PUBLIC REGISTER VERSION

Submission to ACCC regarding application for authorisation by Property Media Group Pty Ltd

REA Group Limited

25 May 2016

Contents

1 Executive summary

This is a submission on behalf of REA Group Limited (**REA**) regarding the applications for authorisation (together, the **Application**) lodged by Property Media Group Pty Ltd (**PMG**) on 18 April 2016.

The real estate advertising industry – both digital and non-digital – is dynamic and highly competitive. The industry includes online property listing businesses, newspaper and magazine publishers, other print media, property valuation sites, agent profile sites, “pre-listing” sites, new development-specific sites, and providers of on-site signage. Online property listing competitors compete vigorously for a relatively small part of agents/vendors’ overall property marketing budget and deliver a very valuable service in exposing agents/vendors’ properties to a large audience of prospective buyers at a relatively low cost.

REA does not agree with the Application’s claims regarding competition in digital property advertising or in relation to the public benefits and detriments likely to arise from the collective bargaining and boycott conduct proposed to be authorised (the **proposed conduct**).

REA opposes the Application.

Inaccurate claims regarding competition in digital property advertising

The Application mischaracterises the state of competition in digital property advertising, inaccurately describes REA as the “dominant” supplier of digital property advertising services and wrongly suggests that there has been a market failure that ought to be remedied by regulatory intervention.

Contrary to PMG’s claims, the digital property advertising industry is highly competitive. It is characterised by fierce, close competition between REA and Domain, aggressive competition from a range of established mid-tier competitors, low barriers and frequent new entry, and the ongoing threat of rapid disruption by one of several global digital ‘majors’ (such as airbnb, Facebook, eBay and Google). Competition manifests in rapid and continual innovation, a high degree of responsiveness to customer feedback, and aggressive price and service competition.

In the context of that intense competition, REA’s contract/pricing model for digital advertising services is straightforward and offers agents and vendors choice, value, consistency, transparency, fairness, certainty and opportunities for effectively and efficiently differentiating their properties.

No net public benefit

On the basis of the information contained in the Application, REA considers that the proposed conduct will not result in the public benefits claimed and will result in significant public detriments.

Each of the public benefits claimed by PMG is illusory or overstated:

- collective bargaining and boycotts will not give rise to any meaningful benefits in terms of agent/vendor choice. REA's contract/pricing model already offers agents a wide variety of contracting options, agents are free (and do) enter into multiple contracts with REA and within each contracting option there is ample flexibility to allow an agent/vendor to choose the most appropriate advertisement for a particular property;
- REA's existing prices are low, not reflective of any dominance and consistent with the substantial value that REA's platform provides to agents/vendors by exposing their properties to over four million property seekers each month. REA's base subscriptions have declined in price over the last three years and its premium listings reflect an efficient allocation of scarce screen space and a means of allowing agents/vendors to differentiate their properties. The various price comparisons relied upon by PMG to suggest otherwise are invalid;
- REA and agents are not currently subject to any material transaction costs that would be avoided in a collective negotiation and, contrary to PMG's claims, no scale efficiencies would result;
- REA's contract/pricing model is easy to navigate, and agents and/or REA already offer all of the services that are ordinarily supplied by media buyers. In that context, no real benefits would be likely to arise from PMG assuming the role of media buyer on agents' behalf;
- REA's contract/pricing model is already utterly transparent to agents, and PMG's intermediation cannot possibly serve to increase that transparency; and
- the claim that collective action co-ordinated by PMG would enable REA's smaller competitors to become "*more active*" is unsupported and, if underpinned by an assumption that PMG would leave those competitors' contract/pricing models intact despite its negotiating leverage, highly implausible.

At the same time, the proposed conduct would give rise to significant public detriments, which the Application either inappropriately downplays or ignores, including:

- distortions of competition in digital advertising markets;
- reductions in REA's incentives to innovate, including as a result of potential reductions in REA's revenues, a de-coupling of REA's revenues from the size of its audience and PMG having input into the development of REA's platform and products;
- reductions in opportunities for vendors to differentiate their properties resulting from a "flattening" of digital property listing price structures, which would drive greater usage of premium listing types and homogeneity in listings;
- reductions in transparency resulting from PMG's negotiation of "special deals" for participating agents that would undermine REA's current transparent pricing model;

- various inefficiencies, including as a result of increased costs for vendors, increased transaction costs for REA and duplicated costs across REA and PMG;
- potential for distortions of competition in agent services markets, particularly via the breakdown of REA's existing contract/pricing model, which may entrench the existing scale advantage of large agents, undermine service competition between agents and raise barriers to entry for new agents; and
- significant detriments from the unnecessary increase in bargaining power that would be conferred on PMG if collective boycott conduct were authorised and serious negative impacts on the vendors for whom boycotting agents act (by denying them exposure to property seekers via REA's platform) and on property seekers (by denying them access to the properties of vendors affected by a boycott).

In summary, the online property listing sector is currently competitive, dynamic and transparent. Agents/vendors have broad choices for where and how they advertise their properties and small agencies are able to compete for vendor mandates on a level playing field. Given that, REA does not consider there to be any public benefit to be gained from the proposed conduct. The proposed conduct is likely to distort the efficient operation of the market by consolidating enormous negotiating power in one entity, adding costs and creating inefficiencies by duplicating existing processes, and threaten existing contract and pricing structures that are intended to foster competition between agents.

2 Confidentiality

Portions of this document that have been highlighted in red and are preceded by the word "**CONFIDENTIAL:**" contain confidential and commercially sensitive information. This information must not be disclosed to any third party without the express written consent of REA. REA consents to the disclosure of confidential information to: (i) the Australian Competition and Consumer Commission's (**ACCC**) external advisors and consultants on a confidential basis; (ii) if the ACCC is compelled to do so by law; or (iii) otherwise in accordance with section 155AAA of the *Competition and Consumer Act 2010* (**CCA**).

REA notes that certain of the information over which confidentiality has been claimed is data provided to REA by third parties on a confidential basis.

3 Industry overview

3.1 Key participants in property

The residential property industry relevantly includes the following key participants.

Vendors

Vendors are the owners of property who are seeking to sell their properties.[1] Broadly speaking, vendors' interests are to:

- maximise the sale price they receive (and, to that end, vendors want to expose their properties to as many prospective buyers as possible);
- sell their properties in a short timeframe (which is also a product of the exposure it receives); and
- minimise the transaction costs associated with a sale.

Vendors typically rely upon the services of an agent to provide advice and conduct the sales process for them.

Vendors bear a range of costs in selling, or seeking to sell, a property, including advertising costs, agent commissions, auctioneer fees, renovation and property presentation costs.

Agents

Agents are individuals who are licensed under State and Territory legislation to advise and represent vendors in the property sale process. Individual agents generally carry on business with other individual agents as part of an agency or office (in this submission, those agencies/offices are simply referred to as **agents**). Many agents are members of franchise networks (both national and international).

Agents typically charge the vendor a fee for their services in the form of a commission that is calculated by reference to the sale price ultimately achieved for a property.

The services supplied by an agent to a vendor typically include:

- appraising the property (i.e. assessing the value of the property, its likely sale price and the target buyer market);
- co-ordinating marketing, including advertising campaigns across various media, to maximise the exposure of the property to prospective buyers;
- arranging for inspections and showing the property to prospective buyers; and

[1] It appears that PMG seeks authorisation only for collective bargaining and boycotts in relation to digital property advertising services for residential properties that are for sale. It does not appear that authorisation is sought in relation to similar services for commercial properties, unbuilt developments, rental properties, share accommodation or any other form of real estate. For the purposes of this submission, REA has assumed that the proposed conduct is limited to digital property advertising services in respect of residential properties for sale. As noted in section 7.1 below, REA considers it essential that clarity on this point be obtained from PMG.

- liaising and negotiating with prospective buyers as to the sale price (or, if the property is to be sold by auction, any pre-auction offers) and other terms of sale.

Agents compete with one another other – including on the basis of their expertise, sales history, branding, indication of price expectations, marketing strategy, commission and advertising costs – to be appointed by vendors. The real estate industry is highly fragmented and competition between agents is, to a large degree, local in nature.

As part of their offer to a vendor, agents will prepare a proposed "marketing schedule" that sets out the elements of the advertising campaign that the agent intends to co-ordinate on the vendor's behalf and the associated costs. That schedule will typically propose print advertising (newspaper and/or magazines), signage, printed brochures and other "maildrop" materials, and digital property advertising. Digital property advertising costs will typically be "bundled" in the marketing schedule, in that a single, aggregated cost/price will be given for advertising across various platforms.

In many cases (but not always), the costs incurred by an agent in conducting an advertising campaign are passed on to the vendor in full (this is known as "vendor paid advertising"). Otherwise, the costs are wholly or partly absorbed by the agent.

Property seekers

Property seekers are prospective buyers or other persons seeking to purchase property, and seeking information about property to aid that search. Generally, property seekers will want to be exposed to as many properties as possible, irrespective of the agent selling them, while minimising the time and effort required to obtain exposure to those properties.

3.2 Property advertising

Overview of media

Through advertising, agents and vendors aim to expose their properties to as many property seekers as possible, in order to increase competition for their properties and, in turn, sale prices.

There is a range of different media options for advertising properties. These options include the following.

- (**Print**) Print media includes physically printed materials such as newspapers, magazines and brochures. For instance, agents will commonly advertise a property in the real estate section of a printed newspaper. Some of the advantages of using print media include the ability to target specific consumer groups/demographics (e.g. through special interest publications), the long "shelf life" of some types of print media (e.g. magazines that are retained in the home for a period) and the ability to attract "passive" buyers who may browse a magazine even if they were not actively searching for property.
- (**Digital**) Digital media uses internet and other software-based media to deliver advertising. In relation to property, the most widely-used form of

digital advertising is the dedicated digital property advertising platform, which consists of integrated desktop and mobile websites and mobile device applications (**apps**). Some of the advantages of digital property advertising include the ability to efficiently reach a large number of property seekers "on-demand" and the ability to effectively target property advertisements to particularly relevant property seekers (e.g. by only displaying advertisements in respect of properties in a local area to property seekers who are looking for properties in that local area).

- (**Signage**) Physical signage such as billboards and posters are also used to advertise properties to property seekers. For instance, agents might advertise a property by displaying a poster in the agency office window, and by erecting signage at the property to be sold. Some of the advantages of signage are that consumers are not required to actively seek out the advertisement in order to see it and signage can be placed "in context" and in a location that delivers high impact.

Digital property advertising

Historically, print advertising has been the primary property advertising medium.

Digital property advertising first emerged in Australia (albeit on a very limited basis) in the mid-1990s, following a broader trend towards online advertising in other industry sectors.

Digital property advertising has a number of unique benefits that together have made it an increasingly popular medium for agents/vendors and property seekers alike.

From the perspective of agents and vendors:

- properties and their features can be described in relative detail (e.g. property type, the number of bedrooms and bathrooms, layout and floor plans, additional features such as security), information about location, neighbourhood and surrounding facilities/services (e.g. local schools) can be included, and a greater number of photos and videos can be provided;
- properties can be added in real time;
- the performance of an advertisement (in terms of measures such as the number of views and enquiries received) can be accurately tracked; and
- advertised properties are able to be easily shared via email and social media.

From the perspective of property seekers:

- properties can generally be searched for at any time and free of charge, and the property seeker does not have to physically attend an agent's office, or await the publication of current advertisements in print media;

- properties can be scrutinised to a higher degree (e.g. through multiple images of each property, videos and maps) on a range of devices, such as mobile phones, tablets and desktop computers; and
- various additional functions are available to simplify and/or automate the property searching process, including property shortlists, automated email updates of new advertisements based on a property seeker's preferred criteria and reviews of local property prices. Changes to listings (such as revised guide prices or changes to auction dates) can also be easily communicated.

Reflecting these unique benefits, digital property advertising platforms are now widely used by property seekers: the majority of consumers (83%) used online resources to research the property market, compared to 47% using print publications.[2] Moreover, agents estimate that up to 80% of their property seeker leads come from online sources.[3]

The success of a digital property advertising platform lies in its ability to attract property seekers to use it and agents/vendors to advertise on it. These two key factors are inherently related, in that property seekers will derive more value from using platforms that list more properties (other things being equal) and agents/vendors will derive more value from listing on platforms with more active property seekers. For that reason, digital property advertising platforms must serve the interests of both agents (acting on behalf of vendors) and property seekers.

Relative costs

Notwithstanding their various advantages over print and other forms of media, digital property advertising is relatively inexpensive and forms a small proportion of property advertising costs and overall transaction costs. Table 1 below sets out indicative ranges for various property advertising costs.

Table 1 – Property advertising costs (indicative ranges)[4]

Advertising cost	Typical range
Photography and floorplans	\$250-\$500
Video	\$200-\$750
Print[5] advertisement – metropolitan paper	\$500 - \$5,500 (per publication)

---

[2] Based on a national survey of consumers conducted by Research Ink. The survey used the Research Now 'Valued Opinions' online research panel and was conducted between 22 October 2015 and 15 November 2015. A total of 5,643 panellists (representative of the Australian population) completed the survey, with 3,000 panellists qualifying for the full survey. The data reflects the responses provided by panellists who had sold, bought, rented or leased a property or were looking to sell, buy, rent or lease a property in the preceding 12 months, as well as information and entertainment seekers who browse the residential property market but were not looking to buy at the time of the survey

[3] See http://residentialsettlements.com.au/ask-an-expert-charlie-gunningham/

[4] realestate.com.au, domain.com.au, Citi, *REA Group Ltd: The Buyer's Agent…Initiate at Buy,* 19 January 2015. Online based on a minimum of 28 days advertising

[5] In relation to print advertisements and advertorials, campaigns usually run for several weeks but pricing is expressed on a weekly basis. Prices vary according to size of the advertisement, the publication's distribution, value of local properties and demand for advertising in that publication

Advertising cost	Typical range
Print advertisement – local magazines and paper	$300-$1,300 (per advertisement)
Print advertorial – local magazines and paper	$300-$1,000 (per advertorial)
Digital property advertising platform advertisement	On average, $120 (standard) to $2,000 (high-end)
Professional photos and floorplan preparation	$300-$700
Signboards	$200-$350
Mail drop	$100-$400

3.3 Importance of property markets

Efficient property markets are essential to the economic wellbeing of Australians.

In December 2015, national (residential) property stock was valued at $5.9 trillion. A substantial proportion of Australia's private wealth is linked to home ownership[6]; in fact, residential property is the largest single contributor to household wealth in Australia. Dwelling investment was also the second largest contributor to growth in the Australian economy in 2015.[7]

For most Australians, decisions concerning the sale and purchase of property are the most important financial decisions they will make in their lifetime.

Given the importance of residential property to Australian household finances and wealth, and to the Australian economy more broadly, it is critical that the markets related to property – including for the supply of digital property advertising and agent services – operate efficiently and without undue regulatory intervention.

6 http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5232.0Main+Features2Sep%202015?OpenDocument
7 REIA, '2015, the year in review', 16 December 2015, page 1

4 REA and its contract/pricing model

4.1 Overview of relevant REA business

REA is a Melbourne-based, multinational digital advertising company specialising in property. REA's core business involves advertising properties on behalf of agents and providing a platform for property seekers to search for properties by reference to criteria such as listing type (e.g. sale or rent), property type (e.g. house, apartment, land etc), location and features. REA is currently the leading competitor in relation to online listings of Australian residential property.

In Australia, REA operates (among other things) the residential property website www.realestate.com.au and an equivalent mobile site (**REA website**). The REA website is an online portal for property "listings" (which are explained in further detail in section 4.4 below) and associated information that can be accessed from desktop computers, laptops and mobile devices.

REA also offers mobile and watch apps for the iOS and Android operating systems (**REA apps**), through which users can access property listings and associated information in much the same form as on the REA website.

Together, the REA website and REA apps are referred to in this submission as **REA's platform**.

Most of REA's revenue in Australia is derived from:

- agents and developers that advertise properties on REA's platform (approximately 66% of REA's revenue in Australia is derived from the publication of listings for residential properties[8]); and
- other advertisers – for example banks, insurance companies and furniture retailers – that promote their goods and services to users of REA's platform through display (e.g. banner) advertising and other forms of promotion.

As with other digital property advertising platforms, the value of REA's platform is in its ability to provide exposure for properties for sale or rent by agents. As such, measures of "audience" – in other words, the number of people using the platform to search for, enquire about, and ultimately buy or rent property – are key indicators of the effectiveness of REA's platform and the value it provides to agents. Put simply, the greater the number of property seekers who use REA's platform, the greater the number of agents that are likely to want to advertise their properties with REA.

REA currently deals with approximately 10,000 agent offices (comprising approximately 65,000 agents) across Australia.[9]

[8] REA Group, 'REA Group Investor Presentation HY2016', 5 February 2016, available at http://www.asx.com.au/asxpdf/20160205/pdf/434vfy1355b1hy.pdf

[9] See https://reia.asn.au/agents/number-of-agents/

4.2 Historical context

At its founding in 1995, REA challenged print property advertising businesses, of which Fairfax (Domain) was and is the leading competitor. Consumer and commercial use of the internet was then very much in its infancy, and REA was one of the first, if not the first, to offer digital property advertising services in Australia.

REA's business was slow to gain traction and substantial investments were made for no commercial return until the business first broke even. REA's willingness to take risks and make substantial early investments afforded it a first mover advantage in digital property advertising.

4.3 Strategy and innovation

REA's overarching business objective is to expand the volume of listings it publishes and become the "go-to" platform for property-related information. In order to achieve that objective, REA invests heavily in innovative new services for agents and property seekers. If those investments were not made, REA's platform would quickly become relatively unattractive to agents and property seekers (who are constantly being offered new services by REA's competitors, including new entrants) and REA would lose its current position of market leadership.

Recent initiatives to improve the attractiveness of REA's platform include:

- in December 2012, REA launched a map-based discovery tool for new developments, which allows users to search for locations, via a map, where new developments are underway on a national, regional and local level;
- in December 2014, REA introduced Agent Profiles, a function on REA's platform that provides information about locally based agents to assist vendors to choose the right agent for their needs;
- in March and June 2015, REA launched apps for the Apple Watch and Android Wear Watch respectively. The apps offer new ways for agents to advertise their properties and makes searching easier for property seekers (e.g. through watch-based alerts about newly-listed homes for sale in their chosen area(s) and the ability to record notes about particular properties);
- in August 2015, REA launched the 'Property Page' feature, which allows users to search and view sold prices for comparable properties, median suburb price trends and information in relation to inspections and auctions in the user's area;
- in June 2015, REA launched a new home loan tool in partnership with mortgage broking group AFG. The tool displays loan options available from a range of lenders when they view a property on REA's platform;
- in June 2015, REA introduced Property Platform, an online tool designed to simplify management of off-the-plan property stock for agents and developers/project marketers;

- in September 2015, REA introduced 3D Tours for established properties. This technology allows agents to deliver virtual "walk-throughs" of properties listed on REA's platform;
- in November 2015, REA launched 'Suggested Properties', an app feature which recommends property listings to property seekers (outside of their strict search criteria) based on their search behaviour on REA's platform;
- in February 2015, REA launched 'Connections', service that assists consumers to compare and connect utilities to their new property, such as gas and electricity; and
- in February 2016, REA introduced Agent Search, an online tool that allows consumers to search for prospective agents based on their demonstrated experience and past results.

4.4 Listings available on REA's platform

The core of REA's platform is listings. A listing is an advertisement for a property that is purchased by an agent. A listing can be viewed on REA's platform in two main ways:

- first, as a short-form listing in the list of search results that is displayed when a property seeker performs a search; and
- second, as a stand-alone page or view that is displayed when a property seeker clicks or taps on a short-form listing.

REA offers agents a variety of listing types, which differ based on factors such as the ranking of the listed property and its on-screen size in search results, and the presence and prominence of the agent's branding.

Currently, REA offers "Standard", "Feature", "Highlight" and "Premiere" listings.[10] Table 2 below sets out, in ascending order of value, each listing type and its key features.

Table 2 – Listing types currently available on REA's platform, in ascending order of value

Listing type	Key features
Standard	A Standard listing is the basic listing offered on REA's platform. A Standard listing has the following features: • a small photo of the property in search results; • a small agent logo at the top of the photo in search results; • typically appears at the bottom of search results; and • small photos of the property in the stand-alone page or view (i.e. the page that opens once the property is clicked or tapped on the search results page).
Feature	A Feature listing has the following features: • a larger photo of the property than a Standard listing in search results; • a larger agent logo at the top of the photo in search results;

[10] In addition to the various listing types, REA offers its agents the ability to purchase products either to further enhance their listings or to increase consumer engagement. These products include Exclusive Showcase (offered to one agent per suburb at a given time), 3D-Tours (virtual walkthroughs) and eBrochures.

Listing type	Key features
	• provides a photo carousel (i.e. a link at the bottom right corner of the photo in search results which allows a property seeker to view multiple photos of the property); • typically appears above Standard listings in search results; and • larger photos of the property than a Standard listing in the stand-alone page or view.
Highlight	A Highlight listing has the following features: • a larger photo of the property than a Feature listing (and double the size of a Standard listing) in search results; • a larger agent logo at the top of the photo of the property than a Feature listing in search results; • provides a photo carousel; • typically appears above Standard and Feature listings in search results; • larger photos of the property than a Feature listing in the stand-alone page or view; and • the listing will rotate to the top of all Highlight listings in search results every 30 days.
Premiere	A Premiere listing has the following features: • a larger photo of the property than a Highlight listing (and double the size of a Standard listing) in search results; • a larger agent logo at the top of the photo of the property than a Highlight listing in search results; • displays the agent's name and photo on the bottom right corner of the photo of the property in search results; • provides a photo carousel; • typically appears at the top in the search results list, above Standard, Feature and Highlight listings; • larger photos of the property than a Highlight listing in the stand-alone page or view; and • the listing will rotate to the top of all the Premiere listings in the search results list every 15 days.

Feature, Highlight and Premiere listings are referred to by REA as "depth" listings. Depth listings allow agents and vendors to differentiate their properties on REA's platform and, in terms of the number of views (i.e. the number of times users click or tap on the short-form listing to view its stand-alone version) and leads that they generate, tend to significantly outperform Standard listings.

4.5 REA's contract model

The structure of REA's contract model for listings is straightforward.

Every agent that wishes to list properties on REA's platform enters into a subscription. Subscriptions have an initial term of 12 or 24 months and, unless 30 days notice is given by an agent before the end of the initial term, automatically renew for further 12-month terms.

REA currently offers two subscription types: "Standard" and "Flexi".

- (**Standard subscriptions**) Under a Standard subscription, all of an agent's listings are Standard listings by default. There is no additional per-listing fee and, in this sense, Standard listings under a Standard subscription are "free" (although they are not marketed as such). An agent then has the option, but no obligation, to upgrade a particular listing to a depth listing for a limited period (for example 30 days, after which the listing reverts to a Standard listing) for an additional per-listing upgrade fee.

- (**Flexi subscriptions with an associated "depth contract"**) With a Flexi subscription, an agent enters into an associated "depth contract" under which the agent pre-commits to upgrading all, or a certain number of, its listings to a certain level. Reflecting that pre-commitment, a discounted upgrade fee is applicable to each upgraded listing. For instance, an agent may choose a Flexi subscription with a "Feature Elect 3" depth contract (meaning that it has pre-committed to upgrading a minimum of three listings per month to Feature listings) or a "Premiere All 45" depth contract (meaning that all of its listings are automatically upgraded to Premiere listings for 45 days each). As with a Standard subscription, agents with a Flexi subscription are able to place Standard listings at no extra charge. A Flexi subscription also provides an agent with further benefits over and above a Standard subscription, including access to property market data/statistics and analytics tools that measure the effectiveness of a listing and its estimated return on investment.

As such, in entering into an arrangement with REA, an agent makes two simple choices: whether to purchase a Standard or Flexi subscription and, if they purchase a Flexi subscription, which depth contract is most appropriate for their business.

4.6 REA's pricing model

REA's pricing model is equally straightforward. Agents pay a monthly subscription fee (for either a Standard or a Flexi subscription) that entitles them to place Standard listings at no extra cost. Agents can then pay per-listing fees to upgrade individual listings to a Feature, Highlight or Premier listing. Agents that have entered a Flexi subscription and associated depth contract also receive certain discount on the per-listing upgrade fees depending upon the particular depth contract entered into.

Subscriptions

Agents maintain a subscription and pay a monthly subscription fee. Subscription fees are set at a very low level. The average monthly fee for REA subscriptions is currently only [redacted] (as against, for example, an average per-listing upgrade fee of [redacted] for a Feature listing under a Standard subscription). A subscription fee is charged in respect of an entire agency office (which typically employ several individual agents, who are not required to pay separate subscription fees) and varies by the location of the agent. Currently, around [redacted] of REA's gross revenue is derived from subscription fees.[11]

[11] Citi Research, 'REA Group Ltd: The Buyer's Agent...Initiate at Buy', 19 January 2015, Figure 17, p.17

Upgrade fees for depth listings

As noted in section 4.5 above, depth listings are subject to per-listing upgrade fees. The price for a given listing is determined by reference to the following three main factors.

- (**Depth listing type**) A depth listing type that is higher performing – e.g. because it has a higher ranking in search results, is larger and therefore uses up more scarce screen space, has greater potential for differentiation, and generates a larger audience and more enquiries – is priced higher than a depth listing type that delivers less value in those terms. For this reason, prices increase progressively from Standard to Feature to Highlight to Premiere.
- (**Duration**) The longer the period for which a depth listing is upgraded, the higher the price. For example, a depth listing that is upgraded for 45 days is priced higher than one that has been upgraded for 30 days.
- (**Location**) REA uses a market-based ratecard for depth listings, under which price is partly determined by the area or group of areas (**market zones**) in which the listed property is located. Prices for a given market zone are determined by reference to a range of factors, including:
  - median property prices;
  - demand for particular depth listing types in that market zone;
  - audience (e.g. in terms of how often a particular area search is performed) in that market zone; and
  - REA's and its competitors' relative share of listings and audience in the area.

REA does not charge prices purely based on property value as that would not provide a clear and predictable way to charge agents (who typically communicate listing costs to vendors up-front) and would not be supported by agents.

Table 3 below shows the average yield for each listing type for 2016 (first-half). REA uses 'yield' internally to measure performance of depth listings and is a good proxy for average price per listings.

Table 3 – Average depth listing yields, 2016 (first half)

Standard	Feature	Highlight	Premiere
[redacted]	[redacted]	[redacted]	[redacted]

Depth listing discounts under depth contracts

REA's Flexi subscriptions with associated depth contracts create incentives for agents to purchase more depth listings, by providing discounts from the per-listing upgrade fees that are payable under a Standard subscription, in return for depth listing pre-commitments. For example, the per-listing fee to upgrade a Standard listing to a Highlight listing is discounted if the agent enters into a

"Highlight Elect 3" depth contract under which an agent must upgrade at least three listings per month.

It is important to note that REA does not offer volume discounts as such. Rather, REA applies discounts based on the level of pre-commitment made by an agent, irrespective of their absolute purchasing levels. An agent with a small number of listings will be offered the same per-listing price as an agent with a large number of listings, provided they make the same pre-commitment to depth listings.

Table 4 below sets out selected REA depth contracts, the level of pre-commitment required and applicable per-listing upgrade fee discounts. These depth contracts are available to all agents, regardless of their location.

Table 4 – Selected depth contracts and applicable pre-commitments / discounts

Name	Depth listing pre-commitments	Discount
Feature		
Feature Elect 3	[redacted]	[redacted]
Feature Elect 5	[redacted]	[redacted]
Feature Elect 10	[redacted]	[redacted]
Feature All 30	[redacted]	[redacted]
Feature All 45	[redacted]	[redacted]
Feature All 60	[redacted]	[redacted]
Feature All 90	[redacted]	[redacted]
Feature Unlimited	[redacted]	[redacted]
Highlight		
Highlight Elect 3	[redacted]	[redacted]
Highlight Elect 5	[redacted]	[redacted]
Highlight Elect 10	[redacted]	[redacted]
Highlight All 30	[redacted]	[redacted]
Highlight All 45	[redacted]	[redacted]
Highlight All 60	[redacted]	[redacted]
Highlight All 90	[redacted]	[redacted]

Name	Depth listing pre-commitments	Discount
Premiere		
Premiere 45 Special	[redacted]	[redacted]
Premiere 45 VIP	[redacted]	[redacted]
NSW Premiere All 30	[redacted]	[redacted]
Premiere All 45	[redacted]	[redacted]
Premiere All 45 VIP Bundle	[redacted]	[redacted]
NSW Premiere 30 All VIP Bundle	[redacted]	[redacted]
Premiere 45 All VIP Bundle	[redacted]	[redacted]
Premiere 45 All – Spring Offer VIP Bundle	[redacted]	[redacted]

4.7 Rationale for REA's contract/pricing model

This section provides a description of REA's commercial rationale for the structure of its current contract/pricing model. Further detail concerning that rationale is given in the context of REA's analysis of public benefits and detriments below, particularly in sections 7.2 and 7.3.

Choice

REA currently offers 17 permutations of contract, each of which is aimed at slightly different agent needs. By offering a wide variety of choices, REA's contract/pricing model enables agents to choose a package that is a good fit for them and the vendors for whom they act. For instance, a Standard subscription is best suited to an agent that requires a low fixed-cost service and is willing to accept a relatively high variable cost if and when a depth listing is required. A Flexi subscription with an associated depth contract is more suited to an agent that has a greater need for depth listings and is willing to commit to volume in exchange for lower per-listing upgrade fees.

In this way, REA is able to reproduce the outcomes that would be expected if it were to negotiate bespoke pricing arrangements with individual agents, without the associated transaction and administrative costs.

Value

The relative price of a listing reflects:

- its performance;
- the period for which it is exposed to property seekers;
- the location of the property; and
- importantly, the inherent scarcity of premium inventory which incorporates features such as larger photos and a higher ranking in search results.

Accordingly, a listing's price is strongly correlated with the value of the services being provided to the agent, and reflects agents/vendors' varying desire to showcase the property (see Table 13 in section 7.3 below).

More broadly, REA's pricing reflects the property seeker audience delivered to agents and vendors through REA's platform. As with most, if not all, advertising platforms, prices on REA's platform are positively correlated with the size and quality of that audience, and not purely costs.

Finally, to attract an audience, it is necessary for REA to price access for property seekers to its platform at zero, even though they obtain significant value from accessing REA's platform. That value is effectively paid for by agents/vendors as the advertisers. REA's pricing model also seeks to balance agent and consumer value propositions.

Consistency, transparency and fairness as between agents

REA's subscription fees, upgrade fees for depth listings and depth listing discounts under depth contracts are offered equally to all agents. Listing prices are not subject to franchise network- or agent-exclusive negotiations that might otherwise result in some agents gaining an advantage over others when competing for mandates from vendors.

Further, REA's listing prices are openly available to registered agents on REA's website and through other tools (such as Microsoft Excel-based calculators) that REA provides to agents at no cost.

REA believes that these elements of consistency and transparency are essential to maintain a level playing field in the supply of agent services to vendors. Put simply, REA's contract/pricing model ensures that small agents are not disadvantaged (indeed, a smaller agent willing to make a greater commitment to depth listings across a relatively low number of listings will receive better pricing from REA than a larger agent which makes a lesser commitment across a higher number of listings).

Certainty

REA's low subscription fees and fixed per-listing upgrade fees/discounts deliver up-front certainty to agents and vendors about their digital advertising costs. This certainty for the agent serves three main purposes.

- First, it allows agents to more easily account for their listing costs on a per-listing (i.e. per vendor) basis. Agents do not need to attribute relatively large subscription fees across all of their listings in a given period to come to a view about per-listing costs.

- Second, it enables agents to distribute standardised marketing schedules to prospective vendor clients (i.e. an agent does not have to produce a bespoke marketing schedule for each individual vendor for whom it may act, but may choose to do so on a case-by-case basis).
- Third, it reassures agents that there will be no unforeseen digital advertising costs arising during a campaign (which may be particularly important to an agent if they believe it will be difficult for them to pass on those unforeseen costs to the vendor at a late stage or after a campaign has ended).

Facilitating differentiation

Finally, REA's model of varying levels of depth listing, with varying feature sets and prices, allows REA to satisfy agent/vendor demand for listing types that allow them to effectively differentiate their properties and gain additional exposure to property seekers. Prices for higher-performing listing types need to be set at a level that not all agents/vendors are prepared to pay so that those listing types do not become ubiquitous and lose their ability to differentiate. Alternative models – for instance, "flattened" listing and pricing structures under which there are fewer options or less variation in prices – would only lead to greater homogeneity and renewed demand for differentiated listings.

For instance, when REA introduced its Highlight All depth contract, it was marketed closely with its Premiere All depth contracts. Agents who purchased the Highlight All product had the ability to upgrade to Premiere listings at a discount. The flexibility and choice offered by the Highlight All contract was attractive to many agents. However, there were agents who remained on Feature All contracts in circumstances where it did not make sense for them to have a Highlight All or Premiere All contract due to the nature of their business.

5 Overview of key competitors

This section provides high level information regarding existing key competitors in the digital property listings industry. It is not intended to provide an exhaustive list.

5.1 Domain

Domain Group (**Domain**) is a leading digital property advertising business wholly-owned by Fairfax Media Limited (**Fairfax**). Whereas REA offers only digital listings, Domain offers both digital and print listings. In addition to its listing products, Domain also supplies customer relationship management and data products to agents and property developers.

Domain's offering includes:

- the domain.com.au website and its related app for residential property listings (the **Domain platform**);
- the Domain property sections in Fairfax newspapers (The Age, The Sydney Morning Herald, and The Australian Financial Review) in both print and online versions;
- Metro Media Publishing (**MMP**), the publisher of the Victorian property and lifestyle print magazine The Melbourne Weekly (Fairfax moved to 100% ownership of MMP in January 2015);
- commercialrealestate.com.au and its related app for commercial property listings;
- reviewproperty.com.au and its related app, which was part of MMP and focuses on residential listings for properties in Melbourne[12]; and
- allhomes.com.au and its related app (**Allhomes**), which was launched in 2000 and acquired by Fairfax in October 2014. Allhomes is the leading digital property listing platform in the ACT and surrounding areas in regional NSW.[13]

In 2014, Domain began implementing its "digital agent ownership model", also known as its "agent equity" model, under which agents listing properties on the Domain platform are allocated shares in new State-based entities in proportion to their purchases of "Premium Plus" listings (which are broadly equivalent to REA's Premiere listings). Domain's stated rationale for implementing the agent equity model is to allow agents to "*share in the value they create in the real estate marketing process*".[14]

---

[12] Fairfax, 12 January 2015, 'Fairfax acquires 100% interest in Metro Media Publishing Holdings(MMPH) and consolidates into Domain' (ASX announcement), available at http://www.asx.com.au/asxpdf/20150112/pdf/42vyh6r0l3j94c.pdf (accessed 17 May 2016

[13] Fairfax, 2 October 2014, 'Completion of Allhomes Acquisition' (ASX announcement), available at http://www.asx.com.au/asxpdf/20141002/pdf/42sn4l6yd62vt0.pdf (accessed 17 May 2016) and Fairfax, 31 March 2015, 'Investor Briefing on Domain Group' (ASX announcement), page 23, available at http://www.asx.com.au/asxpdf/20150331/pdf/42xmmyz8m76ktx.pdf (accessed 17 May 2016)

[14] Fairfax, 31 March 2015, 'Investor Briefing on Domain Group' (ASX announcement), page 14, available at http://www.asx.com.au/asxpdf/20150331/pdf/42xmmyz8m76ktx.pdf (accessed 17 May 2016)

Audience and market share

Domain is a leading national property listing player, with particular strength in Sydney and Canberra (where Domain's Allhomes is the market leader), and is REA's closest competitor.

From August 2015 to April 2016, approximately [redacted] of the properties listed for sale on REA's platform were also listed on Domain, and Domain also listed approximately [redacted] properties that did not appear on REA's platform.[15]

For the year ended March 2016, Domain attracted approximately 18 million digital visits.[16] In March 2016, Domain's unique web audience was 3.538 million, compared to REA's unique web audience of 4.962 million.[17] Across digital and print media, Domain's monthly average audience is approximately 5.6 million[18] – comprising a digital audience of 4.1 million[19] and a print audience of 2.3 million[20]. Allhomes generates an average of approximately 2.1 million visits on a monthly basis.[21]

Residential listing products and pricing

REA understands that Domain's digital options include:

- subscription accounts for individual agent offices to list a number of properties on Domain's platform;
- premium products and upgrade options which include features such as priority search result ranking, larger images and more prominent agency branding;
- featured properties which are positioned at the top panel of a particular suburb or on the homepage of the Domain site or app; and
- eBrochures which are delivered directly to consumers via email and are often bundled with a subscription or premium product.

Domain also offers the ability to bundle print and digital products together for one or more property listings.

Unlike REA, Domain offers listing products directly to vendors, who may advertise their properties on the Domain platform without the involvement of an agent.

To date, REA understands that Domain's listing prices have been set according to the "sale zone" in which the agent's office is located and that,

---

[15] CoreLogic
[16] Average Australian monthly visits FY16YTD (average July 2015 to March 2016), provided by Nielsen Market Intelligence, Experian Hitwise
[17] Nielsen Digital Ratings Monthly, March 2016
[18] emmaTM conducted by Ipsos MediaCT, people 14+ for the 12 months ending February 2016, people 14+ only (referenced by Domain at http://www.domain.com.au/group/media-centre/)
[19] Nielsen Digital Ratings (Monthly), including Allhomes, February 2016 (referenced by Domain at http://www.domain.com.au/group/media-centre/ (accessed on 4 May 2016))
20 emmaTM conducted by Ipsos MediaCT, people 14+ for the 12 months ending February 2016, people 14+ only (referenced by Domain at http://www.domain.com.au/group/media-centre/ (accessed on 4 May 2016))
[21] Average Australian monthly visits FY16YTD (average July 2015 to March 2016), provided by Nielsen Market Intelligence, Experian Hitwise

generally speaking, prices are lower the further the agent is located away from the nearest CBD. However, REA understands that Domain has started implementing a new pricing model in some areas that is based on the location of the property to be listed rather than the location of the agency.

5.2 Onthehouse

Onthehouse.com.au Pty Ltd (**Onthehouse**) provides online property listing and data services to agents via onthehouse.com.au and its related mobile app (as well as various software solutions to agents). Onthehouse launched in 2006 and recently sold its consumer property listings business to Corelogic..

Onthehouse seeks to differentiate itself by providing more detailed property information (including historical sale price information) to property seekers and by profiling agents.[22] However, other competitors have now largely closed that gap.

Onthehouse describes itself as Australia's third largest property portal,[23] with an average monthly audience of approximately 2.2 million.[24] For the year ended 30 June 2015, Onthehouse experienced a 43% year-on-year growth in unique browsers, a 45% year-on-year increase in page views and a 46% increase in active property listings.[25]

Onthehouse allows agents to advertise individual properties, their entire property portfolio or their agency on its platform. Onthehouse offers an entry level or standard listing option, which is free of charge, and an 'Exclusive Suburb Sponsorship' subscription option, which is $99 per month per suburb.[26] The 'Exclusive Suburb Sponsorship' subscription offers premium features including exclusive placement at the top of a suburb's property profile report, priority listings, promoted agent profiles and suburb statistics reports.

5.3 Homely

Homely Pty Ltd (**Homely**) was founded in 2013 and operates homely.com.au, which offers an alternative way for agents to list properties for sale or lease.[27]

Homely seeks to differentiate itself by the design of its website, not featuring banner or pop-up ads, offering a *"collaborative online real estate community"*, building better agent relationships and offering innovative marketing programs for agents.[28] An example of Homely's innovation includes the recent launch of

---

[22] Onthehouse, http://agentcentre.onthehouse.com.au/join (accessed 5 May 2016)
[23] Onthehouse, http://static.console.com.au.s3.amazonaws.com/Local_Agent/Onthehouse.com.au_Local_Agent_Nov2015.pdf (accessed 10 May 2016)
[24] Average Australian monthly visits FY16YTD (average July 2015 to March 2016), provided by Nielsen Market Intelligence, Experian Hitwise
[25] Onthehouse Holdings Limited, 2015 Annual Report, pages 1, 4 and 5, http://www.asx.com.au/asxpdf/20150820/pdf/430mvst2d3m72g.pdf (accessed 5 May 2016).
[26] Onthehouse, http://static.console.com.au.s3.amazonaws.com/Local_Agent/Onthehouse.com.au_Local_Agent_Nov2015.pdf (accessed 10 May 2016) and Onthehouse Holdings Limited, 2015 Annual Report, page 6, available at http://www.asx.com.au/asxpdf/20150820/pdf/430mvst2d3m72g.pdf (accessed 5 May 2016)
[27] 'homely.com.au launches Collections: The first collaborative real estate search tool in Australia', 13 April 2016, *PRWIRE.com*, http://prwire.com.au/pr/59040/homely-com-au-launches-collections-the-first-collaborative-real-estate-search-tool-in-australia#.Vw4FSRhZxB0.twitter (accessed 6 May 2016)
[28] See http://about.homely.com.au/#what-makes-us-different

its "Collections" tool, which allows property seekers to save and share properties and create a collection with a theme of their choosing.[29]

Homely's website receives around 360,000 visits per month[30] and it claims that over 8,000 agents list their properties on homely.com.au.[31]

Homely offers agents entry level and premium level subscription options. The entry level 'basic profile' subscription is free. The premium "Premier Agent" and "Team Account" subscriptions provide agents with priority listings in search results, larger agent branding and various other features to draw attention to the property listing. Rates are charged per office per month ($39 for the Premier Agent and $132 for the Team Account), with discounts if pre-payment is made on a one- or two-year basis.[32]

5.4 Homesales

Homesales.com.au is a property listing portal for agents to advertise residential and commercial property listings across Australia. Homesales was launched in 2007 and is owned and operated by ASX-listed Carsales.com Limited (**Carsales**).[33]

Homesales' average monthly digital audience exceeds 700,000 visits and reached 870,000 visits in March 2016.[34] As at 5 May 2016, Homesales had 214,233 property listings.[35]

5.5 Homehound

Homehound.com.au is an online property listing platform that provides a "free listings" alternative for agents. Homehound was established in 2004 and is owned by IPMG, a group of printing and communication businesses.[36]

Homehound has arrangements with over 4,000 agency offices and 20,000 agents, maintains approximately 150,000 active listings and has over 200,000 subscribers to its property newsletters.[37] Homehound maintains strong ties with the property industry and has agreements and commitments with major franchise networks to supply listings.[38]

Homehound offers a free, standard subscription and a "Gold Premium Subscription" (flat rate of $275 per office per month) to agents to list their properties on Homehound.[39] REA expects that Homehound also makes bundled digital and print offers to agents, leveraging the printing capability within IPMG.

---

29 'homely.com.au launches Collections: The first collaborative real estate search tool in Australia', 13 April 2016, *PRWIRE.com*, available at http://prwire.com.au/pr/59040/homely-com-au-launches-collections-the-first-collaborative-real-estate-search-tool-in-australia#.Vw4FSRhZxB0.twitter (accessed 6 May 2016)

30 Average Australian monthly visits FY16YTD (average July 2015 to March 2016), provided by Nielsen Market Intelligence, Experian Hitwise

31 Homely, 'Are you on Homely?', http://agent.homely.com.au/submit-your-listings (accessed 6 May 2016)

32 Homely, 'Pricing', available at http://premier.homely.com.au/pricing/ (accessed 6 May 2016)

33 Homesales, 'About Us', available at https://www.homesales.com.au/about/ (accessed 13 May 2016)

34 Average Australian monthly visits FY16YTD (average July 2015 to March 2016), Neilsen Market Intelligence, Experian Hitwise

35 Homesales, available at http://www.homesales.com.au/ (accessed 13 May 2016)

36 Homehound, 'About', available at https://www.homehound.com.au/about/ (accessed 13 May 2016).

37 See https://www.homehound.com.au/about/

38 Homehound, 'About', available at https://www.homehound.com.au/about/ (accessed 13 May 2016)

39 Homehound, 'Advertise', https://www.homehound.com.au/advertise/ (accessed 13 May 2016)

5.6 RealestateVIEW

realestateVIEW.com.au was launched by RealestateVIEW.com.au Pty Ltd (**RealestateVIEW**) in 2001 to provide residential property listing and property data services to agents across Australia. RealestateVIEW also owns and operates the commercialVIEW.com.au, ruralVIEW.com.au, businessVIEW.com.au and holidayVIEW.com.au websites.[40] RealestateVIEW is jointly owned by the Real Estate Institute of Victoria (the controlling shareholder), Real Estate Institute of Northern Territory, Real Estate Institute of New South Wales, Real Estate Institute of Tasmania and Real Estate Institute of Western Australia (**REIWA**).[41]

RealestateVIEW seeks to differentiate itself by offering agents access to data, insights and general advice as well as listing products.[42]

RealestateVIEW describes itself as the third largest and fastest growing property portal in Australia.[43] RealestateVIEW has an average monthly audience of over one million unique visitors and, in June 2015, over 1.4 million people visited the site.[44] Over 4,200 agents advertise their listings with RealestateVIEW.[45]

According to a 2014 Nielsen study:

- 57% of survey respondents always or often visit realestateVIEW.com.au when looking for a property; and
- 10% of people visit realestateVIEW.com.au and do not visit realestate.com.au or domain.com.au.[46]

RealestateVIEW offers standard, upgraded (at varying levels) and mobile and tablet app monthly subscriptions, which allow agents to list their properties on specified RealestateVIEW platforms. Subscription rates are charged per office per month and run for a minimum of 12 months.[47] REA understands that the fee charged for an upgraded subscription varies according to the upgrade level.[48] Agents may elect to upgrade their subscription using one of RealestateVIEW's premium advertising placements. Rates vary depending on the property and the agent's needs.

---

[40] RealestateVIEW, http://www.realestateview.com.au/ (accessed 5 May 2016)
[41] REIV, 'CEO Enzo Raimondo, available at http://www.reiv.com.au/about-us/ceo-enzo-raimondo (accessed 5 May 2016) and 'About Us', http://www.reiv.com.au/about-us (accessed 5 May 2016)
[42] RealestateVIEW, 'User profile survey: property search', http://rev-advice.s3-ap-southeast-2.amazonaws.com/wp-content/uploads/2014/06/REV3369_REV_AudienceProfile_RENTERS_FactSheets_FA_.pdf (accessed 5 May 2016)
[43] RealestateVIEW, 'Property Advertising', http://www.realestateview.com.au/products/property-advertising/ (accessed 5 May 2016)
[44] RealestateVIEW, 'Site Statistics & User Profile', http://www.realestateview.com.au/sitestats/ (accessed 5 May 2016)
[45] RealestateVIEW, 'Search Real Estate for Sale', http://www.realestateview.com.au/ (accessed 5 May 2016)
[46] RealestateVIEW, 'User profile survey: property search' citing research completed by Nielsen Net Ratings April 2014 on over 1300 consumers, http://rev-advice.s3-ap-southeast-2.amazonaws.com/wp-content/uploads/2014/06/REV3369_REV_AudienceProfile_RENTERS_FactSheets_FA_.pdf (accessed 5 May 2016).
[47] RealestateVIEW.com.au, 'Listing terms and conditions', clause 11 http://www.realestateview.com.au/portal/index?static=listing_terms_and_conditions (accessed 5 May 2016); and CommercialView.com.au, 'Listing terms and conditions', clause 11, http://www.commercialview.com.au/terms-and-conditions/multiloading (accessed 5 May 2016).
[48] RealestateVIEW, 'PropertyVIEWlive', http://www.realestateview.com.au/products/propertyviewlive/ (accessed 5 May 2016)

RealestateVIEW offers a multi upload product which lists properties uploaded to realestateVIEW.com.au on selected third party property listing platforms with which agents may have subscriptions.[49]

5.7 Squiiz

Squiiz Pty Ltd (**Squiiz**) owns and operates squiiz.com.au, a property listing portal for the sale and lease of residential and commercial properties. Squiiz is 100% owned by the Australian real estate industry.[50]

Soon after its launch in 2014, Squiiz.com.au had over 200,000 property listings and 3,500 registered agencies nationwide.[51] Squizz.com.au has an average monthly audience of approximately 6,000 people.[52]

Squiiz offers basic listing (no agent logo or profiling) and profile listing (includes agent logo and profile) subscriptions to agents. Property listings appear in order of the time they were uploaded. There are no premier or feature listings and no banner ads available for purchase.[53]

The basic listing subscription is free for members and $50 per office per month for non-members. Profile listing subscriptions are $200 per month per office for members and $250 per month per office for non-members.

5.8 Realestateworld

Realestateworld.com.au (**Realestateworld**) is an industry owned and operated online property listing portal for the sale and lease of residential and commercial property.[54] Realestateworld is owned by Estate Agents Co-operative Ltd (**EAC**), a co-operative of agents headquartered in Rose Hill, NSW.

Realestateworld lists properties online as well as in print publications. REA estimates that Realestateworld has approximately 30,000 listings.

Realestateworld offers Starter, Pro and Elite monthly subscription options, as well as banner advertising options.[55] Higher subscription levels offer priority ranking in search results, enhanced branding and agency profiling and activity reports, as well as additional listing on third party property platforms. The Starter subscription is free with a $99 set up fee, the Pro package is $43 per month per office and the Elite package is $66 per month per office. [56] Banner

---

[49] RealestateVIEW, 'Property Advertising', footnote 2, http://www.realestateview.com.au/products/property-advertising/#multi-loading (accessed 5 May 2016)

[50] Jennifer Duke, 20 November 2014, 'SQUIIZ under the microscrope: Will it work?', *Property Observer*, http://www.propertyobserver.com.au/forward-planning/investment-strategy/property-news-and-insights/38063-new-real-etsate-listing-website-squiiz-will-it-work.html (accessed 6 May 2016)

[51] Jennifer Duke, 20 November 2014, 'SQUIIZ under the microscrope: Will it work?', *Property Observer*, http://www.propertyobserver.com.au/forward-planning/investment-strategy/property-news-and-insights/38063-new-real-etsate-listing-website-squiiz-will-it-work.html (accessed 6 May 2016)

[52] Average Australian monthly visits FY16YTD (average July 2015 to March 2016), Nielsen Market Intelligence, Experian Hitwise

[53] Jennifer Duke, 20 November 2014, 'SQUIIZ under the microscrope: Will it work?', *Property Observer*, http://www.propertyobserver.com.au/forward-planning/investment-strategy/property-news-and-insights/38063-new-real-etsate-listing-website-squiiz-will-it-work.html (accessed 6 May 2016)

[54] Realestateworld, http://www.realestateworld.com.au (accessed 7 May 2016)

[55] Realestateworld, 'Signup with realestateworld.com.au', http://www.realestateworld.com.au/about/get-on-board.aspx (accessed 8 May 2016)

[56] Realestateworld, 'Signup with realestateworld.com.au', http://www.realestateworld.com.au/about/get-on-board.aspx (accessed 8 May 2016)

advertising rates vary according to individual requirements.[57] EAC Members receive a preferential rate.[58]

5.9 REIWA

REIWA is a not-for-profit, industry-owned organisation representing over 1,100 agencies and more than 90% of the agents in Western Australia.[59] REIWA operates reiwa.com.au, a property listing website for sale and rental properties by owners and agents in Western Australia. In April 2016, REIWA released an app which features all of the listings on reiwa.com.au.

REIWA claims that reiwa.com.au attracts more than one million[60] visits from over 400,000 unique visitors per month and generates approximately 7 million page impressions and 65 million searches per month.[61]

REA understands that agents must purchase a subscription in order to list on reiwa.com.au.[62] REIWA offers three listing options: Essential, Headline and Feature, which increase in price according to their value (e.g. in terms of priority listing, larger images and greater prominence). REIWA's rates appear to be based on the location of the property, whether the listing is for sale or rent and level of the product chosen.

5.10 Aussiehome

Aussiehome.com (**Aussiehome**) is a property listing portal for the sale and leasing of properties and businesses. Aussiehome was established in 1999, but since 2010 has operated as a division of REIWA. Aussiehome lists all the same properties as reiwa.com.au and primarily lists properties located in Western Australia.

Aussiehome's reaches an average monthly audience of approximately 8,000 people.[63]

5.11 Rent.com.au

Rent.com.au Limited (**RNT**) operates rent.com.au, a rental specific property portal that allows both agents and private landlords to list rental properties. RNT launched in 2007 and recently completed a backdoor ASX listing.

Rent.com.au has an average monthly audience of approximately 800,000 people[64] and 1.2 million people visited the site in January 2016 alone.[65] In the past six months, RNT claims to have grown its website traffic by approximately

---

[57] Realestateworld, 'Signup with realestateworld.com.au', http://www.realestateworld.com.au/about/get-on-board.aspx (accessed 8 May 2016)
[58] Realestateworld, 'Signup with realestateworld.com.au', http://www.realestateworld.com.au/about/get-on-board.aspx (accessed 8 May 2016)
[59] REIWA, 'About Us', http://reiwa.com.au/about-us/ (accessed 13 May 2016)
[60] REIWA, 'Advertise with us', http://reiwa.com.au/about-us/advertise-with-us/ (accessed 13 May 2016)
[61] REIWA, 'Advertise with us', http://reiwa.com.au/about-us/advertise-with-us/ (accessed 13 May 2016)
[62] REIWA, https://reiwa.com.au/uploadedfiles/members/content/members/marketing/thinkpink_vendorbro_a4_6pp-email.pdf - See footnote. (accessed 13 May 2016)
[63] Average Australian monthly visits FY16YTD (average July 2015 to March 2016), provided by Nielsen Market Intelligence, Experian Hitwise
[64] Average Australian monthly visits FY16YTD (average July 2015 to March 2016), provided by Nielsen Market Intelligence, Experian Hitwise
[65] Rent.com.au, 'How is rent.com.au different?', http://www.rent.com.au/agents (accessed 8 May 2016). Source cited is AC Nielsen Market Intelligence Duplication Report February 2016

80% and its enquiries by 160%.[66] In a recent study by Nielsen Market Intelligence, 50% of RNT's audience had not visited realestate.com.au and 56% had not visited domain.com.au in the past 12 months.[67]

Since its launch in 2007, RNT has experienced eight years of consistent growth in the number of active listings and the number of agents registered with the site.[68] In April 2016, RNT had over 60,000 active property listings[69] and more than 7,800 agents and 1,730 private landlords were registered to list on its site.[70]

RNT offers standard and premium listing options for landlords. While the standard listing option is currently free, RNT states that users are saving $99 for a limited time only (as at 9 May 2016).[71] The rate charged for the premium option, which includes priority listing and enhanced features to make it stand out more than a standard listing, is not publicly disclosed.

RNT also offers agents a number of special subscription and upgrade options. Subscription options include the free entry-level plan, Feature 3 plan (including three feature listing upgrades and agency branding for $150 per month per office) and Feature 6 plan (including six feature listing upgrades and enhanced agency branding for $300 per month per office). Upgrade options include priority ranking in search results and larger imagery and agent branding. Upgrade prices vary according to the level of upgrade.

5.12 Houseandland

Houseandland.com.au Pty Ltd (**Houseandland**) operates houseandland.com.au, a house and land matching service. Houseandland enables users to search for vacant land for sale and match it with new house designs from a range of new home builders, essentially creating their own house and land package. Houseandland was established in 2012 and REA understands that it is owned by Australand, Devine, AVJennings, Metricon, Fairmont Homes and other developers and builders.

Houseandland has an average monthly audience of 11,000 people.[72]

5.13 iBuyNew

The iBuyNew.com.au website and related app are a property listing platform for new and off-the-plan properties located across Australia. The platform is

---

[66] Rent.com.au, 'Agent Info Pack', http://promo.rent.com.au/pdfs/Rent.com.au%20-%20Agent%20Information%20Pack.pdf (accessed 9 May 2016)

[67] Rent.com.au, 'How is rent.com.au different?', available at http://www.rent.com.au/agents (accessed 8 May 2016). Source cited is AC Nielsen Market Intelligence Duplication Report February 2016; Rent.com.au, 'Media Kit', http://promo.rent.com.au/pdfs/Rent.com.au%20-%202016%20Media%20Kit.pdf (accessed 9 May 2016)

[68] RNT, April 2016, 'Investor Presentation' (ASX announcement), available at http://www.asx.com.au/asxpdf/20160408/pdf/436cy6gb7p4ly4.pdf (accessed 9 May 2016)

[69] RNT, April 2016, 'Investor Presentation' (ASX announcement), available at http://www.asx.com.au/asxpdf/20160408/pdf/436cy6gb7p4ly4.pdf (accessed 9 May 2016)

[70] RNT, ASX announcement dated 5 May 2016, available at http://www.asx.com.au/asxpdf/20160505/pdf/437111rw61sq8v.pdf (accessed 6 May 2016).

[71] Rent.com.au, 'List a property', available at http://www.rent.com.au/list_a_property (accessed 9 May 2016)

[72] Average Australian monthly visits FY16YTD (average July 2015 to March 2016), provided by Nielsen Market Intelligence, Experian Hitwise

operated by Find Solutions Australia Pty Ltd (in which ASX-listed Disruptive Investment Group Limited is the majority shareholder[73]).

iBuyNew's customers are primarily property developers and agents. iBuyNew claims that, since launching in 2009, it has listed properties in over 600 developments and currently lists approximately 2,646 properties in 110 developments located around Australia.[74]

iBuyNew's point of difference is that it provides a streamlined product for consumers to select and purchase a new or off-the-plan property in one place, using their online comparison tools and in-house advice. It provides an alternative to the traditional approach requiring the consumer to visit multiple websites and contact multiple agents and developers.[75] iBuyNew proposes further investments in its platform to enable consumers to purchase property entirely online (for example, using digital signing, integrated conveyancing and online settlements) and provide consumers with 3D imagery.[76]

[73] DIV, March 2016, Investor Presentation, page 2, http://www.asx.com.au/asxpdf/20160329/pdf/4363sjyrfsc4wj.pdf (accessed 13 May 2016)
[74] iBuyNew, 'About Us', https://www.ibuynew.com.au/home/about-us (accessed 17 May 2016)
[75] DIV, March 2016, Investor Presentation, pages 6 and 7, http://www.asx.com.au/asxpdf/20160329/pdf/4363sjyrfsc4wj.pdf (accessed 13 May 2016)
[76] DIV, March 2016, Investor Presentation, pages 12, 13 and 14,http://www.asx.com.au/asxpdf/20160329/pdf/4363sjyrfsc4wj.pdf (accessed 13 May 2016)

6 Competition

The Application describes the digital property advertising industry as an effective duopoly "dominated" by REA and Domain and implies that it suffers from some form of market failure. Little or no evidence is provided for those important claims and REA considers that they are overstated and mischaracterise the digital property advertising industry.

The digital property advertising industry is highly competitive. It is characterised by:

- fierce, close competition between REA and Domain;
- aggressive competition from a range of established mid-tier competitors;
- low barriers and frequent new entry; and
- the ongoing threat of rapid disruption by one of several global digital 'majors' (such as Airbnb, Facebook, eBay and Google).

This section provides information regarding competitive dynamics in digital property advertising, addressing each of the above issues, and demonstrates the impact of that competition on REA's competitive behaviour.

6.1 Concentration

Table 5 below provides data regarding the share of residential property listings on REA's platform that are also listed on other platforms in the digital property listing industry. The statistics provided in Table 5 do not take into account the number of listings which are on other platforms but not on REA's platform.

Table 5 – Share of national residential property listings on REA's platform that are also listed on other real estate digital platforms (August 2015 to April 2016)

Platform	Share of Total Digital Listings to REA
Domain	[redacted]
Homehound	[redacted]
Real Estate View	[redacted]
Allhomes	[redacted]
Ray White	[redacted]
LJ Hooker	[redacted]
REIWA	[redacted]
Realestate World	[redacted]
Harcourts	[redacted]
ReNet	[redacted]
Professionals East Coast	[redacted]
Century 21	[redacted]

Platform	Share of Total Digital Listings to REA
Property Plus	[redacted]
Stockdale & Leggo	[redacted]
Professionals South Australia	[redacted]
Richardson & Wrench	[redacted]
Go Gecko	[redacted]
Core Web	[redacted]
Agent Point	[redacted]

Clearly, REA and Domain together account for a large proportion of property listings. However, REA considers that, in a market with the characteristics of digital property advertising, a relatively high degree of consolidation is inevitable. In particular, digital property listings involve a two-sided market in which services are provided both to consumers and to agents. As is common to all or most two-sided markets, competition in digital property listings reflects some network effects that result from the utility of a given platform to consumers (and, by extension, agents) being positively correlated with the number of consumers using the platform. In such a market, it has to be expected that market share will tend to gravitate towards a relatively small number of players who are each able to offer a reasonably comprehensive service (as has been seen in other online markets, such as social media).

Importantly, however, this level of concentration does not imply that competition is, by any means, weak in such a market. To the contrary, the contest between leading players (in this case REA and Domain) to benefit from network effects by being able to claim market leadership is likely to greatly amplify competition. Moreover, opportunities remain for significant entry and growth by rivals who are able to offer a superior or differentiated product, which poses a constant threat to leading players.

REA submits that the test of the effectiveness of competition in a market such as digital property listings should be direct evidence of competitive constraint and entry, rather than a superficial analysis of market shares.

6.2 Competitive dynamics in digital property listings

The Application asserts that it is *"mandatory"* for vendors to list their property on realestate.com.au and that REA is *"guaranteed the listing"*.[77] This is simply not correct: vendors and agents can and do effectively bypass REA when listing their property for sale, whether by listing on a competitor website or advertising in another medium.

As highlighted in section 5 above, there are a number of effective, alternative providers of digital property listing services and agents/vendors are free to choose any competitor's platforms to advertise their property. These options

[77] See page 3 of PMG Application – Executive Summary

are frequently exercised. For instance, during the period from August 2015 to April 2016, approximately [redacted] of all properties that were listed on REA's Australian websites also appeared on other sources and over [redacted] properties were not listed on REA's Australian websites at all.[78] During the same period, approximately [redacted] properties were not listed with REA or Domain but were listed exclusively on other portals, print publications and agents' own websites.[79]

REA has had various experiences where agents have:

- excluded or referred to the possibility of excluding REA from the advertising schedules they prepare for vendors on the basis that REA's prices were not suitable for them and their vendors; and
- referred to the possibility of not recommending the ongoing use of REA's products to vendors.

Agents regularly use their own databases to match buyers with prospective vendors and sell property before it is advertised in any medium. REA understands that agents use their pipeline of buyers to sell a significant number of established properties off-market.[80] Similarly, in new developments, REA understands that up to 70% of stock is sold "off-market" and new entrants (such as www.apartmentmentdevelopments.com.au) are targeting this area of business.

Vendors also generally tend to advertise across multiple channels. On average, vendors currently use 2.9 resources to promote their property (with dual usage of online and print media at 30%).[81]

6.3 Competition from Domain

Head-to-head competition between REA and Domain is fierce.

Domain is a strong player. In March 2016, Domain's unique web audience was 3.538 million, compared to REA's unique web audience of 4.962 million.[82] Demonstrating the extent of the competitive threat that it poses to REA, Domain has recently experienced growth in its audience share. For the year ended 30 June 2015, Domain's unique monthly audience grew 45% and overall monthly audience for its main and mobile sites grew by 30%.[83]

---

[78] Listings data provided by CoreLogic for the period August 2015 to April 2016
[79] Listings data provided by CoreLogic for the period August 2015 to April 2016
[80] See, for instance: http://www.reinsw.com.au/imis15_prod/web/Posts/Latest_News/201509/Selling_agents_and_buyers_agents_working_together.aspx
[81] Based on a national survey of consumers conducted by Research Ink. The survey used the Research Now 'Valued Opinions' online research panel and was conducted between 22 October 2015 and 15 November 2015. A total of 5,643 panellists (representative of the Australian population) completed the survey, with 3,000 panellists qualifying for the full survey. The data reflects the responses provided by panellists who sold or were looking to sell their property in the preceding 12 months
[82] Nielsen Digital Ratings Monthly, March 2016
[83] Fairfax Media Limited, 2015 Annual Report, page 3 and 5, available at http://www.fairfaxmedia.com.au/ArticleDocuments/191/2015-08-13_Annual%20Report%202015.pdf.aspx?Embed=Y (accessed on 4 May 2016)

Domain's website and app offer similar functionality to REA's, with the result that their offerings may be perceived by property seekers as interchangeable. However, REA and Domain compete with each other in respect of:

- ***the number and comprehensiveness of the listings that each offers*** – because it is easier for many consumers to search on one platform and they are concerned to ensure they do not miss out on suitable properties, there is fierce competition between REA and Domain for the right to claim market leadership and, conversely, to prevent any material 'gap' opening up in the comprehensiveness of the listings of the other platform;
- ***the functionality and useability of their website and app technology*** – for instance, both business rushed to be the first to bring watch-based versions of their apps to market in 2015 across both the Android Wear and Apple Watch platforms. Table 6 below highlights recent key innovations by REA and Domain and shows the extent of the competitive rivalry and interaction between them;
- ***the offering of new innovations and ancillary services to agents and consumers***; and
- ***price*** – REA and Domain offer slightly differentiated pricing models and both compete aggressively on price to ensure that they maintain a strong relative value proposition to agents. See section 6.8 below for examples.

A further example of the competition between REA and Domain is provided by Domain's recent major strategy campaign to grow its app penetration and pursue market leadership in respect of apps.[84]

Table 6 – Key innovations and launch dates by REA and Domain

Innovation type	REA launch date	Domain launch date
Apple Watch app	23 March 2015[85]	On or about 24 April 2015; announced 23 March 2015[86]
Android wear app	24 June 2015[87]	On or about 11 August 2014[88]

[84]Fairfax Media Limited, Investor Briefing (31 March 2015), http://www.fairfaxmedia.com.au/ArticleDocuments/193/2015-03-31_Fairfax%20Investor%20Briefing%20on%20Domain%20Group.pdf.aspx?Embed=Y, p.28 (accessed on 18 May 2016)

[85] Realestate.com.au, available at http://agent.realestate.com.au/news/realestate-com-au-for-apple-watch/ (accessed 17 May 2016)

[86] Domain, 23 March 2015, 'Domain helps you Watch the market. Literally.', available at http://www.domain.com.au/group/press_release/new-real-estate-app-coming-to-apple-watch/ (accessed 17 May 2016)

[87] Realestate.com.au, available at http://agent.realestate.com.au/news/introducing-our-new-app-for-android-wear/ (accessed 17 May 2016)

[88] Domain, 11 August 2014, 'Domain launches new Android smartwatch app', available at http://www.domain.com.au/news/domain-launches-new-android-smartwatch-app-20140811-102sw0/ (accessed 17 May 2016)

Innovation type	REA launch date	Domain launch date
3D virtual tours	September 2015 for established properties	First property to be listed on system went on the market in early November 2014; launched technology in around October 2014[89]
Agent profiles	December 2014	September 2014
Home loan tool	June 2015	Early 2013
Off the plan property platform	June 2015	Date unknown
Home price guide tool (Price Lookup)	May 2015	August 2015[90]
Agent assistance apps	Agreement with InspectRealEstate announced 29 July 2015, rolled out in late 2015[91]	Partnership with Homepass early 2016[92]
Suggested properties	'Suggested Properties' feature launched on web and app in February 2016[93]	N/A
School information	April 2015[94]	21 January 2015[95]
Google Now card	July 2015[96]	29 April 2015[97]
Facebook Chatbot	N/A	11 May 2016

89 Domain, 25 October 2014, 'Real estate agents' 3D technology enables virtual open homes', available at http://www.domain.com.au/news/real-estate-agents-3d-technology-enables-virtual-open-homes-20141025-11brpu/ (accessed 17 May 2016)
90 Domain, 20 August 2015, 'Domain Group launches Home Price Guide tool before spring selling season', available at http://www.domain.com.au/news/domain-group-launches-home-price-guide-tool-before-spring-selling-season-20150819-gj2otk/ (accessed 17 May 2016)
91 Realestate.com.au, available at http://agent.realestate.com.au/news/realestate-com-au-to-integrate-inspectrealestates-register-online-functionality-on-rental-listings/ (accessed 17 May 2016)
92 Domain, available at http://www.domain.com.au/group/press_release/say-hello-to-the-future-of-open-for-inspections/ (accessed 17 May 2016)
93 Realestate.com.au, available at http://www.realestate.com.au/blog/expand-your-real-estate-search-with-apps-suggested-properties/ (accessed 17 May 2016)
94 Realestate.com.au, available at http://www.realestate.com.au/blog/should-you-buy-property-near-a-school/ (accessed 17 May 2016)
95 Domain, 21 January 2015, 'School Zone Feature – is the home you want to buy in the right school catchment area?', available at http://www.domain.com.au/group/press_release/domain-launches-school-zone-information-real-estate-listings/ (accessed 17 May 2016)
96 Realestate.com.au, available at http://agent.realestate.com.au/news/helping-you-move-listings-with-now-cards-on-the-google-app (accessed 17 May 2016)
97 Ausroid, 29 April 2016, 'Australian property site Domain is the first Australian company to have a Google Now card', available at http://ausdroid.net/2015/04/29/australian-property-site-domain-is-the-first-australian-company-to-have-a-google-now-card/ (accessed 17 May 2016)

A key differentiator between REA and Domain is that Domain offers bundled digital and print advertising in collaboration with the print operations of its parent company (comprising MMP, The Age, The Sydney Morning Herald and The Australian Financial Review). REA offers digital-only advertising packages.

6.4 Competition from mid-tier competitors

The digital property listing industry is also characterised by a proliferation of small and mid-sized competitors. Many of these players are seeking to create a platform for profitable growth in the market by identifying a niche product offering or providing a differentiated service.

For example:

- as noted by PMG, Onthehouse sought to differentiate itself by allowing users to calculate the price and value estimate of properties. Onthehouse also focuses on promoting agent profiles by highlighting listings successes of individual agents;
- RealestateView seeks to differentiate itself on the basis of its industry backing by State-based real estate institutes, which provide consumers access to a distinct property data offering (including data on properties that are not listed); and
- RNT has been able to differentiate itself by targeting a niche audience of landlords and renters.

Growth by new entrants poses a genuine threat to REA's business. For instance, RNT's website traffic appears to have grown by 80% in the last six months.

6.5 Competition from agents' websites, private listing websites, off-the-market platforms and search engines

The practice of agents advertising listings on their own websites, and the continuing growth and sophistication of those websites, also needs to be recognised. The websites of large franchise groups in particular offer an extensive range of properties. Between August 2015 and April 2016, approximately [redacted] properties were listed exclusively on the websites of franchise groups and not on REA's platform.[98] Franchise groups including LJ Hooker, Century 21 and Raine & Horne, also have their own mobile apps.

There has been a rise in websites that allow vendors to directly list their properties online without engaging an agent (e.g. cubbi.com.au, hello.com.au and noagent.com.au) and websites that provide links to other property listing websites (e.g. yourproperty.com).

Digital platforms like B4 also impose competitive pressures in the digital property advertising industry. B4 offers "pre-market" listings of properties that allows properties to be listed "off-the-market". In the event the properties are

[98] CoreLogic

not sold, they will be listed on a digital real estate advertising platform like REA or Domain.

Property seekers are also able to search for properties on search engines, such as Google, instead of using a particular property advertising platform. This allows property seekers to quickly access listings from a range of property websites. Agents regularly use search engine optimisation (SEO) strategies to direct consumer traffic from Google to their respective websites.

6.6 Barriers and new entry

The ACCC has previously recognised that barriers to entry in digital property markets are low.[99]

As with most digital markets, the digital property industry is dynamic, rapidly evolving and characterised by continual disruptive innovation. Those characteristics create both real opportunities for entry and growth and threats to incumbents.

There is significant evidence of new entry and of entrants growing scale by leveraging innovative technology or differentiated models. For example, Homely, a relatively new entrant, has experienced an increase in month-on-month traffic by almost 300% in the last two years, with between 7 and 10 million visits to Homely's website predicted in 2016.[100] This can largely be attributed to Homely's 'free-to-list' model for basic subscriptions and its recent launches of innovative products such as 'Collections' and 'Visual Alerts' (a customised alerts system that allows users to view new listings). Similarly, iBuyNew, which has a niche audience of seekers of new or off-the-plan properties, has sold over 600 properties since its inception and has access to over $1 billion worth of stock across more than 99 developments.[101] Part of this growth can also be attributed to its unique product offering that includes a streamlined approach to traditional off-the-plan sale process and online settlements. For instance, in FY15, more than 10% of iBuyNew's sales occurred without face-to-face contact.[102]

6.7 Global threats

REA (and Domain and other players) face an ever-present threat of disruption by leading global players in adjacent markets, such as airbnb, Facebook, Google and eBay. With their unrivalled brand recognition and user databases, these companies pose substantial threats to domestic digital property listing competitors and impose a significant constraint. Some high level information in relation to the key threats is provided below.

[99] See for example, News Limited's proposed acquisition of the remaining shares in realestate.com.au in 2005 at http://registers.accc.gov.au/content/index.phtml/itemId/703962/fromItemId/751043
[100] See: http://www.realestatebusiness.com.au/breaking-news/10442-homely-kick-starts-2016-with-record-growth
[101] iBuyNew Investor Presentation , 'One of Australia's leading online marketplaces for new property sales', March 2016 at http://www.asx.com.au/asxpdf/20160329/pdf/4363sjyrfsc4wj.pdf (Accessed on 19 May 2016), p.4
[102] iBuyNew Investor Presentation , 'One of Australia's leading online marketplaces for new property sales', March 2016 at http://www.asx.com.au/asxpdf/20160329/pdf/4363sjyrfsc4wj.pdf (Accessed on 19 May 2016), p.8

eBay/Gumtree

eBay is the global leader in digital classified listings – both peer-to-peer and commercial.

Gumtree was acquired by the global eBay Group in 2005,[103] enabling it to leverage eBay's global expertise in peer-to-peer platforms. Gumtree already competes in respect of Australian digital property listings. Gumtree has had a particular focus on digital share accommodation listings and was, until recently, the market leader in that category and remains a leading competitor. While Gumtree offers a broader range of listing services, real estate is a key product category accessible from Gumtree's home page and its website offers dedicated "Flatshare and homeshare" and "Roomshare categories".[104] Gumtree offers free share accommodation listings.

Gumtree's website states:

> *"We are the local noticeboard that now spans 76 cities across 11 countries that connects not just new people arriving to a city but primarily the locals of those cities in - Australia, UK, Ireland, Northern Ireland, Poland, South Africa, New Zealand, Singapore and Hong Kong - and are the biggest websites for local community classifieds including stuff for sale, cars, flat share, flat rentals and jobs for majority of the countries mentioned."* [105]

Gumtree is a very well-known consumer brand. Its Facebook page states:

> *"Gumtree was the most searched for brand in Australia in 2012* (*According to Google's 2012 Australian Brand Zeitgeist Report)"* and it *"connects over 4.5 million Australians every month"*.[106]

Further information is available at: http://www.gumtree.com.au/s-real-estate/.

airbnb

airbnb is a leading global peer-to-peer digital property listings business. It currently offers over 2 million listings worldwide.[107]

airbnb initially focused on shorter-term stays but has recently begun offering "airbnb Sublets", a product for longer-term stays of up to six months. airbnb Sublets can be searched on a dedicated page on the airbnb website.[108] airbnb promotes the benefits of airbnb sublets as follows:

> *"First, it's way easier to manage a listing that is offered long-term since you do not have to deal with short-term Guests coming in and out all the time. Second, renting long-term will allow you to not worry about the complicated laws and taxes related to short-term rentals. Third, since your long-term Guests (or let's call them tenants) will pay you through airbnb via their credit cards, you are assured that the rent will always be paid in*

[103] See https://www.facebook.com/GumtreeAustralia/info/?tab=page_info (accessed 2 March 2016)
[104] See http://www.gumtree.com.au/s-real-estate/
[105] See https://help.gumtree.com.au/knowledgebase.php?article=208
[106] See https://help.gumtree.com.au/knowledgebase.php?article=208
[107] See https://www.airbnb.com.au/about/about-us
[108] See https://www.airbnb.com/sublets

full and on time. And the amazing $1,000,000 Host Guarantee still applies for this type of booking since the agreement is made within airbnb."[109]

airbnb has quickly built strong consumer brand recognition and presents a substantial competitive threat to existing domestic digital property listing businesses. In Australia, airbnb's monthly audience consists of approximately 3.4 million people.[110] In the last 12 months, airbnb's listings have increased 100% to 40,000 listings for short term and 'holiday' rentals.

Further information is available at: https://www.airbnb.com.au/.

Facebook

Global social media leader Facebook presents an enormous threat to all peer-to-peer listings businesses. Facebook's brand recognition and the size and richness of its user database is unmatched. As such, its ability to facilitate the connection of consumers on both sides of a property transaction is unrivalled. Although no supporting data is available, REA's understanding is that a substantial number of share accommodation arrangements are already established through Facebook.[111]

Facebook has recently begun introducing more tools to enable its members to engage and communicate regarding property. Facebook has long been a forum on which consumers post listings on their own pages and on sharing pages within the platform. However, there is now also a dedicated a property section in the "marketplace" area of the Facebook website. That section allows for the display of sale, rent and share listings. Access to the "marketplace" area is provided through sponsored links for a particular property that appears in a user's "News Feed". The sponsored link typically displays a photo of a property and the address.

6.8 Evidence of competitive constraint

Price

The Application makes various allegations to the effect that REA's prices are inflated and reflective of its alleged dominance. Those specific allegations are addressed in the context of the Application's public benefit claims in section 7 below. The following paragraphs provide evidence of the constraint currently imposed upon REA's pricing. Examples of REA's pricing decision-making being constrained by competition include the following.

- In response to customer feedback, REA's average monthly subscription prices have decreased over time from [redacted] in FY13 to [redacted] per month in FY16. This has significantly lowered the entry cost to agents listing properties on REA platforms. Figure 1 below shows the changes to REA's average subscription prices between FY11 and FY16.

---

[109] See http://www.airbnbsecrets.com/airbnb-sublets-how-to-rent-your-home-month-to-month-on-airbnb/

[110] Average Australian monthly visits FY16YTD (average July 2015 to March 2016), provided by Nielsen Market Intelligence, Experian Hitwise

[111] See, for example, https://www.facebook.com/SydneyHousemateFinder/)

Figure 1 – REA average monthly subscription prices FY2011-FY2016F

[redacted]

- REA has also frequently reduced its rates in some specific market zones where competitive dynamics have resulted in low take-up of its products. In some market zones, where the demand for digital advertising has been reduced by changes in property market and agent market dynamics (e.g. in Western Australia since the end of the mining boom), REA has adjusted its pricing to account for lower demand from vendors seeking to advertise properties. In other markets, where REA has relatively low consumer audience share (e.g. Canberra), REA has reduced its pricing to levels far below those of its competitors in order to increase penetration in a market that has been, and continues to be, led by Allhomes. Other industry participants, such as Domain, have effectively used price competition to gain share in many markets using similar tactics.
- REA has provided new contract types for greater flexibility in lower depth commitments. This switch to depth tiering has resulted in greater choice for agents, even though the average price yield for REA is lower than previous contract types offered.
- In response to agent feedback, both REA and Domain amended their respective pricing models in different ways during 2015. [redacted] In November 2015, REA restructured its pricing model, moving towards a price structure that links prices to various multi-suburb "market zones" in which properties are located, rather than to individual suburbs. Domain introduced changes to its pricing model in some areas, so that pricing is now based on the location of the listed property, rather than the location of the managing agent (REA expects that those changes will be progressively rolled out in other areas). Agent sentiment in response to both changes was positive, particularly due to the simplification of the pricing structures.

- REA launched a new "Premiere All" contract in June 2015 as an opt-in two year contract. This innovation was sparked by market demand for pricing simplicity and surety over a greater period.

Innovation

In order to compete, remain relevant and maintain and grow its value proposition to customers, REA undertakes very large investments in new functionality, products and tools for its advertising platforms. In FY16, REA has made substantial investments on a number of technology related costs including IT developers, infrastructure engineers and software licenses to ensure continuing development of REA's platform. REA's recent innovations are outlined in section 4.3 above.

Service levels and responsiveness to feedback

The evidence regarding REA's continuing efforts to improve service levels and its receptiveness and responsiveness to feedback strongly contradicts the Application's allegations of dominance.

REA's customer support and service teams respond to approximately [redacted], email and web inquiries per month (the large majority of which are from agents). These customer contacts are also a significant source of feedback that results in REA making changes and improvements to the services it offers. REA has recently launched a number of service enhancements (such as increases to its field force and customer experience team) to cater to customer enquiries, which have increased by [redacted].

Similarly, REA routinely agrees to requests from agents to provide other forms of "value adds" to the industry. For instance, REA hosted over 157 educational, sponsorship and hospitality events in FY15, launched the AREA's for industry specific awards in 2016 and was the principal partner with REB awards (the largest residential awards) and AREC (the largest real estate conference in the southern hemisphere).

7 Public benefits

There is insufficient detail in the Application to allow REA to fully assess the possible public benefits of the proposed conduct.

However, on the basis of the information in the Application, REA submits that each of the public benefits claimed by PMG is illusory or overstated. Specifically:

- collective bargaining and boycotts will not give rise to any meaningful benefits in terms of agent/vendor choice, since REA's contract/pricing model already offers agents a wide variety of contracting options, agents are free to (and do) enter into multiple contracts with REA and within each contracting option there is ample flexibility to allow an agent/vendor to choose the most appropriate listing type for a particular property – see section 7.2;
- REA's existing prices are low, not reflective of any dominance and consistent with the substantial value that REA's platform provides to agents/vendors, the particular value afforded by REA's depth listings and REA's high fixed cost base. The various price comparisons relied upon by PMG to suggest otherwise are invalid. In any event, uniformly lower prices for REA's depth listings are likely to be unsustainable because of agent demand for differentiated listings – see section 7.3;
- REA and agents are not currently subject to any material transaction costs that would be avoided in a collective negotiation, and contrary to PMG's claims no scale efficiencies would result – see section 7.4;
- REA's contract/pricing model is easy to navigate, and agents and/or REA already offer all of the services that are ordinarily supplied by media buyers. In that context, no real benefits would be likely to arise from PMG assuming the role of media buyer on agents' behalf – see section 7.5;
- REA's contract/pricing model is already utterly transparent to agents, and PMG's intermediation cannot possibly serve to increase that transparency – see section 7.6; and
- the claim that collective action co-ordinated by PMG would enable REA's smaller competitors to become "*more active*" is unsupported and, if underpinned by an assumption that PMG would leave those competitors' contract/pricing models intact despite its negotiating leverage, highly implausible – see section 7.7.

7.1 Lack of detail concerning proposed conduct

At the outset, REA notes that the Application lacks sufficient detail for REA to make a full assessment of the proposed conduct's likely public benefits and detriments.

In particular, the Application does not adequately address the issues set out in this section 7.1. REA considers that further, detailed information on these points is critical for REA, and other interested parties, to respond properly to the Application.

Scope of collective bargaining / boycotts

The Application is initially expressed as being related to the market for "*on-line advertising of sales of domestic real estate*" (page 3). Further, the terms "*Agent*" and "*Vendor*" are defined in the Application in terms of their involvement in the sale of residential real estate (page 3).

On that basis, it appears that PMG seeks authorisation only for collective bargaining and boycotts in relation to digital property listings for residential properties that are for sale. It does not appear that authorisation is sought in relation to similar services for commercial properties, unbuilt developments, rental properties, share accommodation or any other form of real estate. However, the Application is ambiguous and does not explicitly limit the scope of the proposed conduct in that way.

For the purposes of this submission, REA has assumed that the proposed conduct is limited to digital property advertising services in respect of residential properties for sale.

Method of collective bargaining / boycotts

The Application does not set out in any detail the way(s) in which collective negotiations or boycotts would be conducted or co-ordinated. For instance, it appears that PMG proposes to contract with, and acquire services from, suppliers such as REA and resell those services to agents (see page 23). However, the "collective" nature of negotiations in those circumstances is not clear.

It is also not clear how many agents PMG would negotiate on behalf of at any one time or how a negotiating group would be constituted.

Finally, it is not clear how PMG would seek to negotiate on behalf of particular agent franchise groups, or how agent franchise groups (and others, such as media buyers) might collectively negotiate with REA without PMG's involvement (as suggested on pages 23 and 31 of the Application).

PMG's business/revenue model

Related to the above, the method by which PMG will derive revenue from the proposed conduct is not clear. Depending on its business/revenue model, PMG's incentives may not be aligned to agents'. For example, if PMG was to adopt a model under which it simply re-sold REA's services at a fixed or percentage margin to the price(s) it pays REA, it would have no clear incentive to negotiate further discounts below REA's current prices.

No information is provided regarding PMG's shareholders, employees, affiliations with existing property industry stakeholders or other matters that may compromise its independence and ability to conduct collective negotiations free from bias or extraneous influence. In 2014, PMG's principal, Mr Anton Staindl, was involved in a proposed collective bargaining arrangement on behalf of agents as part of a business called Real Estate Digital Marketing Services Pty Ltd (**REDMS**). REA understands that REDMS was associated with MMP/Fairfax and, for that reason among others, REA declined to engage with REDMS. REA understands that PMG was incorporated shortly after REDMS was deregistered. REA has no information that would allow it to assess whether there is any continuing association between PMG and its major competitor.

Unclear collective boycott triggers

The Application is unclear and inconsistent in relation to the circumstances in which a collective boycott would or could occur.

In describing the proposed conduct, the Application states that a collective boycott would "*only be utilised when approaches to negotiate are ignored, negotiations become stagnant or are fruitless*" (page 24). That implies that it would be up to PMG to decide whether collective negotiations had been fruitful (presumably on the basis of whether the target had acceded to PMG's demands); in other words, a collective boycott would be available merely for the reason that collective negotiations had not resulted in an outcome acceptable to PMG. This interpretation is supported by the introductory remarks on page 5 of the Application, which state that PMG is seeking authorisation for collective boycotts "*where, despite the ability to collectively bargain...the desired outcomes are not obtained*".

Although the Application goes on to provide three collective boycott triggers, each of which relates to an outright refusal by the target to negotiate with PMG, generally or in respect of prices and contractual flexibility (see page 24), those situations are provided as examples only and do not limit the circumstances in which a target could be subject to a boycott.

The Application then suggests that a collective boycott would not be available unless the target had not engaged in "*good faith*" negotiations for a period of "*not less than 6 months*" (page 25). The meaning of "*good faith*" in this context is ambiguous, and given the various other remarks in the Application referred to above, PMG may well take the view that a collective negotiation that does not result in the outcomes expected by PMG is, by definition, not one conducted by the target in good faith.

In the event that the ACCC determines, contrary to REA's submissions, that the proposed collective boycott conduct would be likely to give rise to net public benefits, REA submits that it will be essential to tightly control the nature of any boycott, the circumstances in which it can occur and the process for mediating between the target of the boycott and PMG (REA's further submissions concerning collective boycott conduct are set out in section 8.5 below).

Unclear scope for information sharing and coordination

It is not clear what interactions will occur between competing agents, or what information will be shared amongst them, in the context of the proposed conduct. Without clarity on this point, it is difficult for REA to form a considered view about the risks of the proposed conduct facilitating broader co-ordination between agents.

In this respect, REA notes that the New Zealand Commerce Commission is currently engaged in proceedings against a number of agent groups regarding allegedly co-ordinated responses to changes to TradeMe's pricing model.

While REA does not suggest that that matter has any direct bearing on the issues to be determined by the ACCC under the Application, it nevertheless highlights the risk that the ACCC's authorisation of the proposed conduct may create broader opportunities for the sharing of competitively sensitive information and possible co-ordination between agents.

PMG confidentiality claims

REA also notes its letter to the ACCC of 13 May 2016 requesting access to information contained in Schedule 1 to PMG's application. REA understands that this schedule was provided on a confidential basis and includes information relating to advertising packages offered by REA and transactions between REA and agents (which appears highly unlikely to be confidential as between PMG and REA). That information is important for REA to properly assess, and respond to, the claims made in the Application.

Notwithstanding the issues identified in this section 7.1, based on the limited information set out in the Application, REA submits that the public benefits claimed by the Application are illusory or overstated.

7.2 Greater agent/vendor choice

The Application submits or suggests that:

- agents are subject to a "*practical forcing..., through uncommercial price disincentives, to agree to place all listings at the [Premiere]...level, irrespective of vendor needs or budge*t" (page 5);
- *the "...inflexibility to pick and choose the level of listings effectively forces all Agents in a region to adopt the same marketing strategy"* (page 16);
- "*...vendors...have had little choice or no choice but to utilise the "premium" package (previously) pushed on all agents in the market regardless of property price and vendor budget*" (page 22);
- *"[t]he current market place effectively forces agents to purchase a "premium all" service for all the properties they may list"* and *"...having no real choice of advertising package is a market inefficiency that ought to be corrected"* (page 31);
- the proposed conduct will create "*flexibility for vendors in matching advertising level to their needs and property value*" (page 5);
- the proposed conduct will allow "*vendor[s]...to choose the advertising package that best suits their individual needs and financial situation*" (page 23);
- collective bargaining will "*allow for vendors and agents to better assess and mould their advertising style, model and budgets to take into consideration the needs of the vendor and potential sale price of the property*" (page 24); and
- as a result of the proposed conduct, agents (or vendors via agents) *"[will be] able to select the most suitable advertising package for their specific property and financial situation rather than being forced to buy a product*

that all the local [a]gents have already contractually 'locked' into" (page 31).

REA agrees with the suggestion that, in a collective negotiation (with or without a collective boycott), PMG will be in a position to influence the formulation of new contract types (including, at a minimum, contracts with lower or no levels of pre-commitment to depth listings and/or higher discount levels).

However, for the reasons set out below, agents (and, by extension, vendors) already have substantial flexibility to choose the most suitable advertising package and are not, in any sense, "*forced*" to purchase a premium service from REA. As such, REA considers that the premise of the Application's public benefit claim regarding agent/vendor choice is factually flawed and REA does not consider that collective bargaining by PMG offers any meaningful benefits in this respect.

Importantly, compelling REA to reshape its business so that it offers the options that PMG may require would involve the breakdown of REA's current contract/pricing model. For the reasons set out in section 8 below, that is likely to have significant adverse effects on the efficient functioning of digital advertising and agent services markets.

Existing choices in REA contracts

Initially, an agent's choice is facilitated by the range of contracts that REA offers (i.e. a Standard subscription or Flexi subscriptions with an associated depth contract). For example, an agent servicing vendors who generally require only Standard listings is able to cost-effectively serve those vendors through a Standard subscription. An agent servicing vendors who typically demand higher-quality listings is able to cost-effectively serve those vendors by selecting a Flexi subscription with an appropriately targeted contract.

A detailed discussion of the choices that REA offers agents is given in sections 4.4 to 4.7 above. To summarise:

- REA offers low-cost Standard subscriptions under which an agent can place Standard listings for no additional per-listing fee and a given Standard listing can be upgraded to a Feature, Highlight or Premiere depth listings for an additional per-listing fee; and
- REA offers Flexi subscriptions with a wide variety of associated depth contract options, each of which facilitates a slightly different level of pre-commitment to depth listing upgrades and is aimed at slightly different agent needs – this allows REA to efficiently approximate the outcomes that would be expected if REA were to individually negotiate bespoke arrangements with agents; and
- REA's contracts are generally for 12-month periods and contain a 30-day notice period for termination for convenience, allowing agents to terminate their contracts if they are not satisfied with the value offered by their contract.

Existing diversity in contracting decisions

Reflecting the flexibilities inherent in REA's contract/pricing model, agents using the REA platform choose a broad mix of contract types. Table 7 below shows the current distribution of contract types within REA's customer base.

Table 7 – Distribution of REA contract types

Standard	Flex subscription and depth contract				
	Feature Elect	Feature All	Highlight Elect	Highlight All	Premiere All
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Further, contrary to the claim in the Application, REA observes a diversity of contract types even within local areas. To illustrate, Table 8 below shows the current distribution of contract types within REA-defined local areas in metropolitan Melbourne (similar patterns are observed in other metropolitan and regional areas).

Table 8 – Current distribution of REA contract types, by REA-defined local area in metropolitan Melbourne

Area	Standard	Flexi subscription and depth contract			
		Feature Elect	Feature All	Highlight All	Premiere All
Central	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Inner North	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Inner East	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Inner West	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
East	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Inner North West	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Outer North East	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Bayside 1	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Bayside 2	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Bayside 3	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Outer West	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Far Outer West	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Outer North	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Far Outer East	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Area	Standard	Flexi subscription and depth contract			
		Feature Elect	Feature All	Highlight All	Premiere All
Far Outer South East	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mornington	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Portsea	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Outer South East	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Outer East	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Note: For the purposes of recording the distribution of contract types in local areas, REA uses the location of the office of the agent.

As Table 8 shows, in local areas agents will choose a variety of contracts and, insofar as listing on REA's platform is concerned, do not adopt the same marketing strategy (as the Application suggests on page 16).

Multiple REA contracts

REA does not prevent agents from purchasing multiple subscriptions, and it is routine for an agent to do so to give themselves maximum flexibility.

For example, a given agent may prefer not to pre-commit to upgrading all of its listings to relatively costly Highlight or Premiere listings (which would be required, for instance, under the Highlight All and Premiere All contracts set out in Table 4 above). That agent might instead choose to purchase a Feature All contract (which facilitates the cost-effective purchasing of Feature listings on behalf of the majority of the agent's vendors) along with a Highlight Elect contract (which facilitates the cost-effective purchasing of Highlight listings for those of the agent's vendors who require them). This combination of 'All' contracts and 'Elect' contracts is often used by agents to increase flexibility.

Contract upgrades

If an agent enters into a 12-month contract but later decides that a higher-level contract would be more cost-effective or appropriate for the agent's target market(s), it may upgrade its contract without penalty. For example, as outlined in Table 4 above, an agent on a Flexi subscription with a Highlight All depth contract can elect to upgrade to the Premiere 45 VIP contract, at a significant discount.

Contract downgrades

From time to time, REA receives requests from agents to downgrade their existing contracts prior to the expiry of their initial or any further 12-month term.

These requests often relate to agents having difficulty winning listings due to price changes or business hardships (e.g. deaths). In most instances, REA grants the request to downgrade.

Other contractual flexibilities

To provide further flexibility for agents, from time to time REA will also offer an early "opt out" arrangement or a "try before you buy" arrangement. These allow agents to terminate the contract within the first three months if they are not satisfied with the product or services offered by REA. This was introduced by REA to provide comfort to agents during the initial contract period so they could properly assess whether the product purchased suited their needs or the properties of their vendors.

Existing choices in the listing of a specific property

REA's contracts also account for situations where, in a particular case, an agent/vendor requires a type of listing that is above or below the level that is directly targeted by the agent's chosen contract. In particular:

- (**"Elect" depth contracts**) REA's Feature Elect 3, 5 and 10 contracts, and its Highlight Elect 3, 5 and 10 contracts (see further Table 4 above) allow an agent to cost-effectively deliver Standard listings to the majority of its vendors while also catering to the minority of vendors for whom a higher-level Feature or Highlight depth listing is more appropriate. Further, while an agent makes monthly pre-commitments to depth listings under Elect contracts, their adherence to those pre-commitments is calculated quarterly. This means that agents are not penalised if, in a particular month, they experience lower-than-expected demand for depth listing from vendors;
- (**Permitted exceptions within "Premiere All" depth contracts**) REA's Premiere All contracts allow an agent to downgrade either [redacted] of its listings, at a similarly discounted price. [redacted] In such circumstances, while REA has the right to downgrade the Premiere listing to a Highlight listing, this right has never been exercised. The effect of this is that the agent and vendor receive the same product (Premiere listing) at a discounted price. In this way, REA's "Premiere All" contracts allow an agent to cost-effectively deliver Premiere listings to the majority of their vendors while also catering to the minority of vendors who are unwilling to pay for advertisings costs or for whom a lower level of listing is more appropriate. Even with this flexibility, REA's internal data show that only around [redacted] of allotted exceptions are actively used by agents under the Premiere All contracts. This suggests that agents have more flexibility than they feel they need;
- (**Exceptions negotiated ad hoc**) In addition to the exceptions permitted under Premiere All contracts, REA allows all agents to downgrade

listings across all contract types in certain circumstances. For example, where an agent has difficulty in securing vendor paid advertising, REA may provide credits. This is discretionary and will usually depend on REA's relationship with the agent and good will;

- (**Ad hoc upgrades**) REA's depth contracts provide for listings to be upgraded to a higher level on an *ad hoc* but still discounted basis. As outlined in Table 4 above, an agent on a Flexi subscription with a Highlight All depth contract can elect to upgrade to the Premiere 45 VIP contract, at a significant discount. It is routine for an agent that has entered into a depth contract targeted at a particular level of depth listing to upgrade a listing to a higher level where, in their or the vendor's view, that is the most suitable option for a given property. Table 10 below illustrates the extent to which this currently occurs by setting out, for each form of depth contract, the total number of listings and the number/percentage of *ad hoc* upgraded listings above the targeted level for the period July 2015 to April 2016. As Table 9 shows, ad hoc upgrades are, as one would expect, more common where an agent has purchased an "All" depth contract.

Table 9 – Ad hoc listing upgrades above targeted level, by contract (July 2015 to April 2016

Contract	Total listings	Ad hoc upgrades	Ad hoc upgrades (%)
Feature Elect	[redacted]	[redacted]	[redacted]
Feature All	[redacted]	[redacted]	[redacted]
Highlight Elect	[redacted]	[redacted]	[redacted]
Highlight All	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]

Existing diversity in listing decisions

The Application also incorrectly contends that REA's contract/pricing model "*forces*" all agents to agree to place all listings at the Premiere level. REA does not require any such agreement from agents, and REA observes a wide variety of listing decisions generally and in local areas (reflecting the various factors described above). Table 10 below illustrates that diversity by showing the number of listings for each listing type, nationally and in metropolitan Melbourne, from July 2015 to April 2016.

Table 10 – Total listings, by listing type, nationally and in metropolitan Melbourne (July 2015 to April 2016)

Area	Standard	Feature	Highlight	Premiere
Australia				
Australia	[redacted]	[redacted]	[redacted]	[redacted]
Metropolitan Melbourne				
Central	[redacted]	[redacted]	[redacted]	[redacted]
Bayside 1	[redacted]	[redacted]	[redacted]	[redacted]
Bayside 2	[redacted]	[redacted]	[redacted]	[redacted]
Bayside 3	[redacted]	[redacted]	[redacted]	[redacted]
East	[redacted]	[redacted]	[redacted]	[redacted]
Inner East	[redacted]	[redacted]	[redacted]	[redacted]
Inner North	[redacted]	[redacted]	[redacted]	[redacted]
Inner North West	[redacted]	[redacted]	[redacted]	[redacted]
Inner West	[redacted]	[redacted]	[redacted]	[redacted]
Outer North East	[redacted]	[redacted]	[redacted]	[redacted]
Far Outer East	[redacted]	[redacted]	[redacted]	[redacted]
Far Outer South East	[redacted]	[redacted]	[redacted]	[redacted]
Far Outer West	[redacted]	[redacted]	[redacted]	[redacted]
Mornington	[redacted]	[redacted]	[redacted]	[redacted]
Outer North	[redacted]	[redacted]	[redacted]	[redacted]
Outer West	[redacted]	[redacted]	[redacted]	[redacted]
Peninsula	[redacted]	[redacted]	[redacted]	[redacted]
Portsea	[redacted]	[redacted]	[redacted]	[redacted]
Outer East	[redacted]	[redacted]	[redacted]	[redacted]
Outer South East	[redacted]	[redacted]	[redacted]	[redacted]
Metropolitan Melbourne Total	[redacted]	[redacted]	[redacted]	[redacted]

Flexibility within the broader marketing spend

As noted in section 3.2 above, digital advertising costs are one marketing cost among many for agents and their vendors. If, in a particular case, there is a desire to market a property with a greater emphasis on one type of marketing over another, the REA contract and price structures discussed above provide ample flexibility for an agent/vendor to spend less on an REA digital listing and, instead, allocate more funds to other sources of advertising, such as print media. This is a regular occurrence at all levels of the industry and allows agents to meet the specific market needs of each property.

7.3 Cost savings

The Application submits or suggests that:

- REA's prices are "*disproportionately higher than the cost of the service, when compared to other real estate portal operators or other online sales sites (e.g. carsales.com.au)*" (page 4);
- REA prices are "*significantly inflated*" (page 4);
- "*as REA has significant market power, market share and bargaining power, the cost of the product offering has increased exponentially over time…*" (page 15);
- the proposed conduct will result in "*lower advertising prices for vendors*" (page 5);
- agents/vendors will obtain "*...rates that are significantly lower than if a prospective advertiser negotiated directly themselves*" and "*price point benefits*" (page 20);
- agents/vendors will achieve "*cost savings*" and "*[s]ignificant savings in total marketing spend, or alternatively, a re-allocation of savings for Vendors, allowing for investment and spending in other areas*" (page 31);
- there will be a "*true and fair price for the different packages being available without penalty or financial pressure*" (page 31);
- "*a more realistic and acceptable price*" will be obtained (page 24); and
- Agents/vendors will be exposed to "*[lower] costs of buying and selling a house (particularly if prices of online services continue to rise in the absence of any constraint)*" (page 31).

REA agrees that, if the proposed conduct is authorised (with or without boycott conduct), PMG will be in a position to negotiate prices that are lower than REA's current prices. However, REA considers that the Application mischaracterises and misunderstands REA's pricing model in several important respects. For the reasons outlined in section 6 above, REA considers that the supply of digital property advertising services is highly competitive, its pricing is reflective of that competition and REA offers genuine value and efficiency to agents and vendors. As such, the basis on which collective bargaining is claimed by PMG to be necessary or appropriate is unfounded. REA does not consider that any material public benefit would arise from the proposed conduct's impact on its pricing. Moreover, as discussed in section 8 below, REA considers that several significant public detriments would flow from the proposed conduct.

REA's prices are not reflective of dominance

REA does not agree that its prices have risen "*in the absence of any constraint*" (page 31), are as a result of a "*lack of competition*" (page 5) or reflect "*monopolistic like features*" of the market (page 27). As set out in section 6 above, REA is subject to significant and ongoing competitive constraints from Domain and others and those constraints directly impact REA's competitive behaviour, including in relation to pricing.

Rather, REA's prices reflect the following factors.

Audience value

As with most, if not all, advertising businesses, REA's pricing is primarily value-based. REA's platform has a relatively large audience to which agents/vendors can expose their properties. That audience has grown significantly as REA has invested heavily in developing and promoting its platform and as agents, vendors and property seekers have, in response to REA's investments, increasingly used REA's platform to transact in property. For instance, REA's average monthly website visits have increased from just over 30 million in 2013 to almost 50 million in 2015.[112]

In part as a result of its now large audience (and other factors, such as the fact that it is, in contrast with print, always available to property seekers), digital property advertising generally has a higher return on investment than other forms of advertising.

Notwithstanding its success in attracting a relatively large audience and the increasing value of digital property advertising to agents/vendors, REA's prices relative to other forms of property advertising remains low (see section 3.2 above).

In recent years, the price of REA's subscriptions has [redacted]. Table 11 below shows the average monthly subscription fee per agent for the last three financial years.

Table 11 – Average monthly subscription fees, 2014 to 2016 (first-half)

Subscription Type	2013/14	2014/15	2015/16
Standard	[redacted]	[redacted]	[redacted]
Flexi	[redacted]	[redacted]	[redacted]

[redacted]

[112] Nielsen Online Market Intelligence Home & Fashion Suite – Total Traffic for Audited Sites.

[redacted] Table 12 illustrates movements in listing yields from 2014 to 2016 (first half).

Table 12 – Average listing yields, by type, 2014 to 2016 (first-half)

Listing type	2014	2015	2016
Standard	[redacted]	[redacted]	[redacted]
Feature	[redacted]	[redacted]	[redacted]
Highlight	[redacted]	[redacted]	[redacted]
Premiere	[redacted]	[redacted]	[redacted]

To some extent, these price movements reflect contracting initiatives undertaken by REA in response to agent feedback. The [redacted] for Standard listings, for example, reflects decreases in the prices of Standard subscriptions, which was in response to agent requests for lower prices for the basic "right to list" on REA's platform. And the [redacted] for Premiere listings reflects the introduction of various forms of "Premiere All" contract from 2014 onwards, which was in response to agent requests for lower prices for those listings in particular.

Value of depth listings

As noted in section 4.4 above, depth listings tend to outperform Standard listings in terms of the number of views and enquiries that they generate for agents/vendors (reflecting factors such as the scarcity value of the screen 'real estate' that they occupy, for example at the top of search results pages). They satisfy unavoidable demand from agents/vendors for services that allow them to differentiate their properties, and allow REA to segment its customer base by reference to willingness to pay.

Table 13 below sets out the average "uplifted" performance of each depth listing type compared to a Standard listing in 2015. The outperformance recorded in Table 13 is broadly reflected in REA's per-listing upgrade fees.

Table 13 – "Uplifted" performance of depth listings, 2015

Performance measure	Uplift versus a Standard listing		
	Feature	Highlight	Premiere
Views	[redacted]	[redacted]	[redacted]
Enquiries	[redacted]	[redacted]	[redacted]

High fixed costs

Given REA's high fixed-cost base (which is common to many digital platforms), REA's evolving contract/pricing model has been focused on ensuring high committed volumes of listings.

In the past, those commitments were (indirectly) achieved through relatively high subscription fees that incentivised agents to list a large proportion of their properties on REA's platform (which effectively lowered an agent's per-listing costs).

However, as REA moved to a more transparent model under which more cost was transferred to per-listing upgrade fees for depth listings – partly so that agents could more easily and transparently attribute their costs to particular listings – it became necessary for REA to establish those commitments through incentives that were directly tied to the volume of depth listing purchased.

In this way, while REA's current contract/pricing model is not a "cost-plus" model, it is nevertheless reflective of REA's cost structure.

The Application relies on invalid price comparisons

In seeking to characterise REA's current prices as inflated, PMG compares them to prices charged by third parties in other contexts, or refers to REA's historical prices. For the reasons set out below, those comparisons are misconceived and do not provide any basis for concluding that REA's prices reflect a lack of competitive constraints.

- (**Previous subscription discounts**) PMG notes on page 21 of the Application that until around mid-2012 REA offered discounts on subscription fees to members of franchise networks. That is correct. However, those discounts were not renewed by REA for two main reasons. First, in response to agent feedback, REA evolved its contract/pricing model partly so that small and independent agents, which are less likely to be members of a franchise network, would not suffer competitive disadvantages in markets for the supply of agent services. Ongoing network-based discounts would have been inconsistent with that objective. Second, as REA reduced its subscription fees and re-focused its contract/pricing model on fixed per-listing upgrade fees/discounts (for the reasons set out in section 4.7 above, particularly as to cost certainty for agents), negotiated discounts for subscriptions fees assumed less importance to agents.
- (**Comparison of "top tiered" packages from 2009 to current**) PMG states on page 15 of the Application that REA's "top tiered" package "*[cost] $75 in 2009, to currently more than $2,000…*". Although it is not clear, it appears that PMG is referring to the average price of a Feature listing in 2009 and the average price of the "Unlimited Deal" (which preceded Premiere listing and is no longer available) in around 2013. REA believes that this comparison is highly misleading. The Unlimited Deal was a bundled package for a term of 2 years that allowed agents to upgrade all their listings for sale and rent to Highlight. Accordingly, the Unlimited Deal at the time offered agents/vendors a number of benefits

over and above those offered by a Feature listing (including, for example a larger photo of the property in the search results and a ranking above Feature listings in the search results list).

In any event, it is also misleading to use a single price point, without reference to the precise contract or geographic location, as the basis for a historical comparison. For instance, pricing for a Premiere listing currently ranges from [redacted].

- (**Comparison with other online platforms**) PMG notes that advertising costs on non-property related platforms, such as the Carsales and Boatsales platforms, are lower. That is correct. However, prices on other platforms are likely to reflect the typical value of the transaction to be entered into (and thus the implied value of a successful advertisement). For instance, it will cost more to list a $1m house on REA than to list a $10,000 boat on Boatsales, just as it will cost more to list a $10,000 boat on Boatsales than it will a $100 chair on eBay – both the transaction value and the exposure are significantly different in each case.

Lower depth listing prices are likely to be unsustainable

It may be that the Application reflects that some agents would prefer not to compete with other agents for the purchase of listing products that serve to differentiate their properties, and would instead prefer that fewer listing products were offered at a lower price. Such an outcome would obviously involve a significant dampening of competition between agents and a major distortion in the efficient functioning of property markets. However, for the reasons set out below, REA doubts that lower premium listing price points are a sustainable equilibrium.

REA's current contract/pricing model partly reflects an underlying and persistent demand for listings that are differentiated from standard listings: in REA's experience, there are always at least some agents/vendors willing to bid up REA's differentiated depth listing prices in order to gain a competitive advantage over competing agents/vendors.

For this reason, any material reduction in the price of a particular level of depth listing on REA's platform, relative to other types of depth listing – put another way, a "flattening" of REA's pricing model – is likely to significantly increase the volumes in which it is purchased. In that event, depth listings become less effectively differentiated and their underlying purpose is less likely to be achieved. In this way, a reduction in the price for a particular level of depth listing merely creates greater homogeneity in listings because a greater proportion of agents/vendors are now prepared to pay the prevailing price for the premium product, which in turn merely creates increased demand for a higher level of depth listing. REA submits that, in this context, it would not be sustainable for PMG to reduce the price for REA's depth listings. In particular, any material reduction in prices for the REA's Premiere listing is likely to result in PMG facing persistent demands for a still higher level of listing, in order for agents/vendors seeking to differentially market their property to achieve that objective.

Mere transfer of spending

REA considers it likely that any money that is saved by artificially depressing digital advertising costs (assuming that is possible on a sustained basis) would be spent by agents on other advertising.

It will continue to be rational for agents to spend a certain proportion of the property's sale value on advertising. In circumstances where an agent or vendor's spending is simply re-allocated to other media, it is not clear that any public benefit will result; the overall cost of marketing a property will either remain the same or increase (given print media is significantly more expensive than online media).

Negotiation as between agents and vendors

Finally, it is not correct, as the Application suggests, that prices for listings on REA's platform are, as between a vendor and an agent, "non-negotiable" or "set". As discussed above, vendors may instruct an agent to adopt a specific level of REA advertising (or no REA advertising at all), and agents may use the existing flexibility of REA's contract and pricing model to effect this. It is also open to an agent to bear some of the costs associated with marketing a property, including in relation to digital advertising. Indeed, agents sometimes do not pass on the full costs of REA's services to vendors. As such, the Application provides no evidence that any cost savings that may arise from collective bargaining would be passed through to the benefit of vendors.

7.4 Efficiencies

The Application submits or suggests that the proposed conduct would:

- result in "*cost and volume benefit efficiencies for groups negotiating and buying on behalf of a group*" (page 31);
- "*[assist] small businesses (being individual franchises and independent Agency offices) with efficiency benefits otherwise unattainable*";
- "*enable far more efficient...bargaining*" (page 23); and
- "*[allow] the benefits of economies of scale to be obtained by having Agents bargain as a collective group (or in time as a franchise group, not as individual agents or franchises*" (page 31).

REA does not consider that any of these efficiencies are likely to arise from the proposed conduct, for the following reasons.

No transaction cost efficiencies

Neither REA nor agents are subject to material transaction costs.

In relation to search costs, agents are knowledgeable about the services and relative benefits of competing digital advertising platforms. Further, REA's contract/pricing model is easy to understand and compare to other digital advertising options. There is no information asymmetry between REA and agents nor any detailed knowledge or sophisticated expertise required to understand digital listing services. In these circumstances, agents do not face, and collective bargaining would not serve to reduce, any material search costs.

In relation to the claimed inefficiencies of individual negotiation, the terms upon which agents purchase listings on the REA platform are not negotiated between REA and individual agents. Rather, REA offers all agents a contract/pricing model that includes a wide variety of contract options from which they can choose an appropriate package. Collective negotiations would not assist agents to reduce any material negotiation costs. Further, from REA's perspective, no particular inefficiencies arise from it contracting with each agent.

In addition, there will be a continuing need for REA to bilaterally negotiate some aspects of its arrangements with agents – such as sponsorship, training and education arrangements – which are agreed at the franchise network and agent levels. As such, collective bargaining would not obviate the need for bilateral negotiations and, instead, is likely to create inefficiency by duplicating negotiation processes.

No scale efficiencies

Scale efficiencies are achieved if the average cost of production falls as output increases. The proposed conduct does not appear likely to have any impact on the cost of REA's costs of production: REA would be producing its services and delivering them to agents (albeit with PMG acting as an intermediary) in much the same way and in the same volumes. As such, there would be no incremental cost savings available to be passed on to agents. It appears that what the Application refers to as scale efficiencies is more appropriately described as simple negotiating leverage.

If anything, REA considers that the insertion of PMG between REA and agents is likely to create a range of inefficiencies which REA and agents would otherwise avoid. REA's submissions in relation to those inefficiencies are set out in section 8.5 below.

7.5 Media buying

The Application submits that:

- *"PMG's intended business model will allow [agents]...to utilise the benefits of a media buyer and planner to enable an more even bargaining process"* (page 31);
- "*[PMG will] analyse the cost effectiveness and value of the myriad digital (and print) options available in the market place and [use] this analysis to provide individually tailored recommendations to its client base"* (page 9);
- the proposed conduct will allow *"other methods of on-line media buying, thereby broadening the options for agents (and therefore vendors)* (page 5);
- media buying will enable *"informed advice on the most cost-effective advertising options", "robust analysis and evaluation of effective marketing strategies", "wider choice of media and package options",*

“competitive pricing” and *“administrative efficiencies…in terms of the negotiation of the applicable and prevailing advertising rates…”* (page 20); and

- *“once wholesale media buying commences…it is likely that REA, Domain and other suppliers would then negotiate with other media advertising buyers and/or Agent networks as a whole”* (page 23).

REA submits that the benefits arising from PMG acting as a media buyer on behalf of agents, and providing media consulting services to agents in that capacity, are significantly overstated.

Media buying a false analogy

Conventional media buyers perform a valuable service for advertisers in providing detailed advice on targeting advertising campaigns to particular demographics and compiling the agreed campaign. That advice often encompasses targeting particular geographic areas, using a combination of television, radio, print, online search, online display and other advertising media and, within each media, selecting suitable programs or publications and appropriate timeslots. In contrast, purchasing online property listings is a far simpler, more “one-dimensional”, purchasing process. As such, REA considers that the Application’s analogy with conventional media buying is highly misleading.

Agents’ existing role

In property markets, agents *are* the media buyers. Like media buyers in other sectors, agents advise advertisers (i.e. vendors) on the appropriateness and cost-effectiveness of various media (indeed, agents are often directly responsible for the supply of that media, including signage and mail drops). Through their experience, typically obtained through repeated interactions with vendors and buyers in a handful of suburbs in the same vicinity, agents develop intimate knowledge of local market conditions which a media buyer such as PMG is unlikely ever to develop. It is routine, for example, for an agent to provide highly informed and targeted advice to a vendor about the benefits of digital advertising and each competing platform’s services. REA considers it unlikely in the extreme that any media buyer is, or will be, in a position to usefully advise agents about the effectiveness of particular marketing strategies and the cost-effectiveness of particular forms of digital advertising.

Existing platform functions

As referred to above, the most useful function performed by a conventional media buyer is often the targeting of advertising to particular audience demographics and geographies. In the case of digital property advertising, the platform itself performs these functions – listings contain data that facilitates highly targeted user searches (primarily on the basis of property location but also other property attributes such as the number of bedrooms and bathrooms) – and the selection of an appropriate platform is straightforward. Once an agent or vendor has decided to use REA’s platform and, if so, which listing type to purchase, it is not necessary to consider further how best to target that listing to prospective buyers.

Simplicity of REA's contract/price model

In REA's experience, agents generally do not have any difficulty in navigating its straightforward contract/pricing model or in making informed decisions about which of REA's offers is best suited to them. On the occasions when it is necessary for an agent to obtain detailed advice or information about the various contract options available to agents, REA account managers provide that advice or information. REA account managers regularly meet with agents to discuss and understand any concerns agents may have. These discussions have indicated that agents regard REA's pricing model as relatively transparent. REA regularly conducts customer sentiment surveys, which demonstrate increasing support from agents on the questions of "Value for Money", "Advocacy" and "Overall Performance".

Information concerning audience and reach

REA account managers and reporting tools also perform some of the traditional functions of media buyers in that they provide agents with information concerning the REA platform's audience and reach. Generally, the number of leads REA generates for listings is a reflection of REA's audience and reach. This is reinforced to agents by REA account managers during discussions relating to the agent's return on investment. In addition, information about REA platform's audience and reach is also provided through sales collateral and leadership claims about traffic and engagement. To the extent agents have queries regarding information provided through sales collateral, they can raise it with REA account managers during their regular meetings.

Existing REA tools

To the extent that agents have a need to analyse the cost-effectiveness of advertising on the REA platform, REA offers a variety of tools to do so. The most common tool offered by REA is a campaign report, which outlines how the agents' listings are performing based on number of views, enquiries, shares and saves. REA account managers use the campaign report as a basis for discussion with agents, particularly franchise groups regarding improvements that can be made. The outcomes of these discussions are then translated by the agents to vendors. Further details about the performance of REA's advertising can be accessed by agents on a "self-service" basis through the agency's REA account.

Collective bargaining / boycotts for media buying services

Finally, contrary to the implication of the Application, REA's current approach to contracting does not preclude the supply of analysis or tailored media buying recommendations to agents. Authorisation would not be required for the provision of the sort of consulting services to which the Application refers, if they did not also involve collective bargaining. If there is a demand for those services, PMG (or another prospective supplier) is perfectly capable of supplying those consulting services now. REA considers that the absence of any current market for the supply of those services to agents reflects the realities set out above. For this reason, it is far from clear that the authorisation of collective bargaining (let alone collective boycotts) is required to achieve the objectives of the Application insofar as they relate to the benefits of media buying services.

7.6 Greater transparency

Although not explicitly claimed as a public benefit, the Application submits that, as a result of the proposed conduct, the *"on-line media and advertising market within the real estate industry in Australia will be significantly more competitive and transparent, which in turn will lead to significant public benefits"* (page 1).

It is difficult to see how any collective negotiation by PMG on behalf of a subset of agents could improve the transparency with which REA supplies its services to agents. REA currently offers the same prices to all agents willing to make the same commitments and openly publishes its prices. As such, REA's contract/pricing model is utterly transparent to the market (indeed, that is a fundamental objective of REA's approach).

The intermediation of PMG as a negotiator on behalf of, and reseller to, agents can only serve to bring opacity to the terms upon which agents list properties on the REA platform (see further section 8.4 below).

7.7 More "active" competitors

The Application claims that the proposed conduct would "*enable competitors to become more active and therefore increase the efficiency of the allocation of on-line advertisements*" (page 31). PMG further submits that collective bargaining will *"enable competition to increase, with the potential for the existing minor players to increase their market share, and for further competitors to enter the market"* (page 23).

No further detail or evidence is given for this claim. Although it is not clear, REA assumes that this is intended to suggest that the proposed conduct will allow smaller competitors to compete more effectively against REA and Domain. The claim appears to be based on an underlying assumption that, while REA and Domain's respective contract/pricing models would be re-engineered by PMG to suit the agents on whose behalf it negotiates, smaller competitors' business models would be left intact. If that is the underlying assumption, then REA considers it highly implausible. PMG would have an equal incentive to reduce the prices and negotiate the other terms upon which digital advertising services are purchased from smaller competitors and REA is unlikely to be able to otherwise maintain its current contract/pricing model once it begins to negotiate with PMG.

8 Public detriments

The proposed conduct would give rise to significant public detriments, including:

- various distortions of competition in digital advertising markets – see section 8.1;
- reductions in REA's incentives to innovate, including as a result of reductions in REA's revenues, a de-coupling of REA's revenues from the size of its audience and PMG having input into the development of REA's platform and products – see section 8.2;
- reductions in opportunities for vendors to differentiate their properties resulting from a "flattening" of digital property listing price structures, which would drive greater usage of premium listing types and homogeneity in listings – see section 8.3;
- reductions in transparency resulting from PMG's negotiation of "special deals" for participating agents that would undermine REA's current transparent and pricing model – see section 8.4;
- various inefficiencies, including as a result of increased costs for vendors, increased transaction costs for REA and duplicated costs across REA and PMG – see section 8.5;
- potential for distortions of competition in agent services markets, particularly via the breakdown of REA's existing contract/pricing model, which may entrench the existing scale of agents, undermine service level competition between agents and raise barriers to entry for new agents – see section 8.6; and
- significant detriments from the unnecessary increase in bargaining power that would be conferred on PMG if collective boycott conduct were authorised and serious negative impacts on the vendors for whom boycotting agents act – see section 8.7.

8.1 Distortions of competition in digital property advertising

The proposed conduct would involve a drastic re-allocation of bargaining leverage, the full effects of which are difficult to predict in advance.

However, REA considers that the proposed conduct would result in significant distortions in digital property advertising markets – which, for the reasons discussed above, are currently highly competitive and efficient, such that regulatory intervention is unnecessary and undesirable. PMG seeks authorisation to negotiate using the combined buying power of potentially very large blocs of agents. That aggregation of buying power would significantly distort normal competitive outcomes and price signals, which has important consequences for market efficiency. By way of example only, were collective bargaining to create an artificially low price for digital property listings, one consequence is likely to be a transfer of advertising expenditure into relatively more expensive and less efficient print media advertising (see section 7.3 above).

Indeed, a distortion of the market appears to be an explicit objective of collective bargaining / boycotts. On page 23 of the Application, it is stated that the proposed conduct will "*enable...existing minor players to increase their market share, and for further competitors to enter the market*".

Uncertainties surrounding PMG and Domain/Fairfax

REA's concerns in relation to distortions in digital property advertising are compounded by uncertainties regarding how, and in whose interests, PMG will operate.

As discussed in section 7.1 above, PMG's principal, Mr Anton Staindl, was previously involved in attempted collective bargaining by REDMS, which REA understands was associated with Fairfax. Given Mr Staindl's involvement in PMG, and his previous involvement with REDMS, REA considers it imperative that PMG's absolute independence from any existing participant in digital property advertising (particularly Domain and Fairfax) be established.

Further, if agents who participate in Domain's agent equity model are included in a PMG bargaining group, they are likely to have incentives to encourage collective bargaining outcomes that favour Domain (and their own financial interests via the equity model) rather than REA.

8.2 Reduced incentives to innovate

Reductions in revenue

The Application clearly contemplates a material reduction in REA's revenues. Until now, a large part of those revenues has been applied to investments in new services and platform functionalities that improve the attractiveness of REA's platform to agents, vendors and – most importantly – property seekers (an outline of recent innovations is provided in section 4.3 above). In the 2015/2016 financial year REA has made substantial investments in IT-related operational and capital expenditure (which includes software developer and engineer salaries and related employment costs and investments in IT infrastructure).

REA submits that the proposed conduct would be likely to have a drastic negative impact on its ability to invest in improvements to its platform. In effect, the proposed conduct would be likely to place a cap on the extent to which REA could innovate to increase service levels. That outcome would negatively impact both agents/vendors who use REA's platform and competition in digital advertising markets more broadly.

De-coupling of prices from audience

As discussed in section 7.3 above, REA's prices are partly informed by the size of the property seeker audience that REA delivers to agents and vendors.

Moreover, REA is in a constant battle with Domain and other competitors to attract a larger and broader audience to its platform. In this context, REA has clear incentives to enhance the functionality and usability of its platform, thereby improving property seekers' experience.

If PMG is successful in forcing reductions in REA's prices, which REA considers is likely if collective bargaining is authorised, then those prices will inevitably become less reflective of REA's audience and REA will obtain less of a reward for maintaining or increasing that audience. REA considers that this is likely to have a significant impact on its incentives to innovate.

PMG input into platform development

The Application contemplates that PMG will facilitate greater agent input into "*the appearance and content of listings*" (page 23). In other words, it appears to be anticipated that PMG and agents will begin to exercise a degree of control over the development of REA's platform. REA agrees with the Application's implication that this is likely to be a natural consequence of collective negotiations and boycotts. However, REA considers that this is likely to result in significant public detriments.

REA's platform is intended to be easily and efficiently used by a large number of users, and for that reason it is necessary for listings to be presented in a broadly consistent way (and REA would expect most agents to accept that necessity). For instance, listings displayed as search results on REA's platform generally set out the following core property attributes (whether or not they are a depth listing): a primary photo, guide price, address and the number of bedrooms, bathrooms and car spaces. The display of these core attributes, in preference to others, is intended to allow property seekers to efficiently make decisions about the properties which they may wish to examine in further detail. REA has developed its platform over many years following detailed and ongoing analysis of the information that is most important to property seekers and the most effective ways of displaying that information on REA's platform. It is highly unlikely that PMG and/or agents (notwithstanding their experience in the marketing of property) will be in a better position than REA to develop REA's platform over time.

In developing its platform, REA also seeks to balance the demands and preferences of agents and property seekers, recognising that the attractiveness of REA's platform to property seekers is critical to the success of its business. The proposed conduct raises the prospect that agent needs will be prioritised or given greater emphasis, which REA considers will disturb the balance that REA seeks to strike, to the detriment of the optimal presentation, useability and functionality of the platform for property seekers.

Further, REA may be required to consider and enquire whether any particular proposal to modify the form and content of listings, their look and feel or the degree to which they can be customised by agents, is likely to be acceptable to PMG. REA considers that this can only result in increased costs to REA and to agents/vendors and a slower pace of innovation.

These detriments should be considered particularly unacceptable in circumstances where it is not clear that agents or vendors are currently under-served in the form and content of listings. REA is not aware of any widespread agent concerns on that front and would seek to respond to those concerns if any were drawn to its attention. Further, REA already receives customer feedback and input into the design of its products and services through its agent focus groups, agent advisory panel and pre-launch testing of new products with agents.

8.3 Reductions in opportunities for vendors to differentiate their properties

The Application suggests that one reason for seeking authorisation for the proposed conduct is to allow agents to access depth listings on an uncommitted basis at lower prices than currently offered by REA.

Any "flattening" of REA's contract/pricing model in this way is likely to increase the rate at which depth listings are purchased. While that may ultimately be unsustainable (for the reasons set out in section 7.3 above), in the meantime agents and vendors who would otherwise be in a position to effectively and efficiently differentiate their properties on the REA platform – through depth listings that would otherwise be purchased less frequently – will be denied that opportunity. Put differently, if REA's premium listings are made cheaper, every agent will purchase them and listings will become undifferentiated. In turn, this will lead to greater homogeneity in digital property advertising and muted competition as between agents/vendors.

8.4 Reductions in transparency

The proposed conduct has the potential to reduce transparency in two key respects.

First, in circumstances where interactions between REA and agents are mediated by PMG, REA is likely to lose significant visibility of agent issues such as agents' understanding of REA's products and the performance of those products. This will make it difficult for REA to tailor its products and services to the agents' needs.

Second, as noted in section 7.6 above, REA's contract/pricing model is currently transparent to all agents. In the event that PMG is able to negotiate a "special deal" for a cohort of agents, the transparency prices for listings on REA's platform would be immediately reduced – both because the terms of that special deal for some agents will presumably not be made public and because it would be impacted by whatever fees and margins are imposed by PMG. Those detrimental effects would be further exacerbated if, as REA considers likely, the special deals led over time to a break-down in REA's contract/pricing model.

8.5 Inefficiencies

Additional transaction costs for REA

Currently, REA does not have a large-scale function dedicated to negotiating prices with the approximately 10,000 agencies in Australia. Such a function would be necessary to properly negotiate pricing with PMG and with agents not participating in a collective negotiation on a one-to-one basis if the current transparent pricing model was broken down by PMG.

For instance, if collective negotiation demanded additional contract types or offerings that required IT development (which many contract variation offerings do), then REA would need to procure additional IT and product resources. In addition, REA's contracting and credits systems may need to be varied to cater for a significant increase in contractual variation across clients. REA account managers would also likely require additional training and resourcing to manage more bespoke customer requirements.

Duplication of costs across REA and PMG

To properly represent and contract with the agents on whose behalf it will negotiate, and to which it will re-sell REA's services, PMG will presumably need to develop a significant sales force and related sales and IT infrastructure. For instance, in order to successfully interface with a client base of up to 10,000 individual agents across Australia, PMG would presumably need to employ and support a very large sales and account management team.

Notwithstanding that it does not conduct detailed negotiations on an agent-by-agent basis, REA currently has a team of approximately [redacted] account managers and additional sales managers and coordinators dedicated to both proactive call-outs and reactive support requests. PMG would need to replicate a team of at least that size in order to engage with the agents and understand their needs. Infrastructure such as customer relationship management systems, billing systems and phone and IT systems would also be required by PMG to successfully offer its services. The costs associated with those activities will duplicate, to a large degree, the existing equivalent functions within REA and other platforms. The imposition of those further costs on agents and vendors will create substantial further inefficiency.

Additional search costs for vendors

The current market structure, in which REA's platform is able to provide property seekers with a relatively comprehensive view of properties on the market, does not reflect a lack of competition. As set out in section 6 above, REA is subject to intense competition from Domain and other competitors, and the current structure is to be expected as an inevitable consequence of a two-sided market with network effects.

Any wholesale re-engineering or intervention in the market – in the context of collective bargaining, collective boycotts or otherwise – is likely to be undesirable to the extent that it requires property seekers to use multiple platforms in order to access all potentially suitable listed properties.

8.6 Potential for distortions of competition in agent services markets

As discussed in section 4.7 above, REA's current contract/pricing model is intended to allow agents to compete on a level playing field. A small agent that has a relatively low number of listings (or is located in a more affluent area) is offered the opportunity to advertise a particular property on REA's platform at the same price(s) as a larger agent that has a relatively high number of listings (or is located in a less affluent area), provided they are willing to make the same commitments under a Flexi subscription and associated depth contract. REA considers that this enhances competition amongst agents.

A clear objective of the Application is to break down REA's existing contract/pricing model. While it is not clear from the Application, it is possible that PMG's preferred re-sale model will involve agents acquiring listings at re-sale prices that are wholly or partly determined by the absolute volume/value of their purchases. In other words, it is possible that PMG will seek to offer agents volume discounts of the kind that REA has explicitly chosen not to implement in the interests of maintaining a level playing field between large and small agents in local areas (which is ultimately to the benefit of vendors).

If such a model were implemented by PMG, REA submits that that would involve detriments including the following.

- (**Entrenchment of existing scale, with no efficiency gains**) Volume discounts would obviously favour agents (or franchise networks) that purchase greater volumes of listings from PMG, making it more difficult for smaller agents to compete to win vendor mandates. In other markets (such as for the acquisition and re-supply of physical goods), productive efficiencies would be expected to result from bulk purchasing (for example, in terms of logistics and warehousing). However, in the case REA listing products re-sold by PMG, there are no particular productive efficiencies to be gained by agents (or franchise networks) purchasing in larger volumes. Scale discounts would simply, and only, represent negotiating leverage.
- (**Relatively low focus on commission/non-price factors**) Since many (but not all) agents simply pass through the costs of REA's listing products, agents do not currently compete strongly in relation to the prices charged for listings on REA's platform and they are more likely to compete with one another on other bases such as their commission, marketing strategies and service levels. Any unwinding of REA's model would serve to reduce the current level of competition between agents on these bases.
- (**Increased barriers to agent entry and growth**) In the event that digital listing costs were correlated with the size of the agency, new agencies would be placed at an inherent scale disadvantage and would be unable to make price competitive proposals to prospective vendors.

8.7 Particular concerns regarding collective boycott conduct

The proposed collective boycott, in particular, would be likely to result in significant public detriments.

Unnecessary increase in bargaining power

Whereas the authorisation of collective bargaining conduct is likely to result in a significant re-allocation of bargaining power and facilitate the negotiation of prices and other terms of supply that are highly favourable to agents, the authorisation of collective boycott conduct would facilitate PMG acting as a monopsony purchaser of REA's services and allow it to unilaterally dictate terms to REA. Once PMG is able to organise boycotts by significant groups of agents, REA will have no realistic choice but to consent to whatever terms are demanded by PMG. In this respect, REA does not accept that a collective boycott would merely allow PMG to "*obtain...a more equal bargaining position*" as the Application suggests (page 25).

Detriments for vendors served by boycotting agents

As noted above, the REA platform is currently the market leader in terms of its audience.

In participating in a boycott against REA, an agent would necessarily refrain from listing certain vendors' properties on the REA platform (or would arrange for those properties to be listed using a lower level of listing than would otherwise be recommended and used). To that extent, affected vendors' properties would necessarily be given a lower level of exposure to property seekers. In turn, competition between buyers for affected properties would necessarily be less intense than it would otherwise be.

The Application does not adequately address this significant detriment: it merely argues that "*[w]ere a boycott to occur, then all properties would be placed on an alternate platform, and the vendors not adversely affected as against other vendors*" (page 25). First, it is not clear why "*all*" properties competing with a particular vendor's property would be placed exclusively on another platform. That suggests a comprehensive or total boycott that would be highly unlikely to occur in the case of the "*premium package-based*", "*price-based*" and "*group-based*" boycotts, and may not occur even in the case of a "*regional-based*" boycott proposed by PMG. Second, the primary detriment for vendors is not that they would face competitive disadvantages *vis-à-vis* other vendors, but that they would be denied the opportunity to expose their properties to as broad a range of property seekers as possible.

Detriments for property seekers

Property seekers will prefer one digital property advertising platform over another due to a range factors, including functionality, user interface and, importantly, the comprehensiveness of the listings to be found on a platform.

A boycott of a platform would adversely impact property seekers using that platform for reasons associated with the commercial interests of agents and divorced from the preferences and demands of property seekers themselves. A boycott of REA's platform would cause the large number of property seekers who currently use REA's platform to be exposed to a relatively limited set of listings, in circumstances where the comprehensiveness of listings on REA's platform is an important reason why property seekers prefer it to others.

Over time, these adverse impacts are likely to force property seekers to increasingly use other digital property advertising platforms that are less preferred.

Disproportionate and lasting impact of boycotts

Related to the above, property seekers tend to have a primary, preferred platform with which they are familiar and which they will access relatively frequently for convenience. Although that "convenience factor" is not insurmountable, the inertia it creates has the effect of limiting the speed with which property seekers switch their primary platform. For instance, property seekers may delete the REA app from their mobile devices and install an alternative app.

If a boycott of a platform were to drive property seekers away from a particular platform (e.g. because a boycott was sufficiently widespread or lengthy to materially impact property seeker preferences), that detrimental effect would be sustained well after the boycott had finished and would be difficult to counteract – affected property seekers will have selected a new primary platform and it may be difficult and time-consuming for the platform targeted by the boycott to re-acquire its primary status.

Accordingly, the distortions created by a boycott should not be regarded as easily reversed and therefore transient; they are likely to be reasonably durable.

Lawfulness and feasibility of boycotts under State legislation

Under State-based legislation, an agent typically has a legal duty to act in the best interests of its client, the vendor.

For instance, in Victoria, the conduct of real estate agents (and agents' representatives) in relation to residential property sales is governed by legislation including the *Estate Agents Act 1980*, the *Sale of Land Act 1962* and the *Estate Agents (Professional Conduct) Regulations 2008*. In particular, estate agents in Victoria have obligations to always act in a vendor's best interests, except where it would be unlawful, unreasonable, improper or contrary to the vendor's instructions to do so.

Similarly, in New South Wales, the conduct of agents is regulated by the *Property, Stock and Business Agents Act 2002* and the *Property, Stock and Business Agents Regulation 2014*. This legislation requires that estate agents in New South Wales act in the client's best interests at all times unless it would be unlawful to do so.

These obligations are also, to some extent, reflected in the national Real Estate Institute of Australia Code of Practice, as adopted by the various State and Territory institutional bodies. For example, under the Real Estate Institute of New South Wales Code of Practice, agents are required to act in the best interest of the client except where it would be unreasonable or improper to do so.

In view of the negative impacts on individual vendors that would necessarily result, it is unclear whether an agent could lawfully participate in a boycott, which would be intended to serve either the agent's own interests or potentially the interests of the agent's future vendor clients. To that extent, it is unclear whether a boycott of the kind proposed is even feasible.

Inadequacy of proposed limitations

The Application sets out various limitations to the proposed collective boycott conduct. For the reasons set out below, these limitations are wholly inadequate in addressing REA's concerns.

The Application states that it "*does not seek authorisation for all real estate agents to undertake a boycott of a particular supplier – this is neither feasible nor the aim of the Application*" (page 25). However, the Application is not otherwise expressed to be limited in terms of the size of the group which would engage in a collective boycott. Indeed, the Application contemplates that "*[collective] negotiations will...expand to cover all of Australia*" (page 22) and "*any registered agency that contracts with, engages with, utilises the services of a media advertising company within Australia...is able to...become a party to the Application and the authorised conduct*" (page 22).

The Application also states that a boycott would "*likely*" take the form of a "*premium package-based*" based boycott, a "*regional-based*" boycott, a "*price-based*" boycott or a "*group-based boycott*" (as described on page 25). However, there is no certainty that a collective boycott against REA would be limited in these, or any other, ways. Even if a collective boycott were limited in the ways suggested, they would be likely to have significant impacts. In particular:

- (**Premium package-based boycotts**) REA currently derives approximately [redacted] of its gross residential business revenue from the supply of depth listings.[113] Within that, Premiere listings account for approximately [redacted] of gross residential business revenue. Accordingly, on any reasonable interpretation of PMG's intent, an effective premium package-based boycott would be likely to substantially reduce REA's revenues;
- (**Regional-based boycotts**) It is suggested that any regional-based boycott would be geographically limited to "*30 municipal councils at any one time*" (i.e. local government areas). To indicate the extent of such a boycott, the Greater Melbourne area comprises 31 municipal councils and Greater Sydney comprises 38 municipal councils. Approximately, [redacted] of REA's revenue from depth listings is derived from customers in metropolitan Victoria and approximately [redacted] of REA's revenue from depth listings is derived from metropolitan New South Wales. Depth contracts and listings account for approximately [redacted] of REA's total residential business revenue. Accordingly, an effective boycott in respect of areas of only 30 municipal councils would still substantially decrease REA's revenues. Moreover, the effective withdrawal of a large number of listings across all, or almost all, of a metropolitan area would be likely to significantly reduce the utility of REA's platform for property seekers.
- (**Price-based boycott**) On its face, the scope of any price-based boycott is effectively unlimited; the Application refers only to a boycott for "*all properties with a listed sale price of below a defined threshold value*" and

[113] Listings revenue from the supply of depth listings refers to revenue driven by the supply of advertising upgrades (such as upgrades to Highlight or Premiere listings) but excludes revenue derived from offering the right to list through subscription fees. Data is based on REA's December 2015 YTD results and excludes revenue from developer and commercial listings.

there would be nothing to prevent that threshold being set at such a high level as to apply to the vast majority of listed properties;

- (**Group-based boycott**) It is suggested by PMG that a group-based boycott would consist of a group of larger multi-State franchise operators. Agents within franchise groups account for approximately [redacted] of REA's customers and approximately [redacted] of REA's total revenue for FY16 YTD.[114] Accordingly, a group-based boycott involving franchises would substantially decrease REA's revenue and listings volume.

Process

Finally, as noted in section 7.1 above, the Application contains no real detail on the processes that would need to be followed in cases where a boycott is proposed. REA would have expected to see, for example, clear and detailed material addressing matters including:

- boycott triggers and how they would be verified (with no scope for PMG or any other applicant(s) to make a unilateral decision to implement a boycott); and
- appropriate mediation processes involving an independent third party.

REA considers that these processes would be essential, even where the boycotting group is significantly narrowed to limit the competitive detriments arising from its actions.

[114] REA Group, 'Observations after 30 days – Corporate Franchise Groups

9 Conclusion

For the reasons set out above, REA submits that the proposed conduct has no material public benefits and significant public detriments. In view of that conclusion, REA submits that the ACCC should deny authorisation to PMG.