Australian property portal wars: Domain spinoff to reignite rivalry with REA

By Angela Hawksford; reposted with permission from AIM Group's Classified Intelligence Report.

If there's one thing Australians love, it's a good underdog story. And the separation of Domain Group from Fairfax Media is shaping up to be just that.

AIM Group's has been on the back foot ever since the property portal wars heated up a decade ago and Fairfax responded too slowly to the threat posed by RealEstate.com.au.

Since then, market cap of REA Group, parent of RealEstate.com.au, has grown from $680 million AUD ($516.5 million U.S.) in 2007 to $7.5 billion AUD ($5.7 billion).

In the first half of FY 16/17, REA's Australian operations alone brought in $318 million AUD ($240.8 million U.S.) almost three times Domain's revenue of $114.3 million ($87.5 million U.S.) for the same period.

Facing a radical decline in its media business and a need to generate cash, Fairfax announced a few weeks back that it would float Domain as a separate company, but would retain up to 70 percent of the shares. Splitting Domain off may attract new investors with "different investment criteria" than those interested in Fairfax shares, according to company chairman Nick Falloon.

"This strategic initiative arises from the board's determination to maximize returns for Fairfax shareholders from Domain Group, which is positioned for strong long-term growth," Falloon said.

Estimates of the market cap for Domain when it is spun off range from $2 billion AUD ($1.5 billion U.S.) to $3 billion AUD. The deal is expected to be complete by the end of 2017.

Depending on whom you believe, Domain and RealEstate.com.au are close in traffic. The REA site has grown, from 6.8 million in 2007 to 47.9 million this year, while traffic to Domain and affiliated sites AllHomes.com.au and CommercialRealEstate.com.au collectively reached 46 million this year, according to Nielsen Digital Ratings data cited by both companies in their recent financial results. REA Group claims Domain's standalone traffic is 20.1 million.

Based on those metrics, you might think RealEstate.com.au has all the listings, but in fact there's so little difference — particularly in Sydney, where a forensic accountant failed to determine which portal had the most listings — that both companies have struggled to differentiate their products, especially when most agents have subscriptions for both portals anyway.

REA Group doesn't divulge how many paid subscribers it has any more, but in the company's

most recent financial results, subscription revenue grew just 1 percent. (In 2014, RealEstate.com.au counted 9,452 agents as paying subscribers, up from 8,373 in 2008.) Much of REA Group's revenue is now derived from premium products, which grew 16 percent in H1 FY16 / 17. Domain and AllHome's paid subscribers reached 12,000 in the same period.

The conventional wisdom of most real estate agents is to cast a wide net when marketing property, in the shortest period of time. "It would be detrimental not to have exposure in all of the mediums available to us," Ray White real estate agent Gavin Rubinstein told the AIM Group.

"There's a huge space for print, signboards are not negotiable … social media, digital, all of those are absolutely integral in ensuring that we get the best possible price, because exposure is everything," Rubinstein said.

Roy Morgan Research chief executive Michele Levine told the AIM Group: "People don't have to choose whether their property is listed on RealEstate.com.au or Domain — they're obviously going on both — so cost is not a real driver anymore."

But property marketing is an imprecise science. Agents have little way of telling which medium delivers the best result because that information depends on self-reporting by buyers, who may have seen hundreds of ads and attended many property inspections to find a new home.

Roy Morgan Research conducted a study of more than 50,000 Australians and found that 40 percent of house hunters used both property portals to look for property, although app users tended to be loyal to just one portal.

"It kind of makes a really challenging situation, and one that I think leaves it open for disruption," Levine said. "I think disruption is likely, or changes are likely to come from the company that provides the absolutely best user experience."

When Antony Catalano rejoined Fairfax Media as CEO of Domain Group in 2013, mobile became the primary focus. After an overhaul of the Domain app to include map searchability and chat, among other features, it became the top-rated property app in the Apple and Google app stores. It's since won two "best app" awards.

By contrast, the RealEstate.com.au app is basic. You can search for property to buy or lease by entering a postcode or suburb, there are property suggestions, and there's a price lookup function.

That's largely because REA Group is looking beyond a search experience that requires user input to one that involves machine learning and artificial intelligence. REA Group's chief inventor Nigel Dalton told the AIM Group that invention and innovation is now at the heart of everything the company does.

So far this has yielded the RealEstate VR app, launched last year, while the company is also pursuing augmented reality and robots of various sizes and functionality.

“A lot of the time real estate agents are asked very simple questions and buyers want answers in 30 seconds. If I can give them a robotic assistant, then it’ll be great for the consumer and great for agents,” Dalton said.

“If you look to 2020, the really crazy possibility is that there’s no more websites. It’s just giant databases of people and property and computer algorithms and agents and their robotic assistants, matching people to properties.

“In 2020 people might not sit there and troll through vast numbers of listings on our site.”

Domain is focusing on change it can implement right away. It has released Homepass on the Domain app, letting buyers and renters check-in at property inspections from a smartphone or wearable device and integrates with the agent’s CRM, so they don’t have to take these details manually; it owns MyDesktop, a leading real estate CRM platform; and recently indicated it was pursuing data partnerships with finance lenders and possibly even retailers.

The Australian real estate industry is fairly resistant to change. There are few real estate agents using social media to sell property, and there are still pages and pages of display real estate advertisements printed and inserted into newspapers each week (Domain recently relaunched its print products on high-quality gloss stock).

REA is betting on consumer demand and competition from Facebook or Google to drive its inventions, but it will have to get through the agents first, and they already harbour concerns that technology is threatening to wipe out their commissions, if not their livelihoods entirely. Besides, a lot can happen in three years.

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