companies should ensure that their home-sale program maximizes the probability of that outside buyer being found—thus making the Loss on Sale payout (with gross-up) lower than would be the case with a guaranteed offer.

Drive the Early Sale Through Home-Sale Incentives Based on Time:

The “best practice” incentive programs are those that reward the transferee for an early sale—for example, a 3% home-sale bonus of the home value if under contract within 30 days of list; 2% within 60 days; 1% within 90 days; and these amounts should be capped. It does not make sense for companies to grant costly exceptions for benefits such as increased Temporary Living when these requests are not consistent with a defined process to sell the home to an outside buyer. These “financial incentives” reduce the need to extend Temporary Living benefits and increase the likelihood of securing an offer from an outside buyer. These time-sensitive incentives are money well spent as they drive the desired transferee behavior, and should not be limited to just guaranteed-offer home sale programs. With the cost of Temporary Living exceptions (now the most commonly requested exception) and the increasing occurrence and magnitude of Loss on Sale, such incentives may also make sense in BVO-type programs.

Do not Grant a LOS Benefit Unless the Transferee Actively Markets his/her Home:

Let us say that a company's policy does not mention a Loss on Sale program but employees hear that “they really do have one if you ask for it.” What is the predictable result? Any motivation for the transferee to reasonably list the home and actively seek to sell may be eliminated.

Transferees will simply go “through the motions” and take the Loss on Sale at the end of the day, with the valuable front end time now lost—during which an outside buyer is typically most likely to be found. As a condition to receive the LOS benefit, companies should require that their transferees work with their relocation provider to demonstrate that thoughtful, diligent, bona fide steps were taken to secure an outside buyer sale.

The Double Whammy:

Consistently administering a well-structured home-sale process can significantly improve a company's Loss on Sale costs.

Example A:

We know that the average home sale is about \$325,000. Let's say the home does not attract an outside buyer (for reasons noted above) and the guaranteed buyout offer of \$275,000 was taken. The company has a Loss on Sale policy with a maximum of \$50,000. However, with tax gross-up (which most companies provide) the actual cost to the company is \$83,500 (\$50,000 plus \$33,500 in tax gross-up).

Example B:

The company has a sensible home-sale program process that increases the transferee's motivation to properly price and market the home. As a result, an outside buyer was found at \$285,000 and the guaranteed offer did not need to be taken. In this case, the Loss on Sale to the company would be \$66,800 (\$40,000 plus \$26,800 in tax gross-up).

(We have purposely not considered any bonus paid to the transferee for the early sale as these amounts generally "wash" with the cost savings companies enjoy from not having to extend Temporary Living benefits.)

Is the savings to the company in our example just the \$16,700 (\$83,500 versus \$66,800) reduction in the Loss on Sale paid to the transferee? No, other savings will result due to the home *not* going into inventory. These costs can easily run from 1-2% of home value per month for mortgage, taxes, insurance, repairs and fees. In addition, a company avoids the inevitable Loss on Sale when the eventual buyer is found and the home is sold from their inventory. This loss is typically equal to or greater than the loss paid to the transferee, and a company ends up paying two "Loss on Sales"; thus, the double whammy effect.

SIRVA's fixed fee programs are structured to avoid the second "out of inventory" Loss on Sale situation, and they do so by implementing successful, "time proven" home-sale program features and parameters in order to maximize outside sales and keep properties from going into inventory. These processes, which have been so successful with fixed fee customers, work in the same way with cost plus/traditional home-sale programs and they are increasingly requested and expected by cost plus/traditional program clients.

The Bottom Line:

Companies have a valuable opportunity to reduce their Loss on Sale expenses by ensuring their home-sale process provides the greatest probability for the transferee to receive the highest value for the property—thus minimizing the Loss on Sale exposure to the company. In short, every home-sale process can be judged on one criterion:

"Does the home-sale process in the relocation policy encourage and result in transferees doing the right things at the right time for the right reasons?"

If so, the result should be: **The best possible outcome for both company and transferee, which includes reducing the cost of Loss on Sale.**

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