

Employer-Assisted Housing: A Benefit for the '90s

Housing assistance for nonmanagement workers can help solve basic business problems like worker recruitment and retention, low productivity, and high labor costs.

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Forecasters looking ahead to the labor market of the 1990s and beyond all agree that the nonmanagement work force will be lean and the competition mean among employers seeking to attract and retain the best and brightest workers. It's a situation that will call for innovative thinking, and the newest entry in the array of recruitment and retention strategies being tested by employers is employer-assisted housing.

There are compelling reasons for the rise of this trend, and this article will discuss them. It will also examine the forms that these new benefits are taking and will attempt to evaluate how employers and employees stand to gain from such programs.

Housing Costs: A Factor in Labor Shortages

Business is turning to employer-assisted housing programs in response to bottom-line problems. Increasingly economists and business leaders are recognizing the consequences of the lack of affordable housing and blaming at least part of the slowdown in major regional economies across the United States on high housing costs.

For example, two thirds of business leaders responding to a New England Board of Higher Education survey thought housing costs were "an obstacle to future

growth," and half of those businesses responding to a New England Council survey called the cost of housing "a very important issue in terms of future growth and employment opportunities." In New Jersey, 43 percent of businesses surveyed by the Business and Industry Association said that they had experienced difficulty in recruiting and/or retaining employees due to the high cost of housing. Among larger businesses the percentage was even more acute, with 56 percent of firms employing 100-499 persons reporting difficulty and 75 percent of employers employing 500 or more employees reporting difficulty. Across the nation in California, 71 percent of manufacturers report that the high cost and unavailability of housing is having a negative effect on business.

The shortage of affordable housing for nonmanagement workers is imposing substantial and harmful costs upon employers in almost every regional economy across the United States. High housing costs are creating and/or exacerbating: labor shortages (by encouraging migration from high cost areas and discouraging migration to these areas); diminished productivity due to lateness, absenteeism, and stress caused by long commutes as workers seek affordable housing far from developed worksites; unacceptable recruitment, retention, and wage-cost distortions; and diminished or stagnant corporate real estate values, especially in urban areas.

Rather than paying premiums to recruit and retain workers, some employers have chosen instead to

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relocate to areas where the cost of housing is lower. Companies that have recently relocated major operations to lower-cost housing regions include: Exxon, Mobil Oil, International Paper, J.C. Penney, GTE, Grumman Industries, and the Prudential Insurance Company. Other companies have quietly elected to forgo expansion or to retract the scope and size of their business in areas where affordable housing for their employees is in short supply. Employers that cannot run away from the high cost of housing—such as hospitals, nursing homes, colleges, recreational industries, hotels, and restaurants—are raising rates and/or cutting back on services due to housing-related labor shortages.

When the high cost of housing causes a company to leave town, forgo expansion, or cut back on services and/or raise rates for those services, the community and the regional economy suffer. The resulting hardships emanate not only from the loss of jobs, but also from the loss of services, the diminished business opportunities, and the erosion in potential tax revenues.

There are, however, solutions to these problems. Many employers are experimenting with a variety of housing assistance programs, customizing benefits to simultaneously meet corporate, community, and worker objectives in an environment lacking in standardized housing benefit products. Some of the alternatives are discussed below.

Employer-Assisted Housing: The Alternatives

The accompanying chart (Figure 1) presents some of the basic forms of employer-assisted housing. These forms differ in a variety of ways, including both the type of assistance provided to workers and the associated levels of costs and risks for employees.

Helping workers with downpayments

Forgivable downpayment loans, below-market downpayment loans, and mortgage guarantees all aim to help nonmanagement workers achieve homeownership by reducing the downpayment barrier.

Forgivable downpayment loans are attractive to employers with current cash availability that are seeking to stabilize their work force and productivity, reduce labor turnover, and minimize recruitment and retention costs. Firms such as Dwight and Church, makers of Arm and Hammer Baking Soda, are discovering that forgivable downpayment loans can be afforded by employers, even when the loan is \$10,000 or more. Employers are achieving affordable downpayment loans by pegging the rate of forgiveness at or below the cost of employee recruitment and the costs associated with hiring a new employee. In a simple example, suppose that the cost of recruiting and training an employee is \$2,000 and that the job turns over every other year. At the end of four years, \$4,000 would have been spent. If, however, the employer provided the employee with a \$3,500 downpayment loan under the condition that the employee remain with the employer for four years, the employer could have saved \$500. If the employee leaves prematurely, the agreement can be structured so that the benefit is recaptured and the employer's loan repaid. For those without readily available cash to repay the loan, a powerful incentive to remain with the employer will exist.

Employers can also arrange *below-market*, "soft second" downpayment loans for their workers (by providing payroll deduction and linked deposit advantages for local banks). These arrangements require no special cash availability from employers, but may achieve a lower level of housing affordability for their workers.

Mortgage guarantees reduce or eliminate downpayment requirements. Employers choosing to guarantee mortgages generally need make no cash investment, but they may have to show a contingent liability on their ledgers. Mortgage guarantees, like forgivable downpayment loans, can be structured so as to create incentives for employees to remain with the employer in that an employer can end its guarantee if the employee leaves. With the guarantee ended, the employee may face difficulty in refinancing the home, particularly if the home has not significantly appreciated or if the employee lacks sufficient savings for a downpayment. Thus, the guarantee creates an incentive for the employee to remain with the firm. It should also be noted that guaranteeing loans made by private lenders or public

Figure 1
Types of Employer-Assisted Housing Programs

TYPE OF PROGRAM	EMPLOYER OR TYPE OF EMPLOYER OFFERING THIS BENEFIT	REMARKS
1. Group Mortgage Origination	Colgate Palmolive	Costs are shared with mortgage capital supplier.
2. Closing-Cost Assistance	Colgate Palmolive	Can save worker up to \$3,000.
3. Mortgage Guarantees	University of Pennsylvania	Low cost/low risk for employers, lowers or eliminates downpayment requirements for worker.
4. Group Mortgage Insurance	Product becoming available later this year	Relieves firms of contingent liability incurred with guarantee programs.
5. Downpayment Loan Programs A. Forgivable Loans	Church and Dwight (New Jersey) First Federal Savings and Loan (North Carolina)	Costs are pegged at or below recruitment/retention costs. Overcomes downpayment problem for workers.
B. Reduced Interest Rate	Coastal Housing Partnership (California)	Soft second loan arranged at below market rates in exchange for employer-administered payroll deduction and linked deposit arrangements.
6. Mortgage Buydown Programs	Mutual Benefit Life	Especially attractive to employers in banking and insurance industries.
7. Purchase of Securities	Product becoming available later this year	Reduces or eliminates need for a downpayment. Employer can make a modest profit from a personnel benefit. Employee receives lower rate mortgage or downpayment loan.
8. Purchase Guarantees	Hartz Industries (New Jersey)	This benefit can be achieved by guaranteed purchase and volume discount arrangements between employers and developers.
9. Housing Site Subsidy	P.C. Connection (New Hampshire) University of California at Irvine	Attractive to land-rich employers. Can be structured as a land lease.
10. Construction Financing or Guarantees	None known at this time	Enables developers to save on construction financing costs in single and multifamily housing.
11. Housing Trust Funds	Local 26, Boston Hotel and Restaurant Employees	A program funding method particularly for unionized employees. It can fund many housing activities.

housing finance agencies offers employers the opportunity to enter into new partnerships that result in a firm's being able to leverage value for its employees from other participating partners. This makes housing benefits unlike other benefit programs, in which the employer generally pays the full value of an employee benefit.

Helping workers with carrying costs

Employers can also assist workers with the postpurchase carrying costs of home ownership. Below-market-rate mortgages, group mortgage origination, and closing-cost assistance programs aim to reduce employees' monthly carrying costs on a home and/or the transaction costs of home purchases.

Below-market-rate mortgages can save workers tens of thousand of dollars over the life of the mortgage and by reducing monthly carrying costs can enable many more low- and moderate-income employees to qualify for a mortgage. By purchasing negotiated-rate mortgage bonds, securities, or the mortgages themselves, from lenders, securities firms, or public housing finance agencies, employers can actually make money on a personnel benefit. Purchasing these financial instruments may require substantial cash availability—a decision likely to be made by a corporate treasurer rather than a human resources director—but firms may find attractive a 5 to 8 percent return on a personnel benefit, especially when accompanied by potential tax advantages.

An alternative to this approach, one that provides less affordability, but also little or no corporate cash expenditure, is a *group mortgage origination program*. Group mortgage origination is simply a volume discount program offered by a lender in expectation of a certain amount of business. In return for employers steering employees to the lender, the lender agrees to make price concessions on application fees, closing points, and, in some instances, interest rates. Group mortgage origination programs can be combined with mortgage guarantee and insurance programs and downpayment assistance programs, but are most frequently combined with closing-cost assistance programs.

For example, Colgate Palmolive has a mortgage bank-administered group mortgage origination program

that it has combined with a closing cost subsidy program. In order to receive Colgate's business the lender agreed to waive one of the closing points it usually charges on a mortgage (some number of closing points are charged at the time of closing, one closing point is equal to 1 percent of the mortgage). Colgate, in order to further enhance affordability, agreed to pay up to an additional 1.5 closing points. This enables an employee to receive a lower rate mortgage (closing points trade off against interest rates) and save money at the closing. An employee seeking a \$100,000 mortgage will save \$2,500 at the time of closing as a result of this program. That may not sound like a lot, but for a family struggling to save \$10,000 for the downpayment for that mortgage it can be.

Closing cost assistance programs do require limited cash outlays which, unlike downpayment assistance programs, are usually not structured so as to be recapturable. However, because the employer has no continuing interest in the property, the employer bears no risk of default.

Working with public, private, and nonprofit developers

Home price discount programs, employer-subsidized rental units, and land donation programs provide new housing partnership opportunities for employers to work with public, private, and community-based housing organizations. These programs produce new or substantially rehabilitated housing units, which may be needed in areas where housing is either scarce or deteriorated.

Employers can participate in *home price discount programs* by agreeing to purchase a specified number of homes on a certain date if the developer is unable to otherwise sell the units. In return for this guarantee, developers agree to heavily discount the price of the homes sold to the firm's employees. If employees purchase the agreed-upon number of units prior to the date when the employer must do so, the program will cost the employer essentially nothing. If this does not happen, the employer may bear the cost of carrying the units until they can be sold.

Targeting benefit programs can also help reduce workforce commutation time, which can improve productivity and reduce absenteeism.

Developers can afford to sell a discounted product because the employer's guarantee limits risk and construction financing costs. Employer guarantees also facilitate the developer's receiving construction financing from a lender and encourage the lender to lend at favorable rates as the employer's guarantee limits lender risk too.

For firms interested in facilitating the construction of *rental housing*, master leases are one approach. Like purchase guarantees, master leases enable a developer to know that the units it builds will be leased by a certain date. This lessens development risk and facilitates development financing. In return, developers can offer the employees of a participating employer rental rate discounts.

A somewhat different approach to facilitating new construction is the *donation, lease, or low-cost sale of land* to a developer. By reducing the cost of land, substantial home price savings can be achieved. One employer, PC Connection in Marlow, New Hampshire, is having homes built for employees on land the firm currently owns. Homes are being sold to employees at cost, but the employer is holding a forgivable second mortgage for the difference between the cost of the home and the home's market value. The second mortgage is forgiven over time as the mortgage is amortized against reduced employee recruitment and retention costs. In more urban settings, firms or groups of firms may be interested in pooling resources to purchase land or abandoned property capable of being redeveloped and making it available to developers.

Geographic Targeting Offers Fringe Benefits

All of the methods discussed above can be offered on a geographically targeted basis, and employers frequently offer housing assistance only in neighborhoods proximate to their corporate facilities. By targeting benefits in this manner, employers can concentrate their revitalization efforts and concomitantly increase neighborhood and corporate property values. Targeting benefit programs can also help reduce workforce commutation time, which can improve productivity and

reduce absenteeism. Targeting can also control program costs, as some employees simply will not want to live in designated neighborhoods. Finally, targeting a neighborhood may help the employer in entering into partnerships with public or private agencies that have an interest in the targeted neighborhood.

Getting Help in Offering Housing Benefits

All across the nation nonprofit organizations, banks, builders, and governments are seeking, *and finding*, ways to work with employers to provide housing for nonmanagement workers. In Chicago, a nonprofit community organization operates a revolving loan fund for second mortgage downpayment loans. This fund is capitalized by local employers whose employees participate in the program. In Santa Barbara, local banks are providing below-market downpayment loans made possible by payroll deduction and linked deposit arrangements by employers. In New England, nonprofit housing organizations and developers are working with employers to secure land donations to build worker housing. In New Jersey, the state housing finance agency has created a downpayment and mortgage guarantee program that has captured the attention and participation of the business community. The Ford Foundation and Prudential Foundation are sponsoring research on employer-assisted housing, as is the Farmers Home Administration. The Federal National Mortgage Association (Fannie Mae) is working with employers in the Midwest region and is seeking to do more in other regions and nationally. State governments in New England, the mid-Atlantic states, the Southeast and Pacific Northwest have sponsored conferences on employer-assisted housing, and many will offer incentives to employers in the 1990s. Increasingly, builders, realtors, mortgage bankers, labor leaders and nonprofit housing advocates are searching out new housing partnerships with employers.

As these new partnerships form, the ways in which employers participate will become more standardized. However, for many employers facing the real business problems of recruiting and retaining labor, waiting for products to be standardized may not be

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feasible. Employers that want to consider housing programs should seek out state housing finance agencies, many of which are actively developing products specifically for employers. Mortgage insurers are also developing products for employers. Employers should also meet with lenders and insist that lenders do something for employees if the employer steers business the lenders' way. In such instances, however, the employer should be prepared to offer the lender and the employee something as well. Nonprofit housing organizations, particularly city-wide housing partnerships, may also be a source of advice, although generally their program can not be targeted to a specific firm's employees.

If these potential partnerships are to be achieved at local state, regional, and national levels, there is much work to be done, including research, product innovation, networking, and learning each other's needs. The potential for new housing partnerships between the nation's employers, the shelter industries, and government appears to be gaining. For employers this means a chance to address the important business concerns of recruitment, retention, employee turnover, and rising training costs and to do so in a partnership that can earn modest profits and substantially leverage employee-benefit investment with the skills and resources of the shelter industries, government, and community organizations.

Strong Support among Workers

Although the benefits to employers of employer-assisted housing are manifold and evident, employee interest has been strong as well. In fact, a recent national survey shows that workers more than merely welcome these benefits: they are willing to pay for them by accepting substantial trade-offs in exchange for housing benefits.

In September 1989, the American Affordable Housing Institute completed a major national survey of the housing conditions, perceptions, and plans of young and middle-aged American workers. Twelve hundred persons across America were interviewed who were between eighteen and forty-four years of age, had at least one household member gainfully employed, and did not own a home. The survey yields opinion data representa-

tive of the views of more than sixteen million U.S. households, with an error rate of ± 3 percent. It was designed and conducted by R-L Associates of Princeton, New Jersey, a firm nationally recognized for its expertise in survey methodology and experience in housing research.

The national survey reveals a pattern of worker attitudes that are highly supportive of employer-assisted housing programs. Projecting from the survey, it can be concluded that the overwhelming majority of young and middle-aged American workers:

1. Want and expect someday to own a home of their own;
2. Perceive downpayment requirements as the chief barrier to homeownership;
3. Expect to save the money they need for that down payment;
4. Would be interested in specific employer-assisted housing benefits; and
5. Would voluntarily trade off some wage growth, job mobility and payroll/banking flexibility to receive housing benefits from their employers.

The questions asked in the survey and the responses to each are shown in Figure 2. The responses to the first three questions demonstrate that American workers want, and expect, to own a home. Seventy-five percent of the respondents (projecting to about twelve million households) view home ownership as a "very important" or "top financial priority"; 66 percent of the respondents (projecting to ten-plus million households) fully expect to own their own homes someday; 52 percent of the respondents (projecting to eight-plus million households) expect to own their own homes in the next five years.

The responses to Question 4 show that downpayment requirements are the principal barrier to homeownership in the view of young and middle-aged American workers. Sixty percent of these workers perceive downpayments as a problem, whereas only 16 percent saw monthly payments as an obstacle, and 14 percent thought that they could not manage to bear either downpayments or monthly carrying charges on a home.

These findings strongly suggest that employers

Figure 2
Questions Asked in the 1989 Survey of American Workers by the
American Affordable Housing Institute*

1. How high a priority is owning your own home in the next five years?	
Your top financial priority to own your own home	35%
Not your top priority but still very important	40%
Only somewhat important	14%
Not really important	12%
2. People have many different views on the importance of home ownership and the ability to afford their first home. Which of these statements would you say comes closest to the way you feel?	
I fully expect to one day own my own home	66%
I don't know if I will ever be able to afford my own home	18%
I doubt that I will ever be able to afford my own home	11%
I'm not interested in ever owning my own home	4%
3. How likely is it that you'll own your own home within the next five years?	
Almost certain	29%
Not certain but still very likely	23%
Somewhat likely	24%
Not really very likely	24%
4. Which of the following financial conditions, if any, are most likely to keep you from purchasing your first home in the next five years?	
Could afford neither the down payment nor the monthly payments	14%
Could afford the monthly payments, but not the down payment	60%
Could afford the down payment, but not the monthly mortgage	16%
Other	10%
5. Which of the following ways do you think you will use to help raise the down payment required on your first home?	
I will have saved all the money myself without gifts or borrowing	56%
I will save some, but not all of the money myself	28%
Parents or relatives will loan me money	8%
My employer provides money or loans money	4%
Parents or relatives will give me money	3%
6. If your employer offered you benefits you could select, but you could only select two of them, which would you select?	
A comprehensive health hospitalization plan	71%
A retirement pension plan	45%
An employee housing assistance mortgage or rent subsidy plan	31%
A college education reimbursement program	23%
A child care nursery school program at work for employees' children	20%
7. Would you be interested in a five-year interest-free loan that then converts to a market rate loan?	
Definitely want to	18%
Might want to	42%
Not sure	23%
Probably wouldn't	11%
Definitely wouldn't	6%

Figure 2 (continued)
Questions Asked in the 1989 Survey of American Workers by the
American Affordable Housing Institute*

8. Would you be interested in a five-year forgivable loan, with 20% forgiven for each year of employment tenure?	33%
Definitely want to	34%
Might want to	17%
Not sure	9%
Probably wouldn't	7%
Definitely wouldn't	
9. Would you be interested in a guaranteed loan costing one year's wage increase?	26%
Definitely want to	37%
Might want to	20%
Not sure	10%
Probably wouldn't	8%
Definitely wouldn't	
10. Would you be willing to use an employer-selected bank to save \$40 on your monthly mortgage?	10%
Definitely want to	46%
Might want to	22%
Not sure	15%
Probably wouldn't	7%
Definitely wouldn't	
11. Would you accept payroll deduction to save \$40 on your monthly mortgage?	22%
Definitely want to	44%
Might want to	7%
Not sure	8%
Probably wouldn't	12%
Definitely wouldn't	7
12. Would you be interested in owner participation in construction?	28%
Definitely want to	34%
Might want to	12%
Not sure	13%
Probably wouldn't	12%
Definitely wouldn't	
13. Would you be interested in owner participation if your workschedule were modified and daycare were provided?	15%
Definitely want to	42%
Might want to	14%
Not sure	13%
Probably wouldn't	11%
Definitely wouldn't	

*Percentages may exceed 100% due to rounding or multiple responses.

These findings strongly suggest that employers ought to concentrate on housing benefits that help workers overcome the downpayment barrier.

ought to concentrate on housing benefits that help workers overcome the downpayment barrier. (Employers may find it especially interesting that, according to the survey, women workers, married employees, and persons earning more than \$15,000 a year are particularly likely to see downpayments as a barrier to home ownership).

The answers to Question 5 indicate that a majority of America's young and middle-aged workers expect to save the money they need for downpayment on their own—but also that a sizeable minority perceive themselves as needing some help to finance a downpayment. Only a very small percentage of workers (4 percent) presently expect their employers to help them to meet downpayment requirements—a percentage which comports with the fact that only 6 percent of our respondents are aware that their employer offers any housing benefits—but the fact that 28 percent of our respondents (projecting to more than four million households) need some help clearly points to a window of opportunity awaiting America's employers in this new area of human resource development.

Substantial opportunities for employers to provide cost-effective housing benefits while achieving important corporate objectives are revealed in the responses to Questions 6 to 13. The respondents to Question 6 (projecting to about five million households) would select a housing personnel benefit if they could—a larger percentage than would choose employer-sponsored child care or a college education reimbursement program. The responses to Question 7 indicate that 60 percent of our respondents (or almost ten million households) would be interested in an employer-assisted downpayment loan program.

Judging from the responses to Question 8, two thirds of our sample (about eleven million worker-household members) would be interested in a forgivable downpayment loan *requiring them to stay with their employer for five years to achieve the loan forgiveness*. Interest in a similar trade-off is shown in responses to the next question (9), where *63 percent of respondents interested in an employer-provided mortgage guarantee program would be willing to consider giving up anticipated annual wage increases* in exchange for the guar-

antee program. Note that such programs tend to involve very low costs and very low risks for employers. Responses to Questions 10 and 11 indicate that a majority of our sample (56 percent or nine million households) would consider using employer-selected banks to achieve modest mortgage savings and that two thirds of our respondents (eleven million worker-household members) would entertain having mortgage payments deducted from their paychecks in order to achieve a modest monthly mortgage payment saving. Responses to Questions 12 and 13 show that most of America's young and middle-aged workers would be interested in programs requiring them to participate in building their own homes in exchange for construction-related savings—especially if their employers would help them to participate by providing flextime and/or child care benefits.

Conclusion

It appears that a significant proportion of America's young and middle-aged workers want, need, and support employer-assisted housing. A segment of this crucial work force would work for—and trade wage and job-related benefits to receive—employer-assisted housing benefits. Employer-assisted housing seems, then, to have the potential to help millions of our nation's workers to achieve home ownership or better rental housing, while helping employers solve the important business problems of recruitment, lowering employee turnover rates, and improving employee productivity. Taken together, the findings of the national survey of American workers reported in this article seems to indicate that employer-assisted housing is likely to become an important new frontier in human resource development in the 1990s.

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