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Information from Cartus on Relocation and International Assignment Trends and Practices

The Unprecedented 2021 Real Estate Market – What It Could Mean for Your Relocation Program

Is "unprecedented" an accurate term for the real estate market of 2020-2021? We have found that, for several valid reasons, it is. Understanding what these reasons could mean for your transferees today and for your policy considerations tomorrow is important.

Record-low Interest Rates: The Federal Reserve has long used the federal lending rate as a governor for helping manage the economy. Interest rates were already quite low heading into the COVID-19 pandemic, and the Federal Reserve has kept those rates low and, now, even lower. These historically low rates set the foundation for many who are deciding to take advantage of investing in real estate. Fixed mortgage rates as low as 2.75% are quite an incentive for buyers, which makes the environment ripe for buyers to enter.

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Historically Active Market: But where are the houses? As we are experiencing historically low interest rates for mortgages, buyers are being incentivized to enter or re-enter the market (as many Millennials are doing for the first time), and the inventory of available homes is moving very quickly, particularly in markets where many transferring employees are headed. Most residential markets are seeing a significant increase in buyer activity, making it important for transferees to prepare for the home purchase process in advance.

Soaring Home Values: Predictably, this high demand for houses, fueled by record-low rates, leads to increased prices. In the case of some real estate markets, the level of appreciation and the fervency of buyers have surprised even real estate veterans. Even for those who have bought and sold many homes previously, this market is unique. Houses today are often "pre-marketed," resulting in multiple offers coming in before the house has technically even been listed for sale. Cash offers are becoming common, as are offers waiving inspections or appraisal contingencies and even offers far above list price. One property in Washington, D.C. is reported to have received 15 offers during pre-marketing, many in cash.

Home Sale Benefits: Transferees need to be well-represented by a qualified real estate agent before heading into the home sale process, and their Cartus relocation consultant will help them find a qualified real estate agent who can help them with all considerations in advance of listing their home. Having an experienced relocation consultant act as a guide through the complete process can be invaluable to ensure the transferee understands all eligible policy benefits. Timing, for instance, is critical. The real possibility of a transferee finding themselves between homes has never been greater, so preparing for the sale of their departure home is as crucial as preparing for the purchase of a new home at their destination.

Home Purchase Benefits: Having a highly qualified mortgage provider is important for transferees, whether or not home purchase closing cost benefits are covered in the policy. With homes selling swiftly, transferees need to be prepared to know exactly what they can afford and have their preapproved mortgage ready in advance of seeing properties. This positions them to make offers quickly and assertively for the amount they are comfortable offering.

Appraised Values: What happens when buyers decide they need to offer more than list price for a home? Their offer amount will be recorded as the sales price, even if it exceeds list price. The primary concern is whether it will appraise for the higher sales price. In some cases it will, and the transferee can proceed if it does. Most client policy provisions will support this approach and may not need any changes. However, if the house does not appraise for the higher sale price, the transferee will need to act accordingly. If there was an outside sale and the client is now selling the home, they will need to decide how to proceed. Buyers may be able to cancel the sale, if the

sales contract allows, but many are deciding to make up the difference in cash. Transferees may want to speak with their real estate agent about adding a clause that requires the buyer to make up the difference between the sales price and appraised value in cash. Stories abound, with some buyers even dipping into their 401K to borrow the difference. If a buyer does not have to make up the difference in cash and decides to try to negotiate a new sales price—and the corporation had already purchased the home from the transferring employee—the corporation may experience a significant loss on sale.

Loss on Sale: Even if a corporation's policy does not include loss on sale, if a transferee has paid over the appraised price for a house and is relocated again in a year or two, the transferee may come back to the corporation looking for financial support. If a relocation policy does include a loss-on-sale benefit, that benefit is typically calculated based on the purchase price—not the appraised price—and the corporation may not realize how far above the appraised price the house was purchased for. Additionally, the transferee may expect to be reimbursed for out-of-pocket cash paid to cover the difference. This could be costly to the client, and could raise additional tax liability questions.

Having an experienced, objective relocation consultant to assist the transferring employee through both the home sale and home purchase processes has never been more important. Pre-planning and timing are critical to a successful move.

Policy Considerations: How will this play out over time and what should global mobility owners be considering to anticipate how today's real estate market could impact any home sale benefits for these same transferees, should they move again in the future and receive relocation benefits? Here are some points for consideration:

- **Having an experienced, objective relocation consultant to assist the transferring employee** through both the home sale and home purchase processes has never been more important. Pre-planning and timing are critical to a successful move.
- **The Relocation Consultant will ensure that an experienced relocation trained agent at departure is available.** Planning for how and when the departure home will be pre-marketed and exposed to buyers is vital: multiple offers can flood in, presenting the transferee with time-sensitive, costly questions. The real risk of the transferee selling too quickly and being stuck between residences needs to be mitigated.
- **The transferee should begin working with an experienced, relocation-trained mortgage loan officer early in the process.** Transferees need to be pre-qualified and to understand how much they can qualify for in order to both be in a position to make as assertive an offer at destination as they are comfortable with and to be considered as a viable buyer to the seller so that their purchase offer can be competitive against other buyers' offers.
- **A best practice for loss on sale is to not include capital improvements.** For a corporation which does currently reimburse these costs, consider eliminating capital improvements to minimize the corporation's loss on sale exposure when some of these homes come into inventory in two or three years' time.
- **Now may be a good time to review the loss on sale policy.** It is recommended to add language regarding whether reimbursement for cash payments between the appraised value and sale price will be reimbursed and to make sure the general language will support future support requests.
- **Offering extended temporary living and storage of household goods so a transferee can have more time to house hunt may help alleviate some anxiety,** but the length of time this tight real estate market will last is unknown. Each corporation needs to determine if supporting the transferee by removing some stress from the purchase process is worth the additional cost involved. If offering extended temporary living, the company can require the transferee to stay in a facility which includes a kitchen in order to minimize meal costs.
- **If the transferee decides to retain the departure home for a period of time (e.g., for children to finish school) and additional temporary living is permitted for just the transferee, then the company may also want to consider offering return trips** which include the family coming to visit the transferee. Airfare or mileage can be offered with additional costs at the transferee's expense. To help manage costs, driving can be required up to a certain mileage, usually 350 or 400 miles.

- **Consider extending or adding an additional house hunting trip for transferee and spouse** given the competitiveness of the market. With homes selling so quickly, it may allow for new inventory to come on the market between trips.
- **Inspections should be considered** as buyers have lost houses during negotiations to another buyer who waived the inspection. If a transferring employee waives inspections, there is risk that a serious mechanical or other issue will be discovered after closing. The transferee could come back to the corporation for financial support.
- **For amended sales, the corporation may want to consider whether to amend before the appraisal comes in** due to the possible financial exposure. This needs to be balanced with the Amended Sale 11 Step Program and the company's risk position.
- **New home construction is taking longer to close than in the past, as builders are being challenged with a lack of building supply availability.** Builders typically have one-sided contracts that are often non-negotiable in this market. The corporation may want to consider adding language that states that building new construction will not be allowed as a reason to extend benefits like temporary living. In addition, if the builder is able to raise the price for rising costs of materials, the transferee could come back to the corporation for financial support.

FIND OUT MORE

Echoing the tight market, Cartus is monitoring the current trends in order to guide our clients appropriately. For more information about how the current unprecedented real estate market may affect your relocation program, please contact us at cartussolutions@cartus.com.

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