



A Case for Discounted Guaranteed Buyout Offers

Overview

Relocation appraisals differ from mortgage appraisals in that they emphasize the sales comparison approach in estimating value which is based on the market's perception, not the intrinsic or replacement cost of the residence and / or improvements. Using a technique called forecasting, the appraiser analyzes the past and present trends of the housing market to anticipate the most likely sales price within a 120-day listing period. The appraiser evaluates comparable closed sales, pending transactions, and competing listings to set a benchmark value for the subject property. Additional forecasting adjustments may be applied based on supply and demand, property location, and market conditions.

As housing values in the U.S. continue to decline, accurate valuation is becoming difficult to properly determine. Many companies offering guaranteed buyout provisions are realizing a disparity between the company offer and eventual sales price, resulting in huge loss on sales as appraiser's assessments of value "catch up" to the reality of the market.

Paragon conducted a case study of third-party homesale activity involving Ideal Corporation's 2008 revisions to the guaranteed buyout offer calculation that lead to the following results. This document is prepared as an example of how use of best practices will help reduce costs of homesale program expenses.

Ideal Corporation* Profile

In this study, Paragon's Ideal Corporation client has annual sales of nearly \$450 million and is a Southwest-based organization with a majority of their transferred homeowner population (approximately 50 per year) eligible for a company offer to purchase. Because Ideal Corporation is a government contractor, up to 14% of homesale costs can be billed back to the government in accordance with the project contract. Typically, amounts in excess of 14% would be absorbed by the corporation. In 2007, Ideal Corporation's inventory home costs averaged 22.94% of the sales price.

To control costs, while remaining competitive with other government contractors, Ideal Corporation needed a way to control resale loss in a declining housing market.

The Solution

To further adjust for anticipated loss, the Company strengthened their marketing guidelines, as well as revised their guaranteed buyout offer provision, including:

- Policy verbiage and pro-active counseling to reinforce that the guaranteed buyout offer is a "generous benefit and the Company takes a significant financial risk should the home not sell during the marketing period."
- The employee must consistently present the property in a clean and well maintained "ready for sale manner" while supporting reasonable marketing strategies.
- The home must be listed in compliance with the Home Marketing Assistance program for a period of 120 days prior to initiation of the guaranteed offer process.



- The employee would be guaranteed 95% of the average of 2 ERC appraisals.

Example:

Appraisal 1 - \$302,000	Guaranteed Offer to the employee:
Appraisal 2 - \$298,000	\$285,000
Average of Two Appraisals - \$300,000	(95% of the average of two appraisals)

- Once extended, the offer acceptance timeframe was shortened from 60 days to one week to further maximize the client's marketing window should the home go into inventory.

The Results

Ideal Corporation is trending positively for 2008, with only one home going into inventory and average costs of resale property spend down to 10.6%, without negative impact on employee satisfaction. The discounted guaranteed buyout approach may allow for an employee to have more incentive earlier in the process and facilitate a change in strategies for selling the home prior to having to accept the company buyout.

While the practice of a discounted buyout has not been widely adopted by the relocation industry as a whole, it may serve as an effective technique as markets continue to adjust downward.

About Paragon

Originally founded as a relocation consulting company specializing in domestic and international relocation and global assignment program development consulting, our mission was to develop cost-effective mobility programs that offered more services to the transferring employee, at less cost to the organization. Today, we maintain an extensive consulting practice focused on global mobility issues in their entirety.