Keep Your Clients!

What To Do When Your Client Has One Foot Out The Door

Steve Bergsman is a freelance writer in Arizona and author of several books. His latest book, "Growing Up Levittown: In A Time of Conformity, Controversy and Cultural Crisis," is available on all e-book outlets.

Contributing SIORs

Jack Britvan, SIOR

Nora Hogan, SIOR, CCIM

Paul Kluck, SIOR, RPA

Kurt Kunst, SIOR, CCIM

Paul Waters, SIOR, CCIM, CRE, FRICS

By Steve Bergsman

How to save a client who has one foot out the door? At first glance the question seems simple enough. However, it was quickly apparent after two different interpretations of the question surfaced, simple is never easy.

The first interpritation: "How to save a client whose company is going out of business due to economic factors?" is not surprisingly something many SIORs have dealt with over the past few years. The second variant is something every SIOR can relate to, "How to save a client who wants to quit your professional or contractual association?"

Any interpretation can affect a broker's business, sometimes in unexpected ways. **Paul Waters, SIOR, CCIM, CRE, FRICS**, and executive vice president of NAI Global in New York, tells this story: "I have a close relationship with a competitor who has a large logistics client. The client of my competitor called him with a concern over commission splits and my competitor is now tap dancing, trying to save the relationship."

The corporate client had brought in new managers and relationship directives, and as part of the changes, the client sought full transparency on commissions that had been collected to show where all the money went.

"It's not a bad thing," says Waters. "Transparency will be the thing that saves the day in this business. In meantime, the client is out looking at new service providers, one of which is my company."

This key problem was that issues should have been addressed before things got to a potential termination point, says Waters. Relationships with clients ebb and flow and you need to be aware when disappointments or disagreements start to surface and address the issues quickly;, Waters says, "You figure out what the problems are, agree on a solution and, if necessary, bring in new people to take over the account – by the next morning if necessary."

If the client is important, Waters adds, "cut fees for a year or a year and a half, create new standards and then have quarterly or semi-annual meetings to illustrate to the client you are meeting the new goals."

This is the commercial real estate business where millions of dollars are on the line at any given moment, so all issues are complicated. Delivering brokerage services has become commodity-like with standardization and little differentiation between competitors. Whoever delivers the brokerage services is generally the problem, or as Waters notes, "in this industry personality conflicts are the biggest problems."

A good broker brings in a lot of money, but you also don't want to lose a client to a competitor. Waters faced this problem with a client who had a number of properties in Southern California. The broker and client just didn't like each other.

"We had to make a decision, either upsetting our top producer in Southern California or the losing the client," says Waters. "At the end of day, we had an ethics issues with the broker and let him go. We kept the client, brought in someone who was just as capable and we still have the client."

Maybe it all comes down to communication. As **Kurt Kunst, SIOR, CCIM**, an associate broker for

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NAI Wisinski of West Michigan in Grand Rapids, MI, likes to say, "Brokers are notorious for poor communication."

If there is no good news to report, it's easier not to report, which is exactly the wrong thing to do. Kunst observers, "Even if there has been no new activity in 30 says clients want to know you are thinking of them and their property."

The problem is, when there is no good news to report over a very long period of time, no matter how good the communication is, the client will get antsy.

"There is always a risk when a listing starts having anniversaries," Kunst jokes. "Then the client's attitude becomes, 'maybe somebody else has a different set of tools, a different set of contracts.'"

Michigan has been one of the states hard hit by the recession, so there are a lot of properties that have sat vacant for a long time with no buyers in sight. NAI Wisinski had one of those industrial properties and the owner was getting impatient. With the listing up for renewal, the building owner hinted he might go elsewhere.

Kunst wanted to keep the client, "so what we did was bring our marketing team in with the objective to basically revamp the whole marketing approach, saying, 'let's pretend it's a new listing and the efforts in the past just didn't take place, because the situation on the property hadn't changed.' The economy was beginning to improve, so we developed a new marketing plan for the next 12 months and affirmed we would be fully accountable to fulfill it." The client ended up re-listing with Kunst's company. "We got one last crack at it," he says.

For brokers, the killer is usually a regime change at the client's company. "I've lost relationships that I had for 20 years because companies have gotten a new person in charge of real estate and they want to get rid of the old associations," notes **Jack Britvan, SIOR**, a principal with Commercial Realty Services of Long Island in Woodbury, NY.

You lose the smaller clients when they want to save money, Britvan adds, "I had a client tell me my services were no longer needed. He wanted to save money and the person who he was counting on to help with his real estate needs was his accountant." Besides this being a bad idea because the accountant had screwed up a prior real estate deal, when the client tried to deal directly with the building owner, who Britvan had previously been negotiating with on the client's behalf, the building owner told Britvan's old client, sure he could negotiate directly but Britvan would get his commission no matter what happened.

"The building owner called me to tell me about his conversation with the client and he did so because he knows brokers are important to his business," says Britvan. "The client called me and said, 'I thought about it and decided it would be good to have you back on the team,' never mentioning the conversation he had with the building owner."

Paul Kluck, SIOR, RPA, a vice president with CBRE in Greenwood Village, CO., is a very old-style broker.

"Although my company would like me to get an exclusive tenant representation signed with a tenant, most of the time I work on a handshake," says Kluck. "My philosophy is I am going to outwork another broker in the market. I will give you the best service and it doesn't matter what other relationships you have."

Recently, Kluck worked with a Canadian company looking to expand operations in the United States. "It was a difficult assignment and after about a year and a half, we finally identified a building and were ready to close," he recalls. "I sent them my tenant representation agreement, which was forwarded to the company's legal counsel in Houston, who responded by saying they had signed a national relationship with another brokerage company."

Kluck appeared to be out-of-luck on the assignment, but then the guy from Canada, who was the president of his division, went to bat for Kluck, and told the counsel, "You are going to pay him and we are not getting another broker involved."

Kluck comments, "The only reason he did that for me was because I out-worked all other brokers and proved to him I was the one he should be using in Denver – and no one else."

The job of a broker is to listen, says **Greg Schenk, SIOR, CNE**, president of The Schenk Company in Columbus, OH. "If you do that there is less chance somebody will want to go out the door. The real key is setting a realistic expectation upfront. Here is where the market is; here is what you will get for a range of markets; and here is the range of allowances based on what the landlord looks at in terms of credit, length of term, amount of space, and cost to build-out."

The better due diligence on the front-end, the better it will be on the back-end, Schenk cautions. "If the company has one foot out the door, we try to bring a client's needs profile out and have them sign off on that profile. Have what the client wants in writing; if you have that in hand, it diffuses a lot of issues." That's only half of the equation. The other piece of the puzzle is getting the landlord to cooperate.

"The biggest issue you have is landlords letting clients see paradise," says **Nora Hogan, SIOR, CCIM**, a principal with

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Transwestern in Dallas. "Once they see paradise (other space elsewhere), even though the client has been in a location for a number of years, the landlord has a good chance of losing that client."

In this weak economy, with a lot of vacant space in almost every major market, the key to keeping tenants is to give them, "an aggressive proposal upfront and not give them a reason to look elsewhere," says Hogan.

She gives this example: a client in 80,000 square feet of space for the past 15 years wanted to renew a lease. The client wasn't asking much, essentially minor improvements to the space.

"They didn't need a big tenant improvement package, but they did want a new lease rate to reflect the fact they didn't want the big improvements," she says. "The problem the landlords have is a reduced rental rate hurts their ability to sell the building down the road because they don't have big net operating income. They then make the decision to keep rates high and not do tenant improvements."

The obvious happens next. The tenant looks at other buildings that are newer, have better efficiencies and are owned by landlords willing to deal. "Now they have a taste of paradise," she says. "They realize the existing space is old, not all that functional and maybe moving should be considered. When that happens, landlords have a good chance of losing the tenant."

What did Hogan's client in the 80,000 square feet of space end up doing? The client, she says, is moving.

Finally, what happens when you have a client that is a poor credit or is close to bankruptcy?

A company in trouble could make it through the tough times by reducing expenses, particularly its real estate costs. Hogan offers this suggestion, find that company space before it goes into bankruptcy, and that space should at minimum have "the bones in place" and usable for the client, because there is going to be no dollars for tenant improvement and the lease will probably be short-term.

"When you have a client where the real estate costs are draining the corporate coffers, then you need to get the client into cheaper, smaller quarters," says Waters. "By right-sizing the real estate, you help them with their economics."