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**CRP DEVELOPMENT PROGRAM  
FOR  
DoD RAM'S**

**March 30, 1998**



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## **Session 1**

# Corporate Relocation Policies and Issues



## Moving Household Goods

- Moving Policies
- Excluded Items
- Pets
- Consolidating Shipments
- Estimates
- Authorization
- Carrier Selection
- How Many Movers?
- Post Move Evaluation
- Tariffs and Contracts
- Claims and Valuation Protection
  - Released Value
  - Declared Value
  - Declared Value-Lump Sum
  - Full Value Coverage
  - Valuation for National Accounts
- Measuring Quality of Service

## Moving Household Goods

- Trends
  - One of Top Relocation Costs - Average \$6,224
  - Minimal Program Changes Since 1994
  - All Firms Reimburse for Shipping Goods
  - 3/4 Contract Directly with Carriers
  - Typically Split Bbusiness Among 2 or 3 Carriers
  - Few (11%) Place Weight Limitations
  - Most Do Not Ship Recreational Vehicles
  - Most (65%) Offer Additional Insurance Beyond Carrier Coverage
  - Almost All Firms (97%) Cover SIT - Usually 30 to 60 Days

## Overview of Relocation Policies

- Transferee Demographics
  - Middle Management
  - Average 38 Years Old
  - Average Earnings of \$59,482 (*up from \$53,159 in 1994*)
  - Most (76%) are Married
  - More than Half (52%) Have Working Spouses
  - 65% Have Dependent Children
  - 1:5 (17%) are Female
  - First Time Transferees Made Up 41% of All Moves in 1996
  - 53% of Moves are Result of a Promotion



## Relocation Policies

- Most (66%) Employers Have One Formal Policy
- Increasing Number of Firms Use Tiered-policy
- One-third (34%) Have More Than One Policy
  - Up From 21% in 1994
  - Up From 10% in 1988
- Tiered Policies are Commonly Based on Salary Structure
- Use of Cafeteria-style Policies is Increasing
  - 13% in 1997 vs. 7% in 1994
  - Majority Allow Business Unit/Division to Determine Assistance



## Real Estate Sales Assistance

- Types of Assistance
  - Direct Reimbursement
  - Guarantee-Against-Loss
  - Home Purchase Programs
- In-House vs. Relocation Company
- Loss on Sale Assistance



## Real Estate Sales Assistance - Trends

- Direct Reimbursement
  - 10% Use This Method
  - 91% of These Cover Broker's Commission
  - 66% Limit Rreimbursement - Continues to Increase
  - 90% Cover Other Seller's Closing Costs (Steady Since 1980)
  - 52% Cover Duplicate Housing Costs
  - Most Place on These Expenses
    - Average 140 days
    - Median 90 days
    - Most Common 90 days



## Real Estate Sales Assistance - Trends

- Relocation Company & In-House Programs
  - 70% Use Third Party Contractors
  - Decline in Use of More Than One Company
  - 10% Have Split Contracts
    - Down From 25% in 1988
    - Down From 17% in 1994
    - Outsourcing has Fueled Trends



## Real Estate Sales Assistance - Trends

- Loss on Sale
  - Majority of Firms Issuing Formal Policy
  - Most Costly Relocation Expenses - Average \$13,160
  - Limit the Amount of Reimbursement
    - Less Willing to Consider Capital Improvements
    - Less Willing to Consider Depreciation
  - Prevent Loss on Sale Situations
    - Destination Services
    - Pre-purchase Appraisals
      - Increased Use of Appraisals



## Assistance for Renters

- Typical Assistance
  - Lease Cancellation
    - Majority Cover Up to 3 Month's Rent
  - Finder's/Referral Fees
    - One Month's Rent or Percentage of Lease Amount
    - Some Cover Only in Specific Areas
  - Security Deposit
    - Generally 1 to 1.5 Month's Rent
    - Usually Not Covered Separately
    - Coverage by Miscellaneous Allowance



## Assistance for Renters

- Rental Differentials
  - Based on Comparable Living Space
    - Usually Paid at 100% for 3 to 5 Years
  - Descending or Graduated Payment Percentage
    - Annual or Semi-annual Payment
    - Specific Number of Years
  - Cost-of-Living Comparison
  - Typical Payment is 2 to 5 Years/Net Payment
  - Expect Increase Trend in Need for Rental Assistance



## Househunting

- All Employers Provide Some Coverage
  - 85% Use Reimbursement Method
  - Increasing Use of Lump-sums
- All Cover Employee and Spouse
- 25% Cover Dependent Children (Increase)
- 46% Cover One Trip; 49% Cover Two
- 91% Limit Length of Trip
  - 6 Days for One Trip/8 Days for Two Trips
- 90% Cover Renters (86% Use Same Policy as Owners)



## Temporary Housing & Return Visitation Trips

- 30% Cover Expenses at Old Location  
(Stable Since 1985)
- 99% Cover Expenses at New Location
  - 77% Also Cover Family (Declining Last 10 Years)
- Actual and Reasonable Costs
  - Food, Lodging - No Cap, Most Common
  - 25% Use Lump Sums - 2nd Most Common
    - Homeowner Status, Number of Dependents,  
Cost-of-Living
- Employee Coverage - Avg. 54 Days, Most Common is 60
- Family Coverage - Avg. 45 Days, Most Common is 30



## Lump Sum Payments

- Increasing in Popularity
- Difficulty Implementing
  - Designing Program
  - Estimating Impact on Costs
  - Finding Cost Data on Included Items
- Common Uses
  - Miscellaneous Allowance
  - Temporary Living and Househunting



## Cost-of-Housing & Cost of Living

- 40% Provide COLA's for Higher Living/Housing Costs
- Majority Consider Housing and Cost-of-Living in Calculation
- Typical Limitations
  - Cities with Costs Higher than Old Location
  - Minimum Cost Variance
  - Moves to Specific Geographic Areas



## Cost of Housing and Cost of Living

- Mortgage Assistance Programs
  - MID
  - Preferential Rate Mortgages
  - Low-interest/No Interest/Short-term Loans
  - Buydowns/Subsidies
  - Shared Appreciation Mortgages
  - Market Rate Mortgage



## Other Forms of Assistance

- Tax Differentials
  - Not Commonly Used
  - Doesn't Usually Include Housing
- Goods and Service Differentials
  - Critical for Expatriates
- Higher-than-Normal Salary Increases
- Loans in Excess of Equity



## Purchase Closing Costs

- 94% Offer Assistance
- Decline in Number of Employees Covered
  - 56% Consider Homeowner Status
  - 10% Use Job Level and Homeowner Status
  - 5% Consider Only Job Level
- Usually Cover Expenses on Itemized Basis
  - Sellers
  - Buyers
- 90% Tax Protect Reimbursement



## Purchase Closing Costs

- Types of Expenses Covered
  - Sales Commission
  - Legal Representation (Title or Attorney Fee)
  - Conveyance
  - Title Charges
  - Escrow Fees
  - Survey Fees
  - Lender's Charges
  - Recording Fees

## Purchase Closing Costs

- Expenses that are Prorated
  - Taxes
  - Special Assessments for Municipal Improvements
  - Mortgage Interest
  - Association Fees
- Mortgage Fees
  - Application Fee
  - Appraisal Fee
  - Delivery Fee
  - Assumption Fee
  - Commitment Fee
  - Credit Report Fee
  - Inspection Fees
  - Origination Fee
  - Points



## Purchase Closing Costs

- Tax Reform Act of 1986
  - Reporting Requirement on Real Estate Transactions
- Closing Agents/Representatives
  - Title Companies
  - Attorneys
  - Escrow Companies

## Miscellaneous Allowances

- Covers Incidental Expenses
- Standard Benefit for Current Employees
- 82% Pay as Separate Lump Sum
  - 5% Include in Temporary Living Lump Sum
  - 63% Have Standard Policy Usually Based on Salary
- Generally, New Salary is Used with Non-cap
  - 8.3% of Salary is Most Common
- 60% Tax Protect Payment



## Payback Agreement

- Basis for Agreement
  - Decline in Employee Loyalty
  - Cost of Relocations
  - Global Competition
- Typical Provision
  - New Hires and Current Employees
  - Voluntary Separation
  - Majority Specify One Year
  - Covers All Reimbursed Expenses
  - Agreement Usually Developed by Legal



## New Hires

- 50% Tier Policies for New Hires
  - Experience and Salary/Grade Level
- Most Companies Reimburse on an Itemized Basis Rather Than Lump Sum
- When a Lump Sums is Used, It's Offered to Entry Level
  - Still Not the Norm
- Mid-level Management Differs Significantly from Entry-level
  - Experience and Homeowner/Dependent Status
  - Receive More Home Sale and Non-home Sale Services



## New Hires

- Executive Level vs. Mid-level Managers
  - Biggest Difference in Policy is Availability of Home Sale Assistance
- One Written Policy
  - Usually Falls Between Benefits Offered Entry-level and Mid-level
- Trends
  - Restructuring for Maximum Flexibility
  - 53% Use More Than One Policy

## Group Moves

- Major Reasons for a Group Move
  - Company Expansion or Contraction
  - Centralization or Decentralization
  - Reduce Facility Management Expenses
  - Improve Labor Market (Quality & Cost)
  - Merger or Acquisitions
  - Proximity to Customers or Suppliers



## Group Moves

- Most Important Factors Affecting Group Moves
  - Business Continuity
  - Financial Resources
  - Staff Support Resources
  - Labor Unions
  - Management Style
  - Community Impact
  - Labor Market Conditions



## Group Moves

- Group Move vs. Individual Move
  - Lateral/Same Job
  - Job Security
  - Impact on Destination/Departure Economies
  - Work Force Fears and Concerns Magnified
- Most Important Ingredients in a Group Move
  - Up Front Planning
  - Time to Manage and Plan the Process Properly



## International Assignments

- Key Components
  - Selection of Candidates
    - Job Expertise
    - Management Skills
    - Familiarity with Corporate Culture
    - Willingness to Take Assignment
  - Other Key Issues Less Frequently Considered
    - “Partner’s” Career
    - Family Problems



## International Assignments

- Pre-Departure Planning
  - Increase in Pre-move Orientation
  - Most Companies Offer Language Training for Employee
  - Companies Almost Always Include Spouse
  - 50% Include Dependent Children
- Requirements for Entry to Host Country
  - Passport
  - Entry Visa
  - Current Health Card
  - Residency Permits Once in Host Country



## International Assignments

- Four Basic Approaches to Tax Assistance
  - Hands-off
    - Employee is on His/Her Own to Pay Taxes
  - Ad Hoc
    - Case-by-Case Negotiation
  - Tax Protection
    - Employee Pays No More Than if He/She Were in US
    - Employee Retains Tax Benefit if Taxes are Lower
  - Tax Equalization
    - Employee Pays No More Than if He/She Were in US
    - Savings Are Passed Back to Employer



## International Assignment

- Household Goods
  - Furnished vs. Unfurnished Residence
  - Accompanied Baggage
  - Shipment of Goods
  - Storage of Goods
- Pets
  - Increasing Reluctance to Accept Pets
  - Long Quarantine Periods at Owner's Expense
  - Certificate of Health

## International Assignments

- Supplemental Allowances
  - Overseas Allowance (Maintain Standard of Living)
  - Incentive Pay (Typically 10% to 25% of Salary)
  - Mobility Bonus Instead of Incentive
    - Paid Before And at Conclusion of Move
  - Miscellaneous Allowance (Often Up to One Month's Pay)
  - Temporary Living and Car for Reasonable Period
  - Schooling Allowance at American Schools
  - Boarding Fees + 2 to 3 Trips to Visit Parents



## International Assignment

- Supplemental Allowances
  - Social Club Fees
  - Home Leave
  - Host Country Holidays
    - Exceptions are Christmas and 4th of July
  - Emergency Leave
    - One Round-trip Airfare for Employee or Spouse



## International Assignments

- Repatriation
  - 25% of Expatriates Leave Company Within 1 Year
  - 40% Leave Within 2 Years
  - Househunting Usually Not Allowed
  - Temporary Housing for Family Until Goods Arrive
  - One Month's Miscellaneous Allowance
- Inpatriation
  - Most Have Separate Policies for Compensation, Special Allowances and Tax Treatment



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## Development & Communicating Policy

- Clear and Concise
  - Communicating to Employees
  - Communicating to Line/Staff Managers
  - Suppliers



## Policy Synergy

- Relocation Customers
  - Management
    - Cost-efficient
    - Meets Organizational Objectives
  - Human Resources
    - Recruit and Retain “First-choice” Candidates
  - Relocating Employee/Family
    - Quality Service



## Outsourcing

- Partially/Fully Outsourced
- Partially Outsourced Services
  - Household Goods
  - Expense Tracking/Gross-up
- Reasons to Fully Outsource
  - Focus on Core Business
  - Cost Reduction
- Reasons to Partially Outsource
  - Reduce Administrative Burden

## Cutting Relocation Expenses

- Domestic Moves
  - Outsource
  - Recognize, Report and Analyze Exceptions
  - Educate Managers on Policies and Cost Deviations
  - Leverage Supplier Relationships
  - Negotiate Competitive Agreements With Carriers



## Cutting Relocation Costs

- International Assignments
  - Reduce Compensation
  - Eliminate Duplicate Reimbursements
  - Develop Compensation Approach to Individual
  - Focus on Entire Relocation Package



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## **Session 2**

Residential Real Estate



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## Broker's Market Analysis

- Standardized Form 1989, Revised 1996
- Uses
  - Appraisal Process
  - Independent Home Marketing
  - Evaluating REO's



## Broker's Market Analysis

- Market Analysis Evaluation
  - Subject Property
  - Competing Listings
  - Comparable Sales
  - “Most Likely Sale Price” and “Most Likely Net Price”
    - As Is
    - With Repairs
    - Reasonable Marketing Time
- Marketing Strategy

## Homesale Program Costs

- Acquisition Costs
- Recurring Carrying Costs
- Non-Recurring Carrying Costs
- Interest on Equity
- Disposition and Selling Costs
- Administrative Costs
- Time Value of Money



## Home Inspection Report

- Standardized Form 1991
- Used in Appraisal Process
- Scope: Corrective not Cosmetic
  - Structure
  - Unsafe or Hazardous Conditions
  - Inoperative Systems or Appliances
- Different from General Home Inspection
- Not Appropriate for Home Buying



## Home Inspection Report

- Special Inspections
  - Termite
    - Most States Require
    - Inspectors Will Bid to Repair (Conflict)
  - Environmental
    - Radon Gas
      - ERC Recommends that All Properties Be Tested
      - Test Where Concentrations are Stable
      - Active Testing vs. Passive
      - Remediate at 4 pCi/L or 2 Working Level



## Home Inspection Report

- Special Inspections
  - Friable
  - Encapsulate Rather Than Remove
- Lead Paint
  - Analyze in Lab
  - Use Specialized Electronic Testing Device
- Underground Storage Tanks
  - Testing Measures Loss of Liquid in the Tanks, Loss of Pressure in Tank or Contaminants Around the Tank

## Acquisition/Resale in Home Purchase Programs

- 3rd Party Transactions
  - Average Offers 98, Rejects 1%
  - Majority Result in Outside Sales
  - Average Days in Inventory - 112
- In-House Programs
  - Average Offers 129, Rejects 8%
  - Less Than Half Result in Outside Sales
  - Average Days in Inventory - 119
- Outside Sales Cost 6% to 10% Less



## Home Marketing Assistance

- Provided with Our Independent of Appraisal Process
- Prepare BMA and Marketing Strategy
- 3rd Party Programs Usually Include Home Marketing
  - Usually No Fee
- Almost Half of In-House Programs Offer
  - Usually Outsourced
- Marketing Incentives
  - 55% Using 3rd Parties
  - 65% In-house Programs



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## Broker's Price Opinion

- Most Companies Include BMA's in the Appraisal Process
- Most Companies Use ERC's BMA and Marketing Strategy Report



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## Realtor Relocation Department

- Structure
  - Relocation Department
    - Director (Salaried)
    - Specialty Team of Agents
  - Relocation Department Function
    - Relocation Administration
    - Referral Coordination
    - 3rd Party and Lender Inventory Management
    - Sell Relocation Department Services



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## Realtor Relocation Department

- Types of Services
  - Home Finding
  - Rental Assistance
  - Home Marketing Assistance
  - Inventory Management and Marketing
  - Group Move Assistance
  - Network or Broker-to-Broker Referrals
  - Income Derived from Commissions



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## Realtor Relocation Departments

- Organization
  - Profit Center
  - Cost/Service Center
- Revenue Stream
  - Commissions Less Referral Fees

## Homefinding/Area Counseling

- Primary Areas of Assistance
  - Home Finding Trips
  - Pre-purchase Appraisals
  - New Purchase Allowance
- Define Housing Needs
- Service Providers
  - Brokers
  - Professional Home Finding Services
  - 3rd Party Companies
- Rental Assistance Usually Provided at a Fee

## Pre-Purchase Appraisals

- Objective
  - Wise Home Buying Decision
  - Identify Necessary Inspections
  - Information on Current and Future Market Conditions
- Offers are Contingent on Pre-purchase Appraisal
- Increasingly Tied to Eligibility for Loss on Sale
- Perception
  - Help
  - Hindrance



## Role of Realtor in Group Moves & Affect of Group Moves

- Realtor's Role
  - On-Site Orientation on New Area
  - Counsel Employees Individually on Housing Needs
  - Provide Orientation Materials
  - Conduct Tours of New Community
- Impact of Group Moves
  - May Depress Market
  - May Offer “Benchmark” Appraised Value Offer
  - May Increase Home Purchase Program Costs



## Buyer Brokerage

- Advantages
  - Commitment from the Agent
  - Increased Access to Properties (FSBO)
  - Expert in Negotiating Strategy Development
  - Advocate During Negotiations
  - Better Informed Transferee
- Issues
  - Timing
  - Agency Relationship
  - Inadvertent dual agency
  - Written Agreement
  - Compensation



## Buyer Brokerage

- Agency/Fiduciary Relationship & Obligations
  - Loyalty
  - Obedience
  - Disclosure
    - Facts Affecting Value
    - Potential Buyers
    - All Offers to Purchase
    - Buyers Willingness to Buy
  - Confidentiality
  - Care and Diligence

## Buyer Brokerage

- Types of Agency Relationships
  - Seller's Agency Exclusively
    - Listing or Selling
  - Dual Agency
    - In-house Sales (Subagent)
    - Single Agency Otherwise
  - Dual Agency
    - In-house Sales or Selling Agent (Subagent)
    - Seller's Exclusively on Listings
  - Single Agency Exclusively (Buyer Brokerage)



## Buyer Brokerage

- Who Pays the Commission
  - Historically -- the Seller
  - Buyer Brokerage
    - Seller
    - Buyer
- Terms of a Buyer Broker Agreement
  - Length of Agreement
  - Fee Amount and Source
  - Procedures to Avoid Dual Agency
  - Reiteration of Laws of Agency



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## **Session 3**

Relocation Appraising

## ERC's Residential Appraisal Report

- Purpose
  - Estimate Anticipated Sale Price
  - As Is on Date of Inspection
  - Both Parties Informed
  - Payment is Made in Cash or its Equivalent
  - Financing is Typical
  - Reasonable Marketing Period, NTE 120 Days
  - Forecasting is Applied



## Relocation Appraising

- General Guidelines
  - As Is
  - Condition and Appeal
  - Recommended Repairs, Improvements, Inspections
  - Mood of the Market
  - Comparable Sales and Listings
  - Buyer's Perspective
  - Pending Sales
  - Sales and Financing Concessions
- considering changes in discount points
- liens/assessments
- gross living area
- partially below-grade living areas
- attics
- two-story foyer areas



## Principles of Relocation Appraising

- Anticipation
- Balance
- Change
- Conformity
- Contribution
- Highest & Best Use
- Progression and Regression
- Substitution
- Value in Use
- Value in Exchange
- forecasting
- supply and demand
- market value
- similarity
- current value, not cost
- at time of appraisal
- association
- lower price prevails
- cost vs. value to buyer
- \$\$ value to buyer



## Purposes and Types of Appraisals

- Mortgage Value
  - Retrospective
  - Less Detailed
- Assessed Value
  - Unrelated to Eventual Sale Price
  - Based on Replacement Cost Less Depreciation
- Insurance Value
  - Stationary Value Using
  - Uses Cost Approach (Cost and Labor)



## Appraisals in Home Purchase Programs

- Standardized, Objective, Accurate Approach to Value
- Inaccurate Estimates Cause
  - Tax Consequences
  - Increased Relocation Costs
  - Employee Dissatisfaction
- Acceptance period
  - Tests Appraisal Accuracy
  - Contains Program Costs
  - Trend is to Increase Marketing Periods



## Determining Offer Price for the Property

- Most Companies Order 2 Appraisals
- Third If Variance is 5%
- Two Closest Averaged
- BMA Rarely Used in Determining Value
- Independent Fee Appraisers Usually Used



## Employee Perception of the Appraisal Process

- Market Conditions Dictate
- Education and Participation
  - Counsel on Appraisal Process
  - Participate in Appraisal Selection
  - Share Appraisals
  - Marketing Periods
  - Pre-appraisal Surveys
  - Appeals
- Appraiser Education



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## **Session 4**

Tax Assistance



## Tax Assistance

- Gross-up
- Withholding (3 Methods)
  - Standard percentage
  - Basic
  - Basic Plus
- Lump Sum Taxability
  - No Tax Liability if Accounted For
  - Otherwise, Taxable, Must Withhold



## Tax Assistance

- Deductible Expenses - Include/Exclude From Income
  - Household Goods plus 30-days S.I.T.
  - Final Move (Travel and Lodging)
  - “Above The Line” Deduction
- Non-Deductible
  - Everything Else
- Two Tests - “Qualified Move”
  - 50 Miles
  - 39 Weeks



## Tax Assistance

- Home Purchase Programs
  - Public Revenue Ruling
    - 72-339
    - Two Transactions
  - Private Letter Ruling
  - TAM
- Appraised Sales - Non-taxable
- ***Amended - Non Taxable***
- Assigned - Taxable
- BVO - ?



## Tax Assistance

- Capital Gains
  - \$250K - \$500K Exclusion
  - Every Two Years
  - Occupy Two of Five Years
  - International is a Problem
- Disclosure
- Toxic Substances



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## Tax Assistance

- Review Capital Loss vs. Ordinary Loss
- ERC Website: <http://www.erc.org>
  - Local Relocation Groups
  - CRP Information



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## **Session 4**

Family Issues

## Relocation Family Issues

- Elder Care Assistance
  - 1/5 of people over 65 reside with younger family members
  - increase in benefits from 17% to 20%
  - 4% offer on case-by-case basis
  - 5% of eligible employees use service
  - Common form of assistance
    - list of elder care facilities/programs



## Relocation Family Issues

- Child Care Assistance
  - 1/3rd offer assistance
    - 30% by formal policy
    - 4% on a case-by-case basis
  - 25% of eligible employees used services
  - Most common form of assistance
    - list of facilities in the new location



## Relocation Family Issues

- School Finding Assistance
  - 25% offer formal assistance
  - 10% offer on case-by-case basis
  - 1/3rd of employees eligible used service
  - Most common form of assistance
    - covering cost of assistance
      - commercial provider
      - suppliers



## Relocation Family Issues

- Spouse Employment Assistance
  - 50% offer some form of assistance
    - 34% through formal policy
    - 17% on case-by-case basis
  - Average cost is \$1,545
  - Increase in assistance to “partners”
  - Most common form of assistance
    - fees to job counseling/placement agencies
    - no guarantee of employment