

# ON THE STATEMENT OF UNRESOLVED ISSUES (SOUI)

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I'm Dr. Greg Day, I was the Head of Technology for Homes.co.nz from 2015 to 2018. I have a very detailed understanding of the Homes.co.nz business and the competitive environment, and would like to submit a commentary On The Statement of Unresolved Issues on behalf of myself and the other employees I hired when working for Homes.co.nz.

I'm a numbers guy, and am very familiar with decision-making under uncertainty. I understand probabilities, and understand that "likely" doesn't have to mean probable. After all, Trump got voted in! I also understand the Commission needs to evaluate the "most-competitive/worst-case" counterfactual case to set a high bar.

However, the counterfactual case in the SoUI (Summarised in Section 72, and expanded in Sections 74 to 82) is in my view not just unlikely, but has literally no chance of occurring. I realise that is a strong statement, and I give a short background and a set of hypotheses to defend this statement.

## Background

Homes.co.nz uses public and listing data to present property information to users. The data Homes.co.nz uses to provide the information on its platform, both as individual datapoints, and in aggregate (for example, the Homes Estimate) is public data with the exception of listing data.

### PUBLIC DATA

Councils supply public data, for example, rating and property information, together with recorded sales transactions. All market participants, both now and in the future, have access to that public data. Some participants (for example CoreLogic) have more complete proprietary datasets compiled through many years of data collection.

The barrier to entry to obtain the public data is lower than when I joined Homes.co.nz in 2015. Those barriers are principally the cost of acquiring the data from the numerous councils around New Zealand. Due to data aggregators, it is cheaper and easier to source this data now than when Homes.co.nz was started.

### LISTING DATA

Listing data is the domain of Real Estate agencies. Homes.co.nz has had limited success in attracting listing data because of a lack of leverage and the presence of several larger competitors with unique advantages (Trade Me, OneRoof and RealEstate.co.nz) that Homes.co.nz cannot replicate.

Due to this lack of leverage, there is no guarantee that listings supply will continue. That supply is entirely at the discretion of Real Estate Agencies, and individual agents themselves.

An additional note regarding Point 78 in the SoUI. Point 78 states:

*"Homes has now established automatic listing feeds with most of the large agencies, which means it can expect listings to grow as agents take advantage of the feed. This is because while establishing automatic feeds involves some upfront expenditure, once the automatic feed is established agents can upload listings to that platform with the click of a button".*

The conclusion "which means it can expect..." is incorrect. Automatic feeds were implemented during my tenure at Homes.co.nz. They are a technical detail, and have no implication to whether or not the Agencies or Individual Agents publish listings to Homes, which is an Agency/Agent business decision. Indeed, this point is more properly interpreted as *"Despite considerable technical expenditure to integrate with underlying real estate software, Homes.co.nz has not been able to secure listing data to the equivalent of any of the other market participants"*.

The main points of this background section are:

1. All participants have access to the public data used by Homes.co.nz. They chose or not to display that data based on their own business drivers.
2. Trade Me, OneRoof, realestate.co.nz and others have access to more listing data than Homes.co.nz.
3. Homes.co.nz has no leverage to obtain more listing data. For example, OneRoof in 3 years since incorporation has gone from 0% to 89% of the listings market, indicating significant leverage. Homes.co.nz has achieved [redacted] over 8 years since incorporation.

## Hypotheses

Given this background, I submit a set of hypotheses that, if true, invalidate the stated counterfactual. The hypotheses are:

1. Homes.co.nz has no ability to constrain Trade Me, now or in the future.
2. Other market participants are in a much better position to act as a constraint on Trade Me.
3. The factual case (acquisition is approved) will not impact Hypothesis 2.

## EVIDENCE FOR THE HYPOTHESES

All of the evidence below is either in the public record or easily verifiable.

1. Homes.co.nz accesses public data and a subset of listing data.
2. Barriers to obtaining public data are low.
3. Trade Me and other market participants have access to supersets of listing data compared to Homes.co.nz.
4. Homes.co.nz has no leverage to gain more listing data and this situation will not change in the future.
5. Trade Me, realestate.co.nz, and OneRoof all have unique advantages that Homes.co.nz cannot replicate, including:
  - a. Trade Me - market position, data access (including CoreLogic data), financial, technical and other resources.
  - b. realestate.co.nz - data access and REINZ, Real Estate agency interests.
  - c. OneRoof/NZME - market position, marketing advantages, data access, financial and other resources.
6. Trade Me have stated that they intend to invest in property information space even without any form of constraint.
7. Trade Me and other market participants have significantly more resources than Homes.co.nz.
8. Other market participants are growing faster than Homes.co.nz.
  - a. OneRoof percent of listings grew to 89% [1] since incorporation (approximately 3 years = linear growth rate of 30% per year).

- b. OneRoof grew revenue 53% in FY2019 to FY2020.
  - c. Homes.co.nz estimated percent of listings grew to [redacted]
9. [redacted]

## Counterarguments to the hypotheses

### HYPOTHESIS 1

Let's assume the counterfactual to this hypothesis (which is the counterfactual proposed in the SoUI), that Homes.co.nz is likely to constrain Trade Me in the future. To believe this counterfactual, one would have to believe that:

1. Trade Me do not respond to any constraint imposed by Homes.co.nz on Trade Me's business.
2. Trade Me do respond to the constraint, but fail to alleviate the constraint.

Belief in Statement 1 implies that Trade Me act contrary to their previous public statements, and that Trade Me's board and executive do not respond to a business constraint.

Belief in Statement 2 implies that Trade Me are likely to fail in execution. Trade Me's current market position and resources negate this implication.

### HYPOTHESIS 2

No counterarguments. Other market participants are larger, better resourced, with unique advantages that cannot be replicated by Homes.co.nz.

### HYPOTHESIS 3

No counterarguments. The only potential impact in the factual case will be Trade Me replacing their proposed Property Insights investment with the Homes.co.nz investment.

## A likely counterfactual

Given we still need a counterfactual to examine, I propose a likely counterfactual, based on the Commissions public guidelines:

*"2.36 - Often the best guide of what would happen without the merger is what is currently happening (ie, the status quo). However, where a market is likely to undergo changes that will affect competition in the without-the-merger scenario, we take these changes into account".*

### THE ADJUSTED STATUS QUO COUNTERFACTUAL

- Trade Me will allocate resources to Property Insights and the property information market.
- Homes.co.nz will not pursue further growth in the Listings market given their lack of leverage, and will continue to execute their stated business strategy of pursuing advertising opportunities in the broader property market.
- OneRoof "by 2023 will be your complete property destination" and is "a key pillar in NZME strategy" [4].

- RealEstate.co.nz with new capable, tech-focused leadership and their unmatched data capability (given REINZ backing) continue to compete aggressively [5].
- Multi-homing will continue as usual, given the zero to negligible marginal cost for property information consumers.
- Economic conditions continues as previously.

## IS THE STATUS-QUO LIKELY TO CHANGE?

The economic outlook is uncertain. The property market is of considerable interest to the New Zealand public and hence government interest and regulation. With respect to negative economic conditions, I note that loss-making start-ups are more susceptible to deteriorating market conditions than more well-funded companies.

Other changes may include changes in technology, but there is nothing I can think of as an experienced technology investor and expert that will change the market in the short-to-medium term that will be positive for the competitive position of Homes.co.nz. Larger players with radically different business models, for example, Facebook and Google may enter the property market in some form, which would be a challenge for all participants.

Craig Lowe, one of Wellingtons most successful real estate agents and principal of Lowe and Co states:

*"Google, for instance, has the listings inventory of every real estate company in every country, having collated it for years in search logs. And according to one of the country's top real estate commentators, Alistair Helms, it's poised to leverage the value of this with the rapid uptake of 'home' devices like Google Home and Amazon Echo. "They are the global powerhouses of search and artificial intelligence, coupled with the global reach that would surpass the local audience of any property portal," Helms argues. He predicts Google will come up with ways to monetise the connection between the agent and the buyer that will boost its stock by \$100 billion-plus. So tech may pose a greater threat to property portals than to real estate firms like ours. In fact, if we get it right, it will help us grow." [6]*

As far as I can see, there are no catalysts, either technical or economic, that will improve the competitive position of Homes.co.nz in the foreseeable future. With comparatively limited resources, the relative risk to Homes.co.nz must be assessed to the downside, given the current noted buoyancy of the property market, and governmental, banking and regulatory efforts to change it.

## Conclusion

To summarise, Homes.co.nz has no resource or data advantage over any of the participants in the market, and indeed is at a material disadvantage. Trade Me has no material constraint on replicating and improving on the major functionality of Homes.co.nz (due to their data and resource advantage) and have stated their intent to do so. [redacted]

I submit that the current counterfactual described in the SoUI is not just unlikely, it has no chance of occurring. On the balance of probabilities, it must be discarded. The "adjusted status quo counterfactual" detailed above, coupled with no substantial deterioration in the property market, I believe is the "most-competitive/worst-case" counterfactual case.

This alternate counterfactual shows no change in the competitive market. In the factual case, Trade Me is replacing one capital investment (in Property Insights) with another (in Homes.co.nz). Therefore the factual

case will have no impact on the competitive environment. Trade Me in my view, are acquiring solid technology (if I do say so myself), a team of domain experts, and a more efficient entry into a related advertising market.

Please contact me directly if any clarification or discussion of the above is required.

Kind regards

Dr. Greg Day

Head of Technology Homes.co.nz 2015-2018

#### REFERENCES:

[1]: Reported percent of TradeMe's listings in NZME 2020 Annual Report.

[2]: Homes.co.nz estimate. Not tracked directly against Trade Me.

[3]: [https://www.linkedin.com/posts/realestate-co-nz\\_in-may-our-users-made-over-73000-enquiries-activity-6813226119140143104-I6n-](https://www.linkedin.com/posts/realestate-co-nz_in-may-our-users-made-over-73000-enquiries-activity-6813226119140143104-I6n-)

[4]: <http://nzx-prod-s7fsd7f98s.s3-website-ap-southeast-2.amazonaws.com/attachments/NZM/368074/341016.pdf>

[5]: <https://www.realestate.co.nz/blog/industry-news/two-new-directors-realestateconz>

[6]: <https://www.loweandco.nz/blog/tuning-into-technology>