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The commercial classroom: What is a referral worth?

March 19, 2015 - Connecticut

This column is offered to help educate agents new to commercial and investment brokerage and serve as a review of basics for existing practitioners.

To maximize success, a commercial real estate agent must build a referral network of clients and other agents.

Satisfied clients and customers are a great source of new business opportunities, but you have to ask for the referrals. Often this is done at the closing or lease signing and then is forgotten about. Periodic reminders may be required to encourage this "word of mouth" advertising. Consider visiting your clients after the deal has closed on a regular basis or send out a monthly newsletter; always closing by asking if they know of anyone else you may be of assistance too.

A residential agent who sells their buyer a home knows a lot about that persons' business or employment. Many residential agents and firms specialize in that area and do not do commercial brokerage. Build a referral "army" of these agents! We do not want to interfere with their transaction process, but after the home sale closes encourage them to introduce you to their clients. Offer to pay them a referral fee if the customer uses your services now or in the future to buy or lease commercial property.

To make everyone feel comfortable you probably want to have a simple agreement between your firm and the referral agents firm. You may also want to add, that if the customer wants to buy another home that opportunity would go back to the residential agent.

When it comes to referrals or co-broking the question of what is an appropriate fee must be determined. To answer this, I usually reflect on who is doing the work. (There are no rules here, all commission rates and splits are subject to negotiations between the parties.) Sometimes there is a perception issue with the referring agent, that they want half the commission because it's their customer. But they are not going to be doing half the work! They probably do not have the commercial resources necessary to really service the customer and forget that half the commission may be going to a listing broker.

To me an ideal referral is an actual face-to-face meeting and introduction, here I consider a referral fee of 25% of the side warranted. If all I am getting from the agent is a customer name and contact information, and I am going to do all the work; 10% of the side is all I would pay as a referral fee.

We run into another situation when an agent knows of another agent who has listed a property, and also knows of a third agent who has a buyer or tenant looking for that type of property. This agent is really serving as the "Coordinating Broker"- bringing other agents together for a common goal.

A three way split of the commission is too often proposed; again I go back to the question of who is doing the work. The agent in the middle may feel there would be no deal without their putting these

two together, but beyond that what will this agent do to bring about a meeting of the minds? Perhaps a fee for the agent in the middle of 10% of the gross commission (5% from each side) would be fair and reasonable.

In developing your referral network, think long term relationships with these agents. Reasonable fees will promote additional referrals.

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