

Good afternoon

Having read the various submissions on this case and completed further research, I'm of the view that Comcom should now be more strongly opposed to the merger of Trade Me and Homes. I've explained why below. The preference is that this material is not published but is used by yourselves in assessment of the merits of the merger.

1. Trade Me is unlikely to invest in property data further than what they already have, hence the argument that Trade Me will simply build what Homes has is highly unlikely. This is because:
 - a. The return on the investment in the build and then the marketing is too slow when considering the fact that the owner of Trade Me has a relatively short ownership period (rumor has it that the owners are already looking for prospective acquirers). Expending money to build out a data product does not have an attractive return vs selling the dream to the next owner. A \$1 of profit made now by Trade Me likely turns into \$15 to \$20 of shareholder wealth on sale of Trade Me hence the need for Trade Me to get quick returns on any investment expended between now and sale of Trade Me.
 - b. The use of scarce Trade Me tech developers on property data is unlikely the best use as they are better off on projects providing higher and faster returns.
 - c. The acquisition of Homes provides a very fast return to Trade Me, as a profit can be quickly generated through likely cost synergies e.g the combined entity likely only needs to purchase and process one set of property data and more importantly the Homes value can be bundled with Trade Me value and agent customers coerced to move to more expensive products or price points simply lifted
 - d. Trade Me is clearly in value capture mode, not value creation mode. Creating value takes too long for their investment horizon.
 - e. Trade Me is seeking to grow not by acquiring assets but by acquiring users which can in turn add value by delivering pricing power which can be applied quickly and tested by a new owner hence the attraction.

2. Google is very unlikely to enter the property listings market in the short term. This is because:
 - a. They entered the market some years ago, then withdrew and consequently took a better strategy which is the current one that works well for them
 - b. Their current strategy provides access to attractive revenue worldwide from the property for sale market in the form of real estate agencies buying keywords, real estate agencies buying display advertising, vendors funding advertising of properties for sale via their agents, property portals consuming google maps etc
 - c. There is little to no worldwide network effect as real estate markets are largely local to the country e.g when did you last search for properties for sale in the US. This is less the case in Europe but definitely the case for New Zealand.

The risk of disintermediation of Trade Me by a new model and or a deep pocket global player is very low in the near to medium term.

3. Trade Me already has a very very high network effect. Generally in all developed markets where network effect exists it ends up being the winner takes all. The winner gains significant pricing power leading to super profits for the provider and lack of competition leading to consumers being disadvantaged. Evidenced already by Trade Me revenue being estimated at \$70m (based on long run listing volumes) and costs to run a property portal of \$10m to \$15m. That is already an extremely high margin at ~85%. Arguably a monopoly level margin.

4. Network effects in small countries tend to be stronger as the upside for a number two is lower due to the small market, there are less participants with deep pockets needed to overcome barriers to entry, the attraction for an offshore party to compete is lower as they tend to have more attractive investment opportunities elsewhere in larger markets.
5. Property portals tend to have elements of unique audience e.g 20% of Homes audience may not visit Trade Me. By combining both portals in some form Trade Me audience strength builds relative to the competition thereby strengthening Trade Me's network effect. This makes the Trade Me product more valuable and Trade Me will capture that value.
6. Switching costs are high. For example when an agency owner purchases a Trade Me product whereby all listings of that agency must take a specific premium type product then the agency owner has to invest in convincing and training their agents that all agents need to sell the Trade Me product to vendors. This agent behaviour is then ingrained. Agency owners will be very reluctant to have to do this again and will push back against portal competitors asking for the same.
7. In some cases a monopolist benefits from a complementary good either that it owns or where it is offered by another party. The base good must exist but the complementary good does not need to. The property data service that Homes has is a complementary good and in some ways benefits Trade Me. By Trade Me acquiring this complementary good it increases its network effect and consequent pricing power. It is unlikely that another standalone complementary good of this nature will arise as market participants can see that the barriers to entry to build a consumer audience are too high and the addressable market is small to warrant the risk. It is better for consumers to have the complementary good as stand alone. If Trade Me wants to mimic the complementary nature of the value that Homes has built, it can invest to achieve this. As I state above, it doesn't make sense for Trade Me to do this due to the owners' relatively short ownership horizon. In the case where they do invest, it allows more time for other competition to improve their own competitiveness and help create a more competitive market.
8. Some network effects are localised but for real estate portals they are national, this is because:
 - a. Some buyers want to move towns and need to see listings outside their locality
 - b. Some buyers are seeking a holiday home and need to see listings outside their locality
 - c. Some buyers are investors and want to see listings in various townsThe fact that the network effect is national makes it improbable that a small localised competitor can emerge and win
9. Network effects include user and contributor sides to the marketplace but there are often more network effects than meets the eye. This is sometimes referred to as direct and indirect network effects. For example:
 - a. Once top agencies are consuming Trade Me product and have good advertising positions facing consumers, this will attract other agencies and agents (competitive pressure) to do the same hence a strengthening of the Trade Me network effect
 - b. As more consumers use the site to browse property for sale they are more likely to accept an agents recommendation to list their property on Trade Me when they turn from browser to that of vendor hence strengthening the Trade Me network effect.

In summary, allowing the merger is likely to materially strengthen Trade Me's network effect and this will result in higher prices for consumers and will raise barriers to entry for competitors. For these reasons it materially reduces competition to the extent that Trade Me's monopoly power will likely be further strengthened and used against New Zealand consumers.

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