

2009 Industry Trends and Best Practices for Mobility Programs

U.S. Domestic Relocations and International Assignments



January 2009



Introduction

Originally founded as a relocation consulting company specializing in domestic, international relocation and global assignment program development consulting, our mission was to develop cost-effective mobility programs that offered more services to the transferring employee, at less cost to the organization. Today, we maintain an extensive consulting practice focused on global mobility issues in their entirety. Paragon's Consultants have worked with companies throughout the world in virtually every industry to revise, develop, or otherwise build relocation programs. Industry trends contained within this report are based on a variety of survey sources, including the Worldwide ERC and Paragon's benchmarking database and surveys. Best practices and recommendations are based upon the professional opinion of Paragon's Consultants.

2009 Industry Trends and Best Practices for U.S. Domestic Relocations

While companies adjusted to the reality of the real estate market in 2008 through reinstatement of guaranteed buyout provisions, as well as loss on sale, Paragon predicts 2009's focus will be on aggressive, as well as creative home marketing practices and more importantly issues related to program compliance and equitable administration.

Creative Solutions for Stalled Real Estate Markets

Present real estate challenges are reminiscent of the painful 1980's. Recent shifts in the economy are impacting relocation benefits, particularly homesale programs, a key component to an efficient and timely move process. Human Resource (HR) professionals and their mobility partners have an important task ahead of them: to establish expectations within a fluctuating market for not only the relocating employee base, but for upper management on projected costs and pricing.

Stricter Home Marketing Guidance

In a random sampling conducted by Paragon in 2008, over 60% of inventory properties were listed with employee-preferred realtors versus those dedicated to relocation. As a result, companies should modify the current program to require the home to be listed with a third-party relocation company preferred agent and require the list price to be capped at 105% of the average of two Broker's Market Analyses (BMA). BMAs typically drive the initial listing price and provide ideas to develop a time sensitive and local market sales strategy as the information reports current comparable sales as well as competing listings. These reports also provide information relative to incentives being utilized to sell properties. Requiring relocating employees to work with a pre-selected group of suppliers or company approved brokers ultimately gives the company more point-to-point control over the entire process, which translates into lower program costs.

Staging Allowance

In addition to a home marketing assistance program, corporations should consider a Staging Allowance. If results of the BMA highlight the need for minor cosmetic repairs, this program enables the employee to make improvements by drawing from an account with a cap agreed to between the client organization and the relocation provider to assist the employee with marketing the home for a quick sale. It has proven true that a home that is accurately priced for the current market and in prime condition experiences a shorter marketing cycle than those that may be overpriced and are in less desirable showing condition. As real estate markets continue to adjust, only homes in the best marketable condition will generate potential buyer interest. Funds that are allocated to readying the property for listing are a small percentage of the total direct costs associated with a homesale program and if, the marketing efforts are not successful and the property goes in to inventory, fewer dollars will be spent to ready the property for the resale inventory market.

Increased Real Estate Commissions and Agent Bonuses

Because real estate agents are selling fewer homes as compared to years past, incentives to agents should be considered. These incentives include increased real estate commissions and selling agent bonuses. In a buyer real estate market, such as the one currently being experienced, real estate agents have many homes from which to choose to show to potential buyers. To make the subject property stand out from the competition, increased commission may help gain the real estate communities' attention. This objective is met by adding incentives to compensate the selling real estate agent. The bonus/incentive can be structured by providing the selling agent with a flat dollar amount if they present an accepted offer. This incentive type typically has a timeframe associated such as an offer must be presented and accepted by January 15, 2009. Another approach is to increase the overall real estate commission by 1 - 2% on the selling side of the real estate commission split. Increasing the potential payment to the agent will increase the number of showings and potentially sell the property quicker, thereby reducing overall costs to the employee and or the corporation.

Buyer Incentives

Current market conditions have driven companies to become more creative in assisting relocating employees' in the disposition of their properties. Recently Worldwide ERC has supported the stance that payment of buyer incentives such as repair allowances, buyer closing costs, and points as part of the closing would not be considered taxable income to the employee if these items were covered as part of the standard policy versus handled as exceptions. In light of this, Paragon suggests adding a component to policy to pay for buyer closing costs or mortgage incentives to increase buyer activity. The amount to be offered should represent a percentage of the value of the property (1 - 2%) or a flat dollar amount such as \$2,500 - \$4,000.

Less than Appraised Value Sales

For companies with guaranteed buyout provisions, consideration should be provided to allowing the employee to negotiate offers from outside buyers which are less than the appraised value. This provision supports avoidance of the property being taken in to inventory while assisting the employee in adjusting real estate markets. The benefit allows the employee to aggressively market the property within the home marketing guidelines mentioned above while encouraging the employee to negotiate offers which might otherwise be rejected or not seriously countered. Paragon suggests a threshold of 5% below the appraised value as the published benchmark; however, in markets experiencing greater declines, higher losses should be considered by relocation program owners. Homesale incentive amounts should be increased to complement the less than appraised value policy component. Higher homesale incentives provide the employee with greater motivation to collaborate with both buyers and real estate agents in coming to terms on an offer.

Buyer Value Option: Sunset Clause with Discounted Buyout

During the past decade, BVO programs have produced successful results with lower costs to the client. When the employee has marketed their home, provided the home is priced within the market and is in top showing condition, homes typically sell within the first 120 days of listing. As markets soften, correct and/or decline, client corporations should consider a “sunset clause” for a Guaranteed Buyout Offer (GBO) at some time during the BVO process. Some key drivers for the “sunset clause” include:

- Companies that currently offer BVO as the only homesale option are becoming challenged with an increase in exceptions for temporary living, duplicate housing, and storage costs.
- An employee’s move is not complete until they are relieved of the home disposition process and the family is all in one location.
- Although not a mandatory procedure according to Revenue Ruling 2005-76, Worldwide ERC’s Coalition recommends client organizations provide a GBO at the end of the BVO process in order to operate in the most favorable way to protect the tax exempt status of the third party relocation homesale program.

The “sunset clause” could take effect after the home has been on the market for 6 months. Another consideration for this type of program is to base the guaranteed offer on a percentage of the appraised value. The same process for determining the value is followed except at the time of calculation, an employee is offered, for example, 95% of the appraisal value, resulting in the GBO amount. This approach may allow for an employee to have more incentive earlier in the process and facilitate a change in the strategies for selling a home prior to having to accept a GBO.

Loss on Sale Protection

Given the uncertainty of the real estate market, corporations should prepare a Loss on Sale protection provision. While organizations may be hesitant to include such a provision in the policy, the organization should consider developing guidelines to avoid potential employee inequity. A Loss on Sale policy should include the following clarifications for eligibility:

- The employee must market the home in accordance with a strategy approved by the company, adequately maintain the home, not contribute to the loss in value of the home, and sell the home at a price within the policy parameters.
- Should the employee be unsuccessful in selling the home and accepts the GBO at a loss from the original base price paid and the home goes into inventory, the Company will reimburse up to a maximum percentage of the original purchase price, not to exceed a specified dollar cap. These parameters should be established by the company and consistently administered.

In an effort to reduce the Company’s exposure, consideration should be given to developing policy that discourages the purchase of new construction within the final build-out phase of a development to help avoid short-term loss-on-sale concerns. Situations like these often result in individual sellers competing with builders who offer deep discounts on spec homes. In addition, builders may also pay other incentives such as purchasing closing costs and upgrades to a property to expedite a sale.

In Summary

By restructuring the home marketing strategies, adding homesale incentives, offering a delayed GBO, and preparing loss protection programs, companies can maintain a competitive edge and play an active role in keeping inventory homes to a minimum, while staying even with timely marketing of resale properties. There is no “magic formula” for marketing a home out of inventory as every property is unique and demands a customized plan. As such, careful and cautious analysis of each situation will drive more positive results than chasing a downhill market.

2009 Industry Trends and Best Practices for International Assignments

The world is getting smaller every year. Advances in technology have facilitated the emergence of new players into the global economy. Traditional expatriate locations such as the United Kingdom, Singapore and the United States continue to be eclipsed by non-Western destinations such as China, Russia, Mexico, and India. While these new destinations are exciting and enriching, they may also prove more challenging as Western expatriates venture forth into truly foreign territory. As a result of the new world “melting pot”, added emphasis on appropriate candidate selection, mentoring programs and cultural assimilation services will be necessary to ensure assignment success.

Selection and Retention

According to Worldwide ERC, 48% of repatriated U.S. assignees leave the company within two (2) years of return from assignment. Based on this and the increased costs involved in global assignments (estimated at nearly 3 times the base salary per year), proper preparation, including a cost estimate prior to the move, is critical.

A Candidate Assessment tool analyzes a candidate and family’s suitability along with readiness to take on an assignment, increasing the probability of a successful mission. Further, the tool can create an internal pool of candidates for future international assignments. Once a candidate is selected, the following techniques may be beneficial:

- Clearly define the scope and strategic reasons for the transfer
- Integrate assignees/returnees more effectively onto teams
- Define performance measures specific to the assignment
- Institute a Knowledge Sharing / Networking outlet which communicates lessons learned while on assignment with colleagues
- Establish roles and responsibilities for key populations with regard to career planning and repatriation program

While preparing their employees, companies must equally prepare internally for the assignment. The departure and destination locations should work together to verify the assignment meets the company’s

overall business strategy and to create a clear job description including an employee development plan. Often, the company needs individual's job competencies in the destination location and the business manager may then use the assessment tool to monitor performance through the mentoring/coaching process. This allows the job to fit the employee, the employee to focus on the assignment's goals and ease the employee's worry if there will be a suitable position upon return.

As the overall cost of a global assignment continues to grow, it will become more important to ensure that professional opportunities upon return home are addressed to enable the company to retain talent. Due diligence will facilitate selection of the best candidate for a successful move for the Company and the family.

Mentoring Programs / Job Shadowing

Mentoring Programs are proving to be an effective measure in keeping assignees connected with leaders of the organization. Traditionally, mentors are assigned in the departure location to ensure that the employee stays in touch with current and changing organizational priorities. Destination mentors assist with adjustment to the new environment and workplace. The mentor serves as a touchstone during the process, allowing the assignee to feel as if they are being looked after. In addition, the assignee could play the role of mentor as well. If an organization adopts mobility discussions as part of the annual review, what better way to get exposure to the life of an assignee than to shadow them through the journey. This approach may also help reduce failed assignments as it provides an additional touchstone for the assignee, as well as gives the candidate a real sense of the experience.

For organizations unable to establish a formal program, setting up a blog or an expatriate web forum as part of their company intra-net may keep the assignee engaged while offering candidates an informal way to gain exposure to life in the international arena. Additionally, the forum can serve as a resource for Human Resource professionals and managers when sourcing candidates for assignments.

Assimilation Services and Support

Providing an employee additional tools for assimilation success, such as Destination Services, Language Lessons, and Cross-Cultural Training can be a sound investments. Paragon recommends implementation of additional assimilation services for all employees going on assignment.

Destination Service Providers (DSP) are subject matter experts, providing an array of personalized, local assistance geared towards assisting the assignee and family in connecting and settling within the new community. The DSP can be engaged throughout the entire assignment and/or relocation process, from pre-move, to arrival, and finally repatriation. As global partners, they are an effective "one-stop" shop, capable in assisting the employee and family in all aspects of life in the new location. Equally important, the DSPs are an excellent resource for Companies trying to determine what is local and customary. Given the nuances in international relocations, utilizing Destination Services is paramount to building a solid global mobility program.

Cross-Cultural Training, which is often conducted by an outside training organization, works to familiarize the employee and family members with the customs and character of the country prior to the start date at the global post. This training is designed to immerse the assignee and family in the new culture to prevent surprises and better prepare the family for life in a global environment. Additional emphasis is placed on customs related to business practices so that the assignee will be well prepared to work in the new location.

Spouse / Domestic Partner Career Continuity

While a recent survey from Worldwide ERC notes family issues as the primary driver for failure of international assignments, a surprising number of respondents to a recent Paragon survey do not view a lack of Spouse/Domestic Partner career assistance benefits as a deterrent to their international assignment acceptance rate. This finding suggests both the assignee and company may be underestimating the financial, and more importantly, the emotional impact resulting from their spouse/domestic partner potentially putting their career “on hold.” Legalities, as well as language barriers, skill set translation, etc., may impede the spouse/domestic partner’s ability to remain productive for the duration of the assignment. Alternately, should the assignee go on assignment unaccompanied, a new host of emotional strains may result. Without a direct relationship to the spouse/domestic partner, corporate HR may not have all the pieces to the puzzle, with some families trying too hard to “make it work” and other qualified candidates self-selecting out of the process before it begins. Addressing the nuances of each family’s total career development is crucial to assignment success. Investing in an outlet for the spouse/domestic partner to remain engaged in their respective industry or workforce may be crucial as family mobility continues to play a key role in assignment success.

For approximately 1% of the overall total assignment costs, corporations may offer Spouse/Partner assistance that could include; work permit sponsorship (where appropriate), career continuation packages comprised of employment opportunities analysis, resume or CV development, networking guidance, and exploration of career alternatives such as continuing education and volunteer opportunities, resulting in support of the success of the overall assignment while helping secure a healthy ROI.

Home Leave

Due to advances in technology (teleconferencing, video conferencing, email, etc.) as well as reassignment to other locations besides the original destination, the Home Leave benefit has evolved. While the original intent of the Home Leave Benefit was to facilitate continued connections in the home country both professionally and personally, most companies no longer requiring return to the point of origin. Rather, organizations are modifying the provision, allowing the employee and family a lump sum to explore different parts of the world within the region where they are on assignment so long as the amount does not otherwise exceed what it would cost to return to the home location. This may encourage interest and connection in the destination locale, as well as promote a global mindset.

In Summary

Organizations need to recognize the synergies between international experience and other strategic corporate initiatives. As assignments continue to become more commonplace, companies should leverage the experiences of assignees to further promote an environment which places value on international assignments in effort to expand their global mindset and retain the best talent.