



**FIXED FEE VS. TRADITIONAL COST PLUS:
WHICH HOME SALE PROGRAM IS BEST FOR
YOUR ORGANIZATION?**

sirva

FIXED FEE HOME SALE PROGRAMS IMPROVE PREDICTABILITY AND REDUCE REAL ESTATE RISK



Traditional Cost Plus relocation home sale programs offer the attraction of tax benefits, but burden employers with high levels of risk related to owning homes purchased from relocating employees. Even when those homes finally sell under a traditional Cost Plus Program, employers can face a wide range of possible unpredicted expenses, trailing liabilities, and taxes. Fixed Fee Programs are uniquely designed to minimize the potential risks of home ownership by buying and owning homes outright and removing you from chain-of-ownership risk. A Fixed Fee Program also alleviates managerial burden by providing predictable costs and streamlined billing.

A downturn in real estate markets creates several challenges for employers relocating employees, the most significant of which is the increased marketing time and growing number of homes that end up in inventory. This rise in home inventory leads to higher overall relocation costs and increased property management duties for employers. Total home sale costs also become less predictable in sluggish real estate markets, and unpredictable home sale costs translate into unpredictable total relocation costs.

Relocation Management Companies (RMCs) offer several home sale programs, each with varying levels of risk, to help employers relocate transferees. Employers should consider the advantages and disadvantages of each program to determine the level of risk involved, and those employers who want a predictable and low-risk home sale program should consider a Fixed Fee Program.



Home Inventory Issues?

There Are Several Reasons Homes Go Into Inventory

Local Market

- Days on market, market absorption
- Oversupply, new home inventory, job market

Program Type

- Days from list to appraisal
- Days from appraisal to buyout eligibility date
- Days until appraisal expires

Company Policy

- No listing caps vs. broker estimate
- No existence of home sale bonus for the transferee

Broker selection

- Use of employee's "own agent" vs. a qualified preferred broker

No Home Marketing Process

- Need to effectively list, market, and show the home

Appraisal Process

- Lack of an effective appraisal management process
- Untrained appraisers
- Ineffective review process

Home Value

- Higher-value homes are more likely to go into inventory

Individual Home

- Condition and appeal of individual homes

TRADITIONAL COST PLUS HOME SALE PROGRAMS



There are primarily two types of traditional Cost Plus home sale programs: the appraised value option (AVO) and the buyer value option (BVO). Employers can execute each of these programs independently or engage an RMC to act as their representative in the purchase and sale of a transferee's home.

AVO

In an AVO program, a transferee's home is usually appraised following a required marketing period of usually 60 to 90 days. This establishes the value at which the RMC will pay for the home if the home is still on the market at the buyout date (30/60/90 days after the appraisal). The guaranteed buyout option ensures that the RMC will purchase the home if it does not sell to an outside buyer after being marketed for a specified period of time.

Once the RMC closes the purchase of the home with the transferee, the employer is responsible for all expenses and risks associated with ownership of the home until it is resold to an outside buyer. The RMC invoices the employer for the cost of the home purchase, ownership, and ultimate sale. These costs include a variety of expenses, such as appraisal costs, carrying costs, taxes, title fees, and any repair and maintenance costs, as well as any loss on the resale of the property.

BVO

In a BVO program, the market dictates the property value and there is no guaranteed buyout offer. This program includes a structured marketing assistance program to help the transferee evaluate the brokers opinion of value, identify if any repairs or improvements should be considered, and assist in establishing a fair market list price. Once the home is listed, there is the need to follow up with the broker to ensure the home is being marketed appropriately until an outside buyer can be secured.

As the BVO program does not have a guaranteed offer and end date, transferees may also become frustrated because they can't sell their home, they are paying temporary living costs, or they are making frequent trips to their new location, and, as a result, the transferee may back out of the relocation altogether.

There are several inherent characteristics with most traditional Cost Plus home sale programs, and while some employers are comfortable with the risks associated with these challenges, others are not.

Employers may experience:

- Unpredictable total home sale costs
- Multiple invoices, oftentimes from multiple vendors
- Upfront appraisals
- Chain-of-title risk exposure to employers
- Risk of home ownership
- Home sale losses treated as capital losses
- Unpredictable total relocation costs

Additionally, in order for a relocation home sale program to be compliant with IRS requirements, employers must take on a certain amount of risk. This may include risks associated with home sale fall-through or other home ownership expenses incurred until the home is sold.





Fixed Fee (Fixed Cost) Home Sale Programs

Fixed Fee Programs operate like traditional Cost Plus models (AVO and BVO); however, in a fixed fee buying environment, there are benefits above and beyond a traditional Cost Plus Program. Fixed Fee home sale programs offer a more predictable, or lower risk, home sale alternative.

In contrast to the varying costs of other home sale programs, with a Fixed Fee Program employers pay one all-inclusive fixed fee based on a percentage of the price paid by the RMC to the employee to acquire the home. Since that percentage value does not change from move to move, employers can better determine the total cost of relocation based on a home's value and can more accurately budget home sale relocation costs up front.

All costs associated with the sale of the transferee's home are covered with one fixed fee. These costs may include:

- Appraisals
- Inspections
- Carrying costs
- Closing costs
- Losses on resale
- Home sale management fees
- Cost of title work
- Repairs/maintenance
- Buyer incentives
- Real estate commissions
- Real estate taxes
- Insurance

Traditional home sale programs do not consolidate these charges. With multiple line-item costs and after-the-fact Cost Plus pricing, ongoing costs and risks are hard to manage. In addition, since these fees vary from move to move, it is difficult for employers to accurately budget for relocations.

Side-by-Side Home Sale Comparisons

	Traditional AVO	Traditional BVO	Fixed Fee
Fixed Fee	No. Cost is unpredictable.	No. Cost is unpredictable.	Yes. Fee is predictable and known up front.
Home Sale Program Billing	Multiple bills from multiple vendors.	Multiple bills from multiple vendors.	Single bill from relocation service provider.
Chain-of-Title Risk	High. Employer is exposed to chain-of-title risk.	High. Employer is exposed to chain-of-title risk.	None. RMC assumes all chain-of-title risk.
Employer Exposure Risk	High. Employer assumes all risk of home ownership.	High. Employer assumes all risk of home ownership.	None. RMC assumes all risk of home ownership.
Treatment of Home Sale Expenses	Most expenses must be treated as capital losses by employer.	Most expenses must be treated as capital losses by employer.	Most expenses can be treated as ordinary business expenses by employer.
Customization	Limited. Due to standardization of most programs.	Limited. Due to standardization of most programs.	Easy. Fixed Fee Programs can be designed around employer's risk tolerance.

ADDITIONAL FIXED FEE PROGRAM BENEFITS



Besides cost predictability, there are three additional benefits to Fixed Fee Programs—eliminating home ownership and inventory management, eliminating loss on sale, and avoiding capital loss.

Eliminates Home Ownership and Inventory Management



Using a Fixed Fee home sale program, the RMC assumes ownership of the home and becomes responsible for all costs incurred in purchasing or selling the home, including taxes, expenses, risks, and losses. The employer does not need to help with managing inventory properties, as the RMC manages the entire home sale with no time requirement by the employer. This is important as most mobility teams have limited capacity to assist with inventory management. Additionally, the RMC does not pass back to the employer any costs incurred by carrying the property in inventory because the employer does not, and never has, owned the property.

No matter how long the home sits on the market, employers pay the same fixed fee, regardless of the potential loss on resale. In addition, the Fixed Fee percentage does not change, despite what the actual costs are to carry the property and resell it.

Eliminates Loss on Sale



In a slow or deteriorating real estate market, if an RMC purchases a transferee's home to resell to an outside buyer based on the appraised value (a "buyout"), the home will probably sell at a loss, especially if it sits on the market for several months. For example, in an AVO model, after marketing time (60/90/120 days), the home is appraised and sold to the RMC at the appraised value. If the home is ultimately sold to an outside buyer for less than the appraised value of the home (for example, \$20,000 less), the difference in the appraised price and the actual sale price is the financial responsibility of the employer. However, in a Fixed Fee model, any loss on resale is the financial responsibility of the RMC, not the employer.

This loss on resale creates two challenges for employers. The home's resale price, and any loss on resale, is not known until the home is actually resold, which could be several months in a slow market. Because the loss on sale can be a significant component of the relocation cost, an employer relocating a transferee in January may not know the cost of that relocation until June, making it difficult to accurately budget.

Avoids Capital Loss



Employers using traditional home sale programs cannot deduct losses on the resale as ordinary business expenses. The costs incurred are incidental to the employer's ownership of the home. They must be treated as capital losses by the employer and can only be offset against capital gains (unless the employer is in the business of purchasing or selling homes).

In contrast, a Fixed Fee home sale program eliminates the direct correlation between the fee charged to the employer and the cost of home ownership. Because the RMC owns the home, the fixed fee paid by the employer is a flat service fee and can be deducted as an ordinary business expense, which translates to significant tax savings.





FIXED FEE PRICING

The total cost of most traditional Cost Plus home sale programs factor in real estate agent commissions, appraisal and inspection costs, carrying and closing costs, losses on resale, and other fees. In contrast, Fixed Fee Programs are priced based on a single factor; this factor represents a percentage of the transferee's home value.

The percentage charged for a Fixed Fee Program is set up front as a percentage of home value, and once established, is fixed for the length of the contract term for all homes authorized. The percentage is based on a number of factors, including:

- Average property values in the old location
- Annual homeowner transferee volume
- Date appraisals are ordered after property is listed for sale
- Date transferee can accept the appraised value offer to purchase
- Home sale bonus incentives
- Home sale location

Conclusion

Employers using traditional Cost Plus home sale programs are not protected from the risks of a volatile real estate market, nor trailing liabilities. In addition, traditional programs rely on varying costs, which lead to unpredictable home sale and total relocation costs. As a result, employers don't know the complete costs of their relocations until months after transfers are initiated.

Fixed Fee home sale programs utilize an all-inclusive home sale cost. This allows employers to determine the total home sale cost up front. In addition to offering employers predictable relocation costs, Fixed Fee Programs eliminate many of the financial risks associated with taking a home into inventory.

To learn more about Sirva's capabilities, contact concierge@sirva.com.





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