

Welcome to *Policy Matters*, an engaging and informative monthly e-newsletter featuring expert insight and analysis on emerging relocation products, policies and services that can provide immediate benefit to your organization.

Home Sale Alternatives: Evaluating Options in Challenging Real Estate Markets

As home sale continues to be a challenge, companies have started to consider temporary alternatives to the traditional home-sale and home-purchase scenario during this unique time in residential housing. Within SIRVA's policy database, 0.6 percent of companies have added a renting option for homeowners in their policy. Although this percentage is extremely low, it is important to analyze and evaluate these options as they do create opportunities and challenges for both the transferee and company.

However, since these programs are still new, statistics and best practices have not been established on various performance metrics such as: the rate of success, level of transferee satisfaction, employee retention and/or the ultimate cost savings.

Home-sale alternatives

Two potential alternatives to the traditional home sale include:

- 1) Home Retention
 - Option One: The company provides the employee with the option to retain the home at the departure location and rent or buy in the new location. The employee may elect to rent out his/her departure home or leave it vacant, but in either case this is a personal decision. Some companies may provide property management assistance whether or not the home is rented out, and some may reimburse employees for the costs of purchasing a home in the new location. While most companies require that such a purchase be made within one-year of the initiation, there is no tax penalty for delaying beyond one-year as purchasing closing-costs are taxable regardless of when they are incurred.
 - Option Two: The company provides the employee with the option to retain the home at the departure location and rent in the new location. The company may provide a Lump Sum Allowance if the employee chooses the home retention option. If a lump sum is provided, it could be in lieu of any future home-sale and home-purchase assistance, and any applicable loss-on-sale benefits if provided for in the policy.

2) Home Sale Delay

- The company provides the employee with the option to delay the listing and marketing of the home. The length of the home-sale delay could be six months or longer. The employee may receive extensions related to the other benefits provided in the policy. Under IRS Revenue Ruling 72-339 and 2005-74 there is no time requirement for home-sale, so companies have flexibility in allowing a delay of the home-sale benefit.

Although there has been discussion about home retention and home-sale delay, very few companies have made this policy change. Companies are wisely weighing the implications of employees owning property in the former location and renting in the new location – as this situation creates an employee attachment to the old location, potentially leading to decreased employee retention.

The most frequently cited reasons to offer an alternative program are to assist employees in negative equity situations and reduce company cost. On the surface, these cost savings may appear to be financially favorable; however, a number of challenges and/or questions should be considered which include, but are not limited to:

Challenges or Thought-Provoking Questions for Home-Sale Delay or Retention	
1	Does the company want the transferee to have an asset (home) in the departure location that he/she is responsible for?
2	How much additional work on the part of the transferee or the transferee's family is needed to manage the rental and upkeep of the home in the departure location?
3	How will the choice (home delay or retention) be tracked?
4	How does this option (home delay or retention) affect future moves for the transferee?
5	How long should the company allow the transferee to delay the home sale?
6	Should Pre-Decision consulting services be offered so the home-sale value is known before selecting an option?
7	Will the company cover expenses for the movement of household goods twice because of the home-sale delay, which now may require two moves instead of one?
8	How much of an origin home-retention allowance should be provided, if any? What if the amount is not enough—should the amount be increased later for the transferee? Should the amount of the allowance vary by policy tier? Should the allowance be tax assisted (grossed-up)?
9	Once the transferee makes his/her choice is it irrevocable?
10	Is this a good option for a group move?
11	Should the transferee sign a company waiver regarding his/her choice?
12	Can the transferee find rental accommodations in the new location to accommodate family members and/or pets (if applicable)?
13	Should a formal rental assistance program be provided in the destination location?
14	Will renting in the destination location decrease a connection to the new area and/or will the relocation not feel "complete" to the transferee and family members?
15	What are typical rental costs, such as: lease acquisition fees, rental finding fees, tour fees, and/or lease cancellation fees? And should the company reimburse these fees?
16	Should the company reimburse lease cancellation fees if the homeowner decides to purchase after renting?

Challenges or Thought-Provoking Questions for Home-Sale Delay or Retention	
17	If the transferee chooses to rent instead of purchase, should the company cover the rental payment for two months instead of temporary housing expenses?
18	Should the company pay for property management assistance on the home in the departure location if it is rented out? If the company assists, how long should property management be paid and up to what amount?
19	Can the objective for the move be accomplished in less than one year to become a short-term assignment instead of a relocation?
20	Should transportation costs for return trips to the departure location be covered or increased from the basic policy?
21	Should this option (home delay or retention) be available to new hires and/or current employees?
22	Should the company increase the storage period?
23	What are the tax implications to the transferee when renting his/her home?
24	Should the option (home delay or retention) be limited to transferees in negative equity situations?

To achieve success with the home-delay or home-retention options, one or more of the following features may need to be added to the relocation program:

- Pre-Decision consulting services
- Temporary domestic assignment policy (short or long term)
- Property management services
- Rental assistance
- Waivers

Pre-Decision Consulting Services

SIRVA's Pre-Decision program gives the relocation candidate a comprehensive overview of the financial impact of selling his/her home. SIRVA provides an estimated value of the home-sale price by analyzing key market data points such as: supply and demand (absorption rates), current homes listed in the area, foreclosure activity, pending foreclosure activity, unemployment rate, days on market and recent sales. The Pre-Decision service considers each of these market value influences and provides a predictive value for the home. The primary goal of this service is to deliver a sophisticated estimate, regardless of location or price range.

Benefits to the company include:

- Reduces stress on employees as relocation decisions can be made earlier in the process, so the impact on employee productivity is lessened
- Helps minimize failed relocations, which therefore reduces company costs
- Provides early visibility into the need for loss-on-sale benefits
- Reduces or eliminates extended benefits historically given to employees who cannot afford to sell their home but have already committed to a relocation

Benefits to the employees include:

- Allows for an earlier decision which reduces stress
- Allows employee to make decisions based on facts; not emotions or rumors

With the predictability this service brings to the relocation offer, a large number of companies have added Pre-Decision consulting services in the last year. The cost for Pre-Decision is considered a business expense as it occurs before the relocation has been accepted or initiated.

Temporary Domestic Assignment (short or long term)

If a company knows the transferee will be in the new location for one year or less and then will return to the departure location, the company may provide a short-term Temporary Domestic Assignment (TDA) program in place of a relocation policy. With a short-term TDA program, the reimbursed expenses are considered business expenses. However, any lump-sum allowances (i.e., miscellaneous allowance, meal allowance) provided during the assignment would be considered taxable income to the transferee.

If a company knows the transferee will be in the new location for one to two years, it may provide a long-term Temporary Domestic Assignment (TDA) program in lieu of a relocation policy. With a long-term TDA program, the reimbursed expenses are considered taxable expenses and the company normally provides tax assistance (gross-up). Even though these expenses are considered taxable and gross-up does apply, the cost to the company may still be less than paying for home sale, home purchase and potential loss-on-sale.

Property Management

If a transferee chooses the home-sale delay or home-sale retention programs, some companies may provide property management for the home in the departure location. SIRVA can arrange for property management services, which may include:

- Listing and marketing property for rent
- Obtaining a qualified tenant in accordance with state laws
- Collecting rent, security deposits and other income
- Administering payments of operating expenses and other obligations on behalf of the owner
- Coordinating repairs and scheduled maintenance on behalf of owner
- Obtaining contract proposals for services/repairs on behalf of owner
- Providing quarterly inspections with photos to owner
- Providing monthly/annual automated income and cash flow statements, financial statements and any other important communication. Yearly rental income is reported to the IRS via 1099.

Rental Assistance

Transferees may need assistance in finding a new home to rent. SIRVA offers a variety of rental services in the destination location which include:

- Orientation area tours
- Guided rental tours
- Rental search reports
- Self-help online services
- Lease negotiation assistance

Typical renter-related costs can include:

- Lease acquisition fees (credit check fee, application fee)
- Lease cancellation fees upon departure
- Rental finding fees (if customary for the area)

Waiver Agreements

Waiver agreements for home-delay or retention programs vary by company and therefore a company specific document is needed. This agreement is a legally binding document that should be created and/or approved by the company's own employment counsel. The document should clearly indicate that the transferee has:

- Been fully advised of the available benefits

- Received a copy of the benefits in writing
- Read and currently understands these benefits
- Had the opportunity to ask questions about the benefits
- Had sufficient time to consider the benefits
- Seen alternative benefits, which should be identified
- Had the opportunity to compare the original and alternative benefits (including any income and tax ramifications)
- Elected (in writing) to waive those benefits in order to receive an alternative benefit

The document should be signed by the transferee and a company representative. The transferee should also recognize and acknowledge that the benefit waiver and election of the alternative benefit does not change the at will nature of the transferee's employment status. The alternative benefit should also be incorporated in any payback agreement that the transferee may be required to sign.

Summary

Although this challenging housing market has stimulated discussion on home-sale alternatives, whether these alternatives will help meet company relocation objectives remains to be seen, as it is too early to gauge whether these alternative programs are effective. If a home retention option is temporarily made available, SIRVA recommends a thorough analysis of all known pros and cons before implementing. If SIRVA can be of assistance, please contact your Director, Client Engagement or a member of SIRVA's consulting team.

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The foregoing is intended as general information only. SIRVA suggests that decisions as to your specific situation should be made only after full evaluation of your circumstances with your company leadership, tax and legal advisors, and HR personnel.

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