Will Rightmove 'fortress' fall to REA's siege?

Battle of Britain **The Murdochs' News Corp wants the keys to one of the UK's great cash machines, writes Hans van Leeuwen.**

Rightmove's business model is impervious to the ups and downs of the British property market.
Real estate agents pay a fixed fee in Britain, while vendors pay for each listing in Australia.
PHOTOS: BLOOMBERG, GETTY

Britain's biggest online property portal, Rightmove, is so overwhelmingly dominant in its own market that its CEO Johan Svanstrom publicly refers to his company as "unassailable" and "a fortress". Yet Australian suitor REA is hoping a £6.1 billion ($11.9 billion) bid could yet be enough to give Rupert and Lachlan Murdoch the keys to the castle.

REA, which is 61 per cent owned by Murdochs' News Corp, on Monday hastily launched a third informal cash-and-scrip offer for Rightmove. If this can break down the initially trenchant resistance of Rightmove's board and some of its investors, REA will get its hands on a cash cow whose revenue model is impervious to the £8.7 trillion British housing market's ups and downs.

The Murdochs have a storied history of dealmaking in Britain, but have been more subdued in recent years. Their recent reported interest in *The Spectator* magazine came to naught, as the title was snapped up by the newest muscular media mogul in town, hedge fund boss Paul Marshall.

Rightmove, though, is not an old-school Murdoch media play – it bestrides the bleeding edge of Britain's proptech revolution. It commands an 80-per-cent-plus share of eyeballs on residential property online, and earns a 70-per-cent-plus margin. With its cast-iron revenue stream and monopolistic mien, some investors say it's more like an infrastructure or utility investment than a tech start-up.

"They [Rightmove] are unstoppable, and I assume they will dominate the market for many years to come," says Trevor Abrahamson, head of Glentree International, who was involved in setting up a rival portal, OnTheMarket.

But, as with every Australian foray into Britain's same-same-but-different market, REA's gambit is still a gamble. REA's integration of Rightmove could become a major distraction. And the Aussie template might not fit a culturally distinct UK customer base. If these risks materialise, even the seemingly impregnable Rightmove bastion could be vulnerable.

But before REA can worry about risk, it has to get the bid across the line. Some shareholders are dubious about the suitor's proposed dual-listed structure. They say this could push UK-focused funds off the register; and if the company drops out of the FTSE 100 then passive investors and index funds might have to rush for the exit.

Others question whether REA has that much to offer Rightmove, which has its own growth strategy and an imposing market position. The company's boosters say all REA's bid has done is crystallise Rightmove's under-appreciated value. If the Aussies walk away, they reckon the previously languishing share price could well hang onto the 25 per cent gains that REA's bid has just delivered.

REA, for its part, argues that a geographically diversified, multipronged company is stronger than either it or Rightmove are on their own. They'll share a pool of technological and strategic innovation that will drive both forward.

Analysts and observers are quick to point out, however, that the superficial similarities between the two companies rest on a very different underlying market structure. In Britain, it is the country's roughly 25,000 estate agents, rather than the individual sellers, who advertise on the three big real estate portals: Rightmove, listed on the London Stock Exchange and a FTSE 100 company; Zoopla, owned by US private equity firm Silver Lake; and OnTheMarket.com, bought last year by US property giant CoStar.

Rather than pay per listing, the agents pay a monthly subscription fee, negotiated with the companies.

It is a flat fee, not linked to the number of listings – meaning the portals are impervious to the vicissitudes of the housing market.

Although Rightmove has the lion's share of traffic, the others charge lower fees – so most agents choose to list the properties on two, if not all three, of the portals.

This makes for a peculiar market.

It isn't really competitive in the proper sense, because agents tend to buy services from all the portals, rather than playing them off against each other. "They are more like peers than competitors," says one industry watcher.

"All three can raise prices at the same time," says another. "One of them doesn't have to lose for the others to win. The agents, and to a lesser degree the consumers, are the ones that lose out."

This leads to occasional flare-ups of discontent among agents, and Rightmove bears the brunt. After a particularly nasty spat during the COVID-19 pandemic, hundreds of agents joined a "Say No to Rightmove" campaign.

That stoush eventually petered out – much like the agents' 2012 attempt to curb Rightmove's pricing power by creating their own rival listing portal, the industry mutual OnTheMarket (now owned by CoStar), which also failed to shift the dial.

RBC analyst Anthony Codling summarised it succinctly in the *Times* newspaper last year. "Agents love to hate Rightmove, because they don't like paying ever-increasing fees. And yet because people want to see their home on it, the agents can't not be on Rightmove," he said. "Its profit margin should have been competed away, but no one has cracked it yet. And lots of people have tried."

This is why some market watchers say that for REA, buying Rightmove would be almost akin to investing in an infrastructure play or utility: the revenue is steady and almost unassailable.

"It's like a canal in the 1800s. If you wanted to transport something, you had to use it. And if the price increased, you had to pay it," says one investor in the sector.

But Rightmove's power is not

unfettered, says Andrew Baum, chairman of real estate fund manager Newcore Capital Management and an emeritus professor at Oxford University's Said Business School.

"The limit on pricing power is that they rely on the agents paying them retainers and giving them stock," he says. "The tension is always how far Rightmove will push its dominant position against its clients."

The bigger underlying tension, or fear, is that Rightmove could be like the canal: indispensable, until suddenly the railways came along.

"We are just at the start of the digital revolution in this industry, because the digital platforms were originally just come and compete in a meaningful way."

Svanstrom cut his teeth at the hotel booking site Expedia, in a hugely competitive and repeatedly disrupted industry. But there are still some who wonder if Rightmove, with its monopolistic characteristics, harbours the culture of innovation needed to realise his strategy.

This is where REA reckons it can help. The predator argues that its own strategy, capabilities and technology are further along the curve than Rightmove, and the Australian player can unlock value for its target in the broadly similar UK market.

Not everyone is convinced. Analysts at equity research house Bernstein say Rightmove is already showing that it can expand into adjacent areas of business, and they were positive about the UK company's pace of innovation.

"We're yet to be convinced that REA can do any better," they said in a note. "Rightmove's strength is not so much innovation but market-leading position – innovation can be observed across borders without needing to be combined."

Rightmove's profit margin should have been competed away, but no one has cracked it yet. And lots of people have tried.

Anthony Codling, RBC analyst

replicating an analogue system of shop windows and newspaper classified advertisements," says Yolande Barnes, chairwoman of the Bartlett Real Estate Institute at University College London.

"The question is how it will develop. Already, digital platforms have made new ways of transacting possible – and I suspect Rightmove will go down the route of adding digital features and facilities that benefit consumers."

This is exactly what Rightmove is doing, under Svanstrom's relatively new leadership. The more of the Rightmove-visiting property buyer's activity it can capture, the more it can cement its importance to agents, and the more diversified its revenue streams become.

The company's initial effort is aimed at snaring the moment when a Rightmove user turns from looking at property to thinking about the finances. It is doing deals with mortgage providers, giving consumers the ability to get in-principle loan approval on the site. Eventually this crab-walk could expand into other "adjacencies" such as building surveys, conveyancing, and even removals and renovations.

Like Zoopla, Rightmove is also thinking more about how to develop and monetise the data it collects, to benefit its customer base of agents. It is also bolstering its presence in commercial property, and is continuing to solicit third-party advertising on the site, from clients such as schools or removals companies.

Svanstrom first walked investors through this "strategy arc" almost a year ago. At the time, this was seen as an attempt to gee up confidence following a stretch of share price underperformance.

"The last few years the growth hadn't been as rapid," says one industry participant. "There had been a sense of, 'what next for Rightmove?'"

By coincidence, though, it also came soon after CoStar announced its £100 million purchase of OnTheMarket. The US giant's CEO, Andy Florance, said he wanted to plunge £46.5 million into sales and marketing in CoStar's first year of ownership – six times more than OTM was spending and, he said, three times more than Rightmove's annual marketing budget.

"When I see a 72 to 74 per cent margin in a company with none of the major players actually materially investing, in my view, into significant marketing in the market … I feel very comfortable we have something to bring to the table in the United Kingdom," Florance said at the time.

Svanstrom was asked repeatedly at his briefing last November if he was worried about CoStar. He claimed not to be, given Rightmove's share of consumer traffic.

"What you need is a very big funnel at the top … That is extremely hard to create," he told the assembled analysts and investors. "We welcome competition generally … but unless you have that whole piece, it's very, very hard to

Some analysts suggest Rightmove and its peers could unlock more revenue by switching to REA's model, where vendors pay to list their properties rather than agents.

Baum doesn't pick a side, but says he'd watch that with interest. "It's a classic B2B [business to business] versus B2C [business to consumer] argument. With B2B, the cost of acquisition of customers is much lower and there are efficiencies. But if you can create a B2C business with wide recognition, you are home and hosed."

Another market watcher is much more sceptical about this idea. "Why risk it? It's very unlikely REA would try to alter a model that is working and will keep working," he says.

The expectation in the UK, he says, is that the agent manages the sale from its own balance sheet. "They own the risk, they effectively own the transaction. From a vendors' perspective, the risk has always been with the agent," he says. "The REA model would effectively remove the exclusivity of the agent. It would be terminal."

Abrahamson is even more dubious. "It would cause a riot," he says. "When the agents get together and see that Rightmove is now a competitor of theirs, not a service provider, they won't be happy. They will want to start another OnTheMarket, too."

The market leader would have a lot to lose from triggering that turmoil itself. That could create an opening for the ambitious and cashed-up CoStar to start chipping away at the Rightmove fortress.

On this view, REA's priority in any shake-up of Rightmove's strategy, culture or model should be to ensure that nothing threatens the company's dominant position among agents and buyers, which is the bedrock of its growth potential.

"We have built network effects that we think are unassailable," Svanstrom told investors. "And out of that we will continue to generate great value."

Still, even if the REA revenue model were not the right kind of disruption for the British sector or its leading player, there's a sense that Rightmove can no longer afford merely to rest on its laurels.

"There's an inbuilt conservatism in this industry that impedes things," says Barnes. "Maybe somebody calling itself something completely different will come in sideways and wipe that out." AFR

The rise and rise of the self-help book

Heal thyself **For as long as there have been selves, they have needed help. As the book genre has grown, so have its claims, writes The Economist.**

The year 1859 was a big one for British publishing. Charles Darwin's *On the Origin of Species* was published, as was John Stuart Mill's *On Liberty*. So too was a now largely forgotten book by an author named Samuel Smiles. It was boring, badly written and critically panned: one writer called books of its sort "the silliest ever known". Naturally, readers loved it.

It outsold Darwin, popularised a new term and in the process changed publishing for ever. It was called *Self-Help* and its aim was simple: to teach readers that "with Will one can do anything". One could certainly sell more books: last year in Britain, according to figures from Nielsen BookData, 3 per cent of all books sold were self-help.

Self-help books tend to reveal what we are most worried about.

Some titles, such as Stay Alive All Your Life, offer advice on things that are rarely considered a problem

For as long as there have been selves, they have needed help – and books have offered it. The Bible has been called the world's first self-help book; Marcus Aurelius' *Meditations* still pops up on self-help tables in bookshops.

Advice such as Ephesians 4:32 ("Be kind to one another") and *Meditations* 5.16 ("the soul becomes dyed with the colour of its thoughts") could sit happily in any modern manual. Others less so: Leviticus 18:7 ("Do not dishonour your father by having sexual relations with your mother") may be good advice but feels less like a fridge magnet.

By the 17th century, specific books had appeared offering advice on such important topics as "beards of a frightful length", "blowing the nose", and the perennially unpleasant "loathsome and filthy things". Some of self-help's typical motifs were visible before the term itself took root.

Just as James Clear's modern bestseller, *Atomic Habits*, explains how the "four laws of behaviour change" can help you develop daily habits to "stay motivated in life and work" and avoid negative thoughts, so an 18th-century Puritan manual encouraged readers to develop the habit of dwelling daily on their imminent deaths. Imagine, it wrote, "thy Breath failing, thy Throat rattling, thy Hands with a cold Sweat upon them". Which doubtless helped with staying motivated, if not with negative thoughts.

Self-help proper started to flourish in the Industrial Revolution. In the medieval era, people might have measured their worth through their position in their family or village. As urban populations swelled, they found themselves in "more of a marketplace" of self where people were "shopping for friends, business partners and mates" says Joseph Henrich, a Harvard University evolutionary biology professor.

In this "individualistic world, you [had] to cultivate a unique self in order to make yourself more attractive to other people". That meant not just improving yourself but also finding time to do so. People in this period became "obsessed with … using time efficiently".

Smiles' *Self-Help* is typical. It offers the part-liberating, part-crushing message that, with toil, "any man can do what any other man has done".

To prove this it offers 400-odd pages of dislikeably disciplined people who sleep for four hours a night, work for 16 hours a day, opt for improving toil over "the perverted life" and succeed enviably.

The reader learns how Galileo, after 50 years of work, invented his pendulum; how James Watt invented the steam engine after a mere 10; and how Robert Peel, after falling in love with his landlord's seven-year-old daughter, said he would marry her, waited a decade and then did. (Grooming a minor apparently did not count as "the perverted life".)

As the genre has grown, so have its claims. One reason that self-help is so sneered at, suggests Oliver Burkeman, author of *Four Thousand Weeks*, a time-management book, is that there is a lot of "incredibly dodgy" stuff out there, ranging from ill-thought-through ideas to "full-blown charlatanism". Some titles, such as *Stay Alive All Your Life*, offer advice on things that are rarely considered a problem. Others, such as *Think and Grow Rich* and *I Had Appendicitis and Cured it Myself*, invite more than a little suspicion.

Whether or not all self-help claims are true, these books do reveal what people are worried about. The genre is anxiety, alphabetised and quantified.

Look under the letter "A" in a list of 19th and 20th-century American self-help volumes and you will be offered 77 titles on "adolescence", 17 on "ageing" and 13 on "alcoholism". Under "B" you will find books on "bereavement" (19) and "babies". "L" offers books on "loneliness" (6), "love" (63) and – unexpectedly and hopefully unrelatedly – "livestock". The list reads at times like a comedy, at others like a tragedy. After *The Ability to Love* and *Adventures in Nakedness* comes the glummer *Advice to the Lonely, Frustrated and Confused*.

The books "respond to the fears and anxieties" of their time, says Jessica Lamb-Shapiro, author of *Promise Land*, a book on the genre. After the Depression, for example, books on moneymaking flourished, though whether they helped their readers to flourish is less clear.

Then again, if you believe Aurelius, that hardly matters. Wealth, ambition and achievement are, he wrote, all worthless since we are here for but the briefest moment before entering the "abyss of eternity". There may be better ways to spend that moment than reading self-help books. AFR