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Avoiding Broker Control Conflict

Best Practices for Client and Deal Referrals

By John Culbertson, SIOR, CRE

Eighties survivors and heyday enthusiasts will probably recall an infectious ditty called “Everybody Wants to Rule the World.” These days, if that song were to be repurposed for an audience of brokers, not only would the tempo be significantly hyped-up, but the title of the song would be changed to “Everybody Wants to Rule the Referral.”

Okay, maybe that wouldn’t exactly catch Top 40 fire in quite the way it did some twenty-seven years ago, but it would certainly speak volumes to one of the most challenging issues facing brokers today: how to build a referral pipeline.

If you’re a veteran of the tug of war that often ensues when doling out or working an inbound referral, you’ve probably got the battle scars to prove it. But what if I told you that it doesn’t have to be this way? That there’s a way to actually put in place a foolproof method of processing client and deal referrals that will always result in a satisfactory three-way outcome for the referring broker, the receiving broker, and the client? Maybe it’s not a novel concept – but then sometimes the best ideas in the world revolve around common sense. Let’s take a closer look at what you can do as a broker to make the process of referrals as smooth, painless, and financially beneficial as possible.

The Referring Broker: Meeting Your Match

Your first step as a referring broker should be to interview at least three other brokers to determine if they’ll be a good fit for the project. Although the vast majority of brokers who are reaching out to others in another geographical region already perform some sort of informal Q&A, it’s important to probe a bit further than the surface. At the 2011 SIOR Fall World Conference in Chicago, I moderated a panel discussion about referrals, during which it was often mentioned that a great referral results in a partnership where you are confident in placing a great deal of trust in someone. Panelists said that they often use the SIOR network, but they do not simply rely on someone who is con-

sidered a product or submarket expert. They asked tough questions about their processes and experience. Also mentioned during the panel discussion was how the referring broker, who is on the pulse of the specifics of the deal, always offers full disclosure to the receiving broker. The important tip being: be realistic and brutally honest about the client you’re serving, the odds of whether or not the deal will be made, and the amount of work that’ll be required to close the deal. The result will be proper expectations that will lead to a smoother transaction.

The Receiving Broker: Dress to Impress

Receiving brokers have to treat all opportunities with as much seriousness as they would any new assignment pursuit. When a referring broker reaches out, it’s likely that there will be other opportunities in the future to take on additional referrals from this source. For this reason, it’s always in the receiving broker’s best interest to do the most comprehensive job possible, following the referring broker’s requests to a tee and striving to be a dependable resource. It has been my experience that when staying inside the SIOR network, a spirit of good will is quickly established and deals tend to go more smoothly.

Avoiding “Control Conflict” by Defining Duties

Let’s speak frankly. It’s in the nature of all brokers to try to control a deal. Ultimately, the level of control that he or she exercises determines how the commission will be split. There’s nothing wrong with this—everyone here is in the business to make a living for themselves and their families. But there comes a point when struggling too hard for control can actually create a self-fulfilling prophecy of doom that results in a complete loss of control.

If you’re the referring broker, you may feel that it’s in your best interest to control the deal by doing the most amount of work and by relying on the receiving broker to take care of the things you can’t. If



you're the receiving broker, you may feel that it's in your best interest to do the lion's share of the work in order to boost your cut of the commission. Ultimately, pulling too hard can create some unwanted results: if a referring broker is too controlling, resentment may build from the receiving office and the level of service will suffer. Wise brokers recognize that our community is relatively small, and an individual can earn a reputation for being overbearing. If a receiving broker is too controlling, they run the risk of chasing away future lucrative referrals. Assigning duties ahead of time and determining who'll be in charge of what eliminates the possibility of a battle of the wills erupting.

In order to avoid control conflict, determine which broker will be in charge of:

- Direct communication with the client for the coordination of their interests.
- Coordinating with local developers and third-parties.
- Evaluating alternatives and drawing up a short-list of properties.
- Negotiating the proposal and lease terms.

Spell It Out

When coordinating duties, never rely on a verbal agreement. The spoken word is far too easy to misunderstand, and if you doubt the veracity of that statement, just look back to the aforementioned 80s pop classic and take note at how easy it would be to mishear the refrain and take it for "Everybody wants to mow the lawn..." Instead of resting the fate of a real estate deal on the ability of both parties to hear and – most importantly – remember the fine details, get it all down in black and white. This will require you to create a checklist that explicitly states what duties you will be handling versus what duties the receiving broker will be responsible for.

Money Talks

Finally, ensure that you've talked about money before anyone lifts a finger. There are few issues in this world that can be as contentious as those having to do with money, and only a foolhardy individual would actually enter into a referral agreement without first discussing the split of commission – or getting an agreement in writing. According to a recent poll of SIOR members, a whopping 81 percent said that they have negotiated or re-negotiated commission splits after a deal has been completed. Needless to say, this scenario is one that's ripe for heated disagreements and should be avoided whenever possible. Not only is it important to agree to the fee split ahead of time, but both parties should also agree to a stated course of action if any disagreements about the split should occur down the line. It's also important to address a process for the re-negotiation of fee splits if one broker ends up having to do more work than they'd originally agreed to.

For a template that you can use as is, or that you can use as a model from which to cater your own agreement, visit the Cardinal Partners website *Resources* page and download the free sample broker referral forms that are included in the SIOR Fall 2011 Referral Best Practices Break-out presentation. www.cardinal-partners.com

According to Abe

Abraham Lincoln once said, "Give me six hours to chop down a tree and I will spend the first four sharpening the axe." Taken from one of the greatest minds in American history, this is a lesson that can be used in almost any situation or scenario. But when it comes specifically to the issue of referrals, it serves to emphasize the critical importance of taking the time necessary to put together a plan that will ensure your axe is sharp when it's time to take the first swing. Here's to doing just that. ♣