Completed acquisition by Jones Lang Lasalle of King Sturge

ME/5083/11

The OFT's decision on reference under section 22(1) given on 13 September 2011. Full text of decision published 3 October 2011.

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

PARTIES

1. **Jones Lang LaSalle (JLL)** is a real-estate and investment management services provider to owners, occupiers and investors. Active across 60 countries, JLL's 2010 UK turnover was approximately £148 million.

2. **King Sturge (KS)** is a real-estate services provider to owners, occupiers and investors, active principally in the UK but also in continental Europe. KS's UK turnover for financial year 2010 was £133.4 million.

TRANSACTION

3. JLL acquired the entire issues share capital of KS on 31 May 2011 for a consideration of £196.5 million.

4. The OFT sent an enquiry letter to JLL on 16 June 2011. The OFT's statutory deadline for deciding whether to refer the merger to the Competition Commission (CC) is 30 September 2011.

JURISDICTION

5. As a result of this transaction JLS and KS have ceased to be distinct. The UK turnover of KS exceeds £70 million, so the turnover test in section 23(1)(b) of the Enterprise Act 2002 (the Act) is satisfied. The OFT therefore believes that it is or may be the case that a relevant merger situation has been created.

MARKET DEFINITION

6. JLL and KS are both active in the supply of residential and commercial real estate services in the UK.

Product scope

7. In relation to residential real-estate, the parties indicate that they are both active in residential sales. However, JLL has only a minimal presence in residential property, limited to new homes and KS, which is much more active in residential sales, does not operate in the new homes segment. As a result, the parties submit there is no material overlap between the parties' residential real-estate activities. The OFT's market investigation found no evidence to suggest any material overlap between the parties and no third party raised any competition concerns in this area. As a result, residential real-estate services are not considered further in this decision.

8. In relation to commercial real-estate, the parties' overlapping activities in the UK are in the provision of the following services:

    a. **investment**: advising on the sale or acquisition of commercial real-estate. Further distinctions can be made within this service between the retail, office and industrial segments

    b. **agency**: advising landlords and tenants on leasing strategy in order to obtain good tenants and lease terms with possible distinctions between retail, office, and industrial segments and between landlord and tenant agency

    c. **property management:** on behalf of owners, including rent collection, service charge management, liaising with tenants, record management, statutory compliance, procurement of utilities supplies and procurement and management of contractors for cleaning, maintenance, security services required for the operation of buildings

    d. **building project development**: managing and co-ordinating the different specialisms required to deliver a construction or property development project, including areas such as: surveying, business case development, cost management, design team assembly, due diligence, project planning, procurement, risk management, site co-ordination and third party consultation and consents; and

e. **professional advisory services;** this encompasses a broad range of general commercial real estate advice, including elements such as the valuation of property, planning, lease agreement advice and advice on reducing business rate liabilities.

9. The parties stated that they do not have a firm view on the precise relevant product market definition but provided data broken down on a narrow basis to cover all the segments set out above as well as for even narrower segmentations by property type: retail, office or industrial.

10. However, the parties stated that there were several factors which point to a broader relevant product market definition. In particular, the parties stated that, although from a demand side perspective, customers may require a particular service which is not substitutable with an alternative, it is the case that a large number of service providers offer a broad range of all of the services set out above and there is a high degree of supply side substitutability across the relevant segments. In addition, the parties stated that there are no barriers to expansion across commercial real-estate segments as the only key asset of companies active in this sector is their staff. Therefore, with the right staff, the parties argued, companies can expand across the full range of services relatively easily and quickly.

11. Based on the evidence before it, The OFT takes a cautious approach and considers the effects of the transaction on the narrowest plausible candidate markets in each case, as well as at a wider level. However, in the absence of competition concerns on any plausible candidate product market definition the precise product scope is left open.

Geographic scope

12. The parties consider the relevant geographic scope to be national. For certain services some customers may prefer a local service provider due to that company's knowledge of the local real-estate market. However, according to the parties, a number of companies contract on a national basis and the skills and expertise required to provide the services are easily transferable within the UK.

13. Based on the evidence before it, the OFT took a cautious approach and considered the transaction both at a UK-wide level for all services and at a regional (or wider metropolitan) level for investment and agency services, which the OFT considered to be the narrowest plausible candidate geographic scope on which competition concerns may arise. However, in the absence of any competition concerns on any plausible candidate geographic market definition, the OFT did not consider it necessary to conclude on the precise geographic scope.

HORIZONTAL ISSUES

Introduction

14. The parties submitted that the merger will have no material effect on competition in the supply of commercial real-estate services in the UK, pointing to a number of supporting factors and evidence. First, a significant number of competing suppliers provide a full range of services and there is little to distinguish between the services offered beyond the quality of a company's staff or the time they invest in customer relationships.

15. Second, customers often choose to procure services from a spread of providers to avoid over-dependence on a single firm and ensure continued price competition. Third parties supported this proposition with some indicating that they currently simultaneously source from up to twenty providers.

16. Third, there is no particular segment in which JLL and KS are especially close competitors; generally the two have complementary rather than overlapping current strengths – a key rational for the transaction – indicated by there being very few customers that currently use both JLL and KS on the same types of transactions. Few customers will therefore be obliged to seek alternative services as a result of the merger. In addition, all customers stated that the parties were either not close competitors, or in the few cases where they were, it was considered there were a wide-range of alternative suppliers to choose from.

17. Fourth, the parties stated that switching provider is relatively straightforward. Once a customer has used a particular firm to advise on a commercial real-estate transaction, there is nothing to bind it to the same firm for the following transaction. Third parties also supported this proposition with customers highlighting individuals and teams within

suppliers as being the key factor in choosing a supplier (and switching between suppliers), rather than the supplier themselves.

18. The OFT examined below each segment of commercial real estate services where the parties are active in order to assess whether there is a realistic prospect of a substantial lessening of competition in any of these segments as a result of the merger.

Investment Services

19. The parties estimated their combined share of supply UK-wide, based only on the largest ten companies,[1] to be around 25 per cent, with a number of strong competitors remaining, in particular, CBRE, which has sales similar to those of the parties. Disaggregated by segment, the parties estimated their share of supply to be 22 per cent in retail and 26 per cent in the office and industrial segments. There will remain four to five competitors in each segment with a share greater than that of the merger increment.

20. At the narrower level across a number of regions,[2] the parties combined share of supply ranges up to 33.5 per cent in the London industrial segment, although in many regions the share of supply is significantly less. In all cases, the parties point to a number of strong competitors that will remain post-merger.

21. Customers supported the parties' submission, pointing to over twenty alternative suppliers that they currently source investment services from, either solely or alongside either of the parties, or would consider doing so.[3] This wide range of alternative suppliers applied equally to the retail, office and industrial segments and across regions. No customers raised any competition concerns.

[1] Shares of supply in the investment segment are based on the value of transactions in published league tables produced by the trade journal, Property Data 2010. These league tables relate to the top ten companies only and so likely overestimate the parties share.
[2] London City, London West End (for retail and offices), all London (for industrial), the West Midlands (including Birmingham), Scotland (including Glasgow and Edinburgh), Yorkshire and Humberside (including Leeds), and the North West (including Manchester).
[3] These included Everton Phillips, Savills, BCM, H2SO, CBRE, Knight Frank, Montague Evans, BNP Paribas, Allsop, Wilkinson Williams, GVA, DTZ, Franc Warwick, Briant Champion Long, Bidwells, Acuitus, Cushman & Wakefield, Dowley Turner, LSH, Colliers, Lewis Ellis, Strutt & Parker, Morgan Williams, among others.

Agency Services

22. The parties estimated that their shares of supply across a number of regions to range up to 26 per cent, although in many cases their combined share is significantly smaller and/or the merger increment is small.[4] The parties point to a significant number of alternative suppliers, which in all cases are stronger than the merger increment.

23. Third parties confirmed that competition is relatively fragmented, identifying a vast number of alternative suppliers across the different segments and regions.[5] No third party raised any competition concerns.

Property Management Services

24. The parties submitted that this segment is especially fragmented with numerous reputable alternative providers in all parts of the UK. The parties is likely to manage a share of all managed commercial properties in the UK, according to the parties, significantly less than five per cent, which would not vary by region or between general commercial property and shopping centres, according to the parties. Customers supported a wide range of alternative suppliers in property management[6] and some pointed to the feasibility of managing directly (or in-house) as well. No third party raised any competition concerns.

Building Project Development

25. The core discipline within this segment, according to the parties, is building surveying, which firms have augmented over time with further project management services including, in some practices, areas such as cost consultancy and engineering. The parties have thus estimated their share of supply based on their share of all UK chartered surveyors (1.5 per cent) and the share of the top ten firms of chartered surveyors (17 per cent).

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[4] Shares of supply in the agency segment are based on square feet of office space leased, taken from CoStar league tables.

[5] In addition to many of those suppliers mentioned in relation to Investment Services, customers pointed to London Clancy, Goadsby, Capita, VSL & Partners, Hollis Hockley, Atrium, Taylor Riley, Basier Freeth, Brown & Lee, Kemsley, Legat Owen, Glenny, Altus, Edwin Hill, Kingstons, Vail Williamsn, Duncan Bailey Kenedy, Grant Mills & Wood, Brewster Leech, among others.

[6] Specific alternative suppliers customers pointed to include CBRE, Capita, Cushman & Wakefield, Hanover, Ashodown Phillips, Workman & Partners, Lee Baron, DTZ, BNP Paribas, Colliers CRE, Savills, Knight Frank, GVA Grimley, Innes England, Ashley Smith, Graham & Sibald, Broadgate Estates, Eddison, Robson & Associates, as well as a range of others.

There are many other firms with nationwide offerings who offer strong competition for building surveying services.

26. In addition, the parties pointed to additional competition from larger multi-disciplinary engineering practices. Based on total number of employed staff, there are a large number of companies larger than the parties and at least nine larger than the parties combined.

27. Third parties pointed to a significant number of alternative suppliers they could source project development services from instead of the parties. [7] Some pointed instead to the possibility of using a team of professional project managers, architects, building surveyors and quantity surveyors, rather than a firm such as the parties.

Professional Advisory Services

28. For professional advisory services as a whole, for which all of the main commercial real-estate companies are active the parties estimated that the parties supply between five and 15 per cent of all advisory services in the UK as a result of the merger.

29. For valuation services, the parties have obtained information from Investment Property Databank, an independent body which assesses performance, on the proportion of market valuations in their index that are undertaken by different companies. In 2010, the parties had a combined share of (unweighted) valuations of less than ten per cent, with an increment of two per cent; together the parties would have the third largest number of valuations. Customers identified a wide range of alternative suppliers they could use instead of the parties. [8] No third party raised any competition concerns.

30. For rating services – the supply of advice on the rating value of commercial property and how to minimise rate liabilities – the parties submitted that they would have a combined share of supply of around 5.6 per cent, based on an overall rating valuation base in the UK of £59.5 billion as at April 2010 (Valuation Office Agency).

[7] These included Faithful & Gould, DTZ, Red Development Services, Avid, CBRE, BNP Paribas, Colliers CRE, iG9, McBains, Pellings, PWP, Savills, TFT, TLC, 2Plan Project Management, Cyril Sweet, Davis Langdon, Drivers Jonas Deloitte, G&T, Galbraith Lawson, Gleeds, Leslie Clark, Spring & Co., Malcolm Hollis, Whitmarsh Lockhart, BSVP, Terry Walker Associates, Buro 4, Cannon House, Rowney, among many others.
[8] These included Cushman & Wakefield, CBRE, DTZ, Colliers, Dr Lubke, Knight Frank Drivers Jonas Deloitte, as well as a number of smaller specialist valuation companies.

31. While it is not clear the extent of the parties activity in the flow of valuations rather than the stock, third parties stated there were a wide range of alternative suppliers[9] and the competitive effect of the merger, if any, would be minimal. No third party raised any competition concerns.

32. For lease advisory, the parties submitted that there are a number of reputable firms competing and firms often try to leverage lease advisory work off their existing customer relationships in the investment or agency segments. Customers confirmed that there are a large number of alternative suppliers.[10] No third party raised any competition concerns.

Conclusion

33. Based on the evidence before it, the OFT understands that there is a significant number of competing suppliers provide a full range of commercial real estate services in the UK. In particular, the OFT concludes that in any relevant segment of the commercial real estate sector the parties will continue to be constrained by a number of companies. Therefore, the OFT concludes that there is no realistic prospect of a substantial lessening of competition in the supply of commercial real estate services or in any of its segments, as analysed above, in the UK.

THIRD PARTY VIEWS

34. The OFT received responses from over sixty third party respondents. No third party raised concerns.

DECISION

35. This merger will therefore **not be referred to** the Competition Commission under section 22(1) of the Act.

[9] These included BNP Paribas, CBRE, GVA Grimley, PwC, Colliers, Lambert Smith Hampton, Altus Edwin Hill, Gerald Eve, GL Hearn, amongst many others.
[10] These included Cushman & Wakefield, DTZ, Knight Frank, Strutt & Parker, Colliers, GVA Grimley, Wilkinson Williams, Lambert Smith Hampton, CBRE, Hollis Hockley, Maunder Taylor, Savills, Kemsley, Bidwells, Newman Commercial, Legat Owen, BNP Paribas, Altus Edwin Hill, Whitmarsh Lockhart, Goadsby, London Clancy, Henry Adams, as well as numerous chartered surveyors.