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professional services

Forging the right relationship with your real estate professional: How brokers work and the alternatives

gg George Grace

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& Company

Many companies, whether they are nonprofits or corporations, often do not fully appreciate the relationship they have with their real estate professional. Establishing the right contractual relationship and incentives with a broker adds value during a company's real estate search.

How Brokers Work

Real estate brokers can represent (or be the agent of) the land-

lord or the tenant. When a landlord pays a broker, the law presumes the landlord is the principal and the broker is the agent. No matter how helpful the broker may appear in this arrangement, the broker is not representing the tenant's interest. He is representing the landlord.

If the tenant has hired the broker, the tenant has a written agreement with the broker that states that the broker shall act as the agent of the tenant. Though the agreement with the broker allows for the landlord to pay the broker, the law allows the broker to represent the tenant. A broker's incentive in these situations is to obtain the best possible terms for the tenant. A broker's reputation and future business depend on the success of the transac-

tion. By hiring a broker, a company is aligning the company and broker's interest.

conflict by representing tenants only.

Hiring a broker to represent a

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Companies should realize that brokers often represent both landlords and tenants. This creates a potential conflict of interest. Real estate brokers often eliminate this

tenant exclusively brings the process under the tenant's control. Commissions provide a big incentive for brokers to close deals. For this exclusivity, tenants should re-

ceive real service, understanding of the market and a thorough analytical basis for a broker's recommendation.

Many tenants inspect space with a broker "to see what's out there." This can bind the tenant to that broker for that space. That broker represents the landlord's (seller's) interest. The broker's incentive is tied to the space and full disclosure about the property may not be forthcoming. If you are a tenant, you are not being represented. You are being sold.

When you hire a broker, the benefits and shortfalls of a property are disclosed and comparisons in the marketplace are given. For a good broker, the incentive is to make you a client for life.

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Alternatives

There are other contractual relationships that a tenant may consider, among them hourly fees, monthly retainers and success fees. With the value of real estate and commissions rising, the relationship of broker and tenant needs to be reassessed based on the tenant and the transaction.

Depending on the nature of the transaction, the financial resources of the tenant and the need for objectivity, a tenant, whether nonprofit or corporate can create a relationship that fits its needs. A tenant should manage this relationship in the same way it manages other professionals it works with, such as its attorney, accountant or architect.

George Grace is the founder of G.E. Grace & Company, Inc., New York, N.Y.

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