

AGENT | BROKERAGE

New research study digs into real estate referrals: They still dominate

How the referral system is working among top producing agents

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BY GILL SOUTH ★

Key Takeaways

- The close rate of a typical referral (inbound or outbound) was around 50 percent for the majority of report respondents.
- The majority of respondents (75 percent) make \$10,000 or less annually by referring business to other agents.
- Most respondents expect to receive 25 percent of the total commission when they refer out and prefer to pay around 25 percent when they receive a referral.
- Nearly 40 percent of inbound referrals come from the agent's sphere, with a majority of those coming from past or current clients.
- Another 40 percent of inbound referrals come from other agents.

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In a world where some [brokerages](#)' heads may have been turned by paid-for internet leads from portals, the agent-to-agent referral system still dominates agents' lead generation and is the foundation of many top producers' businesses, according to a new report from [ReferralExchange](#) and the [Council of Residential Specialists](#) (CRS), a National Association of Realtors affiliate.

"[The Agent-to-Agent Referral Economy: A study of the power of referrals in real estate](#)," which was conducted and executed by real estate consulting firm 1000watt, set out to explore every part of the referral process and found that a typical referral had a closing rate of around 50 percent for the majority of respondents. 1000watt interviewed 1,435 [real estate agents](#) via multiple-choice and open-ended questions in an online survey, then followed up with a few via phone.

Cold internet leads were not nearly as fruitful, said the authors.

"These leads amounted to names and email addresses of people who were at best passing by, a far cry from a personal recommendation from a friend at a cocktail party or a colleague at the water cooler."

Relationships and human connections matter more than "the slot machine that is internet [lead generation](#)," said the report.

Convincing conversion rates of referrals

Referrals convert to closed sales at least half the time, which makes them worth some time and effort, said report authors.

And among the more than 1,400 high-producing agent respondents, more than 40 percent of respondents to this survey said that they received one to five referrals per year. Another 20 percent said that they received six to 10.

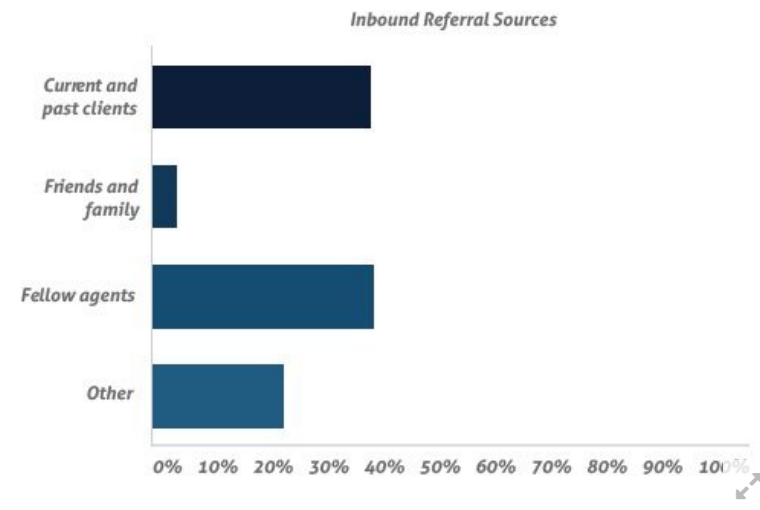
Respondents said the majority of inbound referrals resulted in a closed transaction.

Speaking to several agents directly, researchers were told they had the highest rate of success closing a transaction when the referral came from their own sphere of clients. The next-best referrals came from referral sources like their brokerages and corporate referral sites (such as ReferralExchange, the report's sponsor).

“The greater the connection to the source, the more likely the referral is serious and will lead to a closed sale,” said the report.

Agents said that the vast majority of inbound referrals come from their sphere (40 percent) and other agents (37 percent).

Nearly 90 percent of the referrals that came from an agent's sphere came from current and past clients, while another 10 percent came from friends and family. A further 22 percent of referrals came from sources including corporate referral sites and the agent's own brokerage.



One agent interviewed for the research said she worked a deliberate, strategic referral system, and the bulk of her business came from it.

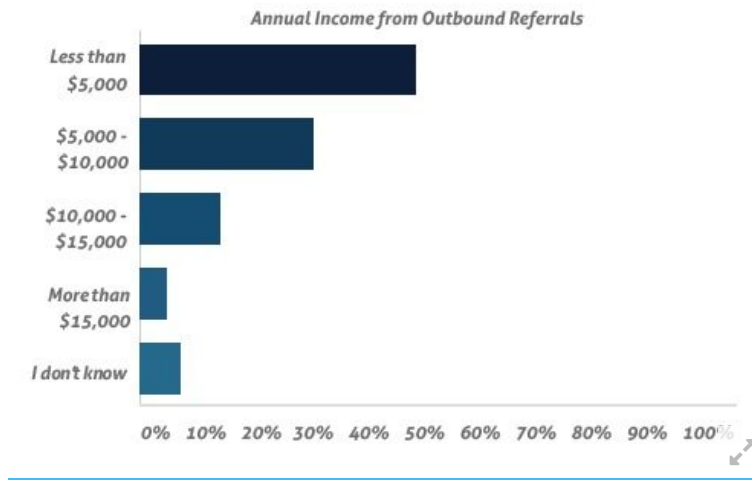
“She estimates that 60 percent of her referrals come from past clients and 40 percent come from third party affiliations. She currently has five pending sales from third party referrals,” said the report.

Outbound referrals and the risks

Looking at outbound referrals, meanwhile, the research found a third of respondents averaged 4 to 10 outbound referrals per year. Another third sent out two to three referrals per year.

Outbound referrals make up a median of 12.5 percent of total transactions per agent per year. The majority of respondents (75 percent) said they made \$10,000 or less annually by referring business to other agents.





The study found the vast majority of outgoing referrals in the “huge referral economy” are people within an agent’s immediate sphere. As agents must refer out when the purchase or sale falls outside their market, this creates a distinct need for agents to have trusted resources for outbound referrals, said the report.

Keeping your reputation safe when referring out

The primary concern of any top agent when referring out business is maintaining the reputation they’ve worked to establish with current and past clients.

Respondents were asked what challenges they found with outbound referrals; some said they found them difficult to track at times. In those cases, they might not know whether the client had received quality service or if the referral had resulted in a closed transaction.

The research found if the receiving agent didn’t provide the level of service the referring agent typically would, it could trickle back to the client, friend or family member who recommended them and affect future business or the fruit of that particular referral source.

Nevertheless, when asked why they referred out, a number said it was part of their business model and part of the service.

One respondent explained: “I’m in pre-retirement phase, so I want referrals to be part of my income plan in the future.”

Another said they did it because there were “making sure my friend, family member or client gets a true professional, wherever they are.”

Common referral fees

The fees agents receive from referrals vary, according to the study.

In the agent-to-agent economy, fees are usually negotiated with each transaction, depending on the relationship with the referral source and the nature of the transaction.

On outbound referrals, nearly two-thirds of respondents said they received a fee when the referral resulted in a closed sale. A small percentage of agents said they did not receive a fee for outbound referrals, while the rest said that less than half of closed referrals resulted in a fee.

Three-quarters of agents surveyed said that they expected to receive 25 percent of the total commission for outbound referrals. Roughly one-fifth of the agents would accept a 20 percent referral fee, while a small group of respondents stated

Those agents who expected a higher percentage than average tended to take into account the complexity of the transaction, the sales price of the home and the fee requirements of their brokerage.

Meanwhile, on the other side of the fence, the vast majority of respondents expected to pay some referral fee to the person or company who referred the client to them.

More than half the respondents preferred to pay a referral fee of about 25 percent, while over a third were willing to pay the referral agent or source 30 percent to 35 percent of the total commission.

The research found that just under half of the agents polled are making less than \$5,000 per year on outbound referrals, and about the same number of agents make \$5,000 to \$15,000.

Of the agents who make more than that per year on outbound referrals, more than half of them make between \$20,000 and \$50,000.

The report concluded that the referral business took some years for agents to build, and that newer agents should prioritize building their reputation first.

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