A Tale of Two Industries: Assessing Today’s Real Estate Market and its Effects on Employee Mobility

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Tough economic times often require organizations to provide incentives to encourage critical employees to accept assignments. Today’s downturn real estate market not only is forcing current employees and critical new hires to reconsider career changes, but also pushing companies to reevaluate hiring and relocation policies. Hall maintains that in an effort to recruit, retain, and/or advance the talent needed to increase or just maintain their bottom line—as well as to ensure no loss of productivity—employers are now thinking outside the proverbial box when faced with this relocation predicament.

By Walter R. Hall, Jr.

Corporations relocate hundreds of thousands of employees each year, a majority of whom are homeowners. These relocations have a significant effect on many real estate markets throughout the country.

A Unique Market

The major characteristics of relocating employee homeowners is that most times they move out of state. Their companies usually give them some form of assistance and/or reimbursement for the costs of selling the home, buying a home, and moving; and they must sell their home and buy a new one within a relatively short time frame. Therefore, they are a real estate firm’s ideal customer: highly motivated to sell and buy quickly with no strings attached.

Market areas particularly affected by employee relocation activity are obviously those with high concentrations of major employers, such as Boston, MA; the metro area of New York, NY (50-mile tri-state radius); the Research Triangle of North Carolina; Atlanta, GA; Dallas/Fort Worth, TX; Phoenix, AZ; Chicago, IL; Saint Louis, MO; San Diego, CA; Greater Los Angeles, CA; San Francisco, CA; and Seattle, WA.

It is interesting to note that during my 25-year career in the relocation business, there has been a decided shift in major employer concentrations from those headquartered in high-tax states such as New York and New Jersey to low-tax states like Texas.

Market Impact

According to many real estate firms I have worked with, in most of the major market areas under normal market conditions, employee relocation may account for as much as 30 percent of all residential real estate activity. This obviously has a decided effect on these markets—for example, increased sales activity, keeping home values up, and enhancing a number of home-related businesses, such as furniture and appliance sales.

However, like many industries, the peaks and valleys of the employee relocation industry closely parallel broad economic cycles. For example, during the most recent and truly dynamic economic expansion period from 2002 to 2006, employee relocation activity greatly expanded. Employees’ homes sold quickly for a good price, there was less reluctance to relocate, real estate firms were pocketing big bucks, and the employers cost of relocating owning employees was at a historically reasonable level.

Then came the subprime debacle and resultant credit market problems that began in late 2006 and continue to this day, resulting in declining home values, extended home marketing time, less availability of mortgage credit, and many other related issues affecting homesellers and buyers throughout the country. These problems are truly systemic and affect relocating employees, their employers’ cost of relocation, and are especially harmful for those markets that rely heavily on
relocating employees, the real estate firms, and home-related businesses in those areas.

**Impact on the Relocation Service Industry**

When the cost of relocating homeowners skyrockets—as is presently the case—most corporations find ways to reduce or moderate those costs, not the least of which is to reduce the number of relocations.

Another negative is that the majority of a relocation service company’s income now comes from broker referral fees; that is, the percentage of the selling and listing broker’s commission that the real estate firm pays the relocation service company for referring the relocating employee as seller or buyer. Even though a corporation’s volume of relocating homeowners remains high, in scenarios where it takes so much longer to sell (and many times buy) a home, the relocation service company’s revenue stream really gets stretched out.

Another factor that negatively affects the relocation service industry is the prevalence of the buyer value option (BVO) programs, whereby the employees are on their own to find a buyer and, if they do secure a bona fide offer and it meets certain criteria specified by their employer, it can be assigned to the relocation service company that then cashes out the employee. Again, however, in the current market it can take a very long time to secure a bona fide offer.

**Impact on Corporations Relocating Employees**

From the viewpoint of those corporations relocating employees, as well as the relocation companies serving them, the real estate market can have a very significant effect on their bottom line. The traditional corporate homesale program calls for two appraisals, after which the relocation company offers the employee the average of the two. If the employee cannot beat that price on the open market, the home is purchased by the relocation company (for the average of the two appraisals) and put back on the market for resale. Normally, if the employee cannot beat the offer price, the relocation company will take a loss on sale—often a substantial amount (particularly in the current market)—that subsequently is passed on to the corporate client.

The bottom line? Poor real estate market conditions significantly affect the corporation’s cost of relocating employees, usually causing them to curtail or postpone their relocation activity, thus further exacerbating a downward real estate market cycle.

For relocating employees, there exists a rising reluctance to sell their homes when faced with taking a loss, thus creating a lose-lose-lose situation for them, their employers, and the real estate market in general.

**Problems and Solutions**

Companies are well aware that they must provide incentives to encourage critical new hires and employees to relocate during this downturn in the housing market, a decline that not only is forcing valued employees and attractive new hires to reconsider career changes, but one that also is pushing companies to reevaluate hiring and relocation policies and practices.

In an effort to recruit, retain, and/or advance the talent needed to increase or just maintain their bottom line, employers are now thinking outside the proverbial box when faced with this relocation predicament.

For example, a number of corporations are extending temporary housing allowances to allow employees additional time to sell their homes. And, increasingly, companies are expanding their reliance on what is being termed “the virtual workforce”—employees who work remotely from a long-distance location (including their homes) and who visit the main office only on occasion.

Another solution, albeit quite expensive, is to institute a “loss-on-sale” policy whereby the relocating employees document what they paid for their home, as well as any subsequent and substantial capital improvements conducted while in residence, and are paid the difference
between this figure and a price determined by the average of two independent fee appraisers, assuming, of course, that the appraised figure will exceed the employees’ documented cost.

Prior to the current economic environment, employees quite often moved up the corporate ladder every few years, and had little or no trouble selling their homes for an acceptable price. Today, companies seeking the best possible candidates for critical positions must contend with the tough real estate market, which can translate into a number of key positions that may go unfilled. Call it gridlock, a stalemate, or an impasse—the result simply is that in the absence of employees’ ability to sell their homes for an acceptable price, many companies will not be able to attract the caliber of employees needed to take their business to the next level unless, of course, they are willing to extend costly, expanded benefits such as loss-on-sale policies.

I have known some major employers who view the need for employee relocation as broken down into three categories: “must have,” “ought to have,” and “nice to have.” Even in tough economic times, most major corporations will find a way to relocate critical, “must-have” employees. Some may even invest extra dollars to fill “ought to have” positions based on the strategy that they will be ahead of their competition when the upswing occurs.

However, despite the economic situation, the need for workforce mobility without loss of productivity (the reason for relocation policies and services) is here to stay—through good times and bad.