



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.

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## Making the best of your relocation program during the worst of economic times

Here at SIRVA our clients are increasingly asking how the continuous economic turmoil impacts their company insofar as their relocation program is concerned. Specifically, they want to know how their company can continue to effectively and efficiently hire new employees and relocate existing employees during these difficult times.

To borrow from a bookshelf classic, the answers to these questions are perhaps best summarized by Charles Dickens with this famous quote from *Tale of Two Cities*—"It was the best of times, it was the worst of times."

Let's start with what we all know and loathe—the "worst of times." This classification includes a banking and credit crisis that has shaken the world financial markets, a wildly fluctuating Dow Jones Industrial Average, declining home prices, falling consumer sentiment and rising unemployment. These issues have converged to produce more stringent lending requirements (e.g., home buyers having to put 20 percent down) and a reduced pool of qualified buyers (to whom our sellers need to sell their homes), resulting in a supply of homes that would take more than 10 months to sell if no more homes were built or became available.

It's certainly not a business-friendly environment right now. And it is easy to understand how the "worst of times" is the dominant mind set. But rest assured, not all is negative.

First, the unsustainable and runaway housing appreciation—which was a serious problem in some major real estate markets—has reversed itself. This is good news for people who have increasingly found themselves priced out of the housing market. Today, homes are far more affordable as prices still continue to fall in many markets and specifically in what were “overheated” markets.

Second, the home investor/speculator of yesterday—a factor in the run-up of home prices—has now mostly retreated, signaling that perhaps homes will resume their former primary purpose of being a place to live versus just an investment to be bought and then soon sold. This about-face means on the home-buying end that transferees are likely to have more choices and lower home prices.

So what should companies do in such challenging times insofar as relocation is concerned?

In addition to learning how to better leverage relocation policies currently in place, this is the optimal time for companies to look at some of the innovative and time-tested relocation program provisions that are proving highly effective at protecting both your company and your employees. Here are some suggestions:

#### **Have in Place “Best Practices” for Home Sale:**

Make sure your relocation program has the following critical provisions in the home-sale section—regardless of what type of home-sale program you have:

- Two BMAs/BPOs are ordered right up front from real estate agents who are on the SIRVA Preferred Broker Network. The use of non-network agents dramatically increases the probability that the home value will not be as realistic as that for an agent who has been “relocation trained” and has a “report card” with SIRVA.
- Mandatory (not just suggested) language that requires a listing cap—105 percent of the average of two BMAs/BPOs has been common for years, but many companies are now wisely pushing this number down to as low as 102 percent.
- Mandatory home marketing of at least 60 days (coupled with a required realistic listing price) before any guaranteed offer can be taken.
- Prudent use of home-sale incentives to jump-start the home-sale process. For example, a bonus of 2 percent could be paid if the home goes under contract in the first 30 days and 1 percent if the home goes under contract in 60 days.

#### **Follow the Rules to Receive the Benefits:**

Use this challenging time to update policies and to enforce the expectation that relocation benefits are similar to other human resources benefits and there are rules and requirements in order to access these benefits. When dealing with home-sale policies, exceptions (e.g., over-listing) to properly communicated and implemented policies simply increase the cost of home sale to the company and result in less transferee satisfaction.

## Pre-decision Analysis:

Before the formal relocation process is started, consider whether the candidate is going to be able to actually complete the relocation by being able to sell his/her house. We call this a pre-decision analysis. With today's falling home-sale prices, an increasing number of potential transferees will not be able to sell their home for what they originally paid for it. This is especially true if they were relocated and/or purchased a home in the past three years.

Unforeseen expenses can also arise for both the client and transferee if the home has deferred maintenance or issues such as a structural problem. An early-warning process should be in place to alert the company if the transferee is financially unable to resolve the condition.

There are two problems when it comes to being able to sell a home in times of declining home values—over and above the very real problem of finding a qualified buyer who does not present an offer contingent on the buyer selling his/her home.

First is what we all know as Loss on Sale, which is simply the difference between what the home sells for in relation to what the home was purchased for. Here, we need to ascertain if the proposed transferee is aware of the company's Loss on Sale policy. Some companies do not have a Loss on Sale provision, so in this case all the loss is borne by the transferee. For those companies that do have a Loss on Sale program, however, a deductible is generally available as well as a cap on the benefit. The transferee should understand what his/her out-of-pocket cost is going to be in such cases.

Second and much more ominous is negative equity, or what is often referred to as being "underwater." Negative equity occurs when the amount needed to pay off mortgages, liens and other obligations on the property exceeds the amount of the sale price of the property. This is very different from Loss on Sale. In this case, we need to find out what the total outstanding financial obligations are on the property—including the first and second mortgage as well as equity loans and lines of credit. In short, all these obligations must be cleared before the home can be sold. If the transferee does not have a source of cash to clear a negative equity, then the home cannot be sold and closed. Often these equity lines of credit have been used to finance high-cost consumer goods and other non-housing-related purchases or both.

What then are the options to the company and the transferee in such cases?

*Payment or a Loan:* The company can elect to pay off the negative equity through a payment or a loan. This course of action needs to be carefully weighed before it is undertaken, as serious issues of employee equity are raised by bailing out one employee who needs it and not providing a similar benefit to the employee who has been more financially prudent and might not need it. SIRVA generally recommends that a company not pay negative equity. If a company does pay negative equity, we recommend a loan versus a lump-sum payment.

*Rent Instead of Selling:* Determine whether the potential transferee will take the move without selling his/her home. This generally means that the transferee rents the home in the old location and rents in the new location. There is no one-year tax requirement on home sale, thus companies could easily hold open the home-sale benefit for as long as the home-sale price recovery takes. Given

the time it could take to have home-price recovery in the old location, the next transfer might even occur within this time frame, and the home at the old location could still be sold at that time.

*Temporary Domestic Assignment (TDA):* If the move is going to be for less than one year with a return to the original, or base, location, then a TDA ought to be considered. But what if the assignment is longer than one year and is for, say, two years? Is it still cost effective, given the fact that taxes will have to be paid on the entire benefit? The answer is that it might be if one considers the cycle of selling, buying and then selling and buying a home in a short period of time—not to mention the home Loss on Sale. Again, these decisions are best decided on a case-by-case basis.

*Go to Candidate B, Hire Locally or Redistribute the Work:* Sometimes the best approach is simply to not move the employee at this point in time. That step could result in the next best candidate or even a new local hire being selected or weighing whether the work could be handled without creating a relocation at all.

Another solution may be providing information on how to effect a “short sale,” which we will explore in a future *Policy Matters* e-newsletter edition.

### **SIRVA Relocation's Pre-decision Analysis Program:**

To aid in this complex process, SIRVA Relocation is developing a formal pre-decision analysis product that provides clients with a systematic information process to help determine whether a move can take place—with the emphasis on whether the home sale can be completed (i.e., whether the potential transferee is likely able to clear all the outstanding financial obligations on the property).

To learn more about this innovative, new offering and learn what SIRVA can do for you in the way of pre-decision counseling, please contact your client service director (CSD). Questions on relocation policy can also be directed to David Barlow as noted below.

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