CANADIAN HR Reporter
THE NATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT www.hrreporter.com

6/1/2009

Housing market slide hits bottom line

Real estate decline makes for costlier relocations, reluctant employees

By Linda Ward O'Farrell

Housing markets have tanked, slid, softened — pick a word, pick a market. So should employers that relocate workers pass the loss on to employees or cover the cost and keep valuable talent intact?

Employee mobility is critical to Canadian corporations' current and future business requirements. The degree to which corporations can move key employees into strategic positions domestically and internationally directly affects the ability to expand new markets, explore and develop new resources and complete projects.

Declining housing markets in Canada and the United States have had an impact on corporations' relocation costs and on employees' appetites for transfers. While home sales in the past few years nearly guaranteed a profit for employees and ensured low to no costs associated with losses on sales for employers, that is no longer the case. For HR practitioners, striking a balance between cost containment and talent management has become even more difficult when employee mobility is concerned.

The employee perspective

The economic slowdown means employees may need to relocate, either to stay with a current employer or to find work in their field. However, they are reluctant to do so because the value of their homes has depreciated significantly in the last year or so.

If the employer is not covering some of the costs associated with the home sale, it may take longer for the property to sell, with employees incurring duplicate housing costs or paying for temporary accommodation. When properties do sell, employees may be selling at a significant loss, eating into the equity they have built or — even worse — selling for less than the value of their mortgage.

Spousal employment is the most prevalent reason for refusals of transfers. This is exacerbated during tough economic times, where the security of the spouse's income and position may take precedence over relocation.

The employer perspective

If an employee is not transferred where a corporation needs him, the cost to the company in terms of lost business can be significant. If corporations do provide assistance to employees through comprehensive relocation programs, the employer's direct costs associated with employee mobility dramatically increase.

The majority (76 per cent) of Canadian corporations offer guaranteed home sale plans to relocating employees, according to a survey conducted by Ward O'Farrell Consultants in March.

The survey of 49 respondents also found 75.8 per cent of corporations with such plans experienced housing losses on sales in 2008. And the losses are increasing — a majority (60 per cent) of corporations reported an increase in the losses from 2007 to 2008. The average housing loss in 2008 was $26,700 compared to $11,300 in 2007 and $6,700 in 2006. For some, the losses doubled or tripled in one year.

Impact on relocation costs

The impact of declining housing markets on policy provisions typically found in relocation programs is significant. This creates stress amongst relocating employees and affects the corporation's bottom line. Here's a look at how the housing market is impacting the bottom line when it comes to relocation.

Guaranteed home sale plans: A 10-per-cent annual decline in the housing market for a $300,000 home can result in a $10,000 loss before the house is even put on the market. Appraised values used to establish the guaranteed price are historical, usually based on home sales that have occurred three to five months ago and usually without any projection for a declining market. The lag results in appraised values being higher than the actual current market.

Equity loss protection: Sixty per cent of respondents to the survey protect employees' equity based on a percentage of the original purchase price, sometimes including the cost of certain capital improvements. For those employers, additional losses on sales are incurred without potential for recapturing these losses. For example, a property purchased for $300,000 two years ago and a market decline of 10 per cent since then results in an equity loss of $30,000.

Takeover of properties: As part of guaranteed home sale plans, properties are typically taken over by employers after 90 days if they have not sold. With home sales slowing considerably, more properties are being taken over and are in inventory for longer periods of time. The majority (71 per cent) of respondents are experiencing a higher number of takeovers as compared to previous years. Monthly carrying costs vary from 1.2 per cent to 1.5 per cent of the value of the property. A $300,000 house that takes three months longer to sell will result in extra costs of $10,800 to $13,500, and from $21,600 to $27,000 if it takes six months longer to sell.

Equity advances/bridge financing: Delays in selling properties affect the cost of advancing equity for the employee's purchase of a home in the new location. Whether the corporation is funding the equity advance or reimbursing the bridge financing costs, an additional three-month delay equates to about $2,500 more in cost.

How to cut costs

The majority (64 per cent) of corporations responding to the survey apply limits to the listing price some time in the 90-day marketing period. (The survey responses reflect the first instance when corporations limit the listing price.) Employers are increasing these practices and are lowering the listing price limits to 105 per cent, 103 per cent and even 101 per cent of the appraised value.

However, only 36 per cent make it mandatory for an employee to accept an offer within the 90-day marketing period. Some corporations insist on employees accepting offers at 95 per cent of the guaranteed price or more, with the employee still benefiting from the full guaranteed price. Some employers have guaranteed home sale plans that use 90 per cent or 95 per cent of the average appraised value as the guaranteed price. If the property sells for more, great. If not, the employee and employer share the impact.

Employers can contain costs by offering equity protection, reducing the percentage of the original purchase price, reducing the percentage of the cost of capital improvements that are included, applying depreciation to the overall value or capping the equity loss payment. It's all about sharing the burden.

Some corporations have eliminated house price guarantees altogether whereas some have expanded the policies to all employees. It all depends on how badly they want employees to move.

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