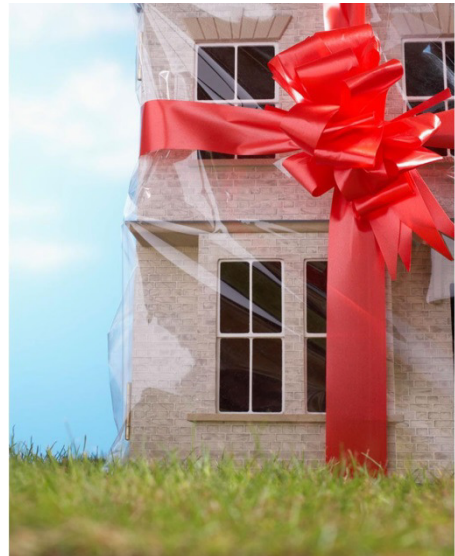


## Controlling Expatriate Housing Costs

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Expatriate housing is a hot-button issue for multinational companies: subjective, contentious, and highly visible, it can be a make-or-break factor in overseas assignments.

MNCs often consider inputs from multiple sources when it comes to housing decisions, including the global mobility team, relocation vendors, local management, HR and, of course, assignees and their families. Each of these sources can have their own distinct view of what is “appropriate”. This challenging area is also expensive: after base salary and taxes, housing is the largest piece of the expatriate package, and is often three or more times a larger expense than the COLA.



This article discusses three key areas within most MNCs’ housing policies—home country housing issues; establishing host country housing guidelines; and the ever-controversial issue of managing exceptions—drawing on Mercer data to describe current practices and offer suggestions on how to better manage costs and still provide safe, secure and appropriate housing.

### Home Country Housing Issues

Over the past decade, corporations have been shifting away from applying a home country housing norm. If assignees are on a home balance sheet approach, it is common for the employer to pay for accommodation in the host country while deducting an employee contribution, or “housing norm,” to cover part of that expense. This is especially prevalent for expatriates from the United States. In the 1990s, only about 10% of US multinationals provided “free housing”. By 2015, more than a third of US companies were providing “free housing”. By contrast, the practice of providing “free housing” has always been significantly more prevalent among European multinationals, where more than half do not apply a housing norm.

As companies have shifted policies towards providing free housing, they have also reduced the amount of support they provide around home housing (e.g. property management fees, storage costs, etc.). One dramatic example is on the provision of loss-on-sale programs. Fifteen years ago, a significant majority of US companies had loss-on-sale provisions in their policies. In 2015, only 19% of US companies provide this benefit.

## Establishing Housing Guidelines

The subjective nature of determining “appropriate” housing, and its high visibility—make housing a significant challenge. Moreover, the gap between expatriate expectations and the actual housing practices of local nationals can raise the hackles of local peers.

Every MNC needs to have housing guidelines in place that are appropriate for its expat employee population, and that fit within its corporate philosophy. In general, housing varies by both job level and family size. For example, one common approach is to provide an extra bedroom for each family member, and to increase the quality of the unit as job level increases: For example, managers with a family size of three would qualify for an inexpensive three-bedroom apartment; directors with the same size family would be housed in a moderate three-bedroom apartment, while vice presidents would be found an expensive three-bedroom lodging. However, this approach can often lead to budgets where senior expatriates without children end up with housing budgets that are lower than those of junior expatriates with large families. On the other pole, there are few companies that base housing solely on family size. Whether either of these approaches work best for your company, or there is a solution that lies between these poles, is a function of your company’s overall philosophy. What is most critical is that you apply that philosophy consistently on a global basis.

It is also vital to set and manage expats’ expectations. As they prepare for their assignment, they are likely to research their host location online, and may well develop an idea of “appropriate” housing. To head this problem off at the pass, some businesses are now flagging up the housing budget in their initial offer letters to expats.

Housing for short-term assignees should also follow guidelines. Unsurprisingly, employees on short-term assignment overseas are provided with comfortable housing as near as possible to their place of work so that they can hit the ground running; 46% of companies responding to Mercer’s 2013 Alternative International Assignments Policies and Practices Survey provided serviced apartments, and 30% furnished ones. These “turnkey” dwellings do come at a premium, though, and in some locations availability issues add further cost pressures. As ever, focusing on the business need for the assignment should help mobility teams work out how much latitude they need to build in around this issue—if results are needed quickly, for example, taking on the expense of accommodating the assignee in a downtown location close to the office could be a price worth paying, and there could well be scope for savings in terms of reduced cost of living and/or transportation allowances.

Unlike long-term deployment, the vast majority of short-term assignments (91%) are unaccompanied and a large proportion of companies (46%) do not allow accompanied short-term assignments at all, as a cost-savings measure. Leasing smaller dwellings provides some scope for cost savings in such cases, but is often partially offset by companies paying for more frequent trips home. 54% of respondents who allowed a spouse and/or family to join short-term assignees under certain circumstances were willing to provide larger accommodation. One Mercer client has found a way to offer flexibility at no extra cost to the business by setting a budget for what a one-bedroom apartment in a given location would

cost and offering that to assignees as a contribution toward a larger dwelling; the assignees themselves must foot the rest of the bill.

### **Managing Exceptions**

In 2015, 81% of European respondents reported receiving requests for exceptions for host housing allowances, versus 74% among US companies, a headache for mobility teams around the world.

While employees on international assignment are often senior and critical talent, accommodating their housing requests will result in bloated budgets and a wildly inconsistent policy. In our experience, there is a definite correlation between the number of housing exception requests granted and the level of approval required within an organization. While there will always be cases in which very specific reasons require that exception requests be investigated, by generally making the approval level as high as possible—even CEO-level if needed—the level of exceptions granted is likely to fall dramatically. Few people, especially those with a keen eye on future career prospects, will be eager to attract senior management's attention for this reason.

Expatriate housing will always be an emotional issue. On their initial house hunting trips, expatriates and their spouses will want to see the type of housing that has been approved by colleagues on expatriate assignment at the same location. Providing local management with clear guidelines and adequate information on appropriate rental housing at the assignment location is a critical responsibility of the global mobility department, to ensure expatriates are provided safe, secure and appropriate housing whilst avoiding renting the Taj Mahal.