

# The Agent-to-Agent Referral Economy

A Study of the Power of Referrals in Real Estate

Produced By



Council of Residential Specialists  
The Proven Path To Success

# Table of Contents

3 - About This Research

4 - About ReferralExchange & CRS

5 - Executive Summary

7 - Detailed Survey Findings

15 - Implications

# About This Research

Our objective was to gain insight into the process, outcomes, challenges, and compensation within what we have termed real estate's "Referral Economy" in an effort to convey the inner workings of this critical segment of the real estate industry.

We learned who generates referrals and how; who receives referrals and how. We answered the often pondered question about what a referral is worth monetarily to both the referring agent and the receiving agent.

The survey respondents are licensed real estate agents who close a considerable number of transactions annually. Nearly half the respondents estimate they close 10-25 transactions per year, and another 41% close 26-75 per year. The majority of the respondents have been working in the real estate industry for at least 10 years. With their responses, these top-performing agents have offered up a road map of sorts for agents in the earlier stages of their careers.

## Methodology

A total of 1,435 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 marketing agency, conducted this research.

# About ReferralExchange & CRS

## 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 company has made over 250,000 successful connections between buyers, sellers, and agents since opening 13 years ago.

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 2016, the company helped connect over 120,000 agents and clients together, and closed over 10,000 sides.

[ReferralExchange.com](http://ReferralExchange.com)

## CRS

The Council of Residential Specialists (CRS) is the largest not-for-profit affiliate of the National Association of REALTORS® — a professional network of over 30,000 residential real estate professionals in the United States and overseas.

CRS provides real estate agents with the tools, education, resources, and strategies to help them provide effective guidance to buyers and sellers throughout the residential sales process.

[CRS.com](http://CRS.com)

# Executive Summary

Agent-to-agent referrals are a foundational piece of the real estate industry.

They are a source of passive income for those who send them. They are a key source of sales volume for those who receive them.

By all accounts, they convert far better than the online leads with which the industry has been obsessed for the past twenty years.

And yet, we don't know a lot about them. There is a huge and active Referral Economy that remains all but unaccounted for.

First of all, what is a referral versus a lead? Both are terms used in customer acquisition, but many agents will immediately get the difference. Referrals are a subset of leads. While a lead could come from any sort of "cold" channel like an online form, a referral sits in a very warm spot at the top.

*A referral comes from another person.*

*A referral tends to be serious and ready to act.*

*A referral will not waste time.*

Behind the referral is a cooperative system among real estate brokers and agents that generates revenue for both the referring and referred agent, but also enables agents to build their sphere and reputation simply by providing a successful connection.

The numbers tell a story about the details and flow of the agent-to-agent Referral Economy. Beyond the data, what became evident with this study is that an agent's reputation is the foundation upon which any referral business is built.

# Executive Summary

## Key Findings

- 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.

**“ Close rates hover around 50% ”**

**“ Outbound referrals make up 12.5% of total transactions per agent per year ”**

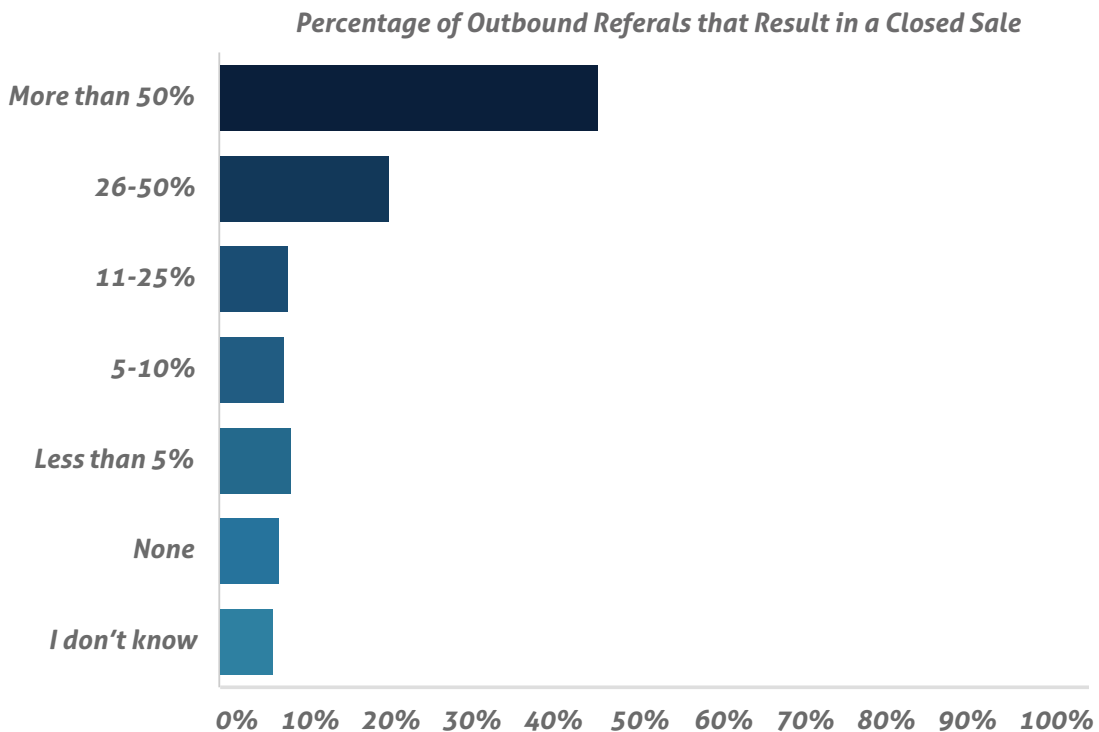
**“ 40% of inbound referrals come from other agents ”**

# Detailed Survey Findings

## Outbound Referrals

### *Average Number of Outbound Referrals*

A third of respondents average 4-10 outbound referrals per year. Another third send out 2-3 referrals per year.



### *Closed Sales*

More than 40% of respondents stated that over half the referrals they send out result in a closed sale. Another 20% estimated that they see a quarter to half of their outbound referrals close.

There are a few main factors that determine if a referral will close or not.

- Are they serious about buying or selling?
- What's their connection to the person who referred them?
- Do they trust the person or system that referred them?

# Detailed Survey Findings

## *Outbound Referral Types*

Nearly 60% of the agents we asked stated that their main type of outgoing referrals are current and past clients. About one-fifth said that family, friends, and fellow agents were the subject of referrals, and another fifth noted raw leads as the main type of outbound referral.

Thus, the vast majority of outgoing referrals are people within an agent's immediate sphere. Since 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. Whether an agent's priority is to ensure their referrals receive the same level of service the referring agent would provide or if the agent's priority is to receive a referral fee, it's essential for agents to have other agents and resources they trust throughout this process.

## *Why do you refer out?*

"Making sure my friend, family member, or client gets a true professional, wherever they are."

"Setting up passive income service."

"I'm in pre-retirement phase, so I want referrals to be part of my income plan in the future."

"It's my business model."

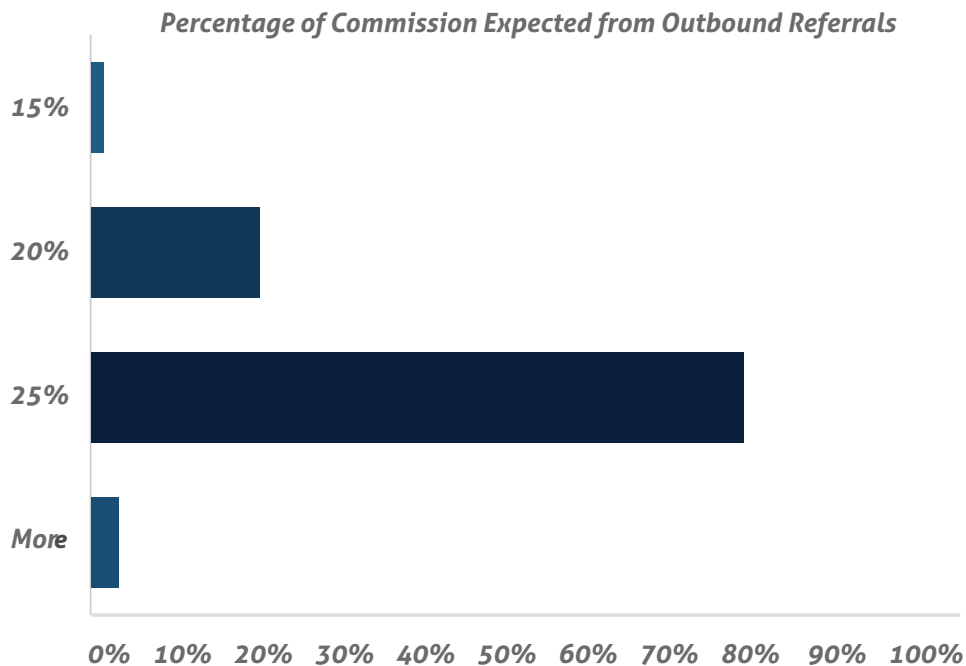




# Detailed Survey Findings

## Receipt of Referral Fees

Nearly two-thirds of agents who responded stated they receive a fee for more than half the outbound referrals that result in a closed sale. A small percentage of agents stated they did not receive a fee for outbound referrals, while the rest responded that less than half of closed referrals result in a fee.



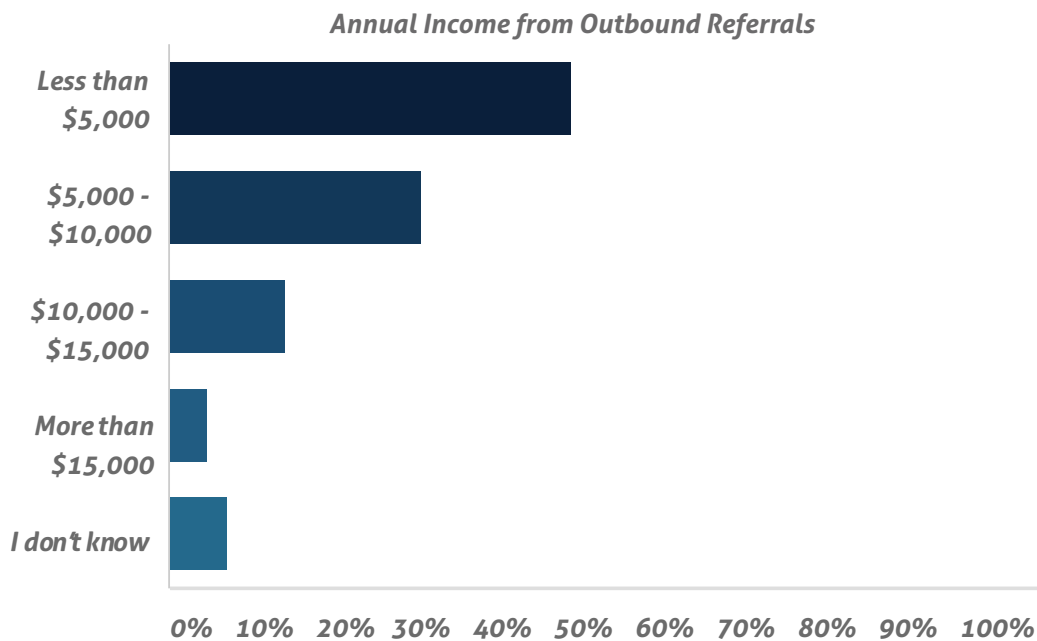
## Expected Commission

Three-quarters of agents surveyed responded that they expect to receive 25% of the total commission for outbound referrals. Roughly one-fifth of the agents would accept a 20% referral fee, and a small group of respondents stated that their desired referral fee was closer to 30-40%. Those agents who expect a higher percentage than average tend to take into account the complexity of the transaction, the sale price of the home, and the fee requirements of their brokerage.

# Detailed Survey Findings

## Referral Income

Slightly less than half 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, over half of them make between \$20,000 and \$50,000.



## Challenges Associated with Referrals

Half the respondents said they don't generally experience any challenges when sending out referrals. However, the agents who do stated that their greatest challenge is tracking what happens after the referral is handed off. Did the client receive quality service? Did the referral result in a closed transaction?

The business of real estate is based almost entirely on referrals, which means the importance of what happens once the hand-off is made can't be stressed enough. Especially if the majority of an agent's outgoing referrals are sourced from past and current clients and friends and family. If the receiving agent doesn't provide the level of service the referring agent would, it could trickle back to the client, friend, or family member who recommended them and affect future business or, if nothing else, the fruit of that particular referral source.

# Detailed Survey Findings

## Inbound Referrals

Examples of inbound referrals:

“Agents from other communities”

“Online referral agencies”

“ReferralExchange and relocation companies”

“Relocation, clients, and lead generators”

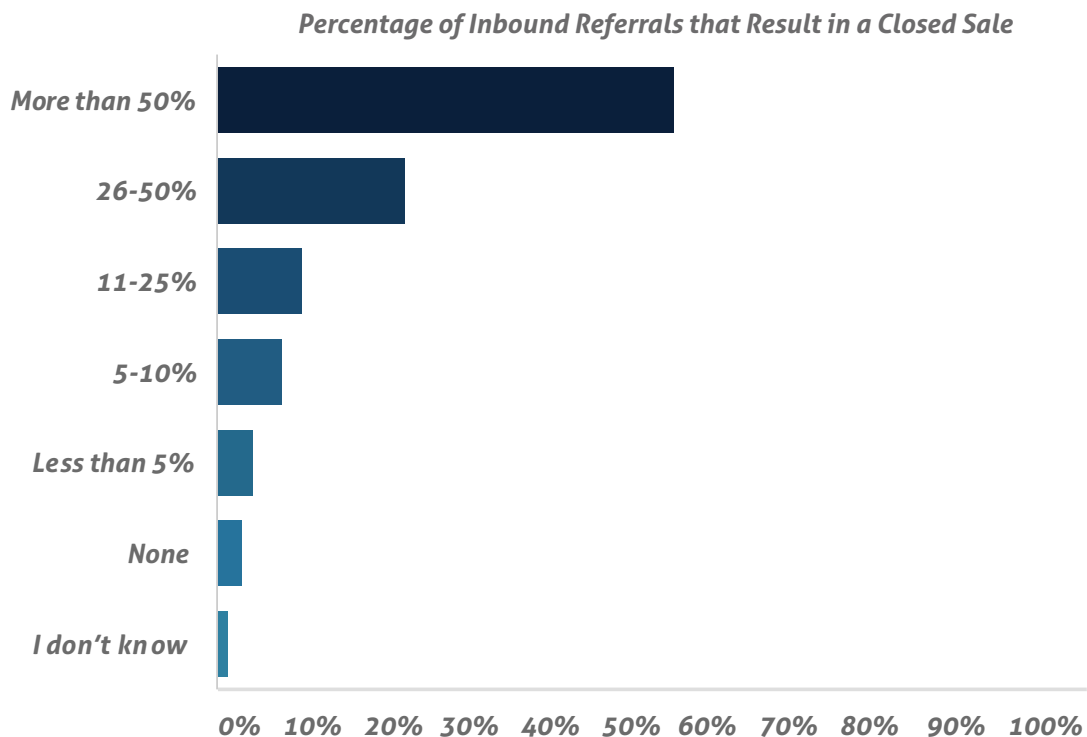
Slightly more than 40% of respondents report that they receive 1-5 referrals per year. Another 20% stated that they receive 6-10.

One agent we interviewed said she works deliberately by referral. She has a “planned strategic system in place,” and 90% of her business comes from referrals. She estimates that 60% of her referrals come from past clients and 40% come from third party affiliations. She currently has “five pending sales from third party referrals.”

# Detailed Survey Findings

## *Closed Sales*

For our respondents, the majority of inbound referrals resulted in a closed transaction. According to several agents we spoke with directly, they found 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 referrals sources such as their brokerage and corporate referrals sites like ReferralExchange. The greater the connection to the source, the more likely the referral is serious and will lead to a closed sale.

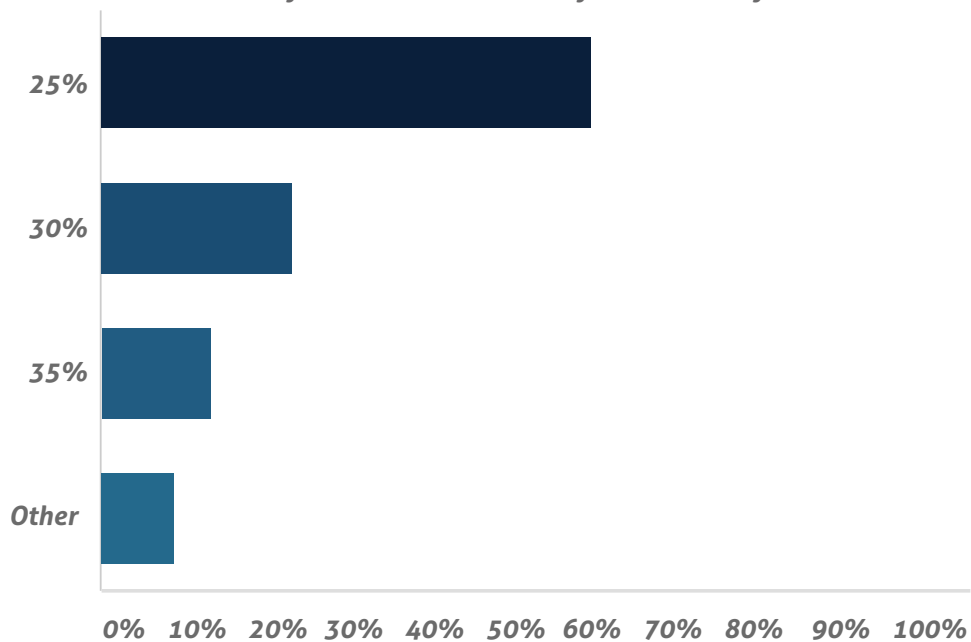


# Detailed Survey Findings

## *Referral Fee*

The vast majority of respondents expect to pay some referral fee to the person or company who referred the client to them. More than half the respondents prefer to pay a referral fee of about 25%. Over a third are willing to pay the referral agent or source 30-35% of the total commission. In the agent-to-agent economy, these fees are usually negotiated with each transaction, depending on the relationship with the referral source and the nature of the transaction.

***Preferred Commission Paid for Inbound Referrals***

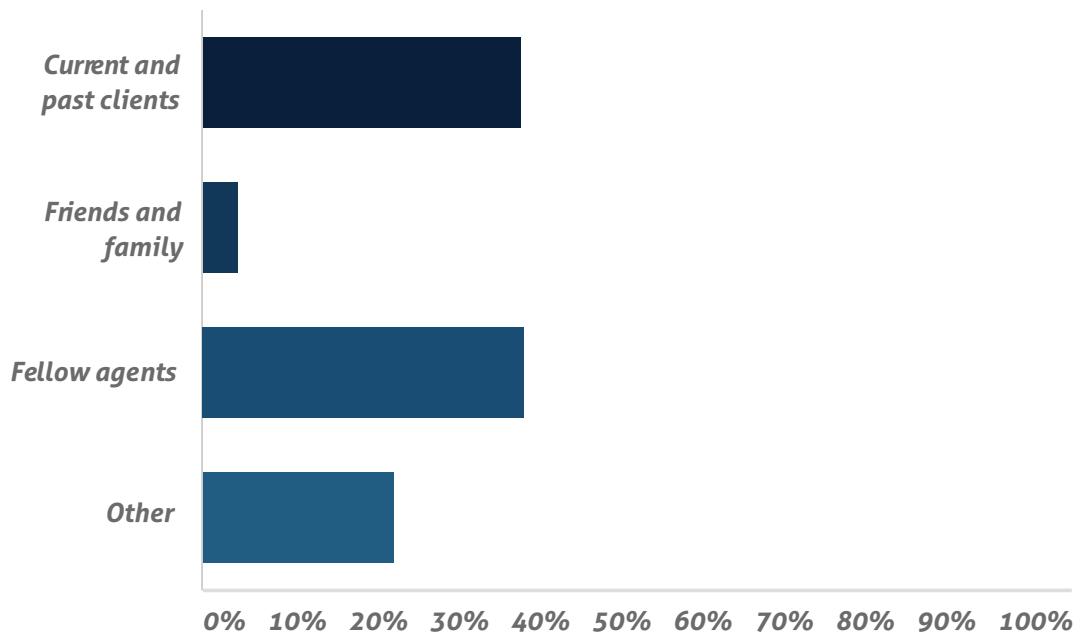


# Detailed Survey Findings

## *Referral Source*

Agents report that the vast majority of inbound referrals come from their sphere (40%) and from other agents (37%). Nearly 90% of the referrals that come from an agent's sphere come from current and past clients, while another 10% come from friends and family. Another 22% of referrals come from various sources, including corporate referral sites and the agent's own brokerage.

***Inbound Referral Sources***



# Implications

*A Referral is a Referral and a Lead, But a Lead is Just a Lead.*

Real estate careers have been built on referrals since the first home was sold under the guidance of a licensed professional. An agent-to-agent Referral Economy was borne out of this robust referral system and the geographical restrictions inherent to real estate. Agents have always understood they can best expand their business by providing expert guidance and quality service to each new client, with the hope and expectation that that client will refer business to them in the future.

But, with the rise of the internet, portals, and myriad other platforms for acquiring prospects in the digital world, many agents and brokerages turned their attention to generating, or paying for, low-converting “online leads.” 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.

This data reiterates the value of vetting. Whether referrals are qualified by the agent’s personal sphere or another trusted source — yes, even one on the internet — true referrals have legs. Relationships and human connections matter, certainly more than the slot machine that is internet lead generation.

The referral fee is without a doubt an immensely important aspect of life as a successful real estate agent, but it may not be most agent’s top priority. Indeed, in the short-term, the referral fee is important. However, it’s the agent’s reputation that will provide long-term income and continued success.

The level of engagement in the agent-to-agent Referral Economy described in this study can be viewed as aspirational for agents in the early stages of their careers. It can take years in the business and many of successful transactions — building a solid reputation — before most agents will fully enter into this segment of the economy and can then depend on it as a somewhat steady source of income.

**“ This study showed us that referrals convert to closed sales at least half the time. That’s a conversion rate worth putting some time and effort into. ”**

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