Business Life

Pilita Clark

Why paying staff to stay can backfire

The other day I bumped into a friend I had barely seen since he started doing quite an important job at a big bank.

"Hello!" I gushed, eager to hear about life inside a business that, even by investment banking standards, had a knack for making news.

"Oh," he said. "I've left." He had in fact gone months ago, joining the millions worldwide in a Great Resignation that was supposed to have been a temporary, pandemic blip but has lasted and even deepened.

Figures this month show 4.4 million US workers, or 2.9 per cent of the workforce, quit in April – up from a record-setting four million, or 2.8 per cent, in the same month last year.

It is not that different elsewhere. Here in London, it is starting to feel notable to come across someone still doing the same job at the same organisation with the same phone number that they had before Covid.

Looming economic uncertainty may change things but, for the moment, employers in many industries are struggling to hang on to workers in a booming jobs market.

In response, bosses are doing what I did in an earlier life when fate cast me briefly into a job in management. They are doing their best to throw money and promotions at would-be resigners to convince them to stay.

But should they? The answer is not as straightforward as it seems.

Measurably proven star

A counter-offer seems obvious for a measurably proven star, especially if they are also stable, gracious and leaderly, which a lot of stars are not.

As for how much money people should be offered to stay put, it is worth considering the cost of replacing them.

One UK study in 2014 showed the cost of finding, interviewing and temporarily replacing a new worker – and bringing them up to optimal speed – cost an average of £30,600.

If the newcomer is joining from a company in the same sector, reaching optimal productivity might take less than four months, this Oxford Economics research found. But that could rise to eight months for someone from a different industry; 10 months for a new graduate and a year for someone re-entering the workforce.

> **It is obviously smarter to find out what is driving departures and, if possible, pre-empt them by, say, setting up a system to alert flight risks about internal job opportunities**

Saying that, counter-offers can also backfire if not handled with care.

Offering a swag of money to someone who has been serially underpaid can have the opposite of the intended effect if it leaves them seething about how much pay and recognition they have been missing out on for years.

Deeper question

That underlines a deeper question: are people being tempted to leave because of money alone? Or is it due to wider structural problems such as a lack of attention to career progression; inflexible work patterns; poor managers or dire staff shortages and overwork?

If it's not just the money, beware. A pay-based counter-offer that seems to have worked in January might have failed by April if the recipient gets another proposal from a more adroitly managed organisation. The offerer will have merely shelled out money to defer a problem rather than fix it.

It is obviously smarter to find out what is driving departures and, if possible, pre-empt them by, say, setting up a system to alert flight risks about internal job opportunities. Some companies that have tried this claim it has cut attrition rates and kept valued staff who might have otherwise left.

Finally, generous counter-offers can infuriate other employees, especially if there is ever a hint that the would-be flight risk's offer was not as solid as advertised.

In the past, I think it was probably easier to dismiss this sort of reaction as sour grapes. In a hot jobs market though, it is more dangerous. There is a high chance people are already sitting next to new but less experienced job-hoppers earning more money for the same work.

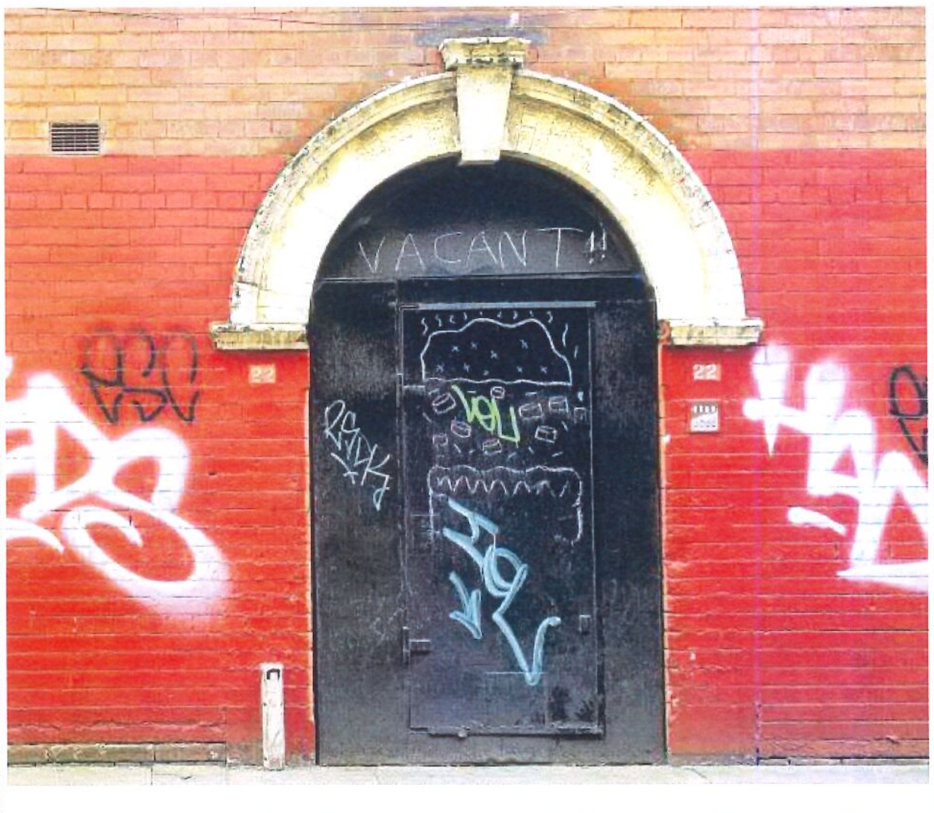
In other words, they are paying a "loyalty tax", says Adam Grant, the US organisational psychologist and author. He thinks there is a case for employers to offer "retention raises" to reward commitment. That is by no means an easy option for all businesses. But it does highlight the need to think very carefully about who is being rewarded to stay – and why.

Taxing vacant property out of existence make no sense

Tomorrow: Your Money
Tax incentives for landlords? How very 1990s
Fiona Reddan lists seven options the Government might consider to ease the tax burden chasing smaller landlords out of the market

John McCartney
Opinion

Ireland is suffering rampant house-price and rent inflation, which means we have too few vacant units, not too many



■ Hundreds of studies have found that the natural vacancy rate represents a tipping point between rising and falling prices. PHOTOGRAPH: FRANK MILLER

The debate about taxing vacant homes is happening in a theoretical vacuum that could steer us towards a housing policy own-goal.

The starting point for a reasoned conversation about housing vacancy is to recognise that a certain amount is necessary. To see why, consider a family moving from Dublin to Cork. If there was no vacancy, this family would have to organise a direct swap with a counterparty that wanted to move to Dublin, had a suitable property in the right part of Cork, and would find our original family's home in Dublin suitable for its needs. Clearly this could take some time.

Now consider another example in which 50 families wanted to move to Cork, and one vacant dwelling existed. In this case, the supply/demand mismatch would cause households to compete for that vacant unit, driving up the price. We remember from the housing crash that too much vacancy can cause major problems. But these examples show that too little creates inefficient and inflationary markets. So what is the optimum vacancy rate?

This is where theory can help. Housing vacancy consists of two elements – involuntary and natural vacancy. When all the owners who want to sell or lease their properties at current market prices can do so, there is no involuntary vacancy. Since everybody is happy, there is no incentive for anyone to raise or cut their price, and the market is in equilibrium.

But this does not mean that housing vacancy will be nil. Because, even in a balanced market, there will be "natural" vacancy. This comes from two sources. Firstly, at any moment, a proportion of dwellings will be empty because their owners are in the process of leasing or selling them. In countries with many big cities like the United States, people are more likely to relocate, so this "frictional vacancy" is higher.

Turnover is also higher in rented accommodation, so countries with a big rental sector experience more frictional vacancy. Conversely, frictional vacancy is lower in countries with streamlined conveyancing and probate systems, and in countries with effective online portals for selling and renting property, as these minimise the time that dwellings spend in transactional limbo.

Natural vacancy also arises because of indirect financial incentives for owners to leave their properties empty. Embedded expectations of house price inflation can cause owners to hold on to vacant properties rather than selling today. Similarly, rental growth expectations may dissuade landlords from committing to leases, particularly in countries such as Ireland, where rent controls penalise a "low" starting rent. Other factors such as the Fair Deal scheme historically incentivised nursing home residents in Ireland to hold vacant properties rather than selling or letting them.

The amount of property that owners choose to keep empty for these reasons determines the natural vacancy rate, and this is particular to each market.

> **Embedded expectations of house price inflation can cause owners to hold on to vacant properties**

Since 1953, hundreds of studies across the world have found that the natural vacancy rate represents a tipping point between rising and falling prices. When the actual vacancy rate exceeds the natural vacancy rate, there must be involuntary vacancy. This means the market is oversupplied and rents and prices will be falling. Conversely, if the actual vacancy rate is below its natural level, the market is undersupplied and rents and prices will be rising.

Self-defeating subsidies

Understanding this provides a valuable perspective on today's policy challenge. Ireland is currently suffering rampant house-price and rent inflation. This indicates that the market is undersupplied. To be absolutely clear, this means that we have too few vacant units, not too many. In this context, proposals to try to tax vacant property out of existence make no sense and would only exacerbate our inflationary problems.

Instead of taxing vacant property, our focus should be on choking off inflation by narrowing the gap between Ireland's natural vacancy rate and the actual vacancy rate, which is currently too low. This can happen in two ways. On one hand we can increase the actual vacancy rate by building new homes faster than housing demand is rising. There is already a major policy commitment to ramping up supply, but this is being undermined by construction cost inflation (which we have little control over), and by self-defeating subsidies and schemes which fuel the housing demand that we are trying to out-deliver.

The other approach is to nudge down the natural vacancy rate by reducing the amount of empty property that Irish people voluntarily hold. This can create a less inflationary market at existing vacancy levels.

Recent revisions to the Fair Deal scheme disincentivise the hoarding of vacant properties by residents of nursing homes and exemplify reforms that could be explored in other areas such as rent controls, conveyancing and probate.

John McCartney is director of policy at BNP Paribas Real Estate Ireland

PUBLIC NOTICES

Comhairle Cathrach Bhaile Átha Cliath
Dublin City Council

Part 8

PLANNING AND DEVELOPMENT ACT 2000 (AS AMENDED)

PLANNING AND DEVELOPMENT REGULATIONS 2001 (AS AMENDED) - PART 8

Applicant: Dublin City Council, Culture, Recreation and Economic Services

Location: Liffey Vale House and Gardens, Chapelizod Road, Dublin 8

Proposal: Pursuant to the requirements of the above, notice is hereby given of

- Regeneration of the existing Liffey Vale House (a Protected Structure) and gardens to create a new biodiversity education centre, Cois Abhann;
- Extension of the existing Liffey Valley Park to create new public pedestrian access to Cois Abhann; and
- Provide new bus pull-in and accessible parking on the Chapelizod Road.
- Existing vehicular entrance is being widened and relocated

The proposed works consist of the following:

Conservation and adaptation of the currently derelict Liffey Vale House (a Protected Structure). Works to the historic building include new roof, repair of chimneys, removal of modern concrete structure, repair of render and windows and provide universal access.

Construction of a new single storey extension to the west and north, of the historic building, measuring c. 300m² to provide education room, café kitchen, servery, storage and eating area, staff and public WCs. Adaptations to the former garden of Liffey Vale House to provide publicly accessible open space, and to retain and enhance the natural environment for biodiversity. Liffey Valley Park to be extended to meet the boundary with Liffey Vale House.

Plans and Particulars of the proposed development may be inspected or purchased at a fee not exceeding the reasonable cost of making a copy for a period of **4 weeks from 20/06/2022, during public opening hours at the offices of Dublin City Council, Public Counter, Planning and Property Development Department, Block 4, Ground Floor, Civic Offices, Wood Quay, Dublin 8, Monday - Friday 9.00am to 4.30pm.**

The Local Authority has concluded following a preliminary examination that there is no real likelihood of the proposed development having significant effects on the environment and therefore an EIA is not required.

A submission or observation in relation to the proposed development, dealing with the proper planning and sustainable development of the area in which the development would be situated, may be made, in writing, to the **Executive Manager, Planning and Property Development Department, Dublin City Council, Civic Offices, Wood Quay, Dublin 8, before 4.30pm on 02/08/2022 or at https://consultation.dublincity.ie**

dublincity.ie

Seen&Heard

Coolmore and O'Brien claim €30m over 'contaminated food'

Stud farm Coolmore and horse trainer Aidan O'Brien, who are suing Glanbia Foods Ireland over a banned substance in contaminated feed that forced its horses out of a prestigious race meeting, are claiming losses of at least €30 million relation to the case, according to the Business Post.

Mr O'Brien, his son Donnacha and eight companies linked to the Tipperary-based Coolmore Stud-Ballydoyle Stables operation, one of the world's most successful horse breeding and racing enterprises, issued High Court proceedings against Glanbia Foods Ireland last month.

Property funds bulk buy 350 houses

The Business Post also reported that institutional funds and property investors have snapped up more than 350 houses at a cost of over €100 million since the snap introduction of a 10 per cent stamp duty last year to curb this area of activity in the market.

The Government introduced the special rate on purchasers of 10 or more houses in a 12 month period – after a public backlash over investment funds beginning to creep into commuter towns to snap up properties in bulk in new housing estates. The regular stamp duty rate for homes valued at up to €1 million is 1 per cent.

Irish limited partnership links to 'secrecy jurisdictions' highlighted

The Sunday Times reported that almost 1,000 so-called limited partnership (LP) vehicles set up in Ireland in the past seven years are controlled by partners in "secrecy locations", including the Seychelles or Belize.

While LPs are a legitimate and useful structure for investment and private equity funds and family partnerships to house investments, the report cites Graham Barrow, a UK expert on offshore companies, as saying that the opaque nature of these vehicles leaves them open for "shady deals" by money launderers using a web of companies across various jurisdictions.

Revolut plans to join Irish banks' Synch app

Digital bank Revolut has contacted Synch Payments, the mobile payments platform joint venture being developed by the main Irish banks, with a view to joining the system when it is up and running, according to the Sunday Independent.