



## The Ultimate Guide to Home Sale Programs

### Fixed Price Options for Adding Home Sale to Your Relocation Policy

In today's tight talent market, home sale programs can play an important role in creating a competitive and attractive relocation policy. The daunting task of selling one's own home can create barriers for potential relocating talent to accept that new job in a new city. Home sale programs reduce the time commitment for the relocating employee and for the company by providing valuable assistance for the employee, reducing stress, and allowing the employee to place primary focus on their new job. Outsourced home sale programs also provide subject matter expertise and cost management while eliminating much of the administrative burden for corporate HR departments. Relocation consultants often lead the home sale program and collaborate with a team of experts that facilitate the home marketing and sale process. The goal for the relocation company is to help the relocating employee sell the employee's home quickly and at the best possible price.

Home sale programs do this in a variety of ways depending on the type of program a company selects for its relocation policy. A home sale program may consist of home marketing assistance including referrals to real estate agents and closing offices, along with the reimbursement of commissions and closing costs, or a lump sum, to cover the home sale expenses. Companies can also provide tax-beneficial home sale programs which minimize a company's cost and the tax liability of owning homes purchased from employees, along with reducing the administrative burden and overall relocation costs. Tax-beneficial home sale programs are available in both traditional cost-plus and fixed price models. This article discusses the process and benefits of tax beneficial home sale programs.

### Key Stages of the Home Sale Process:

#### 1. Marketing and Market Driven Buyer Stage

The relocation consultant works with the real estate agent and the employee to implement a marketing strategy. The consultant, in concert with the real estate agent helps the employee compare, evaluate, and review offers to insure the employee understands the offer terms, the risks and benefits of the offer, and the employee responsibility for repairs and other contractual requirements. When a successful offer is accepted, the relocation management company purchases the employee's property on the negotiated terms and then resells the property.

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## 2. Buyout Stage

Some home sale programs contain a buyout option if the employee is unable to secure a market driven offer in the marketing period as defined in their employer's relocation benefits policy. In a buyout program, independent appraisal evaluations are obtained to establish a value for the purchase of the employee's home.

## 3. Inventory Stage

If the employee sells their home via the buyout process, then the relocation management company will manage the ownership and marketing of the property while it is in this inventory stage. The goal is to resell the home quickly to minimize inventory costs while still achieving an optimal price. The relocation inventory specialist will work with the corporate client to develop marketing strategies including how to best complete repairs, make needed improvements and incentivize potential buyers. Real estate agents then manage the process of getting the property sold in a way that serves the client's best interests.

## What Drives a Successful Home Sale Program?

The key performance indicators (KPIs) for a home sale program are broker market analysis (BMA) and list price accuracy, valuation and resale price. These are the KPIs by which you should judge the efficacy and quality of your relocation provider's home sale program.

- **BMA and List Price Accuracy:** Successful home sale programs focus on getting the correct valuation of a given property. This leads to improved marketing and a faster sale. The less accurate the BMA and list price, the longer a property is on the market, which makes the property more likely to be viewed as undesirable and increases the risk of price cutting. Successful home sale programs should have fewer days on the market.
- **Buyout Valuation and Resale Price:** The buyout valuation and resale price indicate whether properties are being accurately assessed during the buyout process. An accurate buyout valuation reduces time in inventory and loss on resale, which in turn, keeps program costs lower.

## Tax Beneficial Home Sale Program Options:

Tax beneficial home sale programs are designed to eliminate the tax impact of the employers payment of home sale costs (e.g. the real estate commissions and closing costs). Under U.S. tax law the reimbursement of expenses to the employee when the employee sells the home directly to the buyer is considered taxable income to the employee. As such, either the employee bears the burden of the tax and is out of pocket the difference between that after tax amount and the actual home sale costs or the employer must gross up the reimbursement to the employee so that the employee is made whole. That gross up can be approximately 66% of the original costs.

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There are essentially two different home sale program options available. The goals of all programs are to sell the home quickly and at a fair price. Companies considering adding a home sale program to their relocation policy should familiarize themselves with the differences in programs to determine which are most suitable for their needs and the needs of their employees.

## **1. Buyer Value Option**

This is where the relocation provider extends an offer to buy the relocating employee's existing home based on an outside offer the employee has already received from a buyer. The relocation provider matches the offer and acquires the property on behalf of the client company. In a separate transaction, the relocation company then closes the sale with the buyer of the employee's existing property.

## **2. Guaranteed Buy-Out/Appraised Value Offer**

Here, the property valuation process is completed in accordance with the corporate client's policy for home marketing and appraisals. If the employee has not sold their property based upon a market driven offer during the marketing period as defined in their employer's relocation benefits policy, then the relocation management company, on behalf of the client company extends a guaranteed offer to the employee for their home on the basis of the appraised value. If the employee accepts the buyout offer, the relocation provider acquires the property and then manages the property in inventory, as well as the marketing and sale of the inventoried property in a separate transaction to a final outside buyer.

## **Pricing of a Tax beneficial Home Sale Program**

### **Traditional Cost-Plus Options:**

In the cost-plus model, the transaction is managed in the name of the relocation management company, but the corporate client is the real economic party in interest in the home sale transactions. The outsourced home sale program provides subject matter expertise and cost management, and eliminates much of the administrative burden for corporate HR departments. In this model, the relocation management company charges back to the corporate client all of the costs associated with the transaction including the real estate commissions, closing costs, appraisal costs, carrying costs, losses on the resale, maintenance, repairs, post closing disputes and other related expenses to inventory management.

### **Fixed Price Home Sale Program Options:**

Some relocation companies offer fixed price home sale program options. These are fixed fee programs that charge one fee which covers all home sale costs instead of billing them to the client company. Importantly, fixed price programs keep client companies free from the burden of owning homes and give them the ability to budget their home sale expenses irrespective of a home sale's outcome. Under these programs, companies never own a relocating employee's home and the fee does not vary due to unsold properties or buyer fall-out.

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Just as with the cost-plus model, the outsourced fixed price home sale program provides subject matter expertise and eliminates the administrative burden of program management for corporate HR departments. Additionally, the client company pays one flat fee to the provider based on a percentage of the sale price. There is never a bill for any costs, losses, repairs or any other direct costs sent to the client company. The same fee also covers the management costs of a company's outsourced program for homeowners who are authorized for this service under its relocation policy.

## Benefits of Fixed Price Home Sale Programs

- **Budget Forecasting Accuracy:** Relocation costs are covered by one, fixed fee that is based on a percentage of the employee's home value. The company avoids the budgetary fluctuations experienced with traditional home sale programs like buyouts, time in inventory or losses on a sale. This provides for very little variation in costs, resulting in more accurate budget forecasts.
- **Mitigation of Increased Sale Costs:** Regardless of market shifts, costs are locked in with fixed price programs, eliminating the potential additional costs at the close of the sale.
- **No Inventory Addition Risk:** The client company does not own the employee's home and thus, is not at risk of having to place an unsold home on their books as inventory.
- **Outsourcing That's Valuable:** While most companies outsource relocation administration, many are still responsible for variable home sale costs, taxes and property liability for their relocating employees' homes. These programs offer a way for clients to get the most out of their outsourcing by not only handing off the administration portion of relocation but also the risk, liability and unforeseen costs of a home sale.
- **Reduced Accounting:** With a one-time fixed fee, accounting for home sales is streamlined by eliminating the bills that come in overtime with traditional home sale programs. This inclusive single-fee system saves on administration time and mitigates accounting errors. Fixed price home sale programs eliminate multiple invoices and charge-back transactions.
- **Attracting Talent:** Home sale programs are an attractive differentiator in today's competitive recruiting environment, but for many companies, the risk involved with traditional home sale programs prevents them from offering it to top talent. Fixed price home sale programs remove that barrier for companies and allow them to confidently add a home sale program to their relocation policy.

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## Comparison—Fixed Price vs. Traditional Home Sale Programs

|                                      | Traditional                                | Fixed Price   |
|--------------------------------------|--|---|
| Cost variation                       | Yes, costs vary transaction by transaction | No, the cost is established through the fixed price |
| Direct costs                         | Client Company                             | Relocation Provider                                 |
| Risk of owning employee homes        | Client Company                             | Relocation Provider                                 |
| Carrying, closing, and related costs | Client Company                             | Relocation Provider                                 |
| Chain of title risk (litigation)     | Client Company                             | Relocation Provider                                 |
| Employer exposure risk               | Client Company                             | Relocation Provider                                 |
| Treatment of home sale expenses      | Capital losses                             | Ordinary business expenses                          |
| Home sale program billing            | Multiple bills or line items               | Single fee/single bill                              |
| Predictable, budget-able costs       | No, costs fluctuate                        | Yes, the cost is predictable                        |

Home sale programs are wonderful, attractive additions to any company's relocation policy. On the talent side of things, home sale programs reduce barriers for top talent to accept new roles and may act as a differentiator for potential employees evaluating various opportunities. For companies, traditional cost-plus home sale programs offer a way to reduce the administrative burden of relocation by outsourcing the selling of homes to experienced relocation providers. As with other aspects of relocation, the relocation providers utilize teams of experts throughout the various phases of the home sale process to ensure an optimal home sale in the best interest of the employee and the corporate client. Fixed price home sale programs offer the same tax benefits along with an alternative option to companies desiring a more predictable, streamlined home sale program that affords them a decreased liability, for a one-time, fixed fee. Professional relocation providers will work with you to help you determine the best addition to your relocation policy.

*For a free, no-obligation review of your current home sale program, contact Bobbi Maniglia, VP of Corporate Sales and Moving Services for northAmerican® Van Lines at [Bobbi.Maniglia@northamerican.com](mailto:Bobbi.Maniglia@northamerican.com).*

For more information visit: [northamerican.com](http://northamerican.com)

