

The Agent-to-Agent Real Estate Referral Economy 2018

Second Annual Study of the Power of Referrals in Real Estate



REFERRAL EXCHANGE

person to person

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About This Research



In our first round of research on the agent-to-agent referral economy in the fall of 2016, we wanted to gain insight into this important, yet opaque portion of the real estate market known as referrals.

Our objective was to gather data points around this referral economy and begin to draw conclusions and implications for our market.

We followed up our research this year with some of the same questions and also did some additional follow-up interviews with agents one-on-one to get insights into how they manage referrals.

We learned about how much agents on average earn from giving or receiving referrals and were able to draw comparisons with the previous year's data. We learned more detail around who is using referral networks and which ones. And we learned more from agents about how they define referrals and leads and how they value each in their business.

The survey respondents are licensed, top-performing real estate agents who close a considerable number of transactions each year. The majority of respondents have been working in the real estate industry for at least 10 years.

Methodology

A total of 1,806 agents responded to this survey. Each respondent participated by completing an online survey, containing multiple choice and open-field questions. We followed up with selected agents and interviewed them by phone. 1000watt, real estate's leading brand and marketing agency, conducted this research.

The majority of agents who participated in the survey were members of the ReferralExchange Network. ReferralExchange is a consumer-direct and agent-to-agent referral service that works with top-performing agents from both independent and corporate brokerages nationwide.

About ReferralExchange



ReferralExchange uses a combination of data science and customer service to refer active home buyers and sellers to qualified real estate agents who have met ReferralExchange's high standards.

The ReferralExchange network includes over 20,000 top-performing agents covering 100% of the United States. The vast majority of agents have more than 14 years experience, more than \$5 million in sales, and have had 20 real estate transactions in the last 12 months. In 2017, the company helped connect over 215,000 agents and clients together.

ReferralExchange.com

Executive Summary



Agent-to-agent referrals remain the workhorses of the real estate business. Agents rely on them for a substantial portion of their sales each year, and also periodically depend on various networks for referring clients out to other agents.

In this research, we've attempted to quantify the percentage of business agents are doing via referrals and also compare some of our findings to last year's data.

This year, we added more detailed questions around which referral networks respondents are using and whether they have a referral resource within their brokerage. And we dug a bit more into how agents view referrals versus leads and the difference between the two.

Key Findings

The number of referrals increased slightly in 2017 from 2016.

Agents received a median number of 9 referrals last year, up slightly from a median number of 6 referrals received the prior year.

" 25% of agents earn between \$10,000 and \$20,000 each year in referral fees "

42% of agents earn \$10,000-50,000/year in referral fees.

Referral fees are serious business. About 25% of agents said they earn between \$10,000 and \$20,000 each year just in fees. Another 17% earn between \$20,000 and \$50,000; and another 8% earn more than \$50,000.

83% of agents are members of a referral network.

Referral networks pay off. Of the portion of respondents who said they belong to a referral network (e.g., Leading Real Estate Companies of the World, ReferralExchange, Buffini & Company), more than a third say that more than 20% of their inbound referrals come from these networks.

Executive Summary



The majority of agents using referral networks are not purchasing many leads for their business.

66% of these agents said they purchase no leads; 16% said they purchase up to 50 leads per year on average; another 16% purchase more than 50 each year.

Relocation managers are rare at brokerages.

Most of the agents in our survey - 62% - did not have a relocation manager at their brokerage that could facilitate referrals.

Agents generally receive more referrals than they send out to other agents.

59% of respondents said they send out less than five referrals per year, while 60% said they receive more than five referrals each year.

Many agents don't track the outcome of their purchased leads.

When asked what percentage of annual total income comes from purchased leads, 27% said they did not know.

" 27% of agents said they don't track income earned on leads "

Referrals are people who are ready.

While there's no formal definition of a referral, most agents view a referral as a person who's made contact with another person with intent to make a real estate move. Agents use words including "warm", "vetted" and "trusted source" to describe a referral. They use words including "cold" and "unqualified" to describe a lead.

Detailed Survey Findings



Referral Income

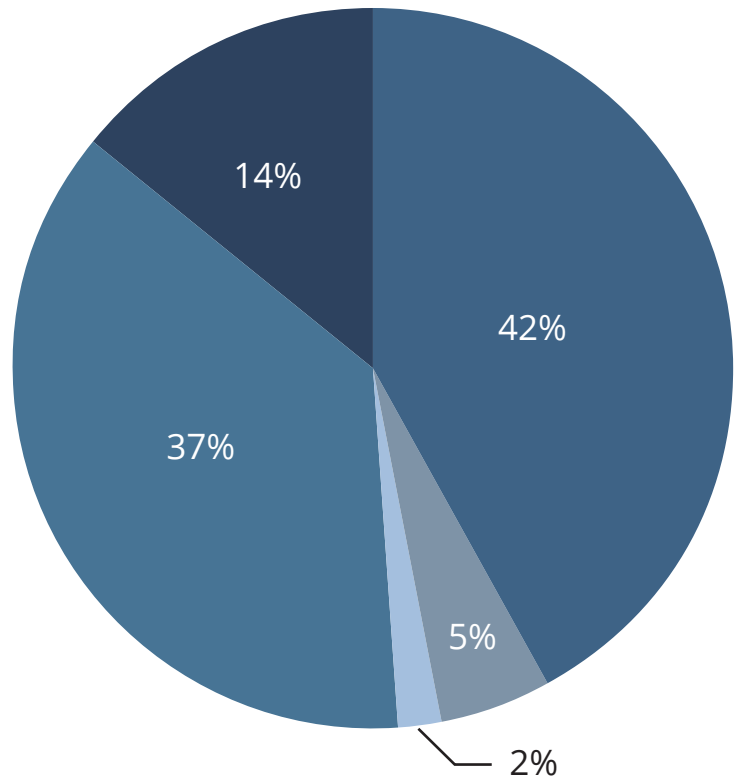
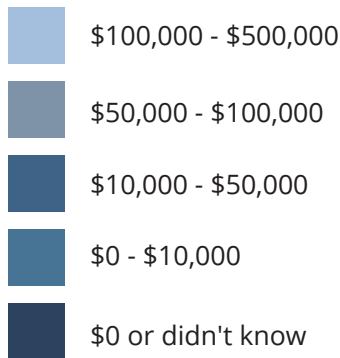
Dollars earned

In this report, we found that 42% of agents earned \$10,000-\$50,000 during the year on referral fees alone.

Another 5% earned \$50,000-\$100,000 on these fees last year. And 2% earned up to \$500,000.

At the lower end, 37% of agents said they earned up to \$10,000 on referral fees last year. The rest said they either didn't earn any referral fees last year or didn't know.

Estimated income earned on referral fees (both sent and received)



Detailed Survey Findings

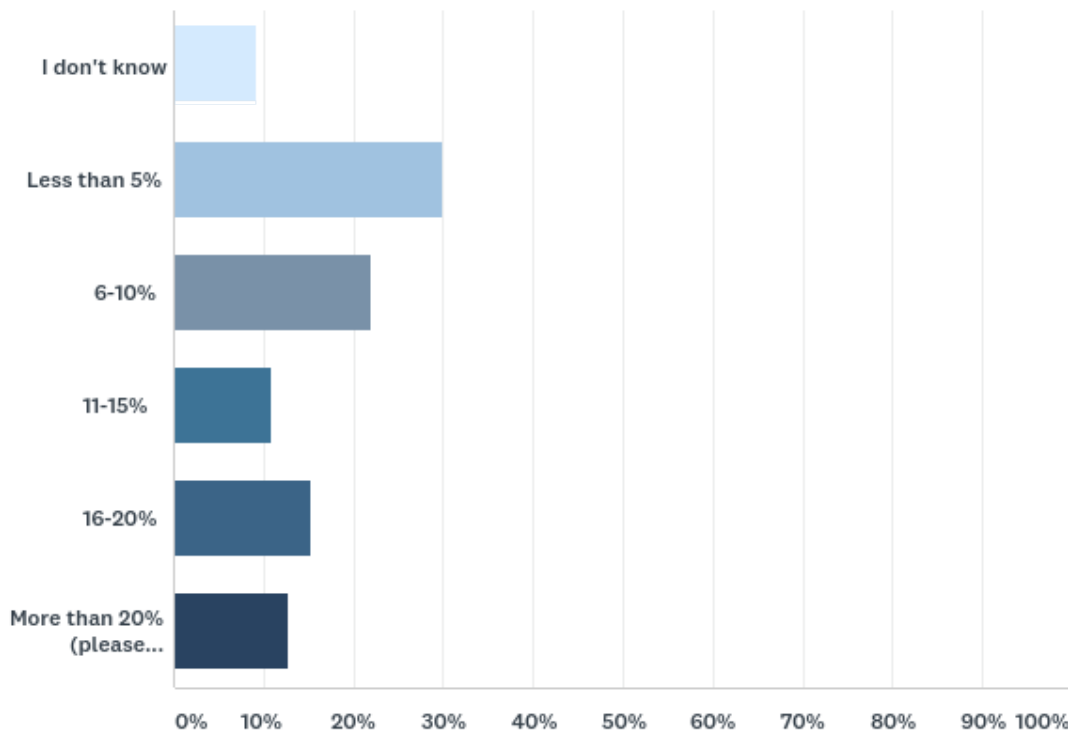


Portion of overall income

We also looked at the percentage of income referral fees make up for agents and found that referral fees account for up to 10% of yearly income for 52% of agents. Another 11% of agents said that referral fees made up about 15% of their annual income; and another 15% of agents said referral fees made up about 15-20% of their annual income; and 13% said these fees made up more than 20% of their annual income in 2017.

It should be stated that when talking with agents, many do not think about the monetary aspect of outbound referrals as much as they worry about maintaining their reputation and sending their client to a good agent who can help them. However, our research shows that this income can be significant for those agents who are referring a lot of business and tracking it.

Percentage of reported income earned on referral fees (both sent and received)



Detailed Survey Findings



Leads vs. Referrals

What's the difference?

In the real estate industry, the terms “leads” and “referrals” mean different things, but the exact definitions can be fuzzy. We asked agents to tell us in their own words the difference between the two:

Referral	Lead
Warm Better Vetted More solid Qualified Trusted source	Cold Inquiry Unqualified Random Chance Contact info

“A referral is a certainty. A lead is chance.”

Detailed Survey Findings

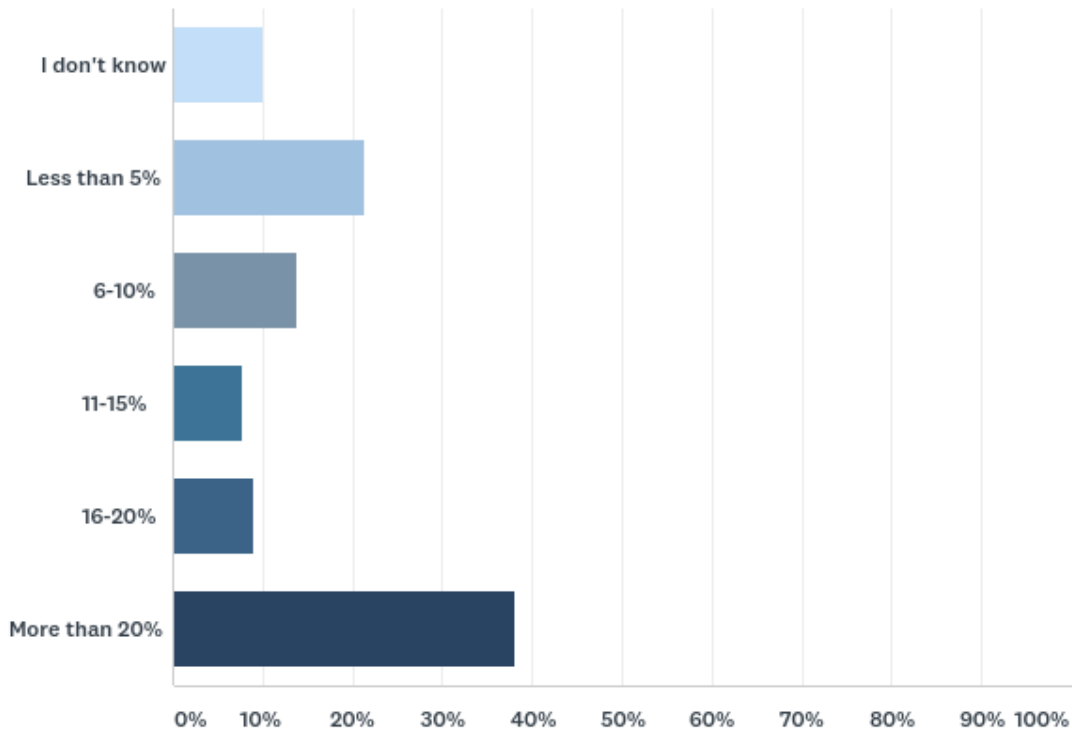


Close rates

We also examined close rates for referrals vs. leads to see how this data would stack up against the way agents view the two forms of business and found, unsurprisingly, that referrals tend to have a much better close rate.

38% of agents said that more than 20% of the referrals they receive and send each year will close.

Percentage of referrals each year, sent or received, that end in a closed transaction

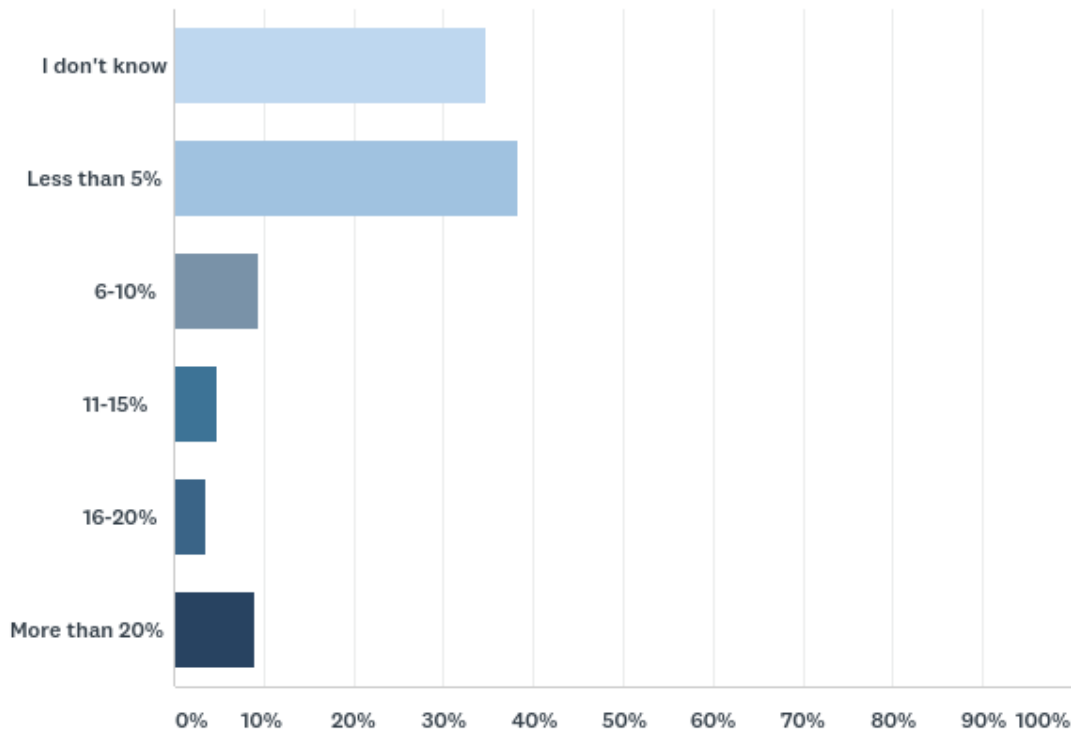


Detailed Survey Findings



Meanwhile, the close rates for purchased leads were much lower. 38% of agents who purchase leads for their business said that less than 5% of those leads will close on average. And only 9% of agents said that more than 20% of the leads they purchase each year will close.

Percentage of leads that result in a closed transaction



Detailed Survey Findings



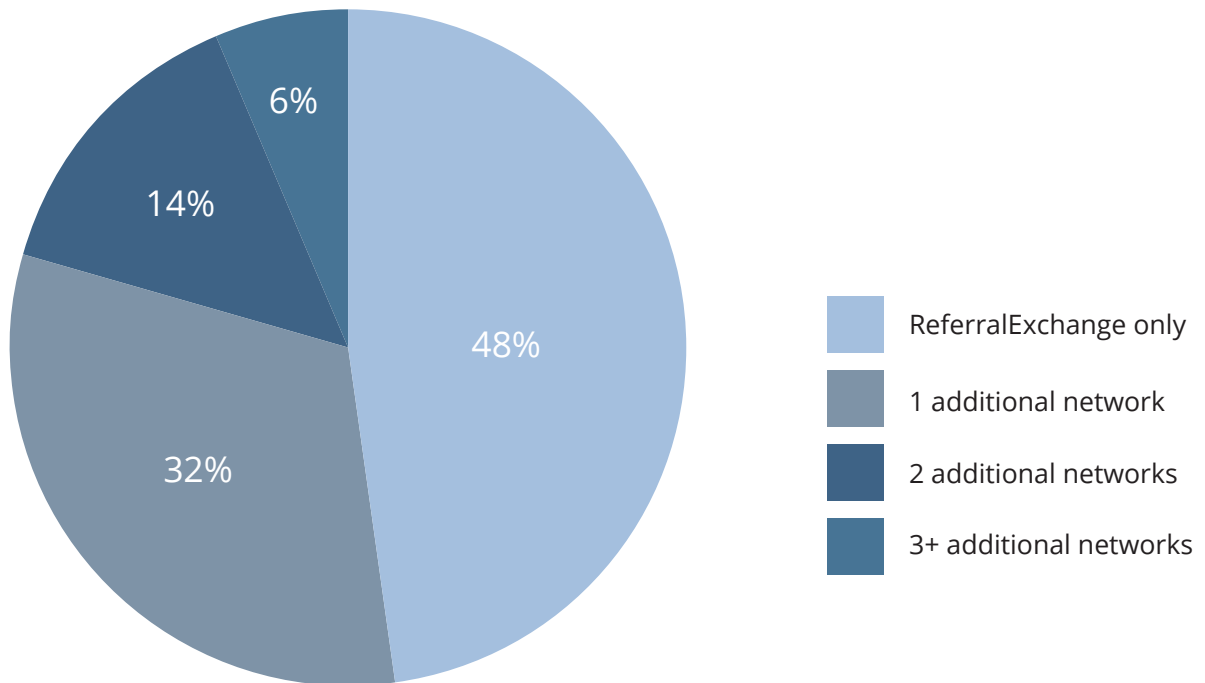
Referral Networks

In our survey, 32% of respondents reported belonging to at least one referral network in addition to ReferralExchange, while just 14% said they belong to two more. Another 6% reported belonging to three additional networks or more.

The most popular of these networks (in addition to ReferralExchange) include:

- Leading Real Estate Companies of the World
- Buffini & Company*
- CRS*

Percentage of agents in other referral networks



**Note: ReferralExchange has partnerships with these two organizations, which could have skewed the results of this question.*

Detailed Survey Findings

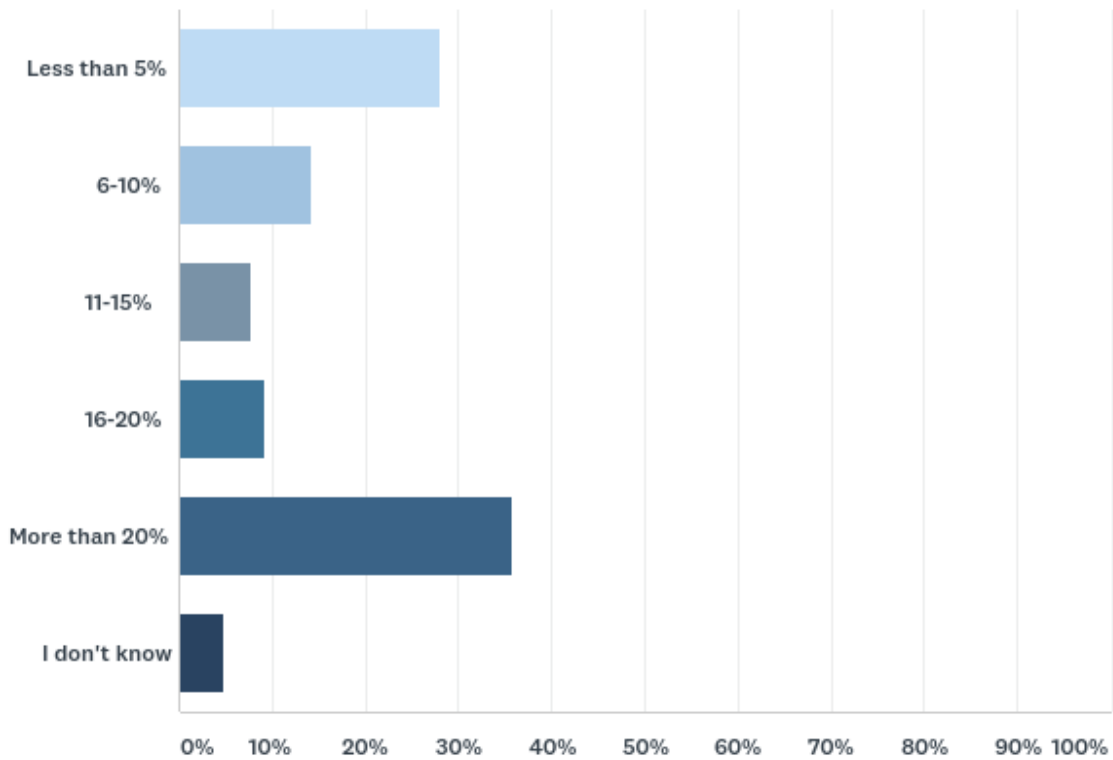


Business value

Referral networks offer two distinct points of value to these agents: they provide a reliable source for referring prospects and clients out to other qualified agents, and they also provide a solid source of inbound referral business.

Over a third of agents (36%) said that more than 20% of their overall inbound referrals come from these referral networks.

Percentage of overall inbound referrals from networks





Agent Commentary



As part of this study, we interviewed several agents to gain a deeper understanding of both the terminology within the referral economy and how agents handle referrals within teams.

Our interviews presented a spectrum of insights when it comes to servicing a referral. On one end was the especially referral-focused agent. For her, referrals are more than an extra check, but an extension of her brand. She services a referral with the same attentiveness as a normal client.

On the opposite end of the spectrum, we spoke with an agent who has developed an arm of his team specifically dedicated to qualifying purchased leads, with the sole intention of monetizing them through a referral network.

Lead vs. Referral

While several of the agents we interviewed tended to use the terms “lead” and “referral” interchangeably in conversation, all agreed that the two words mean different things:

“[A referral] knows I’m going to be calling. A lead...has talked to several agents.”

“A referral expects to be contacted; a lead is just someone who doesn’t know who I am.”

“[With a referral] someone has made contact, has made an introduction.”

“A lead is simply an inquiry on a property. A referral is a lead that’s been qualified: The person giving the referral has taken time to ask specific questions that qualify that lead.”





Referrals Within Teams

When it comes to inbound referrals, we found that teams handle these in a variety of ways, and no two agents we interviewed gave the same response.

One agent we spoke with said he doesn't let any inbound referral leave his team. "If one of us isn't available to handle the lead [or referral] it goes to the next person on the team, that way we don't miss any leads or referrals. Nothing slips through the cracks."

Meanwhile, other teams are more selective of the referrals they take on. According to one agent, a member of her Los Angeles-based team asks a number of questions to a pre-qualified referral in order to decide whether they take that person on as a client. "I really look to see if we're going to be a good match to serve them well. I ask what they're looking for, what neighborhoods they like, if schools are important, who is going to live in the home. Then I decide if we're the right fit."

Yet another agent we spoke with has a team dedicated to qualifying leads for the sole purpose of selling them back into a referral network. "I'm cultivating leads from other markets and sending them out. I purchase monthly leads in another market, and then I have someone who calls them to qualify. Once they're qualified, I put them back into the network."

Implications



Even as the world around us inches ever closer to a reality powered by artificial intelligence, real estate remains very much a relationship business. Smart, top-producing agents know this and run their businesses accordingly.

For instance, agents receiving and giving a lot of referral business aren't wasting much time or resources with "leads" - a referral's less qualified, less vetted counterpart. In fact, many of the agents who participated in this survey (66%) do not purchase leads at all.

" Relationships and human connections matter, certainly more than the slot machine that is internet lead generation. "

The data we collected further highlights the value of human contact in the lifecycle of a person's home-buying or selling journey. Agents for the most part see a prospect who's spoken to another human about their real estate needs as much more qualified and therefore more likely to close.

This study also examined which resources are available to agents for both outbound and inbound referrals, both within their brokerage and outside of it. What we found was that relocation managers - typically the person or department charged with successfully handing off referrals to partners out of the area - are rare at most brokerages. This may be why so many agents (83%) belong to an outside referral network.

Another interesting finding in this study is the emergence of what we're calling "lead flippers". These are agents who have created systems for generating leads they never intend to service on their own, then turn them into referral income.

These agents have found a smart way to monetize leads without having to spend any time qualifying them. They're using referral networks to create a win-win-win for all parties involved: the consumer gets connected to a vetted agent who can help them;

Implications



the agent who gets the business gets a vetted consumer who's very likely to close; and the referring agent (aka "lead flipper") gets a finder's fee for the referral and also value to their overall brand.

Lead flippers are smart and resourceful, but they are a minority, according to the data we've collected. In fact, many agents still view the referral fee as simply icing on the cake and remain more concerned with getting their prospect or client connected to a quality agent who can help them.

Appendix



We're including a snapshot from our first study of real estate referrals, conducted in 2016, for comparison. Please note, these findings were previously published in ["The Agent-to-Agent Referral Economy"](#) in January 2017.

Key findings from last year's report:

Referrals aren't purely important to agents for their monetary value. Many agents' primary concern when referring out business is maintaining the reputation they've worked to establish with current and past clients.

The close rate of a typical referral, whether inbound or outbound, hovered around 50% for the majority of respondents.

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

Over half (58%) of outbound referrals are generated from past or current clients. The rest come from a combination of family and friends, other agents, referrals companies, and raw leads.

Most respondents expect to receive 25% of the total commission when they refer out and prefer to pay around 25% when they receive a referral.

Nearly 40% of inbound referrals come from the agent's sphere with a majority of those coming from past or current clients. Another 40% of inbound referrals come from other agents

(Source: The Agent-to-Agent Referral Economy, published by ReferralExchange, January 2017)