

Chapter 2: Generating Leads

Section 5: Referrals

Referrals can be an absolutely terrific lead source. Some of your most profitable deals may come from someone referring a motivated buyer or seller to you. With a referral, the lead usually comes to you at no cost upfront and in most cases, the motivated seller or buyer is already open to working with you because the referral source may have already created the credibility for you. Some real estate professionals have built their entire business strictly on referrals and actually pride themselves on having never spent a penny on advertising. While that is not encouraged since all businesses should have a multifaceted marketing plan, it does speak to the power of using referrals as a lead source.

When obtaining referrals, it's all about quality. You may have to reach out to a large quantity of people before you find a few who you really connect with, but the key is to build relationships. And it can be difficult to build lasting connections over the phone. If you can meet with different referral sources on a regular basis in person, you can really forge some very profitable long term relationships. And keep in mind that one of the secrets to networking is to do less than 25% of the talking. Ask questions and get the other person to do the talking. You learn more by listening than talking anyway.

POWER TIP – When it comes to networking, “Me, me, me is dull, dull, dull.”

When building referral source relationships, you want to use the “ready, aim, fire,” approach. First, you want to discover how to you can help the referral source. What is their

ideal client? Second, you want to think about how best to communicate what you do. As an investor, you can play different roles depending on who you are talking to. For some, you may play the role of helping people who can't qualify for a bank loan, achieve homeownership (as in the case of providing rent to own opportunities). For others, you may play the role of an investor looking to buy 5 to 10 properties per month (as in the case of speaking with a real estate agent who may have the pulse on some great deals.) Still others, you may play the role of an investor who provides a place for people to have their money work for them in a safe and secure position backed by real estate (as in the case of raising private money). The “ready” part of the equation is determining who the person is. The “aim” part of the equation is determining which investor role you should be playing with the person. Finally, the “fire” part of the plan is to let the person know what you do and how the referral source can benefit from you.

Referral Sources

Referral sources can be broken up into two distinct types; people in your network or who you come into contact with and people that you reach out to specifically for referral generating purposes. The main difference between the two is that the first category is already integrated into your normal, everyday life, and doesn't require any additional effort or steps. You simply share with the people you already come in contact with what you do. The second category includes a number of different groups of people who may potentially be able to provide a steady stream of referrals due to the role they play in society, including agents, mortgage brokers, other investors, attorneys, accountants, etc.

Referral Source Type # 1 – Your Network

Anyone and everyone can be a referral source for you. Friends, family, associates and the people you interact with everyday can refer people to you who need to buy or sell real estate. As stated previously, you want to cast the biggest net possible when it comes to generating leads for your investing endeavors. When communicating to your network what you do, you can use the following elevator speech:

“I’m a real estate investor. I buy, sell and rent properties so if you know of anyone who wants to buy, sell or rent, let me know. I may be able to help them or at the very least, I can help point them in the right direction.”

Overtime, you want the people around you to think of you when they see an article, or a news story, or a conversation on real estate. That is a clear indication that you have done a good job of communicating to your sphere of influence that you are in the real estate business. This may not happen over night, but it will certainly take longer if you don’t tell anyone. If you are extroverted and very talkative, letting your sphere of influence know what you are doing may be easy and natural. This may be more difficult if you are more introverted and rarely do much talking. Regardless of your personality type, the key is not to become a walking sales machine, but to simply let the people you are already talking to know what you do. For some, it is as simple as updating your profile on your social media sites and little by little, as you talk to friends and they ask you, “What are you up to these days?” you can answer them with your real estate talk. For others, it is as aggressive as sending out letters to every friend and family trumpeting that you are looking to help real estate buyers and sellers. Do whatever is most “you”. Do it your way, but makes sure you “do it.”

WISDOM KEY - *If you ever struggle with opening your mouth and letting your network know that you are in the real estate business, here is the best way to push yourself to take action. Remember in the opening chapter that described using pain as a greater motivator than pleasure? Here is how to use that principle here. Picture your best friend has to sell their property immediately due to some extenuating circumstances. Instead of contacting you, he/she reaches out to a company they found online. A few months go by and then casually over dinner your friend shares with you that he/she sold their one and only rental property for close to nothing and that despite the low price, it was still a good outcome for him/her. How would you feel? How would you feel if you could have helped your friend AND made a great profit AND your friend would have thanked you for it? How would it feel if something like that happened and you missed it because you failed to mention to him/her what you were doing? This is NOT a fanciful example. Sadly, it may, or may have already, happened to you. You have to let the world know what you are doing, otherwise they won't know. Further, you have to remind the world what you are doing because they will forget. People work with the last person they came in contact with.*

POWER TIP – People work with the last person they came in contact with.

Referral Source Type # 2 – Specific Referral Sources

There are a myriad of specific referral sources that you can reach out to in the hopes of landing a source that provides a steady stream of leads to you week in and week out. The main targets that may yield you the most results are those people that are already in the real estate

industry, from real estate agents and investors, to mortgage brokers, attorneys, accountants and even service providers such as inspectors, appraisers and property managers.

Real Estate Agents

Real estate agents may comprise the largest portion of referral sources due to their positioning in the marketplace. Interestingly though, as a real estate investor, the value you bring to buyers and sellers are actually services that a real estate agent could provide if they knew how. Most agents focus primarily on acquiring listings and representing buyers. These two strategies are what they have been taught, are what they see other agents in their office do to generate income and most importantly, encompass what most agents feel their role is in the real estate business. Couple this with the fact that agents are consistently taught by their brokers, continuing education instructors, other agents and other training materials to stay away from creative real estate investing solutions. It is very easy to see why so many agents shy away from all the abounding opportunities of creative real estate investing; it is constantly reinforced by everyone around them to stay away from anything outside of their listing and buyer representation box.

WISDOM KEY – Some investors carry an almost arrogance in relation to real estate agents. It stems from the fact that many agents avoid real estate investing (even though they are exposed to excellent investment opportunities everyday). Although most agents may never engage in investing, it would be a mistake to look down upon or have any arrogance surrounding agents. What some narrow minded investors fail to recognize is that some agents make 7 figures each year just taking on bread and butter

listings and representing buyers. The real estate agent model can be extremely profitable because earning 3% of the sales price on a transaction can be very good money for the amount of time and effort required to make that commission. Agents are taught that the secret to earning 7 figures as an agent is through picking up listings. As the listings collect, these properties become marketing sources for buyer representations. Potential buyers call on the listed properties and agents grab those leads as buyer representations. This model has made many agents a whole lot of money. Therefore, investors should shed their arrogance because despite not knowing how to structure creative real estate deals, some agents out earn their investor contemporaries. As an investor, you may actually decide to obtain your license to take advantage of the additional income sources that come from being able to earn commissions on transactions. The biggest mistake you can make in understanding real estate agents is to assume you know more than they do.

POWER TIP - In life, everyone is your superior in some subject.

Understanding the psychology of real estate agents will make the process of networking and generating referrals much more effective. Real estate agents are sales people and great sales people ask a whole lot of questions. A quality real estate agent will immediately begin asking you questions as soon as you introduce yourself as an investor. Typically, they will want to know what type of properties you are looking for, how you are financing the purchase, where you are looking to invest, are you looking to rent or buy, fix and sell and finally, when do you want to buy your next property. The typical agent is trying to size you up to see if they could

make any money working with you either by representing you as a buyer's agent, or by listing some of the properties you buy, or both. Further, if they are smart, they will also want to know if you are serious or just a tire kicker.

Tire kickers abound in real estate investing. People (not like you, of course), who invest in some quality education but never fully commit, opting to have one foot in and one foot out. This is where agents and other referral sources can get very frustrated. As potential opportunities begin to come their way, the half way committed investor never moves forward and wastes everyone's time. You're going to be different because you are going to have your agent referrals send you leads that you can put both feet in but not sign yourself up for any heavy responsibilities (more on this in Chapter 4 when we show you how to sign up a deal with out clauses in the contract.)

Here is how to communicate what you are looking for to the agent:

“I specialize in out of the box type deals. Situations where the homeowner or prospective buyer is stuck between a rock and a hard place, can't sell or buy the traditional way. So if you or someone in your office runs into that, I'm your person. Don't get me wrong, if you have a deal that the seller is willing to just give away, please call me first, I'll buy those deals all day long. But once a deal hits the MLS, then everyone else knows about it. Like John D. Rockefeller said, “Competition is a sin.” Now in some situations, I'm willing to join the dogfight on a property that is already listed on the MLS, but I'd rather work the deals that no one else knows about or wants to deal with. Or, if a property is listed, if you know that we could offer far less than the list price and get it accepted, that would be fine too. Do you understand what I'm looking for?”

This approach above (use the type of language that fits you the best), provides many potential options for the agent while still moving them away from the easy way of finding you deals; searching the MLS. If you put yourself in a real estate agent's shoes, the ideal client is someone who creates a very large commission and requires very little work. There's nothing wrong with that aim, we as investors do the same thing. We are looking for the most profitable deals that require the least of amount of hassles, risk, efforts and time. For an agent, it is far easier to simply input some search parameters into the MLS and have the system pump out some active listing options to show you. The problem with this is that by now you should already have access to the MLS through your friendly real estate agent contact so technically, that is not a service you need help with; you can search the MLS on your own. What you are after are the deals that no one else knows about. These come along less often and for the typical agent, are not nearly as easy to locate as simply accessing the MLS. The real effectiveness in this plan occurs overtime as the agents you have built relationships with come across out of the box deals that you have told them you want.

WISDOM KEY - Be aware that agents have been programmed to think that everything "outside of their box" is bad, or worse, illegal. Although for many property sellers and buyers, creative real estate solutions implemented by investors can be life changing, for the greater population of agents out there, anything that they don't understand they usually brand as "illegal." The way you combat this stereotype is to communicate to the agents you network with that all of your investing practices are moral, ethical and absolutely legal. Use the phrase, "life is too short to perform any unethical, immoral or illegal business practices, I'd rather be broke than do things dishonestly." This

usually puts people at ease and lets them know that you take your investing practices seriously. This also means you shouldn't allow the agents you network with to persuade, intimidate or otherwise make you feel as if what you are doing is anything less helpful in the marketplace than what they do. Your strategies may be outside of their comfort zone, but that has nothing to do with the value you are providing to sellers, buyers and tenants in your real estate market. When you invest the way we teach you to, you can stand proud for what you are doing.

Finding Agents

Everywhere. Yard signs, billboards, bus stop signs, internet ads, radio ads, real estate book ads, newspaper ads, craigslist ads, anywhere and everywhere. Active agents will be visible and that is who is most likely to be generating leads. A struggling agent who is not advertising their business is unlikely to have many clients.

You can also attend official networking meetings such as real estate investor clubs and real estate agent networking functions. Research your local Realtor® association, call the office and ask them of any networking opportunities such as galas, dinners, lunches, etc. To find your local real estate investing club, go to your favorite internet search website and type in “*Your City* Real Estate Investing Association.”

POWER TIP – If you knock loud enough and long enough, you'll wake someone up.

Approaching Agents

Whether in person, or over the phone, effectively approaching agents involves a few key elements. First, review this example of a successful call conversation with an agent. Then, the important elements will be broken down for you.

YOU - “Hi, is this Bill?”

AGENT - “It is, who may I ask is calling”

YOU - “I’m *Your Name*, I’m looking to buy and sell some real estate and I understand you are a Realtor and can help me with that.”

AGENT – “I can, what type of real estate are we talking?”

YOU – “Mostly residential, I’m an investor, I saw your advertisement, I’m always one for doing a little networking. So Bill, have you ever worked with investors in the past and if so, in what capacity?”

AGENT – “Sure, I’ve helped them buy and then consulted them on how to fix and then sold the property for them, is that the type of investing we’re talking here?”

YOU – “At times, sure. If you come across any deals that have that kind of room in them, to be able to buy, renovate and re-sell for a profit, please call me. Here’s my contact information....Also, if you ever come across any buyers or sellers that may not fit for either a listing or for you to represent as a buyer, I also offer some creative solutions for buyers and sellers as well. I’ll pay you a referral fee on any of those. Plus, since I am not licensed, I could send listings and buyer reps to you, what’s your contact info?”

AGENT – “...what exactly do you mean by creative solutions?”

YOU – “Great question, I could go on all day with different scenarios. Maybe we should get together for coffee and we could go into much more detail. How’s Thursday for you?”

Now let’s break down the important elements of that conversation.

1. **Catchy Introduction:** *“I’m looking to buy and sell some real estate and I understand you are a Realtor and can help me with that.”* – People’s lives are busy these days and agents lives are even busier. They typically don’t have a day off, since nights and weekends, which the rest of the world uses as down time, agents use to show and sell properties. And during normal business hours is when mortgage companies and closing companies are open so agents have to be “on duty” then as well. Being an agent can be more than a full time job. Therefore, you have to be able to grab an agent when you first introduce yourself or they will be immediately turned off. Telling an agent you are looking for someone to help you buy and sell real estate is like asking a barber that you need someone to help you cut your hair. That is a catchy introduction.
2. **Controlling Question Reversal:** *“I’m an investor...have you ever worked with investors in the past and if so, in what capacity?”* – Questions allow you to control the conversation. Expect agents to try to control the conversation with questions. You can provide simple answers to their questions but end each statement with another question to maintain control.

3. **Pique Their Interest:** *“If you ever come across any buyers or sellers that may not fit for either a listing or for you to represent as a buyer, I also offer some creative solutions for buyers and sellers as well.”* – When you explain that you offer real estate solutions for buyers and sellers that the typical agent doesn’t, that will almost always pique their interest. You want to avoid trying to educate the agent in the initial conversation. In most cases, it will turn off the person because they will hear one small detail and then write you off. Instead, parlay their piqued interest into an in person meeting.
4. **Set An In Person Meeting:** *“Maybe we should get together for coffee and we could go into much more detail. How’s Thursday for you?”* – Building quality referral sources involves building relationships and the most powerful way to accomplish this is in person. Phone, text, email, social media and every other technology based communication pales in comparison to the power of an in person meeting for building a relationship. If you are scared of meeting with someone in person, remember that your comfort zone equals your money zone. Get out of your comfort zone!

Once in person with agent, remember to ask questions and listen first. Your approach is, “ready, aim, fire.” Discover what they characterize as their perfect or ideal customer. If they, at first, say something vague like, “Anyone looking to buy or sell,” you may have to dig a little deeper and ask that same question a few different ways until they finally hone in their ideal customer. For example, you could ask, “What would be an example of a buyer or seller that you would choose not to work with?” If the agent was to say, “I’ll work with anyone,” you could then follow up by asking, “So you would work with someone who can’t qualify for loan and

does not have the ability to obtain financing to purchase a property?” Most agents may then say, “Oh, well, in that case, probably not.” That’s where you could slip in, “That’s an example of an individual who I could work with.” Then, you could give another example, “What about the seller who owes more than what you could list it for?” Some agents may say that they will do short sales for these people. Then, you could ask, “Well, what about the person who owes about the same as the list price and there is not enough room to pay your commissions but they don’t want to do a short sale and they are still current on payments and don’t want to hurt their credit?” By following this line of questioning, you’re simultaneously opening their mind and introducing them to the types of situations where you shine. You can also remind the person that you are always excited to hear about deals that can be purchased well below value.

WISDOM KEY - Avoid Educating Agents. Any mildly intelligent agent is going to be curious as to how you are able to make money on the leads they aren’t turning into cash. Avoid educating them. If you go into too much detail, their curiosity may prevent them from forwarding you any leads, or worse, you may create a new competitor. Tell them what you are looking for, not how you make money from those leads.

Compensation for Agent Referrals

Compensating agents for leads is difficult to pigeon hole into one amount. It will come up in the conversation. The reality is that each deal is different. If an agent refers you a tenant that puts up \$1000 security deposit and pays \$1000 per month in rent may constitute a \$200 referral fee. If the agent brings you an investor or retail buyer for one of your deals, you may

want to pay the agent as least 3% of the sales price. For a seller lead that has close to zero equity that you may be converting to a subject to or lease purchase deal, you want to compensate the agent \$500 or so. Here's a great way to communicate how the agent will be compensated:

“I wish I could give a standard fee or commission. We'll really just want to figure it out depending on the lead. And I'm looking to develop a long term relationship here. If the compensation amount is too one sided (either to you or me), that may work for one deal, but it won't work long term. It has to be fair for both parties. Let's allow the lead to dictate it and commit to coming up with a fair amount.”

The best way to come to a better understanding of the compensation is for the agent to already have a lead to provide for you. Then you can work out the details based on that first example.

Active Short Sale Listings

Depending on the market conditions in your area, there may be active short sale listings on your local MLS. In your one on one in person conversations with agents, this is how you can communicate how you handle active short sale listings:

“I work a bit differently than the norm as it pertains to active short sale listings but my method is extremely successful. Some agents love working with me because I do all the work and handle all of the details. Rather than me simply submitting an offer to the listing agent and praying for a successful outcome, I work directly with the seller, my team negotiates the short sale and all of the details. The listing agent basically steps out of the middle of the deal and gets compensated their commission as a facilitator. I have the contact information for the main decision makers at the short sale lenders that most people do not have access to and my process of getting the approval letter is extremely

efficient. My short sale deals close. That helps the seller, the agent, the lender, the closing company, everyone. But not every agent likes my arrangement. Some want to handle the short sale negotiation, following up the banks, and do all the busy work necessary to procure an approval. For those agents, I'm not a good fit."

The most important statement in the previous paragraph is, "The listing agent basically steps out of the middle of the deal and gets compensated their commission as a facilitator." This sounds much better than expressing the exact technical steps of what will be happening. The ideal approach with an active short sale listing is that the agent cancels their listing agreement with the seller, removes the property from the MLS and then executes a simple facilitator compensation agreement with you and the seller. With the property off of the MLS and no longer tied up in a listing agreement, you greatly open up the number of exit strategies available to you. Most importantly, it allows you unobstructed access to the seller so that you can truly negotiate the best deal with the lender. Even if you hire a third party company to negotiate the short sale, the key is not having a listing agreement between a seller and an agent in place when you are negotiating the short sale. The agent can still be compensated their commission but their involvement will be relegated to your direction. You can ask them to go to the property to add a lock box, or meet a buyer, or other such tasks that may take up your time, while preventing them from interfering with your short sale negotiation.

Be prepared for some agents to not be agreeable to this arrangement. They may site concepts like, "fiduciary responsibility to their client" and other such fancy phrases.

POWER TIP – Some will, some won't, so what, next.

You can choose to work on active short sale listings and leave the agent in place as the active listing broker. However, it can greatly reduce your potential exit strategies and also can create unintended consequences. It will be difficult to do a retail or traditional wholesale because the property will already be on the MLS. Although it may seem possible that you could use the existing listing to attract a new buyer willing to offer you a higher amount, it is the policy of many brokers to accept all incoming offers up until the point where an offer is accepted by the lender. If the property stays actively listed on the MLS, it is possible that someone else could come along and offer more than you and the listing agent may submit that to the lender. In fact, it is highly probable a higher offer may come in because you are an investor trying to offer the least amount the bank will accept. Even if the broker does not subscribe to this policy, lenders certainly do and therefore you increase your risk of having a retail buyer sweep in after you and pick up the deal if the property stays active on the MLS.

WISDOM KEY – Although most agents operate with a high level of integrity, some have been known to try to squeeze an investor out of the deal as soon as the approval letter is issued. In a short sale, as soon as the approval letter is issued, everything changes from a listing agent’s perspective. Prior to the approval letter, the listing is basically worthless because it couldn’t be sold due to the loan amount. But as soon as the approval letter is issued, the deal all of the sudden becomes quite valuable, representing a 3% commission on the low end and up to 6% if the agent also has a buyer lined up as well. If you do not fully control a deal before the approval letter is issued, don’t be surprised if the listing agent attempts to squeeze the investor out of the way when the approval comes. It happens; more than most people would realize.

Despite these problems and risks, some investors have made offers on active short sale listings for purchasing their own personal residences. Be aware that some agents may try to obtain a 6% commission since they are the only agent in the deal. Most lenders will only allow one agent to make 3% anyway so if they try to put 6% to themselves, the lender will probably reject it anyway and that extra 3% will go back to the lender. Therefore, have this conversation upfront that their will only be 3% commissions in the transaction. Otherwise, you risk paying 3% more for the property than you need to. Now that you know the risks and potential outcomes, you can make better decisions when faced with active short sale listings.

WISDOM KEY – Sometimes in an active short sale listing deal, the listing agent will want to represent you as your listing agent when you go to sell the property. While on the surface this may seem like a harmless request, upon further inspection, you may want to think twice. First, you can usually list a property with a flat fee listing service for under \$500 so by committing to list it with that person, you could be reducing your profits considerably. Second, you may have no idea how that person operates and by agreeing to work with that agent, you may be hiring a weak performer. A bad listing agent can cause you all sorts of issues. If you do know the agent well and have done other deals with them before, that is different. Problems surface when you haven't worked with the person before and arbitrarily agreed to use them simply because they sent you the lead.

Cultivating Agent Relationships

When wrapping up the meeting, remind the agent what you are looking for in clear terms.

“Again, I’m hoping I simply add another revenue stream to what you are already doing. Any leads that don’t fit for the normal buyer representation or listing, think of me. Also, any active listings that have potential beyond what is communicated on a listing sheet, such as a seller who is willing to sell far less than the list price or other such situations, I’m you’re person.”

Then, periodically follow up with the agent. If you are not licensed, maybe send them a listing lead that is generated from your other marketing channels. Remember that people work with the last person they heard from so follow up consistently. Never assume that a referral source will remember what you do. Remind, remind, remind. Some of our students put their agent contacts on an email auto-responder system to create an automated way to remind their referral sources they exist and are still active in the business. Finally, complete at least one successful deal and you’ll set yourself apart from everyone else because you will have proved you can deliver on your promises.

Other Investors

Other investors can be another terrific referral source. The most productive relationships will be with those investors who are spending large amounts of money each month to market for leads. Look for billboards, bandit signs, television commercials and big telephone book ads. Listen for radio spots on your favorite stations. The main benefit you bring to these types of investors is that the referral fees you pay them can help offset their marketing costs. The larger the investing outfit, the more likely they are to be discarding leads because very few have found