



MY WORD IS MY

■ Introductions are one of the most complex arrangements in property. **Lydia Stockdale** investigates

HANDSHAKES AND PHONE CALLS REPLACE documents and signatures in the relationship between an investment agent and their long-term investor and developer clients.

When an agent introduces an opportunity to a client, the introduction fee they expect to be paid when a deal is done – usually 1% of the property in question's capital value – is never formalised. There is no paper trail, and there is therefore nothing to stop the client going back on their word.

In the midst of this tough marketplace, agents are starting to experience clients demanding lower fees.

'We have been challenged more on our fees in the last three months than in the last 15 years,' says David Ereira, a director at West End of London agency Ereira Mendoza.

Another investment agency head recalls how one client recently came back to him arguing that, although they had verbally agreed a fee, 'circumstances had changed', and he wanted to renegotiate.

In a relationship-driven marketplace, such back-tracking leaves a bitter taste. It is just not what investment agents are used to.

'We have one client that we have done £1bn of deals with and we never confirmed fees in writing,' says Daniel Mendoza, also a director at Ereira Mendoza. Even when transactions eventually take place years after the initial introduction, clients have remembered where that introduction originally came from and shelled out accordingly.

Ereira predicts that, over the coming months, 'a lot of agents will be put under pressure to reduce their fees in order to complete deals'.

David Hunter, managing director of specialist property fund consultancy Hunter Advisors, used to be a top client himself, most recently as former managing director of Argyll Property Asset Managers, which was later renamed RREEF, and says that now is an interesting time to raise the question of fees.

'In a market recession, it is more important [to honour fees],' he says. 'Deals are thin on the ground. But there are people with equity and there are some bargains.'

Investors and developers therefore need to maintain good relationships with agents so they are first in line when opportunities arise, he adds.

CRUCIAL ROLE

'Despite what some people think, the agent's role is crucial,' says Mendoza.

'Some people say, "But you only made a few phone calls",' he recalls. 'But it is years' of experience and you have to be in the right place at the right time to make deals happen.'

'Our clients pay for the spark that understands clients' requirements, assessing the sorts of deal they want,' he explains.

Hunter agrees. 'Property is an imperfect marketplace,' he says. 'Nobody knows which properties can be bought or sold. A lot of the ones you want to know about are off market.'

'There is a lot of equity sitting around



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out there waiting for forced sellers,' he says. 'A lot of those will not come on to the market.'

He suggests that those who are actually buying property in today's market will probably want to buy again. 'They will want to be seen as a very reliable and high fee payer,' he says.

'You have to honour fees, it is as simple as that,' sums up John Burns, chief executive of Derwent London.

'If you introduce a deal, you need to know you will be remunerated. No nonsense. A good reputation is hard to get, and you want to retain it. Nothing is more important than that.'

'If people bring us things, we honour the introduction fee unless it has already been brought by someone else.'

'It is important that there be a good relationship between the agency community and the development community, and agents will be working a lot harder than they had to in the past.'

There is even an argument that, because it is so much more difficult to see property these days, agents will be rewarded bonuses when they do so. Likewise, they could be paid above the 1% industry norm if they introduce a 'star buy', says Simon Robinson, director of Birmingham-based GBR Property Consultants.

He adds that up until the credit crunch, the booming market meant that fee percentages became more competitive, and therefore the 1% standard could often be brought down as low as 0.5%, particularly for deals of more than £5m to £10m.

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Now that things have changed, it could, theoretically result in fee payments going up in certain cases.

'Transaction volumes will continue to be very low, certainly for the next two quarters. There is an argument that if you sell for a client in the difficult market we are in, then clients will pay a better fee,' says Robinson. Although, he admits, 'I have not seen evidence of it yet.'

Despite this, agents are experiencing clients' telling them that their 1% introduction fee is the difference between a deal happening and not happening.

'Our view is that 1% should not affect a deal,' argues Mendoza, before his business partner, Ereira adds: 'It is a moral argument. If a client who made an unexpectedly huge profit was willing to come back to us and give us a bonus fee, then a fee reduction on other occasions would be acceptable.'

As it stands, relationships can be ruined by quibbles over introduction fees.

'It is about people doing the right thing by each other,' argues Mendoza. 'When you have been around for 20 odd years and you've got another 20 left in you, you remember when someone squeezed you just because the market allowed them to.'

One way around this is to insist on signing a fee agreement. 'Clearly, your legal position is much stronger than if you only have a verbal agreement,' says Robinson.

For one-off relationships, this has always been a wise option, but insisting on paperwork could put a dampener on established relationships built on trust.

'Relationships with clients are most important. Deals come and go,' says Mendoza.

Ereira explains that firms such as theirs survive on 'deal flow'.

Likewise, David Hunter explains that when he was a fund manager, his success depended on deal flow.

'Do not cut the pipeline,' warns Ereira. 'We will continue to deal with clients who will look after us and not clobber us.'

If investors and developers want agents to introduce them to the best opportunities out there in today's tough market, they will have to play fairly. ■

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