RELUCTANT RENTERS: HANDLE WITH CARE

By Jerry Funaro, CRP, GMS

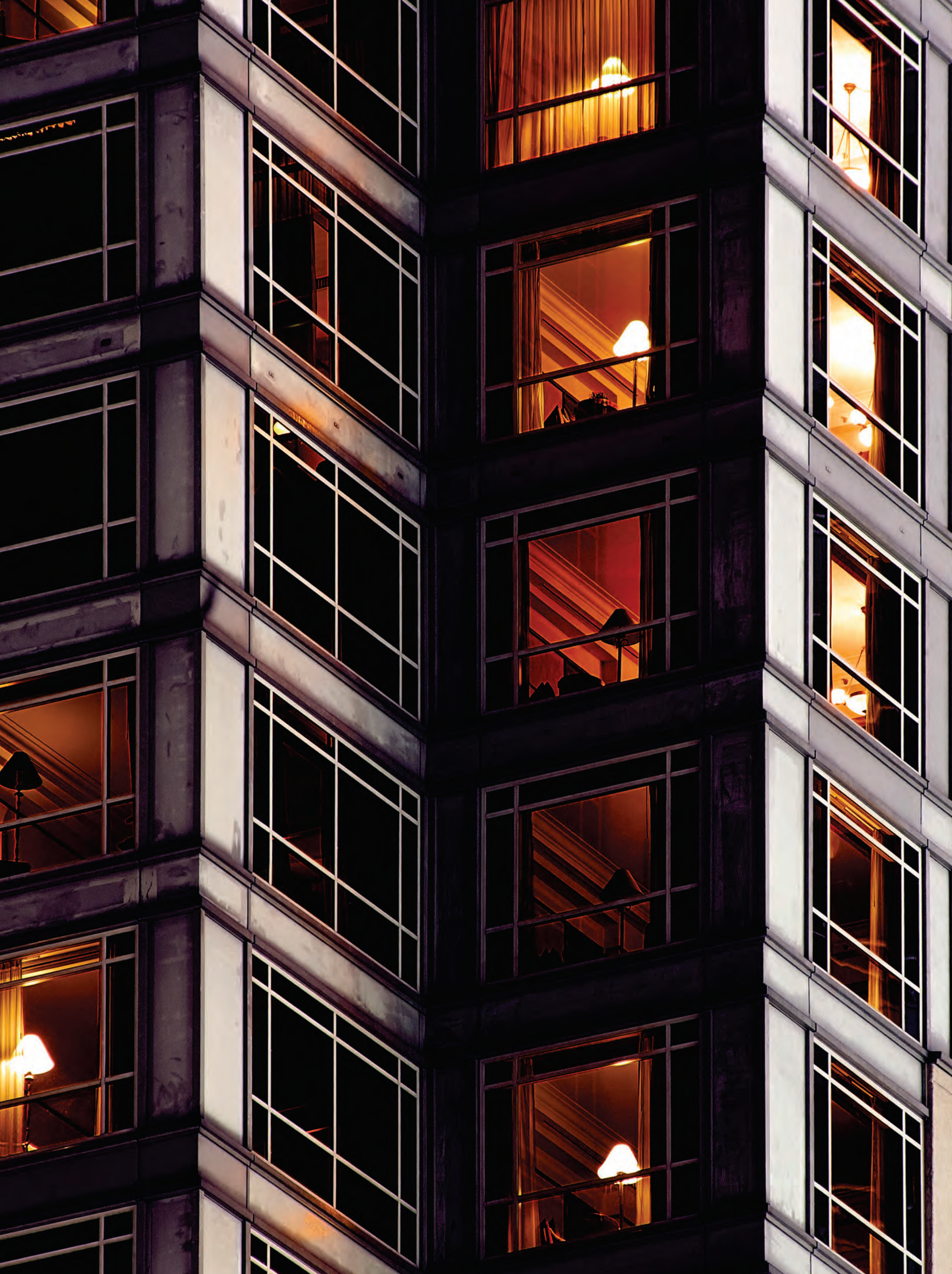
AS MORE AND MORE HOMEOWNERS FIND THEMSELVES UNABLE TO SELL THEIR HOMES, A SIGNIFICANT NEW GROUP OF RENTER TRANSFEREES HAS EMERGED. THEY REQUIRE A DIFFERENT LEVEL OF SUPPORT THAN CLASSIC RENTERS.

Standard domestic relocation policy draws a bright line between renters and homeowners. Renters are assumed to be younger, more junior employees, frequently college grads or interns, and often single or married with no children. Since the classic renter has no home to sell at the departure location, no home to purchase at the destination, and significantly less in the way of household goods and other encumbrances, he or she has typically received a modest package of benefits.

Much of this is well and good. The suite of benefits offered, while basic, is reasonably well aligned with the classic renter's needs. The benefits are sufficient to get the employee moved and settled at the new location without being overly generous or costly.

However, standard domestic policy makes no provision for a growing trend: homeowners who become renters—particularly those who are doing so involuntarily. According to the Worldwide ERC® 2011 "U.S. Transfer Volume & Cost Survey," 62 percent of relocated employees are renters—a departure from previous years, when the division between renters and homeowners was more balanced. Given today's economic conditions, we can assume this is not due to a massive surge in entry-level hiring.

Homeowners transitioning to renters represent a new category of transferee with greater and more specialized needs than classic renters, but fewer (and less costly) requirements than homeowners who are continuing as homeowners. By recognizing and addressing these specialized needs through policy, companies can facilitate a difficult relocation process, reduce stress and stigma, and potentially save a great deal of money in the future.



THE MAKING OF A RELUCTANT RENTER

Traditionally, few homeowners became renters. When they did, it was often a lifestyle choice, such as the empty-nest couple who opt to sell their large, suburban home and move to a city apartment. Today, this transition is much more likely to be a function of the current housing market and economic conditions. Some transferees cannot sell their departure home and end up renting it out and finding a rental property at the destination. Others just do not wish to purchase another home, for a variety of reasons. They might expect the time at the destination to be limited, or they have been spooked by the volatile housing market of recent years. The most delicate situation centers on involuntary renters: homeowners who manage to sell their home but cannot afford to buy another one.

The housing market has a direct bearing on employees' reluctance to relocate: "U.S. Transfer Volume & Cost Survey" reports that 94 percent of the responding companies cite "slowed real estate appreciation/depressed housing market at old location" as the main reason their employees are hesitant to move. Further, 76 percent of the companies said their employees complained that their old location home is in a negative equity situation.

Companies have stepped up loss-on-sale benefits and other homesale benefits to facilitate the sale of the departure home. At the destination end, mortgage partners offer opportunities for no or small down payments and favorable terms, such as VA and FHA financing.

But for some transferees, the gap is too large to bridge even with enhanced homesale and home purchase benefits. With so much home equity lost in recent years, transferees who do manage to sell might not only absorb a substantial loss (even with loss-on-sale assistance), but also find themselves without the means to buy a new home. If they happen to be moving to a higher cost-of-living area, the situation becomes even more dire.

ATTITUDE ADJUSTMENT

Managing these situations obviously requires a great deal of tact and diplomacy. It would be helpful for all of us who touch employee mobility to put aside our traditional renter/homeowner preconceptions and instead look at these transferees as individuals who need specialized assistance to relocate. If we value these employees enough that we are prepared to invest in moving them, we should be willing to put aside stereotypes and dated policy approaches to embrace a more holistic approach to employee mobility.

For example, we can explore both homefinding and rental options with the transferee, rather than assuming he or she will continue with his current housing option. The transferee might find that continued homeownership is attainable after all, depending on the programs available, the cost of living at the destination, and other factors. Alternatively, the transferee might associate the rental label with his college apartment and be pleasantly surprised at the rental housing stock and value proposition on closer examination.

Counselors and other RMC staff who work with transferees need to fully understand not only the appropriate policies but also the underlying issues and appropriate responses. Some of these transferees might be walking away with nothing; many will have a sense of going backward and starting all over again. They are already feeling a loss of status or even stigma. It is important that they are not made to feel like second-class citizens—especially those transferees who have received homeowner benefits from the company in the past and are accustomed to that relatively privileged status.

Real estate partners play a critical role in facilitating a "soft landing" into an appropriate rental property. They should be rental specialists with deep knowledge of the full array of local rental options. They should be thoroughly briefed on the situation so that they can meet the family's needs, whether it is a modest apartment or a larger or luxury home in a more prestigious neighborhood. Fortunately, in many locations, the variety and quality of rental stock is better than it once was, given the many unsold homes in new developments and condo complexes, and increased builder activity in this space before the economic downturn.

POLICY RESPONSES

The old assumption that renters have limited needs often resulted in a single-benefit tier. Because so many employees today have needs that go well beyond the basic renter package, companies can find themselves managing the situation on an ad hoc basis. Too often, this results in numerous exceptions and the possibility of inequitable treatment and unintended precedents. To fully address the varied needs of today's renter population, it is worth considering several tiers of renter benefits: a core, entry benefit and at least one additional tier for current homeowners.

The most basic benefit often consists of a lump-sum allowance. For the college grad with few possessions or attachments, this program can be cost-effective and simple to administer. A more generous approach would include a rental finding trip, assistance with lease-breaking as required, household goods transportation, and a modest miscellaneous allowance.

THE POTENTIAL FOR COST SAVINGS

Providing enhanced benefits for renters obviously increases immediate relocation costs. However, this is one case in which spending money can actually save money. Once employees are settled in suitable rental housing, the potential for future cost savings can be dramatic. According to the 2011 "U.S. Transfer Volume & Cost Survey," the average cost to move a current employee renter is $23,497, versus $90,081 for a current employee homeowner—and that homeowner figure does not consider potentially substantial loss-on-sale benefits. Even if the average renter figure is increased somewhat to include enhanced services, the company will clearly be ahead of the game. And of course, these new renters will be far easier to relocate in the future when the need arises.

Not surprisingly, one-third of the respondents to Worldwide ERC®'s 2010 U.S. Transfer Volume & Cost Survey reported encouraging homeowner transferees to rent at the new location, and 27 percent offer employees a financial incentive to rent. The incentive typically is offered for 24 months, but the duration can range from 12 to 72 months. Frequently, the incentive is a lump sum, often calculated as a percent of salary. In other cases, the incentive takes the form of a rental subsidy.

DOING WELL BY DOING GOOD

Unless it is a conscious lifestyle choice, transitioning from homeowner to renter can present a significant psychological blow. This is on top of the relocation process itself, which psychologists label as one of life's most stressful experiences. If we resist our instinct to pigeonhole employees into traditional renter/homeowner boxes, we can deliver far more targeted and valuable assistance that helps get our key human resources in place while preserving their dignity and worth. By easing this transition, companies can reap the rewards of simpler, less costly relocations in the future. ***M***

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A MORE COMPREHENSIVE TIER OF BENEFITS FOR RENTERS TRANSITIONING FROM HOMEOWNER TO RENTER COULD INCLUDE:

PROPERTY MANAGEMENT

The employee has participated actively in the homesale effort and followed all marketing and pricing recommendations, and the home still has not sold. Property management services for a fixed duration can allow the transferee to move on to the new location into a suitable rental property.

DUPLICATE HOUSING ALLOWANCE

A duplicate housing allowance can complement property management services. The company reimburses either the rental or mortgage payment (whichever is lower) for a fixed term, while the departure home marketing process continues.

MORE COMPREHENSIVE DESTINATION SERVICES

The basic rental-finding tour likely will not suffice for more established current homeowners and families. Consider a longer "executive" tour with an agenda directly tied to the family's needs. School search assistance can help the family pinpoint the best options for them and help to focus the community search.

SPOUSE/PARTNER CAREER ASSISTANCE

The family might be transitioning to a rental property, but it is still likely a two-income family with a two-income budget. Spouse/partner career assistance can help to mitigate at least one issue in what is already a challenging relocation.

CREATIVE HOUSEHOLD GOODS ARRANGEMENTS

When the departure home remains on the market and the transferee is moving to a rental, options such as split shipments can make sense. Some goods can remain behind to stage the departure home while others can be shipped to the destination rental.