



Case Summary

25 June 2015

Clearance of Merger of Online Real Estate Platforms

Sector: Online Real Estate Platforms

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Date of Decision: 20 April 2015

In the first phase of merger control the Bundeskartellamt has cleared plans by Axel Springer SE, Berlin to acquire the sole control of Immowelt AG, Nuremberg and approved the launch of a joint venture between Immowelt AG and Immonet GmbH, Hamburg, which belongs to Axel Springer SE. The businesses concerned are the online real estate platforms www.immowelt.de and www.immonet.de, whose activities are to be combined in the new joint venture.

Even based on a narrow market definition, the project was not expected to significantly impede effective competition. On the contrary, the merger on a narrow market for online real estate platforms will prevent so-called market tipping.

The merger project mainly affects the online real estate platform sector. The Bundeskartellamt left the exact market definition open and did not pursue the question whether, in addition to the online platforms, classified advertisements in newspaper dailies, for example, should be included in the present case. It has been the current practice of the Decision Division and the case law of the Düsseldorf Higher Regional Court to assume separate markets and to define the competitive relationship between online classified advertising platforms and print classified advertising as competition from substitutes.

In limiting its assessment of competition in the sector to online real estate platforms, the Bundeskartellamt assumes a two-sided market in the form of so-called transaction platforms. In the present case there are many reasons to assume a single market for real estate platforms without considering each market side separately.

The key activity of an online real estate platform is to act as an intermediary between providers of real estate (private or commercial providers, often represented by commercial estate agents)

and property seekers (private or commercial clients, also represented to some extent by commercial estate agents). A successful intermediation between a property provider and a property seeker is followed up with a direct transaction on a specific property. The objective of online real estate platforms is to bring two sides (property providers and property seekers) together. The currently active online real estate platforms do not charge users on the property seeking side any fees. The platforms' turnover is therefore achieved exclusively with fees payable by providers of property. There are various revenue models used by the real estate platforms but none of them are transaction-based. Whilst the largest online real estate platform of Immobilien Scout GmbH, "ImmoScout", has adopted a membership model, the parties to the merger charge fees for advertising space.

In this constellation of a so-called transaction platform there is a typical two-sided market with pronounced bilateral positive indirect network effects between the two user groups. In the case of transaction platforms - in contrast to advertising-based two-sided markets - the Bundeskartellamt considers it possible for definition purposes not to separate the different market sides. Firstly, one argument in favour of this is that the product of an online real estate platform is indivisible and always has to include both user groups. The product is the platform's intermediary service in bringing together (matching) property providers and seekers and therefore by its very nature requires both market sides. This differentiates the transaction platform from advertising platforms, which have added the second market side due to a strategic financing decision. However, this side is not a necessary component of the product offer for the other user group. Limiting the activity of a transaction platform to only one side or considering the individual sides separately would give an incomplete picture of the economic activity involved and the strong interdependencies between the two sides.

Also from the perspective of the opposite market side which is decisive under the demand-side substitutability concept, a separate assessment of the two market sides is not required. The opposite market side can consist of two or more user groups, which is the case on many one-sided markets. In applying the demand-side substitutability concept the Bundeskartellamt considers it possible to define a single market if demand on the part of both user groups is largely uniform and the possibilities of the user groups to switch provider do not essentially differ. Here the opposite market side consists of property providers and property seekers which both use a property intermediation service. With all the feasible possibilities to switch to an alternative intermediary, both user groups would inevitably be brought together again. The close interdependency between the groups due to bilateral positive indirect network effects does not justify separating the market sides but instead leads to a largely uniform demand.

The fact that the intermediary service is free of charge for some of the platform users does not necessarily undermine this perspective. In the Bundeskartellamt's view this factor is neither a reason to separate the markets nor does it mean that the intermediary service does not meet the criteria of a market. Rather, this is a price differentiation strategy of the platforms, which serves to internalise the indirect network effects and may lead to a zero price for one of the user groups.

Three major providers (Immobilien Scout GmbH, Berlin, with the real estate platform www.immobilienscout24.de as well as Immowelt AG and Immonet GmbH) are active on the market for online real estate platforms in Germany as well as a number of small, in some cases specialised providers. In addition, so-called meta search machines, which aggregate the property advertisements of the original online real estate platforms and present them as a whole, also offer their services in this market. In some cases this is done via cooperations between original online real estate platforms and meta search engines. Some meta search engines also use crawlers to detect advertisements on online real estate platforms. The question as to the extent to which such services should be included in the market can also remain open.

Even based on this narrow market definition, the project is not expected to significantly impede effective competition because of either non-coordinated or coordinated effects. The merger of the two real estate platforms brings together the second and third largest real estate platforms in Germany, significantly narrowing the market structure from three to two competitors. In terms of turnover, these three platforms account for more than three-quarters of the market volume. However, even post merger Immobilien Scout GmbH will remain the clear market leader. There are also various indications which show that the merger project is likely to reduce the so-called tipping probability and could even have a positive effect on competition.

Platform markets with pronounced bilateral indirect network effects often display a relatively strong tendency towards concentration. A larger number of property providers using an online real estate platform will mean that more property seekers will use the same platform, which in turn will have a positive effect for property providers. Fees are usually set in such a way that both sides are served and brought on board while the network effects are accordingly internalised. This can mean that a reduction in the number of platforms does not lead to a lower intensity of competition (as is usually the case in one-sided markets) but perhaps to even a greater intensity of competition because the existence of fewer platforms makes it easier to internalise network effects, which in turn improves the platforms' possibilities to compete.

So-called market tipping, in particular, can pose a risk to competition. The term "tipping" is used to describe a situation in which a two-sided market is served by one platform only and the other

platforms exit the market. The likelihood of tipping depends on the way the platforms are used by the user groups and on the symmetry of the platforms.

The likelihood is greater in the case of so-called single-homing than in so-called multi-homing. Single-homing users use only one platform. There can be several platforms on one market but each user chooses one platform only. Multi-homing users, on the other hand, use several platforms. Single-homing can be expected to create exclusive offers, which can create a positive feedback loop effect for a platform. It is therefore plausible that a platform with greater reach will attract more exclusive offers in single homing which in turn will have a feedback effect on the other side of the platform.

The users of online real estate platforms tend to multi-home rather than single-home on both sides, which limits the risk of tipping on the market. Nonetheless ImmoScout's significance or standing both for property providers as well as property seekers is greater than that of Immowelt and Immonet. As a result of the merger the increase in importance of the merged platforms of Immowelt/Immonet can be expected to strengthen multi-homing or increase Immowelt/Immonet's share in the single-homing user market. This effect would further prevent the likelihood of tipping.

The merger also increases the symmetry of the platforms. The more asymmetrical the platforms are, the greater the likelihood of tipping. Symmetry can relate to the cost situation, size or reach of the platforms as well as the strategic orientation of the platforms. Consequently, the platform with the better cost structure, wider reach or better satisfaction of user expectations would squeeze the other platforms out of the market. The situation before the merger seemed asymmetrical (especially in terms of user base and reach) with ImmoScout as market leader having a large lead over Immowelt and Immonet. The merger is expected to reduce these asymmetries as Immowelt and Immonet will be able to achieve joint cost advantages and expand their reach.

On the other hand, symmetry assimilation is not expected to create any coordinated effects. In the case of transaction platforms with significant indirect network effects, the likelihood of collusion tends to be low because of the numerous competition parameters. In addition, the clear structural differences which still exist between ImmoScout and Immowelt/Immonet are factors which preclude the likelihood of joint market domination. These differences include as mentioned above asymmetries between ImmoScout and Immowelt/Immonet resulting from economies of scale, which could be reduced by the merger but which cannot be completely removed, at least not in the short or medium term. Another difference lies in the way in which users perceive the platforms, which is expressed in the different periods of time which they spend on the platforms and in the different degrees of likelihood of intermediation.

