

U.S. Relocation Home Sale Option...

—Directed Offers

Selling a home in the current market is arguably the most stressful challenge of an employee's relocation. About five years ago the nation experienced the burst of the housing bubble resulting in fewer home sales and depreciated home values. Further, stricter mortgage lending requirements resulted in fewer qualified homebuyers. However, there is a light at the end of the tunnel: Data from the Fiserv Case-Shiller Indexes on November 28, 2012, show that many real estate markets have started along a path of **slow but sustainable** recovery. Average U.S. home prices in the second quarter of 2012 increased 1.2 percent from the year-ago quarter, marking the first year-over-year increase in home prices since 2006 (excluding the impact of the federal homebuyer's tax credit in 2010). Overall, the 2012 spring and summer real estate market was the strongest since the peak of the housing bubble.

While the housing market seems to be on the path to recovery, sales activity and price appreciation are expected to stall in the near term. Fiserv Case-Shiller projects the slowdown in the economy will restrain housing demand enough so that 2013's spring and summer markets will likely be weaker than 2012's. In addition, the NAR reported on January 28, 2013, that 22% of all residential properties with a mortgage (about 10.7 million homeowners) were underwater by the end of the third quarter for 2012, according to CoreLogic data. **This data suggests that existing homes will remain on the market for extended periods of time and sell for less than the balance on the mortgage.** Therefore, clients looking to relocate employees or new hires may experience pushback from their employees if the relocation policy does not provide sufficient duplicate housing, temporary living, or loss on sale reimbursement. In an effort to support the goals of talent management while also controlling the relocation budget, companies may elect to provide a directed homesale offer to the employee.

The definition of a directed offer is one where the company agrees to pay more than the fair market value for the relocating employee's home. The fair market value is defined by each company's policy and can be calculated based on values established by Worldwide ERC appraisals, broker market analysis (BMA) values, a bona fide offer on the property, or some other substantiated research. ***The determined value must be consistently applied to all employees within the clients' organization to substantiate the homesale process in case of an audit by the IRS.***

*Directed offer: An offer made to purchase a relocating employee's house that is **NOT** based on either:*

- *Appraised value*
- *Market value based on an outside offer*

Relo 101 - Differences between relocation and mortgage appraisals: The intent of the relocation appraisal is to determine what the typical buyer will pay for the employee's property within a certain amount of time in the near future (90-120 days), whereas a mortgage or refinance appraisal seeks to justify a certain value for a property. Relocation appraisals use most recent and the closest comparable listings and sales in proximity to the employee's property, evaluating key elements of the home and property to derive an anticipated sales price.

Companies could consider a directed offer when an employee sells the home for less than he/she purchased it, and the employee experiences a loss on sale. Some employees borrowed against their mortgage, often in the form of a home equity line of credit, and the total mortgage payoff exceeds the amount of proceeds from either a third party sale or company guaranteed buyout home sale.

Of significant importance is to recognize that **the portion of directed offer (DO) above the fair market value (FMV) of the home as established by the company’s policy is considered taxable income by the IRS.** The excess over FMV is taxable to the relocating employee as wages, must be imputed as income on the employee’s W-2 and is subject to withholding and payroll taxes. As with other relocation benefits, the company will need to determine if they will tax assist this portion of the directed offer or if the employee will be responsible for payment.

EXAMPLES

Policy Type	Results
<p>BVO Example</p>	<p>Arnold Ziffel is authorized for Omega Corporation’s Buyer Value Option (BVO) program, which does not specify a formula as to how a home value amount is to be established. Omega Corporation agreed to guarantee a minimum price of \$300,000 for Arnold’s home and directs Lexicon to generate an offer of \$300,000 if his final selling price is below that amount. A third party buys the home for \$250,000.</p> <p style="text-align: center;">[Calculation: DO \$300,000 – FMV \$250,000 = \$50,000]</p> <p>Taxable: In this example, the amount of the Directed Offer that is taxable is \$50,000.</p>
<p>GBO Example</p>	<p>Joe Panko is authorized for Zed Corporation’s Guaranteed Buyout Offer (GBO) Program, which establishes the buyout price as the average of 2 appraisals. Lexicon’s \$200,000 offer to Joe is based on the established appraisals. However, Zed Corporation agreed to a minimum offer to Joe of \$220,000 for his home and directs Lexicon to offer Joe \$220,000 if Joe cannot sell his home within 60 days. After two months on the market, Joe has received no offers, so he accepts Lexicon’s offer of \$220,000.</p> <p style="text-align: center;">[Calculation: DO \$220,000 – FMV \$200,000 = \$20,000]</p> <p>Taxable: In this example, the amount of the Directed Offer that is taxable is \$20,000</p>
<p>AVO Example</p>	<p>Amy Lee is authorized for ABC Company’s GBO program. ABC agreed to guarantee a minimum price of \$950,000 for Amy’s home if she could not sell it for at least that amount and directs Lexicon to generate an offer of \$950,000 when her equity is funded. Per ABC’s GBO policy, two appraisals are ordered for the home and result in an appraised value of the home of \$850,000. Before Amy accepted ABC’s GBO of \$850,000, she received a bona fide offer from a third party for \$875,000. If the employee receives a bona fide offer from a third party that is higher than the appraised value, the GBO amount should be amended - Amended Value Offer (AVO) to reflect the higher third party offer amount. The third party offer is now considered the established value of the home and is used to calculate the taxable portion of the Directed Offer amount.</p> <p style="text-align: center;">[Calculation: DO \$950,000 – FMV \$875,000 = \$75,000]</p> <p>Taxable: In this example, the amount of the Directed Offer that is taxable is \$75,000.</p>

Directed Offers may provide a potential alternative to amending the relocation policy as a means of assisting employees in their relocations. However, companies who find they are offering Directed Offers to a high percentage of their relocating homeowners may want to consider policy amendments. **For further information on directed offers, contact your Lexicon Account Manager or Sales Representative.**