



What it means

So very many have already commented on the recent news from Zillow. I feel like I am piling on. Opinions range from "meh" to Armageddon. But since many of you have asked for my opinion, here are my thoughts one week post announcement.

Reminder: these are my opinions only, and apologies in advance for the length of this note.

Wow! Huge deal! No cash, all paper. I know so many more millionaires today than I did last week. The rumors about a possible Realtor.com / Trulia merger broke last month. The primary venture firms that own a piece of Trulia also own a chunk of Zillow. What a brilliant PR smokescreen. That one never had a chance. Some of us suspected this.

This acquisition is about several very critical things for both firms. It establishes pure dominance as a search portal enabling both firms to monetize eyeballs and leads. If agents and brokerages want to be seen by the masses, Zulia is where it's at. Pay to play. And get ready to pay more.

This is also clearly about increasing revenue and creating a monster advertising and media channel that real estate people can ill-afford to not partake in.

In tandem to their ongoing efforts to make Wall Street happy, this is also about reducing expenses. Data acquisition and operational costs will, over time, enable these two firms to save about \$100M in total shared expense. I believe this is achievable. It's called consolidation. It's just smart. At first blush, this is a pure advertising play based on creating a premium, market dominant channel.

Think in terms of pay per click advertising on Google for the most popular search terms and the premium prices brands pay to be on top. I believe the merging of these two portals create this premium channel that agents and brokers will surely have to pay more for to gain exposure to the tens of millions of clicks that pass through these site.

Let's face it, at some point Wall Street is going to want to see real revenue from these two firms and Zulia will have to continue refining what it sells and for how much to hit numbers. This logically raises the question as to whether incorporating referral fees (similar to what Homegain introduced early last decade) will be a viable option. This may not seem likely at the moment given the basic health of the real estate market. But should the market slow down and agents once again clamor for new leads, be advised there is a precedent.

Operationally, both companies state they will operate separately post acquisition. It has worked for Realogy. Why not portals? The self-prognosis for these two firms is pretty clear. They keep growing. Gaining more consumers who use them for searching homes. Think of them as a huge, fun shopping mall attracting consumers and selling retail space to brands at a premium for access to those consumers.

It's simple, and brilliant. And if the rest of us remain trapped in the past, it can be scary.



What about Realtor.com? Our friends at Realtor.com appear to be truly on their own. When Jack Welch ran GE, all of his companies had to retain the #1 or #2 position in the market to remain in the family. Not sure the same holds true for real estate portals. Once again, looking beyond the fanfare, while RDC isn't making ground-shaking M&A news, they have been shoring up their new management team who appear energized, engaged and ready to take off the gloves. As the once reigning champ, they are hungry and have a very clear agenda. It's about time actually. Over the past several months I have seen more responsiveness from them than the previous two years. I am not alone in this observation.

That aside, people, albeit inside the industry or outside it, always respond to big events - something Zillow has been masterful at staging.

For Realtor.com to register on the radar, it must do something big and soon. Good intentions, good execution and getting unlocked from previous constraints are not enough. Steve Berkowitz is quoted as saying "...playing NOT to lose has no place at Realtor.com. We are playing to WIN." I like this mantra. Now he has to make it happen.

People want results and the first place to garner those results would be in forging a new pact with Brokers and MLS' via ListHub. Life for any of the portals, indeed any of us in the real estate information business, is predicated on access to the listing content. Should Realtor.com strike a deal that places control and tools at the top of the content food chain, Realtor.com will change the conversation. If they don't, the hard slog continues.

What Realtor.com could surely benefit from is some blue ocean thinking. One not that distant from the one Spencer surely had when he woke one morning six weeks ago and thought, "I should buy Trulia and blow everyone's mind." Sami was literally doing some blue ocean thinking plus kicking sugar's ass. Spencer decided it was game time and made his move. So what could Realtor.com do that would be grand scale and play out well on the big stage? An alliance with an industry neutral entity such as Google could be a kick ass plan. Or what about Amazon? There's a myriad of possibilities here that beg discussion. I won't go into them here. But imagine the possibilities.

And what about the Broker? Access to the content continues to be an imperative. All portals realize their hold on the listings is tenuous at best. Not surprisingly, each is putting a full court press on MLS' and brokers for direct feeds. Reliance on ListHub as the platform of choice does not appear to be in Zulia's best interest. Look no further than their acquisition of Retsly.

At the end of the day, it is the brokers who will have the greatest impact on the continued march by the portals. Yes we are a vehicle; but it is they who drive, always. There are several "under the radar" broker led initiatives that are forming. Each will require a form of "coopetition" by the brokers. These efforts need to step out into the light and soon.

In summary this is a merger of two massive advertising destinations. MLS' will continue to do its job, brokers are going to continue to do theirs and consumers are going to continue to hit these and other destination sites. Importantly we have every reason to expect that the sun will rise tomorrow and the next.

And though it's true that Zillow and Trulia are now in first place in regards to where search begins, it really feels more like days of old, when the consumer's first touch was the newspaper -- when they drove around before calling a Realtor, wondering what a home looked like from the curb outside. It was a Sunday afternoon car ride. It was something to do.



Search was never really owned by real estate. It was just the beginning of a long process to get where the consumer wanted to be: home.

Sure agents had the MLS book and people had to go to the Realtor for the details, but nothing has changed here. What has changed are the places and ways people start the process and the cost to advertise.

If real estate needs an opinion or a vision on where it ultimately needs to be, it's not and never will be in the SEARCH.

It's the collaboration and decision-making that occurs during the entire lifecycle. And while there are some that are doing everything they can to make SEARCH the integral part of the conversation, it still comes down to relationships between people.

David
President / CEO