SIRVA Consulting

Fixed-Fee Home Sale Programs

SIRVA® Worldwide Relocation & Moving

Fixed-Fee Home Sale Programs Improve Predictability and Reduce Real Estate Risk in Slow Housing Markets

A downturn in real estate markets creates several challenges for employers relocating transferees, the most significant of which is the 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 service providers (RSPs) 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.

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 RSP to act as its representative in the purchase and sale of a transferee's home.

AVO

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

Home Inventory Issues?

There are several reasons why 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 transferee
- Property limitations

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

- The condition and appeal of the home

Once the RSP 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 RSP 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

With a BVO program, no appraisal is conducted and no guaranteed buyout option is offered. Once a buyer is located, the RSP purchases the home from the transferee for the price established by the outside offer. After a short holding period, the RSP proceeds to close the resale with the outside buyer.

This program substantially limits the risk of properties going into inventory. The only time a property is exposed to inventory is if an outside buyer transaction falls through. This occurs usually less than 5 percent of the time; the risk of inventory in a typical AVO is 20 percent or more.

The disadvantages of the BVO program include the impact of not offering a guaranteed buy-out, which means there is no limit on the amount of time the home can remain on the market. This can significantly delay a transferee's relocation schedule, as they may not be able to begin their new position until their home sells. Transferees may also become frustrated because they can't sell their home; because they are paying temporary living costs; or because 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 challenges 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 cost
- 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 cost

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 those risks associated with fall-through or other home ownership expenses incurred until the home is sold.

Fixed-Fee 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, which are available only by outsourcing the home sale program, 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 RSP 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 this one fixed fee. These may include costs such as:

- Appraisals
- Inspections
- Carrying costs
- Closing costs
- Losses on resale
- Home sale management fees
- Cost-of-title work
- Repairs/maintenance
- 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.

Additional Fixed-Fee Program Benefits

Besides cost predictability, there are three additional benefits to fixed-fee programs—eliminating home ownership, protection of loss on sale and avoiding capital loss.

Eliminates home ownership

Using a fixed-fee home sale program, the RSP assumes ownership of the home and becomes responsible for all costs incurred in purchasing or selling the home, including taxes, expenses, risks and losses. Additionally, the RSP 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.

Side-by-Side Comparisons

	Traditional AVO Home Sale Program	Traditional BVO Home Sale Program	Fixed-Fee Home Sale Program
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.
Appraisals	Upfront appraisals **typically required.**	**No appraisals**, since buyer establishes price.	Appraisals are **typically delayed in the AVO-type fixed-fee home sale program or eliminated in the BVO-type fixed-fee home sale program.**
Appraisal Costs	Due to upfront appraisal, **generally incurred** and paid by the employer.	**No appraisal costs**, since no appraisal is needed.	**Not incurred** if buyer is found prior to appraisal **in the AVO-type fixed-fee home sale program or eliminated in the BVO-type fixed-fee home sale program.** If incurred, the RSP pays.
Chain-of-Title Risk	**High.** Employer is exposed to chain-of-title risk.	**High.** Employer is exposed to chain-of-title risk.	**None.** RSP 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.** RSP 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.

Protection from loss on sale

In a slow or deteriorating real estate market, if an RSP purchases a transferee's home to resell to an outside buyer based upon 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 RSP 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. In a fixed-fee model, however, any loss on resale is the financial responsibility of the RSP, 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, as a result, an employer relocating a transferee in January may not know the cost of that relocation until June, making it difficult to accurately budget.

Avoid capital loss

Employers using traditional home sale programs cannot deduct losses on the resale as ordinary business expenses. The costs incurred are incident to the employer's ownership of the home. They must be treated as capital losses by the employer and can be offset only 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 RSP owns the home, the fixed fee paid by the employer is a service fee and can be deducted as an ordinary business expense, rather than being treated as capital losses by the employer.

Fixed-Fee Pricing

The total cost of most traditional cost-plus home sale programs factors 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 upfront, and once established, is fixed for the length of the contract term. The percentage is based on a number of factors, including:

- Average property values in 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

The current real estate market is causing more homes to go into inventory. Employers using traditional cost-plus home sale programs are not protected from the risks of a volatile real estate market. 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 upfront. In addition to offering employers predictable relocation costs, fixed-fee programs eliminate many of the financial risks associated with taking a home into inventory.

About SIRVA

SIRVA, Inc. is a leading provider of relocation solutions to a well-established and diverse customer base around the world. The company handles all aspects of relocation, including home purchase and home sale services, household goods moving, mortgage services, and home closing and settlement services. SIRVA conducts more than 300,000 relocations per year, transferring corporate and government employees in addition to individual consumers.

SIRVA operates in more than 40 countries with over 4,000 employees and an extensive network of agents and service providers. Its well-recognized brands include Allied, Allied International, Allied Pickfords, Allied Special Products, DJK Residential, Global, northAmerican, northAmerican International, Pickfords, SIRVA Mortgage, SIRVA Relocation and SIRVA Settlement. More information about the company can be found on its Web site at www.sirva.com.

To learn more about SIRVA's capabilities, visit www.sirva.com, e-mail sirvamarketing@sirva.com or call us at 1.800.341.5648.