

Navigating Relocation Home Sales in Uncharted Waters



As the world continues to navigate uncharted waters and looks to predict the real estate aftermath of COVID-19, many Cartus clients are expressing great concern about how this will impact home sale transactions for their relocating employees. Companies are taking even greater consideration for their employees' safety and well-being, while trying to balance IRS-governed home sale programs and remaining financially responsible in what can only be considered a time of uncertainty.

With widespread debate on just how deeply the real estate market will be impacted by this pandemic, some sellers and buyers still find themselves in a must sell/buy situation. Cartus believed it was critical to provide insight into the market and address our clients' frequently asked questions.

MARKET IMPACT

In a Forbes article written by Aly J. Yale, dated March 25, 2020, titled *Homebuyer Interest Plummet Amid Rising Mortgage Rates And Coronavirus Concerns*, Joel Kan, MBA's associate vice president of economic and industry forecasting, explained, "The 30-year fixed mortgage rate reached its highest level since mid-January last week, even as Treasury yields remained at relatively low levels. Several factors pushed rates higher, including increased secondary market volatility, lenders grappling with capacity issues and backlogs in their pipelines, and remote work staffing challenges." The article further notes: "Those higher rates—combined with the countless shelter-in-place orders issued across the country—have buyer interest plummeting. MBA's data shows overall mortgage applications were down 29.4% in just the last week."

While the percentage decrease seems alarming, this should not come as a surprise. According to NAR chief economist Lawrence Yun, economic conditions, social distancing, and the ongoing housing shortage are all playing a role in this decreased activity. Unfortunately, Yun says, it probably won't do much to help ever-rising home prices. "With fewer listings in what's already a housing shortage environment, home prices are likely to hold steady," he predicts.

With a glimpse of hope, Yun goes on to state that "the temporary softening of the real estate market will likely be followed by a strong rebound once the economic quarantine is lifted, and it's critical that supply is sufficient to meet pent-up demand."

DELAYED LISTINGS AND CLOSINGS

With the national increase of "shelter in place" and quarantines being mandated daily, some sellers are forced into the difficult decision to delay their listing. For those who have already listed and find themselves in a "must sell" situation, real estate agents are dedicated to protecting everyone's best interest. They are now doing this by utilizing virtual showings whenever possible. If/When they conduct showings in person, they are taking extra precautions that include wearing booties, sanitizing surfaces and door knobs, and requesting all potential buyers/agents sanitize their hands pre- and post-showing.

The same challenges arise with closing delays, difficulties with delivering contracts, and buyers reevaluating whether they can afford and/or obtain financing.

"The temporary softening of the real estate market will likely be followed by a strong rebound once the economic quarantine is lifted, and it's critical that supply is sufficient to meet pent-up demand."

—Lawrence Yun

Chief Economist and Senior Vice President of Research at the National Association of Realtors (NAR)



As your trusted relocation provider, Cartus is focused on protecting the best interests of corporate clients and their employees. Effective immediately, a *Force Majeure Rider A* must be signed with every third-party contract, allowing for termination and/or extension upon the occurrence of an Excused Event, specifically including COVID-19. An Excused Event includes but is not limited to any Acts of God, declared state of emergency or public health emergency, pandemics, government mandated quarantines and isolations. The Force Majeure Rider A, in the event of sale termination, instructs that the only liability of the seller is to return the buyer's earnest money deposit.

EXTENDING APPRAISED VALUE OFFERS/DIRECTED OFFERS

As our clients look to Cartus for guidance, a frequently asked question has been "Can I extend the expiration date of the appraised value offer for my employees?" While this may seem like a perfectly viable option, it is critical to consider that this comes with substantial risk for potential tax consequences, resale loss, and the appearance of non-adherence to the IRS home sale guidelines of fair market value.

If a company buys a home from an employee at its fair market value, the sale will be treated as bona fide at that price by the IRS, just as if the employee had sold the home to an unrelated buyer. This depends on the assumption that the price paid was its fair market value. If the value paid is more than the established fair market value, then the excess is considered compensation to the employee, rather than part of the sales price of the home. If the employer does not treat the excess amount as compensation, properly withhold and pay employment taxes, and include the amount on the employee's W-2, substantial penalties may be incurred.

This may leave you wondering how this concept directly relates to an extension of the Appraised Value expiration date. The correlation comes into play in departing from the appraisal standard of calculating a sales price outside of the 120 day marketing timeframe. If the market indicates that it will take 365 days to sell a property, the appraiser will apply forecasting to determine adjustments to the sales price to accurately reflect what the home will sell for within 120 days of the valuation.

Once the 120 day time frame is exceeded, the offer is no longer bona fide and is considered a directed offer. The delta between the original guaranteed value and the eventual sale price (fair market value) in a declining market becomes taxable.

Instead, Cartus recommends performing new appraisals if the offer extension goes beyond 120 days. However, there is a chance the fair market value could decrease, which will upset the employee. There may also be a case for extending the effective date of transfer to provide the employee with additional marketing time.

Cartus and its trusted affiliates are dedicated to providing the guidance to make well-informed decisions. This includes requests for approval on all further home sale transactions to ensure that all issues, risks, and cost implications are fully understood.

For more insights, best practices, and resources related to the current relocation landscape, please visit the Cartus COVID-19 Content Hub at www.cartus.com/coronavirus.

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