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INNOVATIONS IN RELOCATION TECHNOLOGY

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RENOVATION LOANS

FOR TRANSFEREES

A TOOL FOR FINDING THE HOME OF THEIR DREAMS IN TIGHT REAL ESTATE MARKETS

By Michelle Sandlin, CRP, GMS-T

One of the greatest challenges facing relocation homebuyers today is the low inventory of available properties in many real estate markets across the country. The past few years have been marked by a frenzy of real-estate activity, compounded by multiple offers and bidding wars as buyers compete for properties in markets where inventory levels have sunk to historical lows.

This creates significant complications for relocation homebuyers, as well as for the real estate agents who assist them. The lack of inventory also creates issues and challenges for the corporations and relocation management companies (RMCs) that are trying to ensure that the transferee is able to move into their new home and settle quickly into their new location.

The diminished availability of properties in many of the tighter real estate markets has caused much frustration among relocation homebuyers who have found themselves losing out to other buyers in bidding wars. In many cases, they are not even losing their first-choice property, but their second, third, fourth, or one even lower on their list, which only adds to the frustration. And, of course, relocation buyers have a small window of time in which to choose a home and execute a contract on it.

WHY NOT JUST BUILD?

The shrinking inventory, coupled with buyer frustration, often leads to relocation buyers needing to extend their temporary housing arrangements. It has also driven many relocation homebuyers into builders' offices, opting to construct a new home in lieu of waiting for other properties to hit the market and opting out of potential bidding war situations.

While building a new home might seem like an obvious solution to the problem of low inventory, there are also some drawbacks that are worth considering.

For one thing, building a new home takes time. In general, it can take more than six months to complete the construction, and the transferee and family will still need a place to live in the meantime. If their relocation benefit includes temporary housing, it generally will not cover the entire amount of time that it will take to build a new home. Thus the corporation and/or RMC may be faced with extending that benefit and potential exceptions to company policy.

Prolonging the transferee's temporary accommodation, and the lengthy time frame for building a new home, can also hinder the transferee's ability to settle quickly in the new location and be able to focus on the new job.

In the global mobility world, creative solutions are often needed to alleviate critical challenges. Corporations, RMCs, and the real estate community need to be able to offer viable alternatives to traditional norms.

One such alternative is the renovation loan. While renovation loans are not new to the global mobility industry, they are growing in popularity and in acceptance as a practical solution. This is particularly true in real estate markets where consumer demand is far outpacing inventory availability.

WITH A RENOVATION LOAN, THE BUYER CAN PURCHASE A PROPERTY THEY LIKE AND TURN IT INTO A HOME THAT THEY WILL LOVE.

WHAT EXACTLY IS A RENOVATION LOAN?

David Ricci is vice president, business development, for PrimeLending, which is headquartered in Dallas and owned by PlainsCapital Corp., a subsidiary of Hilltop Holdings. Licensed to originate and close mortgages in all 50 states and with more than 270 branches nationally, PrimeLending has a long history of partnering with RMCs to provide relocation mortgage programs directly to corporations.

Ricci explains that in general terms, renovation mortgages allow borrowers to roll the cost of home improvements into their mortgage for one monthly payment. It is one loan, with one application and qualification process, and only one set of closing fees. The loan amount is based on the value of the home after the improvements have been completed. Therefore, the appraised value is based on the improvements to be made on the property, rather than on the property in "as-is" condition.

There are different types of renovation loans. Ricci says PrimeLending currently offers 11 different renovation/escrow products, and they also offer a one-time-close product for new construction. He says they work with the homebuyer to determine which program is best, based on the specific work the buyer wants to have done to the property.

"We have renovation solutions from small upgrades and repairs to programs that allow for adding square footage, a pool, and an outdoor kitchen," says Ricci.

He adds that the application and approval process for a renovation loan is fairly simple.

"The process is pretty much the same as with any traditional purchase loan, with one exception: The transferee will work with their real estate agent to source a local contractor and obtain a detailed bid before we order the appraisal. If the contractor and bid information is provided within 10 days from application, we can usually close the loan within 30 days from date of application."

PrimeLending registers the contractor and works with the homebuyer to ensure that their agreements will work within the parameters of the renovation product that they select, then manages the draws to the contractor to make sure that the work is done in a timely manner. They also inspect the quality of the work, Ricci says, and they do an additional title check prior to the final draw distribution to ensure there are no liens on the property. This gives the homebuyer a higher degree of comfort and confidence throughout the process.

ADVANTAGES OF RELOCATION LOANS

Ricci offers three basic reasons why renovation loans are a good alternative for relocation buyers and why this type of home loan is growing in popularity: Approximately 1 in 4 properties are in need of some level of remodeling or updating; property inventory is limited in various markets across the

WHAT IS RENOVATION FINANCING?

- Buyer finances the home purchase price plus the cost of repairs or remodeling.
- One application.
- One approval process.
- One closing.
- One monthly mortgage payment.

country; and with a renovation loan, the buyer can purchase a property they like and turn it into a home that they will love.

"The typical homebuyer mentally compiles a list of items that they are going to want to do once they move into the property," Ricci says. "Others may decide against a property because of a few items that are unappealing to them. With a renovation loan, the buyer can fix all of that and put it into one loan, and the work can begin as soon as they close on their new home."

Renovation loans also offer advantages for several stakeholders in the relocation process, especially in real estate markets where the inventory is low.

A renovation loan can offer transferees more housing options within their desired location because it broadens the scope of their search criteria, thus increasing the number of available properties from which to choose. Rather than just looking at properties that already have every amenity and detail that the buyer is looking for, they can also consider properties that have many of those aspects but that might need some updating or improvements.

Ricci says, "A renovation loan allows a transferee to buy a home and make that home fit their specific needs, whether it is updating the condition of the home or adding the needed space or amenities that match their lifestyle."

In contrast to the time it takes to build a home, Ricci says, the typical renovation can be completed within 60 days of closing on a property.

The employer also benefits when a transferee uses a renovation loan, because it means the transferee will generally be able to settle more quickly in the new location.

"The overall intent of the corporation's relocation policy is to get their transferee productive in their new job as quickly as possible," says Ricci. "In many markets, a renovation loan is the quickest route to that outcome for the transferee and their family."

REAL ESTATE AGENT'S PERSPECTIVE

For the real estate agent, this means there will probably be more properties to show the transferee, because those that might need to be updated or renovated can also be included and are available for consideration during the home search.

A primary example of this is the San Francisco Bay Area real estate market, which is home to Silicon Valley and has become a hub for social media and high-tech companies, as well as many biotech companies.

Michi Olson, SGMS, is vice president, global business development and relocation, at Alain Pinel Realtors in the San Francisco Bay Area, which is one of the hottest real estate markets in the country. As of this writing in early February, Olson reports that the Bay Area's real estate market is experiencing less than one month's inventory.

This makes Olson's market ideal for transferees who might want to consider renovation loans. She says some people can see the potential in a property right away, but they may not be aware of or have thought about a renovation loan as a possible option.

"There are just a few weeks of inventory, and we have such a pent-up demand that it is slim pickings, so buyers can't always get the perfect home. When they see a home that is a fixer-upper or that needs an upgraded kitchen or bathroom, I think it's great for them to know that there is such a thing as a renovation loan," says Olson.

In many cases, Olson says, renovating a property could mean that the transferee can't move in until the work is completed, but that is not necessarily always the case.

"Some of them are still renting, or they will just live in a portion of the house while the work is being done. If it's just the kitchen, then maybe the transferee can live in the rest of the house while the kitchen is being updated," explains Olson.

If transferees are aware of the renovation loan as an option, they may be more open to looking at properties that don't have everything that they may be looking for in a home, but that may have enough of those elements to be considered.

For example, a transferee might see a property that is in desperate need of updates but is in the neighborhood or area where he or she wants to live. With a little imagination, the assignee may be able to look beyond what is needed in the property and focus on how it will look after the improvements have been made.

EXAMPLES OF REPAIRS/ IMPROVEMENTS THAT CAN BE DONE WITH A RENOVATION LOAN

- Room addition
- Bathroom remodel
- Siding
- Energy-efficient improvements
- New flooring
- Landscaping (not available for all loan programs)
- Kitchen update
- Roof replacement
- Electrical upgrade
- Additional square footage
- Plumbing repairs
- Termite damage repair
- Mold remediation
- Interior and exterior painting
- Attic and crawlspace ventilation
- Installation of carbon monoxide and smoke detectors
- Foundation repair

There could even be minor, less obtrusive reasons for a transferee to be hesitant about a property, such as having carpet in areas of the house where hardwoods are preferred. Whatever the reason, renovation loans can help relocation homebuyers make updates, improvements, and additions that help turn a not-so-perfect home into their dream home.

ABILITY TO CUSTOMIZE

Darren Wagner, CRP, is vice president of real estate services for Lexicon Relocation, headquartered in Jacksonville, Florida. He says renovation loans offer transferees the ability to customize a home in a way that fits their personal style and taste, while making improvements that will potentially increase the value of the property.

"Transferees are commonly looking in usually high-cost housing areas, where the most readily available real estate is a home that needs some renovation," says Wagner. "Commonly, we all want to modify a home in some way and have some customization. If I redo a kitchen, I might want two dishwashers, and someone else might want a super oven or a stove that's not the norm. Some might really care about their master bath and want a freestanding tub or a huge shower. The customization of what that individual family desires to make the house a home can be achieved by using this loan."

Wagner adds that renovation home loans offer a shift in traditional thinking about how to finance updates and repairs. He says renovation loans also allow transferees to see beyond what the house looks like today and visualize what it can look like in the near future.

Transferees who consider buying a home with the intention of renovating it should also consider whether or not certain improvements will really increase the value of the property when they get ready to sell. This is where the real estate agent and appraiser can work together with the transferee to offer guidance and minimize the risk of over-improving the property. The transferee is able to leverage the real estate agent's local market expertise and be advised as to the updates and property amenities that make the most sense and are consistent for the specific neighborhood or area.

Ricci sums up, "The PrimeLending Renovation program has brought great options to many of our transferees. It has opened the door to families to have the option to find a home with a great layout and flow, but that may need some updating, or additional square footage to accommodate family size, or just general customization based on personal preferences."

At the end of the day, it is really about being able to offer more choices, new ideas, and creative solutions to whatever problems or issues may exist for the client or customer. In so doing, we in the mobility industry are creating greater customer experiences. *M*

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