

COMPLETED ACQUISITION OF BANNER HOMES GROUP PLC BY CALA 1 LIMITED

ME/6435/14

The CMA's decision on reference under section 22(1) given on 18 June 2014. Full text of the decision published on 27 June 2014.

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.

Summary

1. CALA Group Limited (CALA) notified the acquisition by CALA 1 Limited (CALA 1) of Banner Homes Group plc (Banner) to the Competition and Markets Authority (CMA). The CMA's statutory deadline for the decision to be announced is 18 June 2014.
2. The acquisition was completed on 21 March 2014. The CMA considers that a relevant merger situation has been created, since it considers that the parties have ceased to be distinct and that the turnover test is met.
3. The parties overlap in the UK in the construction and supply of new residential homes, and acquiring and developing land for residential homes. The parties' combined share of supply at both a national and regional level is low, particularly when the sales of older housing are also considered in the same product scope. The parties will also continue to face significant competition from homebuilders of similar or larger size. Although there are a few local areas where the parties have a more significant position in both the supply of new homes and in landbanks for residential homes, the CMA considers that the merger does not give rise to significant competition concerns in these areas given in particular the low increment to the parties' share and the competition the parties continue to face in these areas.
4. For these reasons, the CMA does not believe, on the evidence available to it, that there is a realistic prospect that the acquisition will give rise to a substantial lessening of competition. No third parties raised concerns about the acquisition.

Decision

5. This merger will therefore not be referred under section 22(1) of the Enterprise Act 2002 (the Act).

ASSESSMENT

Parties

6. **CALA:** CALA 1 is a 100% owned subsidiary of CALA Group (Holdings) Limited which is, in turn, 98% owned by Haut Investments Limited (Haut).¹ Haut is a joint venture between Legal and General Capital Investments Limited (L&G) and Patron Haut L.P. (Patron Haut), which both have a 50% stake in Haut. Patron Haut is a holding entity set up to hold Patron Capital LP IV's (Patron Capital) interest in Haut.² CALA is the 100% owned subsidiary of CALA 1.
7. CALA is active in the residential-house building market in the UK. CALA's main areas of operation are Scotland, the Midlands and the South East of England. It had a turnover of £240.8 million (year ending June 2013).
8. **L&G:** L&G is a holding entity established to hold L&G Group's interest in Haut. L&G Group is a global investor with £450 billion in assets under management.³ L&G Group is active in the UK property sector through its subsidiary Legal and General Property (LGP). LGP is an institutional property fund manager specialising in non-residential property investments.⁴ L&G Group holds interests in a number of companies that hold landbanks⁵ which in total hold approximately 6,300 residential plots (these have been included in the competitive analysis).
9. **Patron:** Patron is a holding entity set up to hold Patron Capital's interest in Haut. Outside of its interest in CALA, Patron does not have material influence over any other UK residential house builders (RHBs). However, Patron Capital

¹ Management holds the remaining 2% of the shares of CALA (Holdings) Limited.

² Electra Private Equity PLC (Electra) has a 22% shareholding in Haut, which equates to an 11% indirect shareholding in CALA. Electra is not considered to hold material influence over the merged entity. Electra also does not hold an interest in any other UK residential house builder, nor does it have an interest in any additional landbanks.

³ Through the investment funds which it manages on behalf of its clients, L&G Group holds non-beneficiary minority interests in listed UK residential house builders. However, these holdings are not sufficient to consider that L&G Group holds any material influence over these residential house builders as no holdings are in excess of 5%. L&G Group's holdings in UK listed residential house builders are therefore not considered further here.

⁴ There is no overlap between LPG's property investment portfolio (non-residential) and the parties' house building activities (residential). LPG's property investment portfolio is therefore not considered further in this decision.

⁵ Residential house builders will purchase and hold a significant portfolio of land at various stages of the planning process. This land is generally known as the residential house building landbank. See paragraphs 26 to 30 for a more comprehensive explanation.

Funds⁶ does hold interests in companies holding seven residential landbank sites outside of those held by CALA (these have been included in the competitive analysis).

10. **Banner:** Banner Homes Group plc (Banner) is a public limited company based in the UK. Banner is active in the RHB market based mainly in the South East of England, the West Midlands and the Cotswolds. Banner's turnover in the UK was £111 million (year ending May 2013).

Transaction

11. The transaction was completed on 21 March 2014, when CALA 1 acquired the entire share capital of Banner for [X].
12. On 17 April 2014 the CMA notified CALA that its merger notice was complete under section 96(2A) of the Act, which under section 34ZA(3) of the Act resulted in the start of the CMA's initial period of 40 working days to decide whether the duty to make a reference for a Phase 2 investigation under section 22 of the Act applies. The CMA's statutory deadline for announcing its decision on whether to make a reference is therefore 18 June 2014.

Jurisdiction

13. As a result of this transaction CALA 1 and Banner have ceased to be distinct. The UK turnover of Banner exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.
14. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.

Frame of reference

15. The CMA's approach to identifying an appropriate frame of reference is generally to consider the narrowest plausible candidate markets first and then to consider whether they can be widened through substitution on the demand-side. If appropriate, the CMA then considers if substitution on the supply-side allows several products that are not demand-side substitutes, to be aggregated into one wider market.⁷

⁶ Patron Capital Funds comprises those funds managed by Patron Capital and Patron Capital III LP.

⁷ See [Merger Assessment Guidelines](#), joint publication of the Competition Commission and the OFT, September 2010, paragraphs 5.2.6–5.2.20. The Merger Assessment Guidelines have been adopted by the CMA (see Annex D to [CMA2 Mergers: Guidance on the CMA's Jurisdiction and Procedure](#), January 2014).

Product scope

16. CALA and Banner are both active in the construction and supply of new residential housing in the UK. Neither CALA nor Banner are active in the building of commercial property, nor are they active in other construction areas.
17. UK RHBs will generally go through a number stages from identifying a site for development through to selling property built on the site. A typical business model consists of:

Acquiring and developing land for residential homes

- (a) **Procuring land:** RHBs will seek out what they believe is suitable land for construction of residential property. This land could already have some level of planning permission associated with it when the plot is purchased, but many sites do not. The RHB will take on the risk that planning permission for the properties they wish to build may be refused.
- (b) **Obtain planning permission:** Plans for the development of the site will be drawn up. Planning permission will need to be obtained for the RHB to build the planned residential properties.

Construction and supply of new residential homes

- (c) **Converting the land for construction:** Preparing the site and the infrastructure (such as levelling; construction of roads and sewers).
- (d) **Building the properties:** Construction of the individual units.
- (e) **Sale of the properties:** Either as private developments or social housing.

Although these are separate tasks, they are not time dependent on each other. For example, many sales take place off plan, that is before construction of the properties begins, or sales of social housing are often agreed as a condition of granting planning permission.

18. The Office of Fair Trading (OFT)⁸ Homebuilding market study (the OFT Market Study) found that for several reasons UK RHBs typically operate over the whole vertical chain.⁹ Although most RHBs in the UK are active along the whole chain, different competitive conditions may prevail at different levels of the

⁸ The CMA was established on 1 October 2013. By virtue of the Enterprise and Regulatory Reform Act 2013 and the Enterprise and Regulatory Reform Act 2013 (Commencement No 6, Transitional Provisions and Savings) Order, No 416 of 2014, the OFT's merger control functions were transferred to the CMA on 1 April 2014.

⁹ OFT market study: *Homebuilding in the UK*, September 2008, paragraphs 4.122-4.129. The CMA notes that it may follow a different approach to market definition for merger control purposes than for a market study. The CMA has therefore taken account of the OFT Market Study in its assessment of the merger, but this has not been determinative of the CMA's approach in this case.

chain. Therefore, the CMA considered whether there are different product markets that should be considered in the construction and supply of residential homes and the upstream activities of acquiring and developing land for residential homes.

19. The CMA also considered whether the market should be further differentiated into different types of customers. In particular, the CMA considered whether different frames of reference should be adopted in relation to the supply of new housing to individual customers and to residential housing associations.

Construction and supply of new residential homes

20. CALA submitted that, for the majority of house-purchasers, older housing stock is a realistic alternative to purchasing a new property. The OFT in previous cases in the housing construction market considered the relevant frame of reference to be the construction and sale of new residential housing in the UK and considered that older housing exerts some competitive constraint on newly constructed housing.¹⁰ The OFT Market Study found that the supply of new homes is highly diverse and prices of new homes trade at a premium to older homes, which may reflect the expectation of lower maintenance costs for new homes. However, the OFT Market Study concluded that the market was characterised by a high level of price competition exerted by older homes over new homes and concluded that it is highly likely that all homes of all sizes are effectively in the same economic market.¹¹ Both CALA and a number of third parties agreed with this assessment.
21. In the present case, the CMA has therefore considered the impact of the merger on the supply of new and older homes. However, on a cautious basis, the CMA has also taken account of the impact on the construction and supply of new homes separately, since neither party is active in the supply of older homes. It was not necessary for the CMA to conclude on the frame of reference, as no competition concerns arise on either basis.

Residential Housing Associations and individual customers

22. The CMA also considered whether the market should be further differentiated by different types of customers. Both merger parties supply the majority of the new residential homes they construct to individual customers,¹² but a significant

¹⁰ OFT, Anticipated acquisition by Persimmon plc of Westbury plc, ME/2126/05, paragraph 7; OFT, Anticipated acquisition by Taylor Woodrow plc of George Wimpey plc, ME/2979/07, paragraph 8; OFT, Anticipated acquisition by Barratt Developments plc of Wilson Bowden plc, ME/2920/07, paragraph 7.

¹¹ OFT Market Study, paragraph 4.30.

¹² No information was available to allow consideration of whether purchases were for the individual customers' main residence, second home, buy-to-let or other purpose.

proportion of plots on the majority of residential new build sites are set aside for social housing.¹³

23. The CMA market testing showed that, in England, as part of the planning application process, local planning authorities (LPAs) require developers to set aside a proportion of the total planned plots for social housing as a condition of the grant of the planning application. RHBs will generally sell social housing plots to Residential Housing Associations for them to rent or provide shared ownership opportunities. The CMA understands from third parties that negotiations between RHBs and Residential Housing Associations were subject to specific limitations resulting from the limits set by the LPA on the selling price or rents that these Associations can charge for properties.
24. Sales to individual customers are not limited in this fashion and RHBs are free to set their own prices for these sales.
25. Therefore, the conditions of competition may vary between sales to Residential Housing Associations and individual customers and, as a result, the CMA has considered these separately. However, given that no competition concerns arise on either basis, it was not necessary for the CMA to reach a conclusion in this respect.

Acquiring and developing land for residential homes

26. RHBs in the UK are also active in the procurement of land on which they intend to build residential properties. RHBs will compete to purchase suitable plots of land. RHBs will then seek to obtain full planning permission to build residential homes on these sites.¹⁴
27. The OFT Market Study indicated that, due to the length of time needed to prepare for and go through the planning process¹⁵ and the number of planning applications that are rejected,¹⁶ RHBs will purchase and hold a significant portfolio of land at various stages of the planning process. This land is generally known as the RHB's landbank.

¹³ 'Social housing' is a general term applied to housing that is let at low rents and on a secure basis to people in housing need, generally provided by councils and not-for-profit organisations such as housing associations, or shared ownership schemes offered generally through housing associations. For new build properties, 'social housing' on sites will generally be a mixture of low rent and shared ownership schemes ran through a housing association, [Shelter](#).

¹⁴ Unless the plot of land has been acquired with planning permission. The majority of plots in the UK are purchased without full planning permission - OFT Market Study, paragraph 5.71.

¹⁵ For those that are successful the time for obtaining permission can be lengthy: the average time taken is 22 months – OFT Market Study, paragraph 5.16.

¹⁶ Approximately one-third of English planning applications are rejected – OFT Market Study, paragraph 5.16.

28. CALA submitted that the strategy of both merger parties is that they will only seek to procure and develop land that they intend to build on themselves. In Taylor Woodrow / George Wimpey, the OFT discussed the supply of land for house building in the competitive assessment.¹⁷ However, the product frame of reference in that decision was the 'construction of new housing' comprising all steps of a typical business model of a homebuilder, including the procurement of land.
29. The OFT Market Study considered that bringing land through the planning system is as much a commercial process as the production of new homes and is subject to the same risk-award appraisal, given the time and rejection rates referred to above.¹⁸ It also noted that having a stock of land helps a RHB cope with fluctuations in the housing market and also helps to reduce risk. Since it takes time to promote land through the planning system, a RHB will necessarily hold some land in the pipeline.
30. Internal documents of the merger parties indicate that their 'land strategy' is a key element of their business strategy. The acquisition of land in attractive areas is considered essential for business development and profitable growth.¹⁹
31. On a cautious basis, the CMA has therefore assessed the impact of the merger on acquisition and development of land for residential homes separately from the impact on the supply of new and older homes. However, as no competition concerns arise, it was not necessary for the CMA to reach a conclusion in this respect.

Conclusion on product scope

32. For the reasons set out above, the CMA has considered the following frames of reference in its competitive assessment:
 - the supply of new and older residential homes, considered separately for individual and Residential Housing Association customers, and with a focus on the construction and supply of new homes; and
 - acquiring and developing land for residential homes.
33. However, given that, for the reasons explained further below, the CMA is of the view that there is no realistic prospect of a substantial lessening of competition (SLC) in this case (nor has this case attracted any third party competition

¹⁷ OFT, Anticipated acquisition by Taylor Woodrow plc of George Wimpey plc, ME/2979/07

¹⁸ OFT market study, paragraph 5.16.

¹⁹ CALA Group Annual Results 2013 (P20); Banner Homes Corporate Report 2013 (P17)

concerns), the CMA does not consider it necessary to conclude on the appropriate frames of reference in this case.

Geographic scope

The supply of new and older residential homes

34. CALA submitted that the CMA should follow the OFT's previous decisions and assess the supply of new residential housing both at a national and regional level.²⁰ Further CALA submitted that the CMA should consider a radius of 11 miles as an appropriate approximation of the local geographic frame of reference in this case, in line with the OFT Market Study.
35. CALA further submitted that a regional analysis of the market should be carried out on the basis of the regions used by The National House Building Council for collating statistics on new homes.²¹
36. The OFT Market Study considered that housing markets are both national and local.²² Further, although RHBs monitor the state of the national housing market,²³ the local nature of the market is supported by the fact that there are substantial differentials in house prices across various parts of the UK. The study considered that it was not unreasonable to use LPA areas as a proxy for local housing markets.
37. On the demand-side the OFT noted in previous merger decisions that house buyers have a strong preference for a particular geographic location and would not be prepared to switch locations on the basis of a 5% to 10% price advantage. This is corroborated by the results of a consumer survey presented in the OFT Market Study in which 62% of the respondents stated that the furthest property that they had considered buying when looking for their current home was less than 11 miles away from the one they bought.²⁴ Third party responses to the CMA market testing indicate that customers search in a wide local area. One real estate agent stated that customers usually search in an area with a radius of 15 to 20 miles. The CMA has therefore considered the merger not only on a national and regional level, but also, on a cautious basis, on a local level. The CMA has considered a radius of 11 miles as an appropriate approximation of the local geographic frame of reference in this

²⁰ OFT, Anticipated acquisition by Persimmon plc of Westbury plc, ME/2126/05, paragraph 8; OFT, Anticipated acquisition by Taylor Woodrow plc of George Wimpey plc, ME/2979/07, paragraph 12.

²¹ That is Scotland, Wales, Northern Ireland and nine Regions in Britain, see [NHBC Annual New Home Statistics Review 2013](#)

²² OFT Market Study, paragraphs 4.6 – 4.11.

²³ Ibid, paragraph 4.7.

²⁴ Ibid, paragraph 4.9.

case, although it was not necessary for the CMA to reach a conclusion in this respect given that the merger does not give rise to competition concerns.

Acquiring and developing land for residential homes

38. The OFT Market Study considered that local factors like the level of local demand and the existence of local competitors are most likely to influence whether or not a site is taken forward for development and the speed at which it is built out.²⁵ The OFT Market Study also noted that long lead times in the housing industry make it unlikely that homebuilders operating in other areas will be able to move into an area with rising prices particularly quickly.²⁶
39. The CMA considers planning figures of LPAs an appropriate proxy for the expected number of new residential homes in that area. Therefore, the CMA used the area of the respective LPA as the local geographic frame of reference. The CMA notes that the size of the area of individual LPAs varies. In the competitive assessment the CMA therefore took account of the size of individual LPAs when considering if it was appropriate to take into account a wider area if the LPA is small or a narrower area if the LPA is very large.

Conclusion on geographic scope

40. Based on a cautious approach, the CMA has examined the transaction at a national, regional and local level for both levels of the supply chain. However, given its view that no realistic prospect of an SLC exists on any of these geographic scopes, the CMA does not consider it necessary to reach a conclusion on the appropriate geographic frame of reference.

Horizontal issues

41. Horizontal effects can arise in a merger when a firm merges with a competitor that previously provided a competitive constraint, potentially allowing the merged firm to profitably raise prices unilaterally and/or degrade the quality of service offered to its customers compared with what would occur absent the merger.²⁷
42. In assessing the competitive impact of the merger, the CMA has taken into consideration (a) the shares of supply of the parties and their main competitors,

²⁵ OFT market study, paragraph, 4.7.

²⁶ Ibid, paragraph 4.7.

²⁷ See [Merger Assessment Guidelines](#), paragraphs 5.4.1 to 5.4.12.

and (b) further evidence available about the closeness of competition between the parties.

Supply of new and older residential homes

Shares of supply

43. CALA submitted that the merged entity will face competition from a significant number of alternative new house builders, such as Barratt, Taylor Wimpey, Persimmon, Berkeley Group and Bellway, as well as competition from individuals selling older housing stock. Third parties confirmed that both parties' compete with a number of other RHBs.
44. The CMA's inquiry has confirmed the parties' submission that the supply of new housing in the UK is fragmented. There is no single body of reliable detailed information on the construction of new houses. CALA submitted its estimates of the merged parties' shares of supply on a national and regional level based on their own figures and figures from the National House Building Council (NHBC).²⁸ Based on these figures CALA estimated the parties' share of supply by both the estimated number and value of completions of new residential homes. CALA estimated that the merged parties' share of supply was less than 10% both nationally and in any region irrespective of the number of older homes that would be available in these areas.
45. Third parties agreed that the parties will not have a significant share of supply in the UK, or any region of the UK, following the merger. The Homebuilding Federation lists four RHBs who have over 3% of the UK national market (by number of units completed).²⁹ The merged entity will not be in the top 10 of UK RHBs.ⁱ
46. CALA also submitted an estimate of areas of local overlap,³⁰ identifying six areas where, within an 11 mile radius, CALA estimated that the merged entity

²⁸ CALA based its estimates (i) on the figure of 133,670 provided in the NHBC Annual New Home Statistics Review 2013, which represents the number of new build registrations made by registered NHBC builders, and (ii) the statement of NHBC that NHBC builders construct around 80% of new homes in the UK.

²⁹ These are Barratt Developments (6.7%); Taylor Wimpey (6.1%); Persimmon (5.6%) and Bellway (3%).

³⁰ CALA carried out an analysis of all overlap areas where a CALA/L&G site overlaps with a Banner site within an 11 mile radius, CALA identified the number of (a) new homes and (b) all homes for sale within the area (in line with the CMA's approach to the frame of reference set out at paragraphs 16 to 32) by searching within the relevant radius (centred on the relevant CALA/L&G site) on the Zoopla.com website. CALA calculated the merged entities' local share of supply as a proxy for local competition. CALA caveated its calculations as not all properties for sale are listed on the Zoopla.com website. In particular, CALA considered that a larger proportion of new homes will not be listed on the website (this was demonstrated as CALA do not list all their properties on the website – any that were missing in the identified areas were added to the calculations). CALA believed its calculation would serve as a useful proxy, but would likely overstate the merged parties' share of supply.

would have over 25% of the supply of new homes on the market. The CMA's assessment of these areas is as follows:

- (a) In four of these areas³¹ CALA estimated that the parties' share of supply of new residential homes was between 25% and 50%. However, when compared with the total number of homes for sale in these areas, the merged parties' share of supply fell to below 10%.
- (b) In one additional area,³² CALA estimated that the parties' share of supply of new residential homes was between 70% and 75%. The increment in this area was very small (below 0.5%) and when compared with the total number of homes for sale in this area, the merged parties' share of supply fell to approximately [10 to 20]%.
- (c) In the final area,³³ CALA's estimate indicated that the merged parties would hold 97% of the supply of new housing, and even when taking account of all homes for sale in the area, the merged parties' combined share of supply would be over 65%. However, the merged parties' increment was very small (below 0.5%) and related to the last three properties completed on one site, anticipated to be sold in the near future, whilst construction on the other site in the area has not, as yet, commenced. Further, the CMA considers that CALA's estimate in this area is likely to overstate the merged entities share of supply. The CMA considers that CALA's estimate was conservatively produced using the total number of available plots at each site rather than an estimate of the number of plots that would be constructed and available to purchase at any one time. Specifically, the share of supply calculation assumed all 2,000 plots on one site were available for sale, even though development of this number of units would take a decade.³⁴ Taking a more realistic approach to the number of properties the site would have available at any one time would reduce the parties' share of supply of all homes available to below 20%.

47. The CMA therefore considers that despite the merged parties holding high levels of shares of supply of new homes in some local areas, the CMA considers that the market shares resulting from the merger do not indicate a competition issue as:

³¹ Hagley; Brookwood Farm; Brookwood Farm II and Canning Town.

³² Woodley.

³³ Winchester.

³⁴ [CALA Homes, Barton Farm, Winchester.](#)

(a) The share of supply including all homes are low and the CMA considers that sales of older homes are likely to exert a significant constraint on sales of new homes.

(b) The increment in share of supply is very low in areas where the merged parties have a large share new homes.

48. The merged parties' shares of supply of all residential properties in any local area will not be above 20%. The CMA does not consider that shares of supply at this level are in themselves indicative that competition issues may emerge as a result of the merger.

Closeness of competition

49. CALA submitted that CALA and Banner are not close competitors. Third parties informed the CMA that the parties are not generally active in the same area at the same time.

50. The CMA therefore does not consider that CALA and Banner are particularly close competitors to each other in the construction and sale of residential new properties.

Acquiring and developing land for residential homes

51. CALA submitted that there is limited data available on the number and size of sites acquired for building homes but where construction is not taking place. However, notwithstanding the above, it estimated the merged parties' shares of supply of the residential land banks held by the parties and competitors on a national, regional and local level.

National level

52. CALA estimated the national market size based on publicly available data of 16 of the top 25 homebuilders.³⁵ These 16 large homebuilders hold approximately 350,000 'consented residential plots'.³⁶ An additional 350,000 plots which do not have planning permission ('strategic plots') are held by 10 of the top 25 homebuilders.

53. With reference only to the 350,000 consented plots and the 350,000 strategic plots referred to above, the combined share of supply of the merger parties and their affiliated companies for residential sites in the UK which are not in

³⁵ Sourced from publically available information such as company websites.

³⁶ These are sites where planning permission has been granted, but construction has not yet begun.

construction would be approximately [0 to 10]%. CALA noted that this figure substantially overstates their market position as it does not take into account plots of a large number of other (smaller) RHBs.

54. The CMA therefore considers that there is no competition concern at the national level.

Regional level

55. CALA submitted that the only regions in which the landbanks of CALA and its affiliated companies on the one hand and Banner on the other hand overlap are the Midlands and the South of England. CALA stated that there is no reliable source relating to the sites which are not in construction held by competitors of the merger parties. However, CALA considers that the merged firm's share of supply in either the Midlands or the South of England will under any reasonable basis not be greater than [0 to 10]%.
56. Third party respondents to the CMA's investigation similarly did not have sight of either the merged parties' or competitors' landbank holdings in any area. However, third parties took the view that other, larger RHBs appeared to have more significant landbank holdings than the merged parties in any area.
57. The CMA received no information from third parties, or any other information, that questioned CALA's share of supply estimates. The CMA believes it is unlikely that the merged firm's share of supply in any region will exceed 5% to 10%. Therefore, the CMA considers there is no realistic prospect of any competition concerns at the regional level.

Local level

58. The merger parties performed a local analysis for five locations where there is a local overlap of plots between CALA and its affiliated companies on the one hand and Banner on the other hand (local overlap areas). Additionally, the CMA asked the merger parties to perform similar analyses of two additional locations where major landbanks are held by the merger parties (additional areas).
59. CALA carried out a local analysis comparing the number of plots not in construction of the merger parties³⁷ with the future demand for new houses.³⁸ CALA submitted that a five year assessment overstates the merger parties' position since many plots are strategic and not yet allocated for development.

³⁷ The merger parties then calculated three different scenarios assuming that the merger parties' landbanks were used for building homes over a period of five, 10 or 20 years respectively.

³⁸ The future demand for new homes is approximated by the number of homes the LPA aims to be built over a period of a number of years.

CALA concluded that it is unlikely that all plots held by the merger parties will be developed within a five-year period and that the share of supply should be considered over at least a 10-year period.

(a) **Local overlap areas:** In each of these areas,³⁹ the merged parties' landbanks would supply between 10% and 20% of the local demand for new housing over the next five years. This figure fell significantly when considering longer timeframes (below 10% for 10 years and below 5% for 20 years).

(b) **Additional areas:**

- i. In one of these areas,⁴⁰ there was no overlap between the parties on any reasonable scale.
- ii. In the other area,⁴¹ the merger gives rise to a small increment if a wider geographic area (based on a 20 mile radius from the site) is used. CALA submitted that it expected that the plots will be delivered in a period in excess of 20 years.⁴² CALA submitted that using this realistic timeframe would mean that the merged entity would be in a position to supply around [30 to 40]% of the new housing need of the LPA (with an increment of only [0 to 10]%). Additionally, CALA submitted that within a 15 miles drive of this site there are additional conurbations outside of the LPA that should be considered in any competitive analysis. Including the strategic plans of the respective LPAs in the assessment results in the merged entity being in a position to supply only [10 to 20]% of the new housing needs in the local area on a 20 year basis.

60. The CMA considers that a five-year assessment as described above is a cautious approach and likely to overstate the merger parties' competitive position due to the lengthy planning process and the time that construction takes on large sites (see paragraph 27 above). In the one area where the parties' shares are significant on a longer timeframe, the CMA considers that the plots available in neighbouring districts offer competing homebuilders the possibility to compete - at least partly - for homebuyers that are searching for residential housing in the local area. The CMA also notes that the increment from the merger in this area is very small.

³⁹ [REDACTED].

⁴⁰ [REDACTED].

⁴¹ [REDACTED].

⁴² Confirmed by information on the relevant companies' website.

61. Based on this evidence, the CMA considers that the merged firm will be sufficiently constrained by competing suppliers in all local areas.

Third party views

62. The CMA received a number of comments from the parties' competitors and customers during the course of its investigation. No third parties expressed concerns about the impact of the merger on competition. Some third parties considered that this combination may allow the merged entity to compete more effectively against more established competitors in the market.

63. All third party views and information have been assessed by the CMA and are reflected in the analysis above where relevant.

Conclusion

64. Consequently, for the reasons set out above, in particular the parties' low shares of supply, the lack of closeness of competition between them and the presence of significant competitors, the CMA does not believe, on the evidence available to it, that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the UK.

Decision

65. This merger will therefore not be referred under section **22(1)** of the Act.

**Nelson Jung Director of Mergers
Competition and Markets Authority
18 June 2014**

Endnotes:

ⁱ The parties have requested that the CMA clarify that the merged entity will not be in the top ten of UK RHBs by number of completions.