



Loss on Sale as it Relates to Relocation

Overview

Loss on sale (LOS) continues to be a hot topic in the relocation industry. Meeting business objectives and recruiting needs are the driving factors behind a heightened design and use of the LOS program. Housing market conditions have forced companies to revamp their approach to LOS programs as an increased percentage of transferees are in need of LOS assistance. A survey by Worldwide ERC® reported that 70% of respondents reported “slowed real estate appreciation at the old location” as the single most compelling reason their employees are averse to moving.

Offering loss on sale protection and reimbursement can be expensive, yet, it may be the key factor in completing a move for an important role. More frequently, employees and new hires are declining positions because of their “upside-down” status and companies not offering enough incentive. It is recommended that companies consider the following steps when evaluating LOS:

- Define loss on sale clearly, and be prepared to handle exceptions
- Evaluate the departure and destination markets for the people likely to move
- Obtain valuations for homes in markets that appear challenging
- Consider offering loans with payback provisions
- Include some loss on sale provision in HR budgeting and planning
- Be prepared to handle short sale situations

While the percentages of firms expecting further cuts to relocation volumes and budgets are still higher than in recent non-recessionary years, the numbers of firms expecting increases are roughly twice that of last year, indicating the beginnings of recovery for the industry.

Overall, companies are significantly more optimistic. The percentages of firms expecting decreases this year for both relocation volumes and budgets are down by about half from 2009. More than 1 in 5 firms expect relocation volumes to increase in 2011, and roughly one-fourth or more of mid-size and large firms expect budgets to increase as well.

Incentives

Most firms offered incentives to encourage employee relocations in 2009 -10: Cost-of-living-adjustments (COLAs) (65%) and relocation bonuses (56%) were the most popular incentives in 2008, but in 2009 extending duplicate/temporary housing benefits (69%) became the top incentive. Relocation bonuses, loss-on-sale protection, and COLAs rounded out the top four methods used last year. About 9 out of 10 companies said extra incentives “almost always” or “frequently” convinced an employee to relocate. ¹



There is no “one size fits all” program or calculation method for a LOS program. Results showed that:

- The average cap is \$50,000
- More than 50% of companies do not cover capital improvements as a separate reimbursement
- The company and relocating employees share in the loss, with the employee percentage ranging between 10-20%
- A staggering 89% gross up or tax assist the benefit ¹

A frequently asked question revolves around the best practice regarding who should receive LOS assistance. Categories of relocating employees currently receiving assistance include:

Homeowners, current relocating employees and new hires	44.7%
Homeowners, executive level current relocating employees and new hires	34.2%
Homeowners, current relocating employees only	23.7%
Homeowners, executive level current relocating employees only	15.8%
Other: Only when necessary- i.e – key relocating employees	15.8%

78% of companies are finding it increasingly difficult to recruit critical talent today, while the majority of respondents said convincing first choice candidates to accept relocations represented their single greatest challenge in recruiting new hires. When asked about the biggest challenges facing their top recruits- 81% cited concern over losing money on the sale of a house,

underscoring the current real estate market’s impact on recruitment.

Despite less-than-favorable market conditions, the need to recruit and relocate critical talent is unrelenting and essential to meeting vital leadership development and business expansion goals. By adding more robust benefits to their new hire relocation policies, companies are overcoming resistance to relocation among key new hires, and keeping their talent management strategies moving fluidly.

Companies are increasingly providing incentives (signing bonuses, mortgage subsidies, etc.) to encourage critical new hires to relocate and are refining policies to help them get their homes sold for the best possible price. Beyond boosting recruitment efforts, such a strategy translates into lower overall costs for the company and an accelerated assimilation into the new corporate culture for the new hire.

¹ Atlas Corporate Relocation Survey 2010

About Paragon Relocation

Paragon Relocation is the premier partner of choice in the global mobility industry providing innovative programs, value-added support, superior customer service and thought leadership to our clients and the families we relocate. Paragon Relocation has been providing relocation services for over 24 years and is present in 150 countries. For further information, please contact your dedicated Paragon Relocation account manager or visit www.paragonrelocation.com.