Developing a Strategic Inventory Management Program

When employees accept a relocation, it often involves the sale of their current property through a home sale guarantee program. Under pressure to get to their new job in the new location in a timely fashion, these homes often remain unsold and are bought out by the corporation.

This can be one of the most difficult provisions of a mobility policy to manage and can result in significant expense to the company. In the case of executive homes, this could be hundreds of thousands of dollars. However, there are strategies available to keep homes out of the inventory management pool and to assist in the quick sale of any properties entering inventory.

Strategies to Keep Homes Out of Inventory

Every home that enters a guaranteed home sale program could be destined to enter the inventory management program. To protect the company from acquiring a home that may require significant repair upon takeover, it is recommended that inspections be conducted and any necessary repairs be completed by the transferee. At a minimum, a general home inspection should be conducted on the property. This will identify any issues such as structural, safety problems or pest infestations. In many areas, other inspections may be required or recommended such as septic, pool or radon testing.

Inspections

Inspections are typically returned to the Relocation Management Company or directly to the company that ordered them. They are not usually shared with the transferee in Canada. ‘Buyer Beware’ still applies in Canada and homeowners are only legally bound to disclose any issues that they know about including latent defects such as asbestos (a fault in the property that could not be discovered by a reasonably thorough inspection). Therefore, releasing an inspection to the Canadian homeowner can result in them gaining knowledge of any and all potential issues which then can legally obligate them to share this information with potential purchasers. However, in the US, inspections are always released to the transferee. Homeowners there are legally bound to disclose everything known about a property to the potential purchaser.

Repairs

Inspections often result in recommendations for repairs on the property prior to its acceptance into a home sale guarantee program. Again, this protects the corporation from incurring the cost of repairs if the property enters inventory and also enhances the marketability of the property.
Safety and health issues such as the existence of mold should be repaired or remediated. Water penetration, structural problems, potential insurance issues such as a roof beyond its life expectancy and any latent defects should all be repaired prior to the acceptance of the transferee’s property into a home sale guarantee program.

**Marketing the Property**
Along with the inspections and repairs, appraisals of the transferee’s property would have been completed. These should be carefully reviewed along with the real estate agent’s opinion of value. If time permits, it is always a good idea to have two Realtors prepare a market analysis.

All of this information ensures that the list price has taken everything into consideration, including the location and local market conditions. Many policies include list price restrictions during the transferee’s marketing period. This can expedite the sale of the home within a reasonable time frame. Properties should always be in good condition and neat and tidy.

**Home Warranty**
Transferees may find that a Home Warranty is requested from potential purchasers at the time an offer is made. Home Warranties protect the purchaser from any deficiencies found after the purchase is complete. It is very typical in US transactions and is also available within Canada. A Homeowner Warranty covers defects in major systems in the home such as central heating and interior plumbing for 90 days from the inspection date. Warranties are usually part of the concession by the seller and not necessarily an entitlement within the mobility policy.

A Home Warranty can be a valuable selling tool in any market as it adds “peace of mind” to potential buyers and sets the home apart from others being offered “as is”. Home Warranties come in many different forms and coverage options. Most include a home’s major systems and built in appliances for a period of one year from the date of purchase for the buyer. Some will include limited “seller’s coverage” for up to 120 days until closing. The cost is in the $300 to $400 range and payment is not due until the home sells and closes.

**Strategies for Managing Inventory Property**
Once the transferee has done their best to sell their property and it remains unsold, the company will purchase the property from the transferee. This allows the employee and family to move on to their new life without the added stress of potentially owning two homes. Upon entering the inventory management program, there are critical issues that must be addressed:
• Re-evaluation of the property - Is the current list price appropriate? Is the Realtor effective? Does the Realtor need to be replaced?
• Ongoing maintenance – e.g., grass cutting, snow removal, utility payments
• Development of a new marketing plan – Have market conditions changed? Are we entering a faster/slower period of real estate activity?
• Design pricing strategies – What is the best way to attract potential buyers? Price Slashing...Incentives...Bonuses?

Assessing the Property for Resale
Depending on the length of time the property had been listed for sale, it may be prudent to order new appraisals on the property. Additionally, a review of the real estate agent is likely in order. Changing the agent can result in a fresh, new outlook on the property. However, depending on the location, it may be of benefit to retain the agent...especially in smaller communities. At a minimum, the agent should provide a new market analysis at the time the property enters inventory.

Location...condition...price...all three are keys to the successful and quick resale of an inventory property. A complete reassessment of these areas must be conducted.

- Location
  - Is there something unique about the location?
  - How was this location marketed and to whom?
- Condition
  - How does the property compare to its competition?
  - Is the interior in neutral colours?
  - Is the exterior inviting or does the property look abandoned?
  - What were the agent’s recommendations on improving the condition when originally listed?
- Price
  - What is the current agent’s recommended list price?
  - How many showings have occurred/second showings?
  - Have there been any offers?
  - Were any incentives offered during the listing period?

Repairs/Improvements
By the time a property enters an inventory management program, any required repairs should have already been addressed. In some cases, there may be extraordinary circumstances that require additional repairs in order to make the property more marketable. There may also be
unforeseen repairs that result from severe weather or issues that were previously hidden from view.

In many cases, minor repairs may be left to negotiation with the potential purchaser of the inventory property. This includes items such as deferred maintenance, cosmetic issues, broken window seals and leaky faucets. Cosmetic improvements may be required if the property has an unusual or unattractive colour scheme or is in need of a fresh coat of paint.

**Property Maintenance**

It is imperative that vacant property insurance be obtained to ensure proper coverage is in place while the home is vacant. Utility accounts should be transferred from the current homeowner into the name of the company managing the property. Ongoing maintenance such as cutting lawns, snow removal, etc., should be managed by either the Realtor or a property management company. It is important to keep the property in good condition for potential showings. Property taxes must also be addressed to ensure that the taxes are being paid to the proper governing authority on a timely basis.

In Canada, many companies choose to pay out the employee’s mortgage as it is difficult for transferees to try to continue to pay the mortgage on a property that they no longer own. In the US, mortgage payments can continue to be paid on the employee’s behalf by a third party.

**New Marketing Plan**

Once any required repairs and improvements have been completed, a fresh marketing plan should be implemented. Many properties entering inventory may have been on the market for upwards of 90 days and could require a new approach to marketing. The following should be taken into consideration when devising a new marketing plan:

- Marketing history: number of showings, offers, price reductions.
- Current condition of the property – will staging assist in a quicker sale?
- Buyer incentives such as offering to pay property taxes for a period of time.
- Realtor bonuses to offer additional incentives to get the property shown and sold quickly.

There are many different strategies that can be employed prior to what may be an inevitable price reduction and resulting loss to the employer.

**Price Reduction Strategies**

In some cases, even when many of the previous strategies have been put in place, price reductions are the only way to get a property sold. Pricing should be reviewed every 30 – 45 days and appropriate reductions made. The number and size of reductions in pricing may be
dependent on the time of year, the current sales activity in the area and the feedback received from the potential purchasers and other Realtors.

There is no one particular strategy that one can employ to guarantee a timely sale of an inventory property. Many different independent factors must be considered along with potential pricing reductions. The best way to ensure success is to assist the transferee with the proper marketing and pricing of their home at the onset, so as to avoid the home entering the inventory management program. While you can never avoid inventory property all together, applying these strategies can assist you in minimizing the impact of inventory property and reduce the overall costs of the mobility program.