Issue paper n°15

# The Secondary Market for Domain Names
## in the New gTLD Age

*Afnic would like to thank SEDO, an incumbent player on the Secondary Market, for the data they have kindly provided on the Secondary Market in France and worldwide in 2015. We hope that their cooperation and this white paper will result in the sharing of other information that will help reconstitute a more comprehensive view of the Secondary Market which fascinates so many, while remaining relatively unknown*


In the spring of 2010, Afnic published a white paper on the Secondary Market[1], which analyzed the trends but also the valuation mechanisms for domain names. It concluded with a simple observation that still seems relevant: "*Everyone knows today what domain names cost, but few know what they are worth*."



This white paper is intended to supplement that of 2010, rather than replace it. This is because the concepts involved in the valuation of domain names, like the various stakeholders in the Secondary Market, have changed little in five years. It seems more appropriate to focus on the market trends, in the relatively specific context of the opening of hundreds of new gTLDs.

Have these TLDs weighed on the Secondary Market by offering a wide choice, thus making purchases of tradenames unnecessary? Or on the contrary have they helped strengthen the well-established TLDs by giving them a "safe-haven" status, amid a plethora of competitors still unknown to the public, and therefore inspiring a certain degree of suspicion?

Through the study of the Secondary Market, we hope to discover the keys to analyzing the current trends, and better understand what is happening on the "Primary Market", that of the registration of domain names.

[1] White paper – The Secondary Market for domain names – April 2010 https://www.afnic.fr/medias/documents/afnic-dossier-second-marche-2010-04.pdf

# 1 The issues involved in introducing new TLDs on the Secondary Market

Prior to the launch of the new TLDs, the world of domainers – specialists in investing in domain names – was bustling with conflicting opinions.

The first school of thought considered the new TLDs would provide a wide range of opportunities to file exceptional names, which had been registered for years under traditional gTLDs such as .com, .net or .org. If "business.com" had been sold for $ 7.5 million, then the same term in most of the new TLDs would certainly be worth hundreds or thousands (or tens of thousands!) of dollars, for an investment of only a few. This calculation was so convincing that the registries themselves rapidly created "Premium" lists of domain names or names reserved for sale by auction, allowing them to capture a larger share of the value of their TLDs than if they had sold the names at the conventional nominal price. It is therefore certain that if domainers potentially did some good deals on a few TLDs, they were also "dispossessed" of part of their potential gains by registries wishing to make their TLDs profitable as quickly as possible.

Some experienced domainers however point out that the "gold rush" is a recurring myth of the Secondary Market, orchestrated by the media based on actual amounts but which only corresponded to a tiny fraction of the transactions. According to them, few of the best experts took up positions on the nTLDs, most of the applicants being represented by newcomers attracted – blinded? – by the prospect of fabulous returns on their investments. The fact is that these "get rich quick" strategies have already worked with often disappointing results since 2001 with the openings of the .biz, .info, .asia and other .co type TLDs.

The second was more skeptical. On the one hand, these domainers had occasionally invested substantial amounts in "Legacy TLDs" and the prospect of their domain names being diluted in an abundance of variants was unlikely to make them happy. On the other, they believed not without reason that the multiplication of alternatives to the .com and other national ccTLDs would only maintain the state of confusion existing in the minds of users. Being lost, the latter would cling to the well-known "safe bets" and not take a fling on nTLDs, in the short term at least.

From a purely investor point of view, the nTLDs also posed risks related to the hoped-for gains. Besides the fact that their adoption by users was far from being certain, they all had the symptoms of start-ups, with guaranteed costs and promises of revenues sometimes embellished by the backers of the projects.

The issues at stake therefore focused on two main questions:

- On the one hand, would the disappearance of the "scarcity effect" result in a loss in value of the Legacy TLDs and especially of the .com?
- On the other, would users adopt the new TLDs to the point of making them successful in the long run and therefore a source and means of creating value in the same way as their competitors were doing for the conventional TLDs?

In other words, was there really a demand for new TLDs – hundreds of new TLDs – to the point where they would threaten the TLDs already in place?

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## 2014 - 2015, introduction of the nTLDs

The first nTLDs were launched at the beginning of 2014. Figures 1 and 2 show the growth in the overall number of registered domain names, and the number of creations each month.

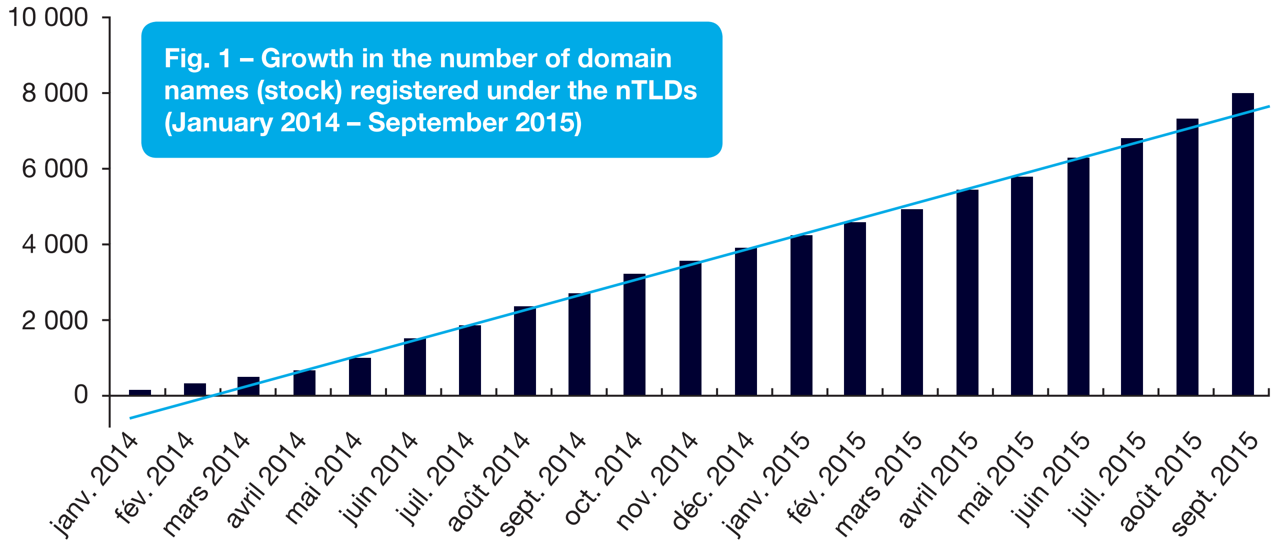



**Fig. 1 – Growth in the number of domain names (stock) registered under the nTLDs (January 2014 – September 2015)**

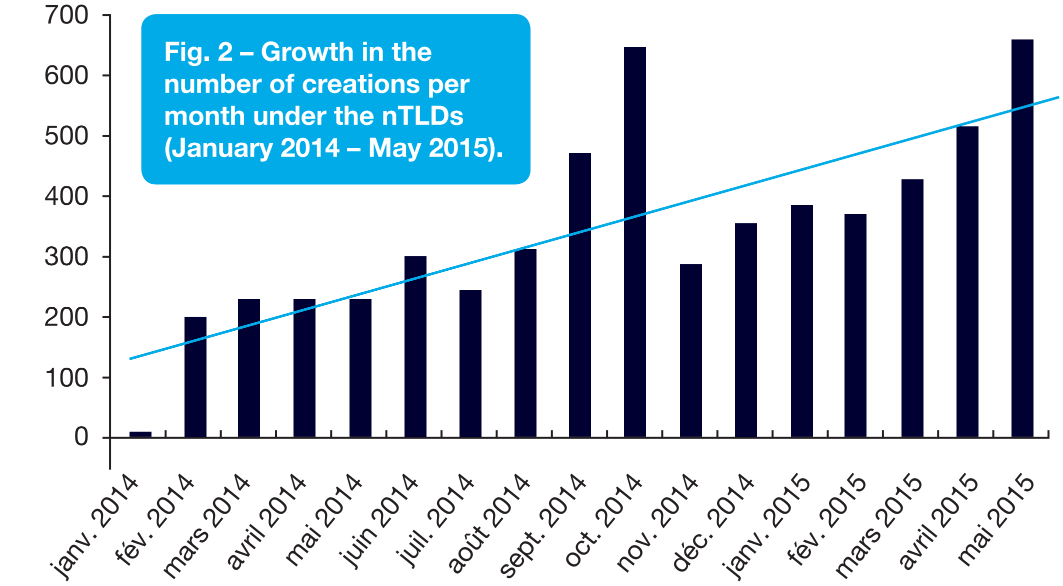



**Fig. 2 – Growth in the number of creations per month under the nTLDs (January 2014 – May 2015).**

At the end of September 2015, there were just under 8 million domain names registered for a trend line of 9 million names at year-end 2015. The average level of the creations was 460,000 per month in 2015 against 285,000 in 2014. In terms of volumes alone, the launch was a success.

However, the figures hid a somewhat less cheerful reality.

First of all, the registrations focused on a few "flagship" TLDs. On 12/31/14, the first 5 nTLDs concentrated 33% of all the domain names registered under the nTLDs; on 09/30/15, this ratio was still 31% despite the introduction of an additional 129 nTLDs.

Secondly, part of the announced volume corresponded to domain names "distributed" more or less free of charge and more or less by force to customers holding other TLDs. In some TLDs, it was the registries themselves that had registered the greatest number of names, hoping to win in the domaining business in addition to their activity as registries.

Finally, the figures announced by ICANN were not absolutely reliable. For example, at the end of the first year of the existence of nTLDs (and thus, before the first wave of renewals) there was a difference of 400,000 "ghost" names between the stock (3.8 million) and the cumulative number of creations (3.4 million).

This figure only covers the number of creations. The data that could be used to assess the rate of actual use of tradenames were missing, although nTLDstats.com reported considerable proportions of “parked” names (redirected to holding pages or contextual links). The first renewals occurred in the spring of 2015, but as they stand, the available data are difficult to use because they contain a number of anomalies. The registries that agreed to communicate their figures announced renewal rates of around 70%, well above the expectations of ICANN, which situated them more at around 50%. In fact the average is perhaps not far from that figure: the 70% only concerned those that were willing to communicate their data.

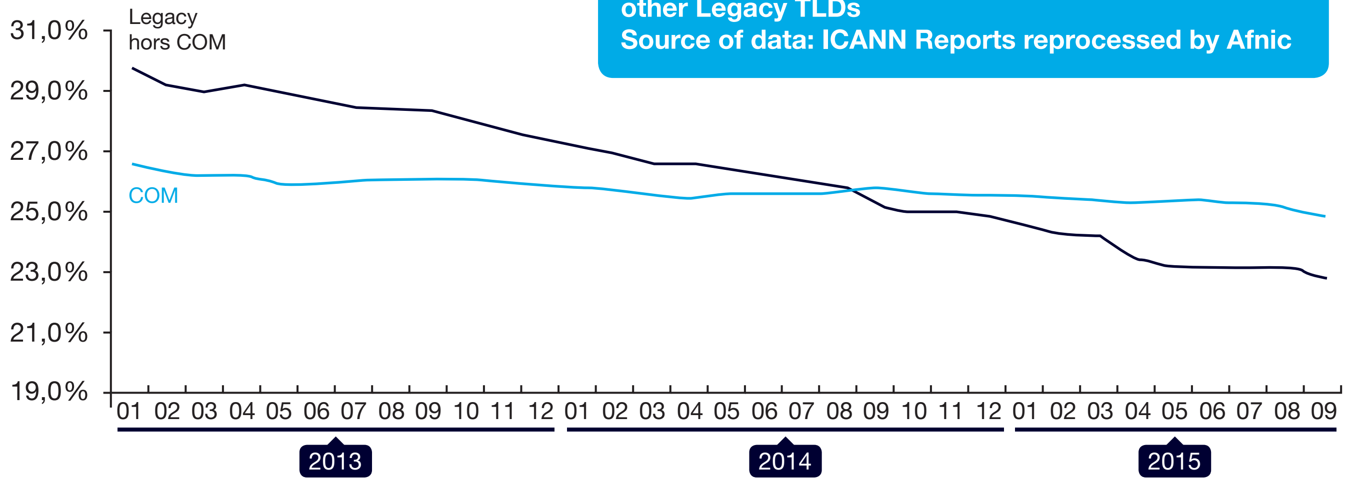
In the autumn of 2015, nTLDs continue to be in fairly good condition. The flow of creations has, at least apparently, sufficiently offset the inevitable number of deletions so that there is no downturn in the overall dynamic. Increasing numbers of holders do in fact communicate on their domain names under the nTLDs. Certain large groups, having chosen the .corp nTLD have redesigned their communication strategies and now promote their new digital identity. Although many nTLDs probably continue to be precarious, globally the launch has been a success, and the use of nTLDs only need time to become an established practice.

One may wonder, however, what the impact of nTLDs on the incumbent market players has been. The information will give us a glimpse of how the domainers have reacted, as well as indications about the "values" to follow or those that need to be avoided.

## 3 Primary Market: stormy weather ahead for the Legacy TLDs apart from .com

The Create rate, the growth of which is plotted in Fig. 3, corresponds to the proportion of names created in the last 12 months in the stock at month end. For example, at the end of September 2015, approximately 25% of the names registered in the last 12 months were under the .com, against 23% in the "Legacy TLDs other than .com".

**Fig. 3 - Creates rate for gTLDs – under the .com and other Legacy TLDs**
**Source of data: ICANN Reports reprocessed by Afnic**




This Create Rate measures the sales momentum of a TLD, and its ability to continuously attract a certain level of demand. Fig. 3 unequivocally shows that if the Create rate for .com has remained relatively stable since 2013, losing only 2 points, the Legacy TLDs other than .com (org, net, biz, info, mobi etc.) have suffered significantly (- 7 points).

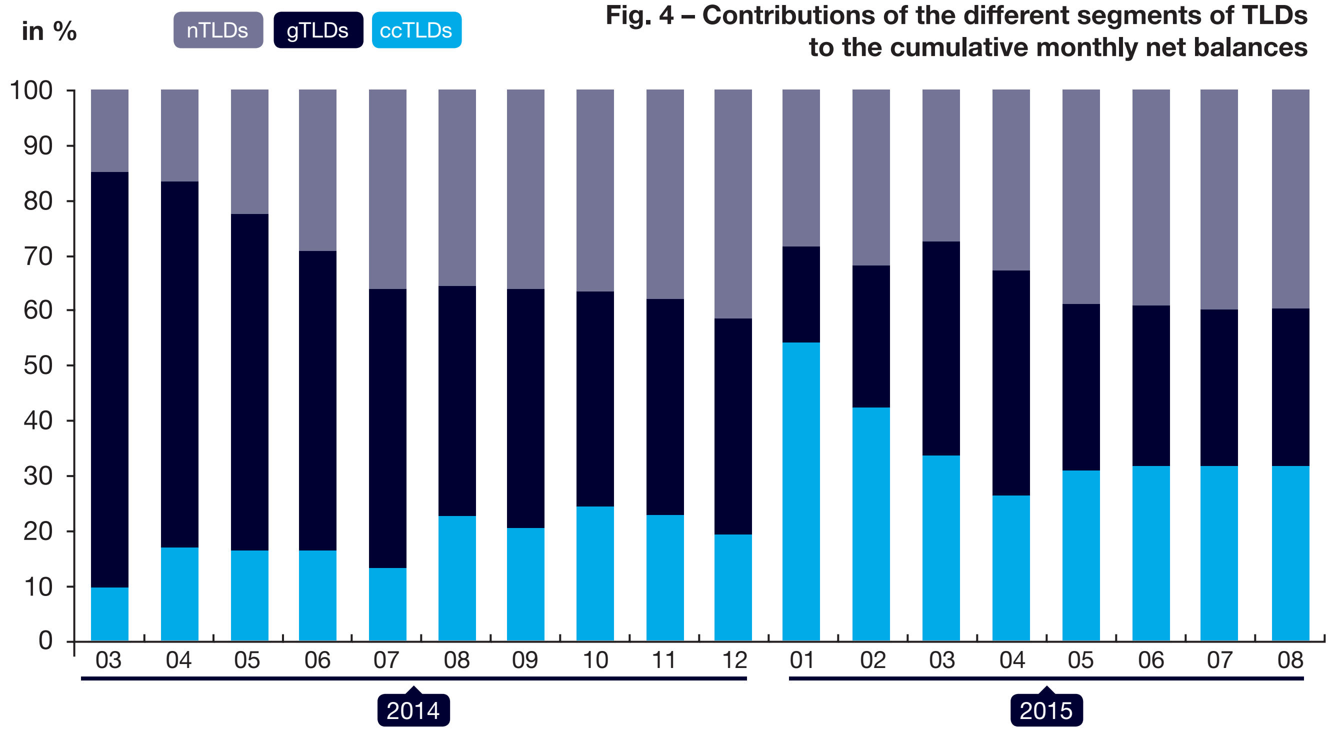
It also indicates that the phenomenon began before 2014 and did not particularly increase in 2014-2015, but nor did it slow down. It were as if the registrations had begun to dry up, for these Legacy TLDs, just when the nTLD creation program had become a certainty, with some large potential buyers having chosen to wait and see what was going to happen. The domainers alone, however, are insufficient to have that much effect on the market. There may be other more specific causes for the TLDs in question. Take .mobi, for example, whose interest seemed obvious at its launch, which has considerably lost ground now that the mode of consulting web content can be automatically detected; and of .info, which may have suffered from the competition of "semi-free" models such as the .tk TLD (Tokelau).

Nor can we ignore the impact that changes in the Google algorithm may have had on domaining strategies. The Panda and Penguin updates (applicable from mid-2012 onwards) have significantly affected sites known as "MFA" (Made For Adsense), which were highly optimized for SEO purposes and built around domain names of the "Exact Match" type incorporating a single specific generic term. These lightweight sites, looking for very low costs and maximum gains in traffic, had often opted for TLDs cheaper than .com, i.e. .org, .net, .biz and .info. These are the TLDs that suffered the indirect consequence of Google's fight against tactics to artificially "over-optimize" content. The effect in 2013 was that many domain names were abandoned and the value of the "Exact Match Domains" (EMDs) under these TLDs consequently dropped. Under the .com, the most liquid "EMDs" saw their value adjusted and be increasingly sold to "real" operators, outside the world of domainers.

This rather specific phenomenon explains why the "storm" (visible on Fig. 3 on Create rates) started for the Legacy TLDs well before the actual launch of the nTLDs. The latter prolonged the difficult period for these TLDs, but for different reasons. The same applies to the changes in price levels on the Secondary Market in 2013 - 2014. It is worth noting the degree to which these Legacy TLDs were dependent on a relatively small number of players pursuing favorable short-term goals for the TLDs they had selected, but which ultimately turned out to be relatively adverse when the players changed strategy. This clearly illustrates the relationship between registries and domainers. Both have a common interest in developing the value of domain names, but the registries are interested in the long term, and therefore focus on the actual use of their domain names. Domainers have a short or medium term vision and only really use a small fraction of their portfolios while remaining on the lookout for better opportunities.

Fig. 4 shows the shares of nTLDs, Legacy TLDs and ccTLDs in the combined monthly net balances. It clearly demonstrates that nTLDs (40% of the net balance against 2% of the market share in stock) are growing at the expense of the Legacy TLDs (30% against 59% in stock) more than the ccTLDs (30% against 39% in stock), even though it will take time to have any effect on the main market balances, given the volumes (with 120 million names, the .com alone still represents 15 times all of the nTLDs put together).

**Fig. 4 – Contributions of the different segments of TLDs to the cumulative monthly net balances**




To sum up, it can be clearly seen from these analyses:

- That the nTLDs are growing in large part to the detriment of Legacy TLDs;
- That demand for .com domain names broadly remains stable;
- and that the "small" Legacy TLDs are suffering the most.

These findings, which are factual, reflect what can be seen in the market trends in the fall of 2015. Things can still change, however: either the .com ends up by being affected, or the Legacy TLDs other than the .com make a comeback, or the nTLDs themselves undergo a downturn. In the current state of affairs, the proven weakness of the gTLDs created by ICANN after 2000 is a cause for concern and thought for their rivals. Created in reply to the "saturation" of the .com, they have rarely exceeded several million names, and some have clearly not succeeded in finding their market.

# 4 Back to the Secondary Market

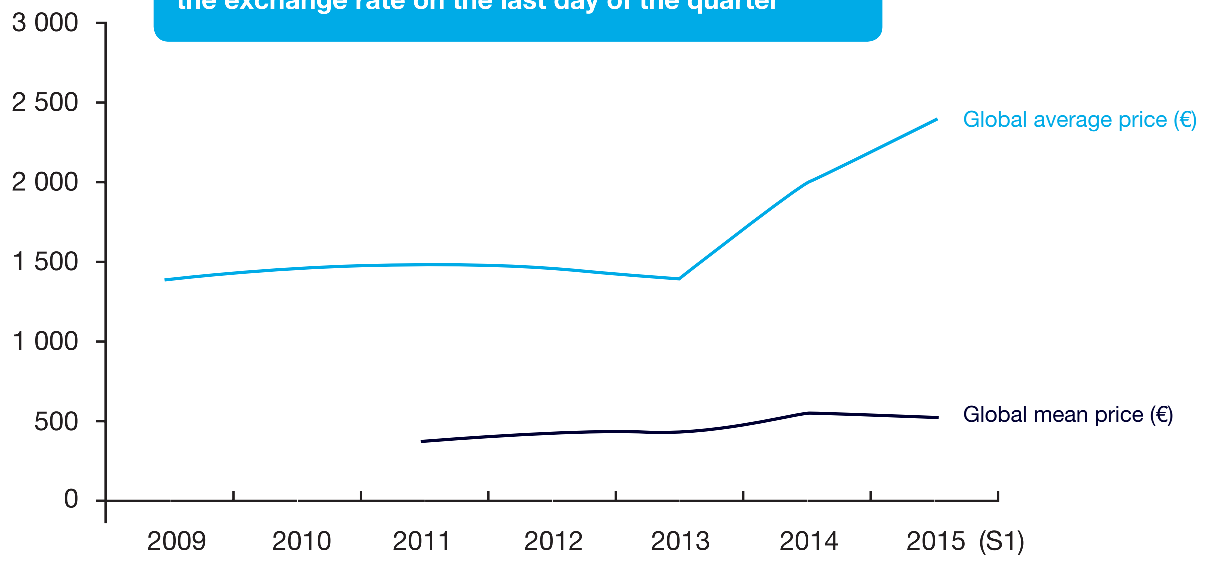
Study of the average prices recorded by SEDO and published in its reports up until the first half of 2014 gives us first-hand insight into the way domainers have lived through this transition period, and responded to its new challenges and constraints.

## Prices on the upside

The first indicator that interests us is of course the level of the prices. Sedo have provided us with two prices: average prices and median prices. From our perspective, median prices (which locate the line where there are equal numbers of transactions above it and below it) seem a more reliable means of visualizing market trends. Average prices are liable to be artificially "inflated" by a few transactions for very high amounts, as was the case for the .fr TLD in 2010 with the sale of "credit.fr" for 600,000 euros.

Fig. 5 shows that the overall median price slightly rose between 2011 and 2015, "stalling" at around 500 euros. Even if we forget the average price which literally took off in 2014 and 2015, we have good reason to think that the arrival of nTLDs has not had the "dilution" effect feared by some, and that there was no loss of value, at least at the global level. On the contrary, the continuously upward trend even shows that the perceived value of domain names has increased, despite, or thanks to nTLDs. The constant share of .com TLDs in the transactions, located for years at around 55%, might even suggest that the Secondary Market continues to operate, all other things being equal, as if the nTLDs did not exist.

**Fig. 5 - Global average and median prices (2009-2010) SEDO data, expressed in $ and converted into € at the exchange rate on the last day of the quarter**

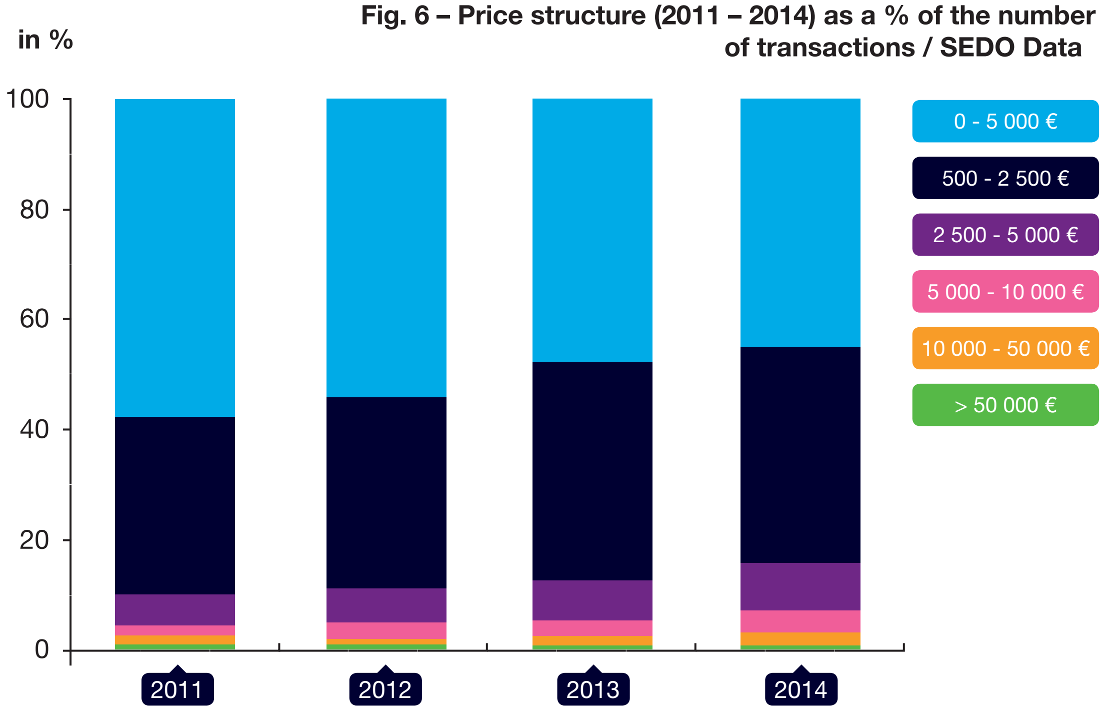



[2] Domain Market Trends. Les données globales 2014 et 2015 nous ont été aimablement communiquées par Sedo. https://sedo.com/us/resources/market-trends/

## A price structure reflecting this upward trend

Sedo data enable us to reconstruct the price structure across all TLDs (see Fig. 6). We find the threshold of the median price at around 500 euros, with continuous growth of transactions in the EUR 500 - 2500 range (39% in 2014 against 32% in 2015). The lowest segment, those less than EUR 500, has been steadily losing ground since 2011 (45% in 2014 against 58% in 2011). Transactions above EUR 5,000, however, continue to be exceptions with 7% in 2014 against 5% in 2011.

**Fig. 6 – Price structure (2011 – 2014) as a % of the number of transactions / SEDO Data**



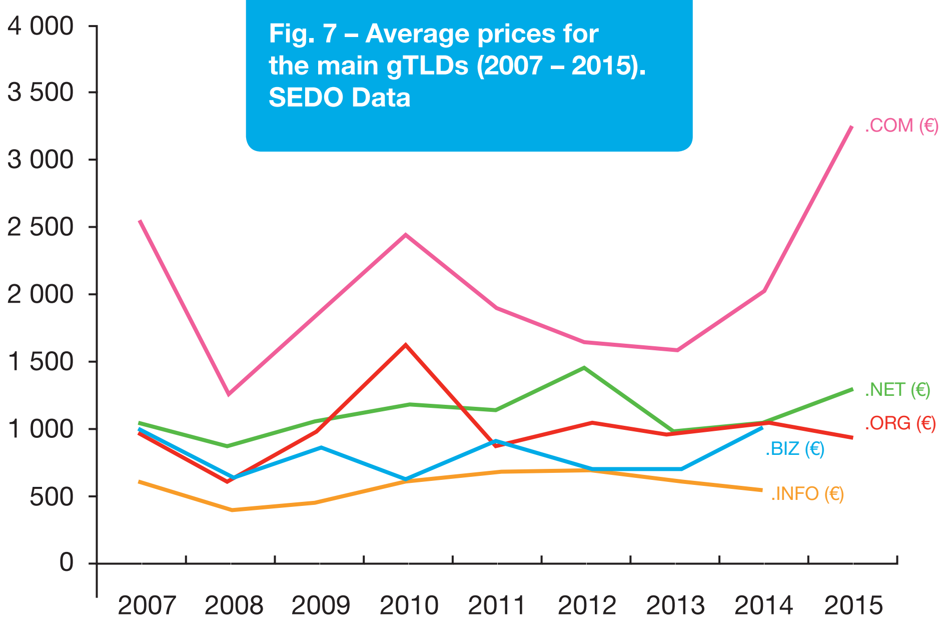

These developments partly confirm the findings of our white paper of 2010. They show that the perception of the value of domain names is gaining momentum, the market now being nurtured by buyers outside the small circle of domainers, who are liable to pay a higher price if they are convinced of the strategic importance of a domain name. Conversely, TPEs - SMEs wishing to acquire a seemingly attractive name can usually afford to do so since most are sold for a few hundred euros.

The trends also show that the "top names" have been held for a long time and do not change hands as easily as before. Perhaps the day will come when the price levels for "classic" TLDs will be too high and thus warrant the use of nTLDs, including on the Secondary Market.

## Price developments consistent with the "Primary Market"

It would be absurd to dissociate the Primary and Secondary Markets, since both are based on the same motivation, i.e. the perception of the interest of a TLD by users and domainers alike. The most "normal" situation is therefore that of consistency between the developments observed in sales momentum and in price levels, which are two different ways of measuring the same thing.

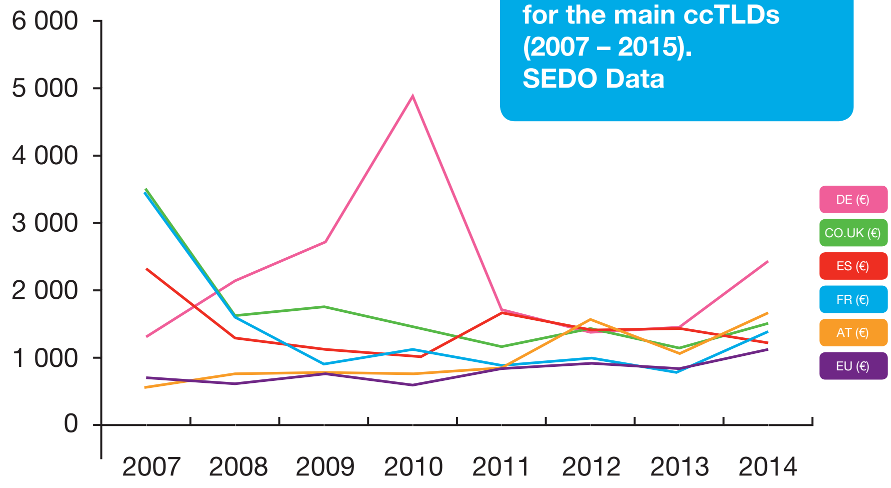
**Fig. 7 – Average prices for the main gTLDs (2007 – 2015). SEDO Data**




The data published by Sedo and provided to Afnic for the purposes of this study only concern the average prices. However, we can see that they correlate with what we have previously indicated about Legacy TLDs. Fig. 7 shows that the average price for domain names under .com TLD was above € 3,000 in 2015 after a sluggish period at EUR 1,500 - 2,000 in 2011 to 2013, just when the forthcoming launch of the nTLDs raised the specter of sudden devaluation. The other Legacy TLDs have only just kept their position, with the .info perhaps about to pass under the EUR 500 mark in 2015.

For the ccTLDs (Fig. 8), the situation is relatively comparable with the .fr TLD whose average price tends to remain nearly twice that of the other major European ccTLDs. The peak in 2010 was, as we have said, due to a single transaction and is considered to be an "anomaly". Sedo noted that 315 transactions involved the .fr TLD in 2014, and 121 in Q1 2015.

**Fig. 8– Average prices for the main ccTLDs (2007 – 2015). SEDO Data**



## 5 The largest transactions

Many domainers are drawn to the Secondary Market by the figures circulating in the press. And if there are many called, there are few chosen that can boast of having achieved sales that are genuinely "astronomical." Here, we compare the most important public transactions on the Sedo platform.

### In 2014, the 10 largest transactions were:

| WORLD | | FRANCE | |
|---|---|---|---|
| mm.com | $1,200,000 | chat.fr | €99,999 |
| true.com | $350,000 | tel.fr | €22,000 |
| malls.com | $320,000 | homify.fr | €20,000 |
| flashcards.com | $250,000 | dentiste.fr | €15,000 |
| gab.com | $200,002 | fame.fr | €7,500 |
| cornerstonehomes.com | $150,000 | wid.fr | €6,500 |
| kaffee.de | €100,000 | trotinette.fr | €6,000 |
| chat.fr | €99,999 | cgl.fr | €5,900 |
| musik.de | €99,999 | blank.fr | €5,000 |
| vitaminc.com | $104,000 | printerpix.fr | €5,000 |
| **AVERAGE** | **~260,000 €** | | **~20,000 €** |

80% of the "Top 10" sales worldwide were under the .com in 2014, and only one under the .de TLD and one under the .fr TLD. The Top 10 sales under the .fr TLD remain concentrated between EUR 5,000 and 20,000, with the exception of "chat.fr".

### In H1 2015, the 10 largest transactions were:

| WORLD | | FRANCE | |
|---|---|---|---|
| Heika.com | 300,000 $ | Nutanix.fr | 10,000 € |
| Same.com | 233,333 $ | Developpeur.fr | 7,000 € |
| Pax.com | 200,000 $ | Detecteur-de-metaux.fr | 5,000 € |
| Reponse.com | 150,000 $ | Alexia.fr | 4,500 € |
| Anker.com | 130,000 $ | Alpiniste.fr | 4,500 € |
| KHC.com | 120,000 $ | Apprendre.fr | 4,500 € |
| Mercari.com | 100,000 € | Appeler.fr | 4,000 € |
| Ignite.com | 112,500 $ | Perruques.fr | 3,990 € |
| Autism.rocks | 100,000 $ | Ejaculationprecoce.fr | 3,700 € |
| Shein.com | 95,000 $ | Republicains.fr | 3,500 € |
| **AVERAGE** | **~136,000 €** | | **~5,000 €** |

Tariff levels declined significantly in early 2015, both for sales worldwide and for sales of domain names under the .fr TLD. Sedo, who have studied the subsequent use of the names mentioned above, have noted that domain names concerned under the .fr TLD are genuinely used by their buyers, which reinforces the idea that the Secondary Market has (finally) opened to stakeholders that are not professional domainers. Again according to Sedo, the situation is very different for domain names under the .com or .de TLDs, a large number of which remain unused. Sedo concluded by indicating this could mean that domain names under the .fr TLD are favored by companies that want to access the French market and market goods online for French consumers.

## 6 Conclusion

This study of the Secondary Market is highly instructive in this period of introduction of the new TLDs. Indeed, if we take the two "schools of thought" present on the eve of their launch, with hindsight it is clear the one that opted for the traditional TLDs (gTLDs and ccTLDs) as safe bets was right because:

- Secondary Market prices, far from collapsing as would have happened if their value had been "diluted", have not only been maintained but even increased;
- Transactions remain dominated by the .com which has neither lost nor gained ground.

Hence the impression that for the time being, although the nTLDs have clearly affected the Primary Market, they have not really affected the Secondary one, no doubt due to the fact that the Legacy TLDs most affected already only represented a marginal proportion of the transactions. The volume of transactions on nTLDs also remains very low, demonstrating the caution with which they are handled by the vast majority of domainers. Once the magical period of "get rich quick” enthusiasm is over, these stakeholders – at least those who have survived the collapse of the business related to "Made For Adsense" since 2012 – have naturally tended to become more conservative, placing their money on safe bets in order to optimize their chances of having a healthy balance sheet.

However, it can be seen that the average price of the largest transactions, but also their number in relation to the .fr TLD, are more on the downside in 2015: -50% worldwide and 75% for the .fr TLD in terms of tariffs, 23% for the number of transactions involving the .fr TLD trend line at the end of 2015. This simultaneous contraction of volumes and amounts (remembering that only the figures for public transactions are available, the most important often being kept confidential) clearly shows that "something" is happening on the Secondary Market, which seems to attract relatively less capital in 2015. An "obvious" but perhaps over-simplistic interpretation is that at the global level, the domainers – most of whom are newcomers? – have focused their efforts on the nTLDs (the Primary Market) where the best opportunities for creating value seemed to lie. As a result, "unconventional" transactions have scaled back, but without markedly affecting the Secondary Market, which is essentially based on trading at moderate price levels, of around a few hundred euros.

It is interesting to note that many of the registries selling nTLDs courted domainers during the launch period, but now have to "convert" them into sales over time. A comprehensive approach would be to encourage registries to stimulate transactions on their TLDs in order to entrench the belief that they have value. The backlash of the approach focusing on launches is the low liquidity of names registered under the nTLDs, which increases the risks for investors and could eventually harm the nTLDs in that many domainers will want to wipe their slates clean, even of domain names with high intrinsic value.

A logical development of the situation would be to see the nTLDs gradually gaining ground on the Secondary Market, when the opportunities on the Primary Market dry up. But the constant influx of new TLDs suggests that this underlying trend will take time to materialize. This is because it will also depend on the attractiveness of nTLDs for users and the ways in which they adopt them. In the race for value, volumes are an interesting but sometimes insufficient indicator to judge the sustainability of a TLD. The "scarcity" effect that was supposed to create opportunities for the .biz and .info nTLDs faced with a "saturated" .com in 2001 has failed to materialize. Users and holders react in relation TLDs by giving them value based on emotion, or a sense of belonging, or confidence, and in this respect the nTLDs still have their work cut out.

If the Secondary Market is seen as a "barometer" of the value attached to a given TLD, it is clear that the time is not yet right for nTLDs. But it is not because they are in the start-up stage that they will fail to achieve success. One certainty, however, is that they will not all make it. Reflected by the Secondary Market, the views of domainers, as specialists in the value of domain names, are a crucial factor in studying the performance of nTLDs and in making forecasts in the future about their chances of survival.

Nor do domainers form a homogeneous community, having specific features depending on the country and "generation" to which they belong. In addition to those who have "worked" the Legacy TLDs and ccTLDs for the last twenty years, there are growing numbers of newcomers attracted by the business opportunities offered by nTLDs in terms of names still available. Is what differentiates them from their elders a question of dates? Is it more or less risky to invest today in an nTLD than in an .info in the past? As time passes by and those that are successful emerge, the two "generations" will no doubt start to merge – and perhaps, who knows, exchange Legacy TLDs and ccTLDs for nTLDs. When that happens, the new TLDs will really have won their spurs.

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