



July 26, 2014

Zillow-trulia

Zuliagate -- The Big Secret

Citron Exposes What the Press Has Ignored






The stock market and the real estate industry are all abuzz about the possible merger of Zillow(NASDAQ:Z) and Trulia(NASDAQ:TRLA). The media is now filled with stories proclaiming that the combined company will instantly become an internet advertising juggernaut that wields pricing power over the entire internet real estate industry.

You cannot read a single article or analyst commentary that doesn't invoke the magic phrase "Pricing Power". Without the slightest thought whatsoever, the combination of Zillow and Trulia is supposed to give the combined entity the power to triple ad revenue from real estate agents. Nothing could be further from the truth – and we have the proof.

Citron Research now exposes the big lie that has never been discussed by any sell side analyst, mainstream media pundit, and most importantly **NEVER DISCLOSED** by Zillow or Trulia.

Zillow/Trulia already have in place a rock bottom deal with Realogy, the largest real estate agency in the world, that prohibits ALL OTHER agencies from advertising on their listings ... **and for this they pay a fee 95% less than any other agency pays.** Not only is this deal unsustainable in the industry, we're not at all sure if it's even legal from an anti-trust perspective.

But incredibly, it falls to Citron to publish the documents that no one from either Zillow or Trulia has ever showed Wall Street. This deal spans all of the Realogy agencies:

-  Coldwell Banker
-  Sotheby's
-  ERA
-  Century 21
-  Better Homes

We've published a copy directly from Coldwell Banker.

Below is the pricing for the 175,000 Realogy agents who are a dominant force in the industry. Not only amazing -- **IT HAS NEVER BEEN DISCLOSED**. And it already covers exclusive agent status on both Zillow and Trulia – most notably with regard to excluding other brokers' ads from Realogy listings.

Indicted by their own words:

“Competitors Can’t Touch This Offer”

Really? Anybody ever read Chapter 1 about anti-competitive practices and [antitrust laws](#) ?

FAB PLUS FEATURED AGENT BRANDING
YOUR LISTINGS. YOUR CONTACT INFORMATION. YOUR LEADS.

Competitors Can't Touch This Offer

The combined agent branding power of the Fab Plus Featured Agent Branding Program retails from \$2,100 to over \$23,000 (depending on the number of annual listings).

Listings	Realtor.com	Homes.com	Trulia.com	Zillow.com	Competitor Pricing*	Coldwell Banker Pricing**
0 to 3	\$273	\$839	\$468	\$588	\$2,168	\$175
4 to 10	\$496	\$839	\$1,188	\$588	\$3,111	\$175
11 to 25	\$1,053	\$839	\$2,388	\$3,138	\$7,418	\$175
26 to 50	\$1,820	\$839	\$4,200	\$5,688	\$12,547	\$175
51 to 75	\$2,606	\$839	\$6,090	\$8,238	\$17,773	\$175
76 to 100	\$3,475	\$839	\$7,980	\$10,788	\$23,082	\$175

The program is provided to Coldwell Banker NRT Agents for the early bird price of \$175 for an entire year of Agent branding.

fab+

*Pricing for four of the seven Fab Plus partner websites.
** Pricing for four of the seven Fab Plus partner websites. Pricing also includes featured agent branding on FrontDoor.com, eHome Real Estate, AOL Real Estate and MSN.com. Pricing only applies for early bird pricing from March 3 to April 15.

Coldwell Banker Featured Agent Branding Program


April 1, 2014, through March 31, 2015 – Page 42

If you are serious about investing in this deal, Citron recommends you read this entire document carefully.

<http://images.coldwellcolorado.com/Marketing/FAB/Fab%20Plus%202014-2015%20Presentation%20-%20CO.pdf>

Realty(NYSE:RLGY) is the largest franchised player in the Real Estate agency space, with a footprint of roughly 1/4th of the entire U.S. residential real estate competitive landscape. Combined, the next 3 ranking competitors are only slightly larger.

Franchise Competitive Landscape (U.S.)		
Brand Presence	Offices U.S.	Agents U.S.
Realty (all brands)	5,992	170,278
RE/MAX	3,300	54,491
Keller Williams	678	74,470
Berkshire Hathaway HomeServices / Prudential / Real Living**	1,800	55,000
Realty Executives	395	N/A
Exit Realty	449	3,245
Regional (Limited Franchising)		
Weichert	374	14,000
Long & Foster	164	10,054
Windemere	295	7,000
Howard Hanna	167	5,700



(*) Remax + Keller + Berkshire Hathaway = 183,961 Agents

PRICING POWER: Never Had it ... Never Will

This Realogy marketing deal was done to purposefully afford Realogy an unfair advantage over their competitors, by **blocking all competing agent ads** on listings generated by Realogy agents.

More importantly, this agreement eliminates over 20% of all Zillow/Trulia inventory in exchange for a minimal amount of money. (Note that whatever gross sum FAB PLUS generates from Realogy and its agents has to be split among all the online ad vendors; we also acknowledge Realogy corporate probably subsidizes a small, undisclosed part of the overall deal price.)

But it's not just any 20% -- Realogy's NRT group is the largest owner and operator of residential real estate brokerages in the United States, with operations in more than 40 of the 100 largest US metropolitan areas – surely the most lucrative potential markets for Zillow/Trulia.

Further, data indicates Realogy agents consistently deliver the highest average property price, demonstrating that their premium brands generally represent the most prestigious listings in the market.

The FAB PLUS deal is marketed explicitly to Realogy's agents as a direct way to "Block competitors from advertising on your listing details page."

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FAB PLUS FEATURED AGENT BRANDING

YOUR LISTINGS. YOUR CONTACT INFORMATION. YOUR LEADS.

Block The Competition

Block competitors from advertising on your listing details page.

- By purchasing the Fab Plus Featured Agent Branding program your name and contact information will appear on the listing details page for all of your listings.
- No other agent advertisement will appear on your listing detail page.
- Increase your online lead potential.

Listing details page with Fab Plus Featured Agent Branding. Competitor ads and listing information do not appear next to your listing.

Listing details page without Fab Plus Featured Agent Branding. Competitors can capitalize on your listings.

(page 17)

For Zillow and Trulia, this is double jeopardy: Not only are all these listings off the market for selling leads to other brokers, but the listing broker gets to assure they remain exclusive in exchange for a very small payment (appx \$15 / month.) This is a huge lose-lose proposition for Zillow/Trulia.

How does this preferential pricing not quickly lead to a devastating industry backlash?

Why Does Realty Get Such a Great Deal?

Because they know the true value of the Zillow / Trulia leads

“So to put the Internet in perspective, in 2013, NRT received 1.5 million leads from its real estate Internet websites. Interestingly, 30% of these leads came from NRT's local operating company websites and the remainder came from the 700 plus real estate related websites which we participate in. NRT's real estate website not only generated the greatest amount of leads, but they're also the highest quality of leads”

-- Bruce Zipf - NRT LLC - President and CEO at RLG investor day

<http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NTQzMzk3fENoaWxkSUQ9MiM0MDYwfFR5cGU9MQ==&t=1>

The quality /efficacy of leads from Realty's internal sites is nearly 250% better than outside non-RFG branded internet sources.



(Slide 22)

Not only is lead generation from their own internal-branded sites growing much faster, those leads are worth much more in dollar terms on closed deals.

Compared to all other sources, Realogy's internally generated leads :

- Are growing 70% faster on CAGR basis
- Result in a nearly 280% superior conversion rate
(5.6% to 2.0%)

From these numbers we can easily conclude that Realogy knew what they were doing when they cut the deal, and if in years to come Z/T wanted to raise prices- the nuclear option is always Realogy's to commit.



But it gets even worse for Zillow / Trulia

Despite Realogy already having a deal to block all competing agent ads on its listings for an undisclosed small sum, they are still moving aggressively to compete directly -- going head-to-head against Z/T, which should make Z/T concerned about the nuclear option despite the rock bottom pricing.

Realogy is already preparing for a black-swan price increase, by building a robust real estate portal of their own, that also accepts competitors' listings. Meanwhile, whatever metrics you use, if Realogy pulls its listings off of Zillow / Trulia, it would hardly dent their business at all. However, that step would evaporate the \$9 billion Zillow / Trulia entity.

In Q&A from the Realogy investor day, May 9, 2014, we read:

Sean Kim - RBC Capital Markets - Analyst

Hi, Sean Kim, RBC. Another question for Bruce. I'm not sure if I heard you correctly in your presentation, but did you say you guys are working on some sort of consumer facing website? Is that a direct competitor to Zillow, Trulia? When are you going to launch this? What's the investment that goes into this?

Bruce Zipf - NRT LLC - President and CEO

Yes, the site will be launched in the mid-part of this year. You've got to keep in mind, there are as I indicated in my graph, there is 700 plus other real estate websites out there. Most of them are consumer-oriented facing websites. We believe that there is a space in there that we can compete in. It will have features like Zillow and Trulia. It will have features that you wouldn't put on a real estate brokerage website. An example of that would be Zestimate that Zillow uses. There are certain features that we believe we can effectively do and be able to cast a net outcome, a consumer-oriented facing website arena and be able to capture leads, reviewing [scrub then] as I described, and then put them in the hands of our sales associates so we create the business opportunity.

Sean Kim - RBC Capital Markets - Analyst Is this just for your listings or would it --

Bruce Zipf - NRT LLC - President and CEO

No, it will be fully IDX site meaning that we'll have all -- our competitors' listings will be a separate brokerage company within the jurisdictions that NRT operates in. So that will be fully IDX meaning that an IDX site means that all the realtors cooperate just like they on most of the 700 other websites like Zillow and Trulia and even our own local operating website which is fully IDX. We will have other competitors.

file:///C:/Users/Owner/Downloads/RLGY-Transcript-2014-05-09T13_00.pdf

IF Zillow's easy answer is "Once their agents are on the ecosystem we can upsell them the other software products ... sorry. Just last week Realogy bought Zip Realty, mainly for their lead technology platform. This action is perfectly aligned with Realogy's stated intention above, not Zillow's faint promise of massive future upselling.

<http://www.inman.com/2014/07/15/realogy-acquiring-ziprealty-for-166-million/>



Since When Does Working for Warren Buffett put you at a Competitive Disadvantage?

Wake up Wall Street! Ask the Question!

How long until Keller Williams, Remax, or Berkshire Hathaway demand similar terms from Z/T? The nuclear option is equally available to them as well if they do not get preferred pricing. If they pull their listings off of Z/T, Z/T collapses as they lose 30% of the listings in the US.

In brief, the Zillow Trulia merger does nothing to build a sustainable competitive landscape. Does any of the above lead us to believe that prices for online real estate advertising are going up ... or going down?



Wall Street Negligence ...

Is it that they don't know ...
they don't understand ...
or they don't care?

As recent as Friday, in a conference call held by CRT, the hosting analyst was asked if the combined company had any deals in place that would limit pricing power with any agencies. His response was "None that I know of ..." besides maybe Douglas Elliman (NYC only).

So amazingly, this price and precedent between the **largest** real estate agency company and the **largest** internet advertisers of real estate listings has gone undisclosed -- and unmodeled in analyst projections.



The Writing is On the Wall

The only three countries in which online listing portals have been able to generate significant profits – in each case due to lack of a viable MLS system – are Australia ,the UK, and China. All three have all faced backlash from local real estate agents about gradual price hikes, with

brokers exerting pricing power and/or taking decisive steps to set up alternatives. How will US real estate agents react to the threat of drastic prices hikes from Z/T, when they already have alternative systems (MLS, and broker websites) in place?

Citron could publish volumes regarding internet traffic overlap, regional MLS strategies to adjust to / compete with Trulia/Zillow, customer backlash, and every other red flag raised about this company.

But none of it matters if you have an undisclosed business practice, one that you have been hiding from Wall Street, that just torpedoes your own business plan.

Conclusion

After \$170 million of cumulative losses and years of missing estimates, lowering guidance, and downward revisions to their business models, two companies have apparently decided to combine their two money losing business models and sell it to Wall Street. If you are on the fence, close your computer, pick up your phone and call a real estate agent and ask what they think about the Realogy deal – nothing else needs to be said.