GRAEBEL INSIGHTS

Relocation Home Sale Options

What's Best for Your Mobility Program and Your Employees?

The way real estate is bought and sold is evolving at a rapid pace and naturally, relocation home sale processes are evolving too. Millennials, not Baby Boomers, are now the primary home buyers, which is driving changes in seller marketing strategies. Accelerated processes within some home sale program options are also becoming more common.

We asked 53 mobility program leaders at a recent insideMOBILITY event in Miami to identify one area of their relocation program they planned to update within the next two years. The most common answer (along with "Extended Business Travel"), was "U.S. Domestic Relocations."

Now is the opportune time to review the strategies and structures of these types of programs. Here are some practices and trends that mobility professionals should be aware of.

Over the past two decades there have been three *primary* home sale program approaches for U.S. domestic relocations:

- Buyer Value Option (BVO)
- Guaranteed Buyout (GBO)
- Direct Reimbursement (DR)

Most major employers offer more than one of these program types.

Weighing the Options and Designing a Home Sale Program

As mobility leaders take on the task of reviewing and revising home sale practices and policies, they should consider making all three primary home sale options available to the relocation manager so they're able to offer the best solution for each situation. Organizations also should be mindful of the clear tradeoffs between the three options in terms of the associated costs and risks to the company and the employee.

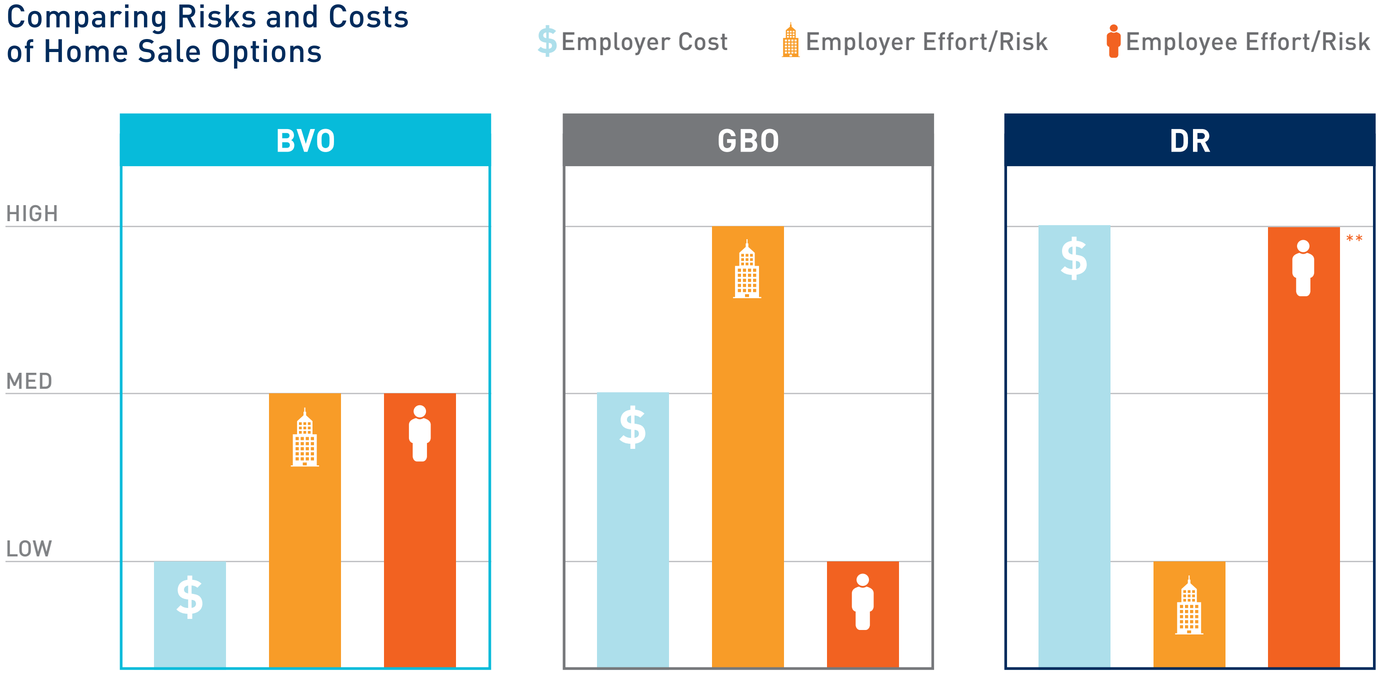
How to Estimate Home Sale-Related Employer Costs

BVO
7.5%-8.5%
of the value of the home

GBO
13%-18%
of the value of the home

DR
160%
of the total closing costs

Comparing Risks and Costs of Home Sale Options



**Relative cost varies based on the value of the property and the gross-up policy

41%*

Of the companies that offer a home sale program, approximately 41%* include a BVO choice; it's by far the most commonly used approach.

Buyer Value Option (BVO)

BVOs involve two separate sales transactions structured and timed so closing costs – normally paid by the seller – can be paid by the employer without a tax consequence to the employee.

BVO home sale process

The seller's property inspection identifies deficiencies; the employee is responsible for addressing them >

Two or more Broker Market Analyses (BMAs) determine the "most likely sales price" (MLSP) >

The employee lists the home within 103-105% of the MLSP >

If a buyer is not confirmed within a certain period (often 90 days), new BMAs are obtained and the MLSP and actual listing price might be adjusted >

When a buyer is confirmed, the employee sells the home to the Relocation Management Company (RMC) at the offer price and receives the equity >

Once the employee has vacated the property, the RMC maintains responsibility for the home – including mortgage payments, utilities and maintenance – until the resale to the interested buyer (typically 30 – 45 days later)

Best practices for BVO home sales

- Provide employee a list of approved brokers
- Offer a home refurbishment allowance (e.g., $2,500 - $5,000) to help address deficiencies and prepare the home for sale
- Offer a bonus for a quick sale, for example 2% of the sales price (capped) if the home is sold within 30 days
- Provide marketing assistance and access to preferred suppliers, including donation organizations

Emerging BVO Practice

Discontinue the requirement for up-front inspections and instead have the buyer and seller negotiate the resolution of any issues uncovered through the buyer's home inspection.

Up-front inspection considerations

PRO: Up-front inspections reduce the risk of sales falling through since buyers will be aware of any deficiencies identified.

CON: The seller may incur additional costs to remediate deficiencies that may not otherwise have been identified in a buyer inspection.

*2019 insideMOBILITY Miami Survey (n=53)

15%* Approximately 15%* of major organizations have a Guaranteed Buyout Option, though it's offered less frequently given its relatively high cost and risk to the employer.

Guaranteed Buyout (GBO)

GBOs are typically offered to senior-level executives since the arrangement removes much of the burden and risk for the seller and can help employers mobilize the employee more rapidly. GBOs can also help reduce expenses for temporary living and household goods storage. GBOs follow a two-step sales transaction similar to BVOs.

GBO home sale process

The seller's property inspection identifies deficiencies; the employee is responsible for addressing them > Two or more Broker Market Analyses (BMAs) determine the "most likely sales price" (MLSP) > If a buyer is confirmed, the employee sells the home to the RMC at the offer price and receives the equity

Up to this point, the GBO mirrors the BVO scenario. From here on the processes diverge:

> Organizations define a time period (e.g. immediate, 30/60/90 days or any variation) after listing the property after which, if the property is not sold, the employer/RMC acquires the home directly from the seller at the MLSP

> If a buyer is not confirmed within a certain period (often 90 days), new BMAs may be obtained and the MLSP and actual listing price might be adjusted – at this point, the MLSP represents a Guaranteed Offer from the employer

> A Buyout Period begins, typically lasting 90 days
- If an offer is received during this period, the property is sold to the RMC at the offer price. The RMC maintains responsibility for the home – including mortgage payments, utilities and maintenance – until the sale to the new owner (typically 30 days later).
- If no offer is received during the period, the property is sold to the RMC at the Guaranteed Offer price. The RMC assumes responsibility for the home – including marketing, mortgage payments, utilities and maintenance – until it resells the house.

Within GBO arrangements, companies are beginning to shorten the required minimum time on market leading up to the Buyout Period and the length of the Buyout Period itself before the GBO is initiated.

Best practices for GBO home sales include all of those mentioned above for BVO transactions.

*2019 insideMOBILITY Miami Survey (n=53)

18%* Approximately 18%* of major organizations have a DR program for home sales.

Direct Reimbursement (DR)

Some companies who take a more risk averse approach may offer a DR program to mitigate any property inventory risk exposure. Other companies may offer a DR program when certain homes are more difficult to sell, including, but not limited to "fixer-uppers," extremely expensive homes and agricultural/large acreage properties. If these were to be handled through a BVO arrangement, the employee might be overly distracted by having a home on the market for an extended period. And if the company were to address these situations through a GBO, the home could end up in the employer's portfolio for an extended period.

In recognition of the financial burden of bearing the closing costs, and to help speed up the process, in a DR arrangement the employer typically reimburses the employee for commissions and normal and customary closing costs (some organizations may choose to cap this reimbursement). With a DR home sale benefit, the employer and the RMC are removed from the sales process. Risk, therefore, is shifted to the employee as they sell directly to a new owner and usually grosses up that payment.

Best practices for DR home sales

> Gross up the reimbursements to the employee to limit their personal tax exposure

> Provide extensive marketing assistance and access to preferred suppliers, including donation organizations

Fixed Fee

A less common home sale approach is a Fixed Fee program. It functions much like a GBO and BVO model, however it removes the risk to the employer and provides greater visibility to the consistent forecasting of total relocation costs. The employer pays a percent of the property value (typically 9%-11% for BVO and 17%-22% for GBO).

The premium is determined by a one-time, all-inclusive Fixed Fee, based on the percentage of the home's value and the price paid to the employee, by the RMC, to acquire the home. In addition to the Fixed Fee being charged, a broker referral fee is collected too.

Traditional home sale programs pass exact direct costs, typically at a zero cost management fee, whereas Fixed Fee programs do not give visibility to the actual direct costs.

Contact us to discuss the best way to design home sale benefit options for your organization.