Completed acquisition of Avanta Serviced Office Group plc by Regus plc

ME/6537-15

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 18 November 2015. Full text of the decision published on 29 December 2015.

Please note that [✂] indicates figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.

SUMMARY

1. On 10 April 2015, Regus plc (**Regus**) completed the acquisition of Avanta Serviced Office Group plc (of which Avanta Managed Offices Limited is a subsidiary) (**Avanta**) (the **Merger**). Regus and Avanta are together referred to as the **Parties**.

2. The Competition and Markets Authority (**CMA**) considers that the Parties' enterprises have ceased to be distinct and that the share of supply test is met. The four-month period for a decision, as extended, has not yet expired. The CMA therefore considers that a relevant merger situation has been created.

3. The Parties overlap in the supply of serviced office space, meeting rooms and virtual offices in local areas in central London and Reading.

4. With respect to the product scope:

   (a) *Serviced office space.* The CMA identified serviced office space as the product scope. In summary, the evidence did not support widening the product frame of reference beyond serviced office space but suggested that sublets of conventional leasehold, co-working space and managed space might provide a degree of constraint. The CMA therefore took this into account in its competitive assessment in specific local areas.

   (b) *Meeting rooms*. The CMA identified meeting rooms provided by serviced office space providers and specialist meeting room providers as the product scope. In summary, the evidence did not support widening the product frame of reference to include other formal and informal meeting room sources (such as hotels, academic venues, conference centres and coffee shops) but the CMA took any constraints arising from these options into account in its competitive assessment.

(c) *Virtual offices*. The CMA identified virtual offices provided by serviced office space providers and specialist virtual office providers as the product scope.

5. With respect to the geographic scope, the CMA found that competition occurred at the local level in each of these areas of activity, due to the importance of location as a driver of choice for serviced office, meeting room, and virtual office customers (for whom the location of the mailbox/centre was important).

6. As regards the CMA's competitive assessment:

(a) *Serviced office space*. The CMA found that the Parties were close competitors in the supply of serviced office space in the Hammersmith, Victoria, Canary Wharf/Docklands, Euston/King's Cross, and Paddington areas of central London. The CMA considered that constraints from other serviced office space providers located within or just outside each of these areas were insufficient to exclude a realistic prospect of a substantial lessening of competition (**SLC**) in these areas as a result of horizontal unilateral effects. The CMA also considered that there was insufficient evidence of constraints from 'out-of-market' office space providers and/or of likely, timely and sufficient entry or expansion by rivals in these areas to address the CMA's horizontal unilateral effects concerns.

(b) *Meeting rooms and virtual offices*. The CMA found that a significant number of providers will compete with the merged entity in each local area. For this reason the CMA found that there was no realistic prospect of an SLC in relation to the supply of meeting rooms or virtual offices.

7. The CMA also considered whether the Merger would give rise to vertical effects, due to Regus' shareholding in a specialised serviced office space broker, Easy Offices. However, the CMA found that Regus would not have the ability or incentive, post-Merger, to engage in an input or customer foreclosure strategy.

8. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of serviced office space in the Hammersmith, Victoria, Canary Wharf/Docklands, Euston/King's Cross, and Paddington areas of central London.

9. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (**the Act**). Regus has until 25 November 2015 to offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger pursuant to sections 22(1) and 34ZA(2) of the Act.

ASSESSMENT

Parties

10. Regus is an international provider of office space services with a network of more than 2,500 business centres in 106 countries, and is the largest serviced office space provider in the UK and central London. Regus also provides meeting venues, virtual offices and business lounges. For the financial year ended 31 December 2014, Regus' UK turnover was £386.1 million.

11. Avanta is the second largest serviced office space provider in central London, with 26 office sites. It also has a single centre in each of Reading and Hemel Hempstead. Avanta also provides meeting rooms and virtual offices. Avanta's 2014 UK turnover was £65.5 million.

Transaction

12. Regus acquired Avanta through its acquisition of a special purpose vehicle, Tosca Vehicle Limited, which was incorporated for the purposes of the Merger.[i]

Jurisdiction

13. As a result of the Merger, the Parties have ceased to be distinct.

14. Regus submitted that Avanta's turnover for the purposes of section 23 of the Act (comprising the turnover of Avanta Serviced Office Group, its subsidiaries, whether fully or partially owned by Avanta, and any management companies) would be £65.5 million.[1] Accordingly, the turnover test in section 23(1)(b) of the Act is not met.

15. The Parties overlap in the provision of serviced office space in central London and Reading.[2] The Parties have a combined share of supply in excess of [20–

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[1] Regus submission of 21 May 2015.
[2] Prior to the Merger, the Parties also overlapped in Hemel Hempstead and Ealing. Regus submitted evidence to show that, prior to the Merger, the board of Avanta decided to close Avanta's Hemel Hempstead centre when the current management agreement terminated on 31 March 2016. Regus submitted further evidence showing that it would close its Ealing centre in January 2016. The overlaps between the Parties' serviced office centres in Hemel

30]% within each of these geographic areas, which are substantial parts of the United Kingdom. The CMA therefore considers that the share of supply test in section 23(4) of the Act is met.

16. The Merger completed on 10 April 2015.

17. The CMA became aware of the Merger on 15 April 2015, following a customer complaint. The CMA opened an own-initiative investigation into the Merger by sending an Enquiry Letter to Regus on 11 May 2015.[3] It took Regus several months to provide the information required for the CMA to commence its investigation. Following extension under section 25(2) of the Act, the four-month deadline for a decision under section 24 of the Act is 8 December 2015. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.

18. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 23 September 2015 and the statutory 40-working-day deadline for a decision is therefore 18 November 2015.

Counterfactual

19. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For completed mergers the CMA generally adopts the pre-merger conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it considers that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.[4]

20. In this case, there is no evidence supporting a different counterfactual, and Regus and third parties have not put forward arguments in this respect. Therefore, the CMA considers the pre-Merger conditions of competition to be the relevant counterfactual.

Hempstead and Ealing will be resolved by these closures. Accordingly, the CMA does not consider the competitive effects of the Merger in these two local areas further in this decision.

[3] See *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, paragraphs 6.9–6.19 and 6.59–6.60.

[4] *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5. The *Merger Assessment Guidelines* have been adopted by the CMA (see CMA2, Annex D).

Background

21. The CMA became aware of the Merger through its own market intelligence functions. Accordingly, the CMA obtained information from Regus using its powers under section 109 of the Act. The evidence gathered by the CMA included the following:

    (a) The CMA received written responses to questions from independent brokers and spoke with a number of ‘traditional’ and specialised service office brokers to explore a range of issues, including customers’ product and geographic preferences. Given brokers’ considerable knowledge of the sector and customer preferences, the CMA considered their feedback to be important evidence.

    (b) The CMA contacted more than 140 customers and received more than 30 submissions from customers. The CMA conducted follow-up calls with around a third of these customers in order to discuss and/or clarify their submissions.

    (c) The CMA received submissions from several competing office space providers and has held follow-up calls with some in order to discuss and/or clarify their responses to the questionnaire.

    (d) The CMA received unsolicited submissions from a number of third parties, including customers, brokers and competitors.

    (e) The CMA reviewed several written submissions and economic evidence submitted by the Parties, and analysed various internal documents that discuss competitive conditions in the office space segment, including at a local level in central London.

22. The CMA considers the breadth and depth of its evidence base (particularly third party evidence) in this investigation to be particularly comprehensive for a phase 1 investigation.

Economic evidence

23. Regus submitted three significant pieces of economic analysis[5] which, it argued, supported the view that the Merger did not give rise to an SLC:

    (a) *Lost leads analysis*. Regus’ lost leads study analysed the reasons stated by potential customers of serviced office spaces that, after making initial

[5] Regus submitted this evidence between working days 19 and 26 of the CMA’s phase 1 investigation.

enquiries for Regus centres in London, ultimately chose not to take up space with Regus.

(b) *Regus customer exit questionnaire*. Regus conducted a computer-assisted telephone interviewing survey of customers that had left a Regus serviced office in the last 12 months. The survey sought to identify the type of space into which the customer moved (eg serviced office space, conventional leasehold (including sublets), co-working space).

(c) *'Difference-in-difference' analysis*. This econometric model used Regus' 2013 acquisition of MWB Business Exchange (at the time, an important provider of serviced office space in London) as a natural experiment to assess the impact of a change in market concentration on Regus' serviced office space prices and gross margins in London. That is, the model analysed whether prices and/or gross margins at Regus office centres increased significantly more in hotspot areas (ie where that merger gave rise to a significant capacity share increment and combined post-merger capacity share) as compared with non-hotspot areas.

24. At phase 1 the CMA has limited time to assess whether its duty to refer applies. The earlier that merging parties submit economic analysis supporting their case, the better-placed the CMA will be to assess that evidence and attribute appropriate weight to it. Accordingly, where possible, the CMA encourages merging parties to engage with it prior to commencement of the 40-working-day review period where they are considering submitting economic analysis.

25. Despite receiving Regus' economic evidence at an advanced stage of the investigation, the CMA analysed this evidence carefully. The CMA had a number of methodological concerns about the analysis undertaken and Regus' interpretation of the results. The CMA's conclusions are discussed, where relevant, in the frame of reference and competitive assessment sections below.

Dynamic market features

26. The CMA found evidence that the office space sector is expanding and attracting new entrants, including providers with innovative service propositions and business models (eg, WeWork). The CMA considered the implications of this dynamic aspect to competition for its assessment of the Merger.

27. With respect to the frame of reference, the CMA found that while there is some evidence that the way in which customers use office space and

providers deliver these services is evolving, the large majority of third party evidence supported a frame of reference limited to serviced office space. Specifically, with respect to the serviced office space sector, the weight of third party evidence indicated that despite considerable product differentiation and the emergence of new office space service models, only serviced office space products compete closely enough to be in the same product frame of reference. However, the CMA considered it appropriate to assess competition from new service models (eg co-working space) as possible 'out-of-market' constraints where this was supported by the evidence, for instance in specific local areas.

28. Similarly, the CMA found evidence of significant commercial development projects, some of which were scheduled to complete in the near future. The CMA therefore considered whether competitors might enter or expand their operations in the near future, such that a purely static view of competitors' current market positions might understate the strength of post-Merger constraints from these competitors.

29. In many cases, however, the CMA found that development projects had not yet been acquired by serviced office space providers and/or allocated by developers to use as office space. As explained further below, the CMA focused its analysis on competition at the local level and any potential adverse effect on prices, quality, range and service (ie competitive variables that change in the short term). Given this local focus, the CMA considered that evidence of broader market trends – while useful context for the CMA's investigation – was not sufficiently specific about the identity of the entrants and/or the intended use of the new space to address unilateral effects concerns arising in local areas. However, the CMA took into account evidence of confirmed entry/expansion by competitors in specific local areas where this was supported by the evidence.

Frame of reference

30. The CMA considers that market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merger parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more

important than others. The CMA will take these factors into account in its competitive assessment.[6]

31. The Parties overlap in the provision of:

(a) serviced office spaces;

(b) meeting rooms; and

(c) virtual offices

in central London and Reading.

32. The CMA considered the appropriate frame of reference for each area of overlap.

Serviced office space

Product scope

33. Serviced offices are commercial buildings providing short-term contract accommodation, including reception services, furniture, telephony and information technology infrastructure. A serviced office space contract typically entitles the customer to an allocated, segregated space within a fully fitted, furnished office environment. The space is generally occupied on a (contractual) licence basis. The provider typically charges one fixed charge for the duration of the licence, which covers all operating costs, usually on a cost-per-desk basis.[7]

34. Regus submitted that the CMA should not view the supply of serviced office space in isolation from other office space solutions. There was significant and growing demand-side substitutability across a wide variety of office space options, including, in particular, serviced office space, co-working space, conventional leasehold space (including sublets) and managed space, among other alternatives. Regus said that while these forms of office space are differentiated, the decision-making process for selecting office space requires the customer to balance a number of different factors. Within that balancing exercise, conventional leasehold, service office space and co-working all compete to provide the best office space 'package' for customers.[8] Regus also submitted that there was significant supply-side substitution between

[6] *Merger Assessment Guidelines*, paragraph 5.2.2.
[7] Mintel, Serviced Offices (Industrial Report) – MBD, September 2014 (**Mintel 2014**), p12. Cushman & Wakefield, The Office as a Service, July 2015 (**Cushman OAAS**), p12.
[8] Regus response to CMA Issues Letter, 30 October 2015 (**Regus IL response**).

these various forms of office space. A provider could readily convert conventional leasehold or co-working space into serviced office space, or vice versa, for example by adding or removing partitioning to create separate offices. Regus said that the broad demand- and supply-side substitution was illustrated by the close correlation between the prices of serviced office and co-working space with conventional lettings.

35. The CMA assessed whether it should widen the product scope to include conventional leasehold (including subletting), co-working space and managed space.

Conventional leasehold (including sublets)

36. A conventional leasehold estate is a form of ownership under which a business tenant holds rights of real property under a lease from a commercial landlord. The terms of the lease govern the relationship between the landlord and tenant. Typically, the landlord retains responsibility under the lease for the repair and maintenance of the communal areas and the structure of the building and the provision of communal services, and may appoint a property manager to arrange and manage these tasks on its behalf.[9] In a subletting arrangement, the main tenant sublets part of its premises to a third party (the subtenant).[ii]

37. Regus submitted that customers in general view serviced office and non-serviced office options within the office space market as substitutable for each other when sourcing their office space requirements.[10] Customers could negotiate more or less flexible terms with their landlord and/or could sublet space from a tenant. Regus said that prices for serviced office space (and for co-working space) were closely correlated with lettings prices. Consistent with these trends, Regus suggested that the average length of commercial office lease had shortened to between six and nine years (or less, just under six years, for small and medium-sized enterprises (SMEs)).[11] Regus also noted that some sublets were provided as an 'all-inclusive' package, including furniture and services.

38. The CMA observed that independent broker reports typically distinguished between 'traditional' or 'fixed' forms of office space (ie conventional leasehold)

[9] CMA, Residential property management studies, December 2014.
[10] Regus response to section 109 response, 14 August 2015 (**Regus s109 response**), paragraph 4.6.
[11] Regus IL response, paragraph 2.8 (citing UK Leases Events Review 2014, IPD and Strutt & Parker 2014, p6 at Annex 28).

and ‘flexible’ alternatives such as serviced office space and co-working space.[12] The reports identified the following principal areas of distinction:

(a) Serviced office space provided customers with greater flexibility (this was ‘perhaps the most significant attractor’ for occupiers of serviced office space’[13]). Customers could rent serviced office space at short notice and for periods as short as just a few days, although the average occupancy period was between three and 24 months, depending on location. (The CMA noted that this was significantly shorter than the average length of occupancy under conventional leasehold, according to Regus.) The ability to adjust space according to short-term fluctuations appealed, in particular, to companies unable to predict their work or staff levels over a longer time period. Although shorter conventional lease terms have become more common in recent years, they remain a significant commitment for a start-up business or larger corporate business looking for overflow or project space.[14]

(b) Unlike conventional leasehold space, serviced office space is typically offered on a ‘one-fee-covers-all’ basis, which includes costs that would normally be paid on top of a traditional rent (eg lighting and power, security, cleaning, building maintenance, elevators, insurance, a reception area, and internet access).[15] Occupiers considered this a particularly attractive feature of serviced office space because it provided small businesses with certainty over their costs.[16]

(c) A conventional leasehold (even for a short term) takes longer to negotiate and required a greater up-front financial and/or legal commitment from the customer, than a contractual licence for serviced office space.[17]

39. Regus submitted two quantitative studies in support of its position: a ‘lost leads’ study (described above) and an exit survey (described above):

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[12] City of London Corporation, Serviced Offices and Agile Occupiers in the City of London, October 2014 (**City of London Corp. 2014**), pp11 & 12. See also Deloitte Real Estate, The London Business Footprint: the Growth of Serviced Offices, 2015 (**Deloitte 2015**), p2. Deloitte 2015 distinguishes between ‘traditional lease’ and ‘serviced offices’. Within ‘serviced offices’ Deloitte 2015 distinguishes between serviced/flexible office (which it defines as ‘fully equipped and managed office space […] taken on a desk-by-desk basis [with] an all-inclusive rental basis’), co-working space (‘collaborative open plan space’ that is ‘run on a membership basis with a monthly fee giving access to the office space, a desk, meeting rooms, Wi-Fi, and access to networking events with other members’ and that enables the customer to ‘access a number of different office locations, providing greater flexibility’) and virtual offices.

[13] City of London Corp. 2014, p40

[14] City of London Corp. 2014, p12.

[15] Deloitte 2015, p2; Mintel, Serviced Offices (Industrial Report) – MBD, July 2013 (**Mintel 2013**), p8.

[16] City of London Corp. 2014, p40.

[17] City of London Corp. 2014, pp11 & 12; see also Deloitte Real Estate, UK Real Estate Predictions 2015 (‘some potential users are not long established and therefore may not have the credentials to easily obtain a traditional lease, particularly given the current strong demand for space, while others may simply not want to be tied down to long contracts’).

(a) *Lost leads analysis*. Regus submitted that the data showed it lost almost [✂] leads to leased conventional space/sublet as it lost to rival serviced office space providers. Regus' losses to conventional space [✂] with the [✂] required by the customer. Of the most 'serious' leads, ie those that had progressed furthest down the sales 'funnel' and where customers requested six to 12 workstations, Regus lost [✂] leads to rival serviced office space providers but at most around [✂]%.

(b) *Exit survey*. Regus submitted that, while the exit survey showed [✂] was the most popular destination for customers leaving Regus serviced office space ([✂]% of respondents), almost [✂]% of respondents moved to [✂] (mainly to [✂]). Regus observed that [✂] said that serviced office would still have met their needs 'very well' or 'quite well', from which Regus inferred that [✂] significantly constrained serviced office space.[18]

40. Regus submitted that, taken together, these studies indicated there was significant demand-side substitutability between serviced offices and conventional leaseholds or sublets.

41. However, the CMA had a number of reservations regarding these studies:

(a) *Lost leads analysis*. In relation to the methodology, the CMA noted that Regus interpreted the analysis as a proxy for customer diversion from Regus' serviced office space to competitors' serviced office space and alternative options (eg, conventional leasehold). For this reason, the CMA considered that any analysis of diversion should have focused on switching by customers of serviced office space, which was not the case in Regus' analysis. In relation to the results, the CMA identified several erroneous observations[19] and attempted to account for these errors in its assessment. However, the CMA could not be confident, given the limited time available to assess the study, that it had identified and excluded all erroneous observations liable to affect the study's results. Furthermore, Regus submitted the data set without an explanation and description of the variables considered, which made any classification more ambiguous. Finally, the data set did not include any information about the maturity of the customers' businesses. The CMA considered this an important

[18] Regus also submitted a summary of exit questionnaires that had been completed by certain Regus customers leaving Regus serviced office space in 2014 and 2015. Regus told the CMA that only around [✂]% of its customers complete exit questionnaires and therefore responses to these questionnaires might not be representative of all Regus customers (see Regus submission of 21 August 2015, paragraphs 5.1 & 5.2). The CMA notes that [✂]% and [✂]% of respondents did not specify a reason for leaving in 2014 and 2015, respectively. For this reason and given that Regus' exit study was more comprehensive and the breakdown of explanations given by respondents for leaving Regus premises was more granular, the CMA focused its analysis of Regus' outgoing customers on the exit survey rather than the exit questionnaires.

[19] For example, Regus included both current and potential customers in the category 'renewal/expansion'.

omission, in light of third party evidence that mature businesses are those most likely to move from serviced office space to conventional leasehold. Any switching, however, would not represent evidence of demand-side substitutability in response to price changes, but would reflect a change in preferred office space solutions at different stage of the business life cycle.

(b) *Exit survey*. The CMA observed that the number of responses ([✄]) and response rate ([✄]%) achieved was low. In the specific circumstances of this case, the CMA considered that the sample size was too small for the CMA to discern any differences in the types of customers for whom serviced office space would still and would not have been a suitable solution.[20] The CMA therefore considered the study an insufficiently reliable basis from which to draw conclusions about the competitive constraint exerted on serviced office space by conventional leasehold, particularly given the substantial contrary evidence that the CMA found from other sources.

42. In light of these concerns, the CMA interpreted the results of Regus' analyses with caution and was unable to attribute significant weight to them in its competitive assessment. Nevertheless, the CMA considered that, in the aggregate, they provided some evidence that conventional leasehold (including sublets) could constrain serviced office space for some customers. The CMA therefore tested Regus' evidence against feedback from the CMA's merger investigation.

43. As part of its merger investigation, the CMA asked a large number of third parties (ie customers, competitors and brokers) about the extent to which alternative office space solutions, including conventional leasehold, constrained serviced office space:

(a) Five customers explicitly excluded switching to conventional leasehold in response to a small but significant increase in the price of all serviced office space. Of the customers that said they would not switch to conventional leasehold, one customer said this was not a cost-effective solution for a small business. Two customers said that they would not consider moving to conventional leasehold because conventional leasehold was too inflexible. Another customer said they would not switch because conventional leasehold involved 'too much extra admin[istration]'. Three customers said that their businesses had become more established since they first took up serviced office space, and they would now consider

[20] Out of ten respondents that said they switched to conventional office space, five said that serviced office space would still have met their needs 'very well' or 'quite well'.

moving into conventional leasehold premises. However, two of these customers explained that this would not be the case for smaller businesses in serviced office space, for whom conventional leasehold represented too big a financial and legal commitment. The CMA observed that the reasons given by customers for choosing serviced office space over conventional leasehold were consistent with the reasons identified in market research reports (see paragraph 38 above).

(b) Two brokers told the CMA that conventional leaseholds (including sublets) were very different products. One broker said there had been a growing number of customers moving from conventional leasehold space to serviced office space due to a shortage of conventional leasehold property. However, customers had not been moving in the opposite direction. The broker told the CMA that, due to this shortage, customers that might previously have moved from serviced office space to conventional leasehold when their financial/staffing position became clearer, were today more likely to remain in their serviced office space for longer.

44. Overall, the evidence before the CMA indicated that the main characteristics of serviced office spaces (ie, flexibility, an all-inclusive price and lower upfront costs) were particularly attractive for less mature businesses and established companies with short-term staffing and space requirements. Serviced office space may also appeal to more stable businesses that are reluctant to switch to conventional leasehold due to capacity constraints in that sector.

45. In relation to supply-side factors, the CMA found that different sets of providers are active in serviced office space and conventional office space and that, as discussed in the local competitive assessment below, the presence of these various providers varies across geographic areas. The CMA therefore believes the conditions to aggregate product markets on the basis of supply-side factors are not met.[21]

46. On the basis of the evidence above, the CMA believes it should not widen the product frame of reference to include conventional leasehold. However, the CMA believes that the evidence indicates that sublets of conventional leasehold may provide a constraint on serviced office space for some customers, given their shorter terms and greater flexibility. Accordingly, the CMA has taken account of possible 'out-of-market' constraints from sublets in specific local areas in its competitive assessment.

[21] See *Merger Assessment Guidelines,* paragraph 5.2.17.

Co-working space

47. Co-working centres typically provide the customer with access to open plan office space, made available ad hoc and on a short-term basis. Co-working providers generally charge customers an annual club membership and a price per workspace (charged hourly/daily/monthly). The working environment is less private than serviced office space and there is typically no space exclusively allocated to a given customer.[22]

48. Regus submitted that co-working space was a growing part of the broader office space market and competed with serviced office space. Serviced office space providers had begun to incorporate elements of co-working structures into their businesses, making it difficult to distinguish the two forms of space.[23] Regus submitted that the key distinction between the two forms of office space was the level of privacy they required and that a range of serviced office space customers did not require private space.

49. Although the CMA found evidence that some serviced office space providers have implemented features associated with co-working space in their serviced office centres (and vice versa), the CMA found that third parties generally understood serviced offices and co-working space to be two distinct forms of office space, which attracted predominantly different customer groups. Moreover, the majority of third parties that responded to the CMA's merger investigation said that co-working space was not a strong constraint on serviced office space:

   (a) One competitor active in the supply of serviced office space said that co-working space was not a constraint on serviced office space because the two forms of space appealed to different customers. A different competitor told the CMA that the constraint was asymmetric: a serviced office customer would not switch to a pure co-working environment but might be interested in their office space provider implementing features from co-working spaces, such as break-out areas, alongside the serviced office space environment. A third competitor told the CMA that co-working space tended to appeal only to younger, tech-focused businesses and was not suitable for more traditional business.

   (b) Several customers indicated that serviced office space and co-working space appealed to different types of customers. Two customers told the CMA that their staff and space requirements were too large for co-working space. Two other customers told the CMA that co-working space was not

[22] Cushman OAAS, p12; Mintel 2014, p12.
[23] Regus IL response, paragraph 2.28.

appropriate for customers working in the financial sector (eg due to financial regulations). A further three customers said that co-working space did not offer sufficient privacy. One customer also said that co-working space was not suitable because it was less prestigious than serviced office space.

(c) Overall, brokers told the CMA that co-working space was only likely to be a constraint for a subset of serviced office space customers. One specialist serviced office broker said that co-working space might be a suitable solution for start-ups and smaller companies only. Another specialist serviced office broker said that co-working was a 'very different proposition' to serviced office space. The broker said that a serviced office space customer would likely only consider co-working if there was no serviced office space available in their preferred geographic area. Two traditional brokers said that co-working and serviced office centres were similar but different. One of these brokers said that co-working was better suited to technology firms because such firms did not have the same privacy requirements as businesses active in more traditional sectors. The broker said that the only option for firms outside the technology sector was serviced office space. The broker observed that co-working spaces tended to be located in 'fringe' locations in parts of London with a high concentration of technology companies. Among the co-working providers, the broker identified WeWork as the provider that competed most closely with serviced office space, on the basis that its customers could reserve (at a higher tariff) private workstations for an extended period of time.

50. Overall, feedback from third parties indicated that co-working space is likely to appeal most strongly to specific types of customers, in particular small businesses with modest staff requirements that are active in non-traditional sectors (eg, technology) and for whom privacy is not a key requirement. The CMA believes that this evidence is consistent with limited demand-side substitution between serviced office and co-working space.

51. In relation to supply-side factors, the CMA found that different sets of providers were active in serviced office space and co-working and that, as discussed in the local competitive assessment below, the presence of these providers varied across geographic areas. The CMA therefore believes the conditions to aggregate product markets on the basis of supply-side factors are not met.[24]

[24] See *Merger Assessment Guidelines,* paragraph 5.2.17.

52. On the basis of the evidence above, the CMA believes it should not widen the product frame of reference to include co-working space. However, the CMA believes that co-working space will exercise a constraint on serviced office space in local areas that are associated more strongly with businesses to which co-working space tends to appeal (eg businesses active in the technology sector). The CMA took this into account in its competitive assessment.

Managed space

53. Managed space provides similar flexibility of occupation to serviced office space but typically involves licences for space in larger units to single occupiers over longer periods of time. As compared with serviced office space, managed space is used mainly by single occupiers, occupying larger units for a longer term. Managed space typically involves the provider entering into a conventional office lease before entering into a back-to-back sublets for the same office space with the potential customer or operating as the agent of the landlord. [25]

54. Regus submitted that managed space competed with serviced office space in a broader office space market. Regus submitted that, like serviced office space, managed space was provided on a fitted-out basis with the provider managing the office for the length of the customer's occupation in exchange for a fixed quarterly fee.[26]

55. A managed space provider told the CMA that it offered different services and had a different customer base to the Parties. The provider explained that, unlike serviced office space, managed space did not offer services such as reception, switchboard, secretarial services and IT. The provider said it was up to the tenant to set up their space according to their own requirements. The tenant was free to outsource these services to whomever they wished. The provider said that their tenants were generally SMEs with between four and 12 employees, occupying space on flexible contracts of around three to six months, with rolling breaks. The provider told the CMA that managed space providers were more like property companies than serviced office space companies, competing with developers to acquire sites and charging tenants by office unit rather than by workstation. For these reasons, the provider did not see itself as competing with serviced office space provided by the Parties.

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[25] City of London Corp. 2014, pp11 & 38.
[26] Regus s109 response, paragraph 6.26.

56. One broker told the CMA that managed space providers did not constrain serviced office space providers. The broker said that unlike serviced office space, managed space did not provide a ‘plug and play’ solution. Customers of managed space typically had to source their own service providers for, for example, utilities, catering, and ITC. Managed space premises also generally did not offer reception services. The broker told the CMA that, in addition to these demand-side factors, managed space was based around a different supplier business model. The broker said that managed space was a hybrid of conventional leasehold office space (because the provider purchased the property rather than taking a lease from a commercial landlord, and the customer was a tenant rather than a licensee) and serviced office space (because the contracts were still offered on a short-term basis).

57. A serviced office space provider told the CMA that managed space was a ‘fairly niche product’. The competitor saw managed space and serviced office space as two points on a continuum, rather than completely different products. At the serviced office space end of the continuum, the premises were already set up and packaged for the customer. Towards the managed space end of the continuum, however, the customer would have to do more work themselves to ready the premises for business, eg, the customer might have to source suppliers and there would be no formal reception area.

58. On the basis of the evidence above, the CMA believes that it should not widen the product frame of reference to include managed space. However, the CMA considers that the degree of constraint from managed space on serviced office space may vary depending on the type of managed space and character of the local geographic area. Accordingly, the CMA has taken account of possible ‘out-of-market’ constraints from managed space in specific local areas in its competitive assessment.

Geographic scope

59. Regus submitted that the Merger should be assessed using both a national and local geographic frame of reference because important aspects of office space providers’ activities were determined at both the national and local level. Regus told the CMA that service scope/quality, branding, marketing and commercial policies were set on a UK-wide basis. However, the cost of an initial centre fit-out may be adjusted to better suit a particular local area, and specific local discounts and local marketing initiatives may be implemented in response to local demand.[27]

[27] Regus s109 response, paragraphs 7.2–7.5.

60. The Parties' internal documents showed that the Parties monitored the performance of their centres at a local level.[28] Regus submitted that its selling prices and discounts on list prices were 'determined […] using the underlying level of supply and demand varying from area-to-area'. Regus said that it had locally based sales teams that were responsible for a particular centre and that these local teams were responsible for determining discretionary discounting. Regus also told the CMA that it tailored the fit-out of some serviced office space to suit a particular local area, and that it carried out some marketing at a local level.[29]

61. The CMA's approach to geographic scope is conceptually similar to the approach used to identify the appropriate product scope, being primarily based on demand-side substitution. Where available, similar information to that used to identify demand-side substitution between products can be used to assess the geographic boundaries of the relevant market.[30] The CMA's guidance explains that relevant geographic markets may be based on the location of suppliers or customers.[31]

62. A large number of third parties told the CMA that within central London, customers typically looked for serviced office space in a specific local area (eg Soho/West End). Often the choice of the specific local area was driven by the sector or area of business in which the customer operated (eg insurance sector customers look for serviced office spaces in the vicinity of the Lloyds' building). Alternatively, the preference for a specific local area could reflect the fact that the customer's staff and/or clients were able to reach that part of central London more easily than other areas or that an existing premises of the customer was located in that area. Once a customer had settled on a specific local area, then proximity to a train or tube station was an important factor in selecting a serviced office centre within that area and customers were typically willing to walk between 5 and 15 minutes from the transport hub to reach the centre.[32]

63. Third party responses indicated that outside central London customers typically wanted to be located where parking was readily available, but that proximity to a train station was an important factor for some other customers.

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[28] Avanta annual report, 2013, p18; Avanta annual report 2014, p6 ('Profitability will vary significantly for a centre in line with its occupancy and rates. Workstation rates are sensitive to demand and occupancy which can be influenced by a number of factors including competitors opening new centres and offering discounts in the local market').
[29] Regus s109 response, paragraph 7.2.
[30] See *Merger Assessment Guidelines*, paragraph 5.2.23.
[31] See *Merger Assessment Guidance*, paragraph 5.2.21.
[32] If converted into miles, these measure equate to approximately 0.3 miles and 1 mile (assuming a moderate pace of 15 minutes per mile).

64. On the basis of the evidence above, the CMA considers that choices by customers are made locally and that, consequently, incentives for providers to compete are driven by competition at the local level. The CMA also notes that, although some aspects of providers' offerings are set nationally, important competitive variables (such as prices, discounts and some quality aspects) are set at the local level and/or vary locally. For these reasons, the CMA believes that competition in the supply of serviced office space takes place at the local level and that any effect on competition at the national level would be an aggregation of local competitive effects.

65. The CMA discusses below how it has determined the boundaries of these local areas.

Central London

66. Regus submitted that, with respect to central London specifically, location was only one of a number of factors considered by customers and that customers often consider contiguous and/or non-contiguous areas. Regus said that it was unable to price discriminate on the assumption that a customer has a narrow and inflexible geographic requirement.[33] Regus submitted, further, that it was easy to travel around central London. On this basis, Regus submitted that there was a broader market comprising all of central London. Regus submitted that central London was a relevant market and that the Parties' combined share on this basis (comprising all areas with a zone 1 tube station) would be around [30–40]% (with an increment of less than [10–20]%).

67. As noted above, third parties told the CMA that within central London, customers typically looked for serviced office space in a specific local area and were willing to walk between 5 and 15 minutes from the nearest transport hub to reach their serviced office centre.

68. The CMA found that isochrones centred on train or tube stations and calculated on the basis of 5- to 15-minute walking radii overlapped substantially within central London.[34] The CMA considered it was difficult to delineate geographic areas within central London on such a basis. Moreover,

[33] Regus presentation to CMA, 'The Office Space Market', 30 September 2015.
[34] Regus proposed to identify local geographic areas using a radius of 1.5 miles around each of the acquired Avanta centres within central London, and to use a radius of 10 miles around each Avanta centre outside London. Regus proposed to identify an overlap whenever a Regus centre was located within the resulting local geographic areas. Regus proposed to apply a 40% capacity share filter (based on an estimate of the number of workstations at each of the parties' and competitors' centres located within the local geographic area) in order to identify which of these overlapping areas merited a detailed competitive assessment. On this basis, Regus identified seven overlapping areas where the parties' combined capacity share exceeded 40%, and submitted a local competitive assessment for each of them. Regus considered that there was no plausible basis for identifying competition concerns in the local areas where combined capacity shares were below 40%. See Regus s109 response, paragraphs 8.7–8.15.

some third parties told the CMA that there was a degree of substitution between neighbouring transport hubs within particular areas of central London. The CMA therefore used third party documents and (to the extent available) the Parties' internal documents in order to delineate local areas corresponding to the areas within which customers looked for serviced office space.

69. Reports by independent brokers indicated that, consistent with patterns in customer demand, it was appropriate to divide central London into several local geographic areas:

(a) CBRE identified the following 'Central London submarkets': West End, Midtown, City, Southbank, and Docklands.[35]

(b) Deloitte identified the following 'locations' within central London: City (EC1, EC2, EC3, EC4); Docklands (E14); East fringe (E1); Midtown (WC1, WC2, EC4A, EC4Y, EC1N); North fringe (N1); Southbank (SE1); West End (W1, SW1, NW1, W2).[36]

(c) Cushman & Wakefield segmented central London into the following areas: Hammersmith, Kensington, and Knightsbridge (which it referred to as the 'West End Fringe'); Paddington, Euston & Marylebone, and King's Cross ('Emerging West End'); North of Oxford Street, Soho & Covent Garden, Mayfair & St James's, Victoria ('West End'); Midtown; City Core; Clerkenwell & Shoreditch, Hackney, and Aldgate & Whitechapel ('Emerging City'); Canary Wharf & Docklands, Stratford ('East London').[37] [✂][38]

(d) Officebroker.com identified the following postcode areas within central London: EC, W1, WC, SE1, and SW1.

70. The CMA found that these geographic areas were broadly consistent with sub-markets identified on an unprompted basis by customers that responded to the CMA's merger investigation. They were also consistent with some of the internal documents submitted by the Parties.[39]

71. On the basis of this evidence, the CMA has segmented central London into several geographic areas. The CMA recognises that the boundaries of these

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[35] CBRE, Central London property market review, Q1 2015, p30.
[36] Deloitte 2015, p2.
[37] Cushman & Wakefield, 'Continuing the evolution of flexible working', 2015, p19.
[38] [✂]
[39] For example, a May 2014 report prepared by Cushman & Wakefield for Avanta identified 'submarkets of interest for new centres' within central London. The submarkets included: Victoria; King's Cross & Euston; Shoreditch & the East; Southbank; Clerkenwell/West End Fringe; Covent Garden; and Paddington.

areas are not clear-cut and there is some variation in the delineations adopted by different sources. On a cautious basis, the CMA has therefore used the narrowest delineation proposed by these sources, as shown in the table below, but has considered constraints from just outside these areas as part of its competitive assessment in each local geographic area.[40]

Table 1: Aggregation of postcode districts within local areas in central London

Local areas	Postcodes
Hammersmith	W6
Kensington	W14, W8, SW5
Knightsbridge	SW1X, SW3, SW7
Paddington	W2
Euston/King's Cross	NW1
North of Oxford Street	W1C, W1U, W1G, W1W, W1T, W1H
West End (Soho/Covent Garden)	W1F, W1D, WC2H, WC2E
Mayfair/St James's	W1K, W1J, W1S, W1B
Victoria	SW1W, SW1V, SW1P, SW1E, SW1H, SW1A, WC2N, SW1Y
Midtown	WC1E, WC1B, WC1H, WC1A, WC2B, WC2R, WC2A, WC1V, WC1R, WC1X, EC1N, WC1N
Clerkenwell/Shoreditch	E2, EC2A, EC1Y, EC1M,, EC1R, EC1V
City	EC4Y, EC4A, EC1A, EC4M, EC4V, EC2V, EC2Y, EC2R, EC4N, EC4R, EC3V, EC2M, EC2N, EC3R, EC3M, EC3A, EC3N, EC1A
Hackney	E8
Aldgate/Whitechapel	E1, E1W
Ealing	W5
Canary Wharf/Docklands	E14
Stratford	E15
Southbank	SE1

Source: CMA.

Reading

72. One of the Parties' customers told the CMA that they would not consider serviced office space in Reading that was further than a few minutes' walk from Reading train station.

[40] Regus agreed with the CMA's view that the areas identified by the CMA provided a practical grouping for subsequent in-depth analysis. Regus submitted that these areas should not be considered well-defined geographic markets and that the assessment of competitive effects in each area should therefore take into account both in-area and out-of-area constraints. See Regus IL response, paragraph 1.13.

73. Consistent with this evidence and its approach to the geographic frame of reference in central London, the CMA has assessed the competitive effects of the Merger in Reading within radii of 0.5 miles and 1 mile from Reading train station.

Conclusion on geographic scope

74. On the basis of the evidence above, the CMA has assessed the competitive effects of the Merger in relation to the supply of serviced office space at the local level in central London (using the above local area groupings) and Reading.

75. For the reasons explained above, the CMA has not assessed the competitive effects of the Merger at a national level.

Meeting rooms

Product scope

76. Regus told the CMA that meeting rooms were provided by a large number of different providers, both ‘formal’ and ‘informal’ providers. Formal suppliers included (i) all of the Parties’ major competitors in the supply of serviced office space; (ii) specialist providers of meeting venues; (iii) a significant number of academic venues that offer meeting venue facilities to business customers; (iv) conference centres; and (v) major hotel chains offering meeting and events venues at their hotels. ‘Informal’ meeting options were provided by venues such as coffee shops and restaurants; these providers were increasingly offering more formal meeting venues.[41]

77. Several third parties told the CMA that they would switch to hotel chains, conference centres, and academic venues in response to a small but significant price increase of all meeting rooms (irrespective of the type of provider). Regus’ internal documents supported third parties’ views that hotel chains and specialist providers of meeting rooms were a constraint. However some third parties indicated that constraints exercised these alternatives may be weak because they tended to offer larger spaces for a greater number of occupants, with longer booking time and longer commitments. No third party identified ‘informal’ meeting venues as a strong constraint.

78. Although the CMA found evidence that there was a degree of demand-side substitutability between meeting rooms offered by office space providers and

[41] Regus s109 response, paragraph 5.10.

the alternative options listed above, on a cautious basis, the CMA believes it is appropriate to use a narrow product frame of reference focused on the provision of meeting rooms by office space providers. The CMA has considered any constraints from conference centres, academic venues and hotels as part of its competitive assessment in each local area.

Geographic scope

79. Regus assessed the competitive effects of the Merger on a national basis.[42]

80. The CMA considered whether the same geographic considerations that apply to serviced office space (eg the importance of location) also applied to meeting rooms. Several third parties told the CMA that location was a very important factor when choosing a meeting room. Most customers said that they would be willing to walk between 5 and 15 minutes from the nearest transport hub to their meeting room. One customer suggested a longer walking distance (20 to 25 minutes).

65. On the basis of the limited evidence it has received, the CMA considers it appropriate to assess the effects of the Merger in the provision of meeting rooms at the local level, following the same approach discussed above with respect to serviced office space.

Virtual offices

Product scope

81. Virtual offices provide the functionality of a full-time office without the need to physically rent or lease office space. Typical services purchased as part of a virtual office package include: a telephone answering service; a business address; a full postal and parcel service; and access to meeting venues and a hot-desking facility.[43]

82. Regus submitted that there were a large number of providers supplying some or all of these services, including: the Parties' leading serviced office space competitors and specialist virtual office providers. Regus submitted that all of these providers constrained the Parties' virtual office services.[44]

83. The CMA noted that [✂] Regus' customers used its Mailbox Plus and Virtual Office Standard services ([✂]% and [✂]%, respectively). The Mailbox Plus

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[42] Regus s109 response, from paragraph 5.10.
[43] Regus s109 response, paragraph 5.7.
[44] Regus s109 response, paragraphs 5.7–5.9.

service provided a business address where customers could receive packages; the Virtual Office Standard provided a business address, dedicated contact numbers, call answering and access to business lounges/break out spaces. Similarly, Avanta's [✂] packages, in terms of number of customers, within London were [✂].

84. The CMA asked third parties what factors they considered most important when choosing a virtual office. Although the response rate was low, the majority of customers that responded to this question identified location (or location and price) as the most important factor.

85. On the basis of the limited evidence above, the CMA therefore considers it appropriate to use a narrow product frame of reference based on the supply of virtual office packages by serviced office space providers and other specialised providers.

Geographic scope

86. Regus submitted that centre/mailbox location was one of many factors that virtual office customers consider when choosing a provider but was unlikely to be determinative, particularly within central London where transport links were good.[45] In Regus' view, a customer could split up elements of their virtual office package, for example using a mailbox function located in one area and a telephone answering service located in another (and potentially supplied by different providers).

87. An internal Avanta document stated that [✂] of the Parties' competitors set the price of their virtual office products by reference to [✂].[46]

88. The CMA believes, on the basis of the evidence it has found, that customers' choice between virtual office space products depends on a number of factors. Location is an important factor for some virtual office services (eg mailbox) but less so for other virtual office services (eg telephone answering). The CMA considers that incentives for providers to compete are likely to be driven by competition at the local level. On a cautious basis, therefore, the CMA has assessed the competitive effects of the Merger on the supply of virtual office services at the local level.[47]

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[45] Regus submitted that location was likely even less important for customers that travelled from outside London and arrived at a transport hub in London where other travel options were available (Regus submission of 23 September 2015, paragraph 8.1, note 8).
[46] Regus submission of 2 September 2015, Annex 3.1(c) ('virtual competitor analysis').
[47] The CMA found that the Parties did not set parameters of competition exclusively on a national basis but varied centrally-determined parameters at the local level. For this reason, the CMA believes that constraints arise

Conclusion on frame of reference

89. For the reasons set out above, the CMA has considered the impact of the Merger in the following frames of reference:

(a) The supply of serviced office space at the local level within central London and Reading.

(b) The supply of meeting rooms at the local level within central London and Reading.

(c) The supply of virtual office space at the local level within central London and Reading.

Competitive assessment

Horizontal unilateral effects: serviced office space

90. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or degrade quality on its own and without needing to coordinate with its rivals. Horizontal unilateral effects are more likely when the merger parties are close competitors. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to horizontal unilateral effects arising from the loss of actual competition in the supply of serviced office space in local areas in central London and Reading.

Framework for competitive assessment within local areas

91. The CMA found that the Parties' internal documents identified various parameters of competition between serviced office space centres, including: centre workstation capacity, proximity to local transport hubs, centre quality/fit-out, operator branding, and price.[48] Accordingly, the CMA assessed the likelihood of the Merger resulting in horizontal unilateral effects in each local area by reference to the following factors:

(a) closeness of competition;

(b) competitive constraints remaining post-Merger; and

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at the local level and that any competitive effects arising from the Merger at the national level will result from the aggregated effects of local overlaps.

[48] Regus s109 response, Annexes 3.10–3.29, 3.40, 4.18–19.

(c) likelihood of entry and/or expansion by competitors.

Closeness of competition

92. Where products are differentiated, for example by branding or quality, unilateral effects are more likely where the merger firms' products compete closely. This is because the merged firm can be expected to recapture a significant share of the sales lost in response to a price increase, making the price increase less costly.[49]

93. In the present investigation, the CMA assessed closeness of competition between the Parties in each local area with regard to the following factors:

(a) the number and geographic location of the Parties' centres;

(b) the Parties' shares of workstation capacity; and

(c) third parties' views on the closeness of competition between the Parties.

94. With respect to the CMA's use of capacity shares, Regus submitted that average customer workstation requirements in central London were [✄] (around [✄], on average). Regus therefore submitted that a provider could compete effectively with the merged entity in a local area even if it had less capacity.[50] However, the CMA found that occupancy rates in the serviced office space sector in central London were high, typically around 80 to 95%. The CMA therefore considered that capacity shares based on total workstation capacity were a good proxy for volumes and informative on the relative strength of the Parties and their competitors in a particular local area.

95. The CMA therefore considered that a provider's total workstation capacity was a good indicator of its market power in a particular local area and an important factor in assessing the closeness of competition between the Parties and their competitors in that area. With respect to the calculation of capacity shares:

(a) The CMA took as its starting point Regus' estimate of the Parties' and their competitors' workstation capacity. Regus submitted that it did not have reliable information on its competitors' workstation capacity at each centre in all local areas. Where this was the case, Regus estimated capacity at that centre based on the centre's floor space (in sq ft).[51] Where information on floor space was unavailable, Regus applied a

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[49] *Merger Assessment Guidelines*, paragraph 5.4.8.
[50] Regus IL response, paragraph 6.21.
[51] Using information on square footage, Regus calculated total workstation capacity by allocating 62.2 sq ft per workstation.

global (mean) average for the number of workstations for single-location or multi-location serviced office centres. The CMA adjusted Regus' estimates where it found reliable evidence from third parties indicating that it was appropriate to do so.

(b) Although the CMA took Regus' data as its starting point for calculating capacity shares, the CMA's and Regus' estimates did not match in all local areas. The discrepancies arose because, for example, Regus included additional providers that the CMA did not include in the relevant product scope, or took account of centre openings/closures that the CMA discounted. The CMA has discussed these discrepancies and their implications below.

96. Before assessing closeness of competition at a local level, the CMA considered more generally whether the Parties competed closely in the supply of serviced office space. In this regard, the CMA observed that:

(a) the Parties were, respectively, the first and third largest providers of serviced office space in the UK (by number of locations);[52]

(b) the Parties were, respectively, the first and second largest providers of serviced office space in central London (by total sq ft operated);[53]

(c) Avanta was mentioned more frequently than any other serviced office space provider in internal Regus documents assessing the conditions of competition in local areas within central London (and vice versa); and

(d) the large majority of customers, competitors and brokers that the CMA contacted said that the Parties competed closely.[54] One competitor told the CMA that Avanta was a 'me too' offering that competed closely with Regus. A customer told the CMA that the Parties competed closely and had similar business models. A specialised serviced office broker said that the Parties were strong competitors with similar products (typified by high end office buildings) appealing to similar clients.

97. The CMA therefore concluded that the Parties were close competitors in the supply of serviced office space generally, and were likely to be close

[52] Mintel, 2014, p33. Some sources identified the Parties as the largest two operators nationwide. See, for example, O Haill, 'If you love Regus you might like Serviced Office Group', Lloyds Bank Research Centre, August 2013.
[53] Data as at June 2015. Cushman OAAS, p20. The report identified Workspace as the second largest operator in this area. However, as explained above, the CMA considers Workspace to be a managed space provider. As explained below, the CMA has nevertheless considered any constraints from Workspace on the merged entity on an area-by-area basis.
[54] Another specialised serviced office space broker told the CMA that Avanta likely considered Regus a close competitor and that Regus likely considered Avanta a competitor. The broker believed that Regus would not see Avanta as its closest competitor, however, because Regus was a much bigger business than Avanta.

competitors in each of the local areas considered below, subject to any relevant area-specific evidence found by the CMA.

Competitive constraints remaining post-Merger

98. Unilateral effects are more likely where there are few effective competitors remaining in the market post-Merger.

99. In each local area, the CMA assessed whether there would be sufficient competition from competing providers remaining post-Merger to replace the competitive constraint lost as a result of the Merger. In assessing the effectiveness of post-Merger competition, the CMA considered competitors' shares of workstation capacity, and evidence from the Parties' internal documents and third parties on the strength of constraint exercised by these rival providers.

100. As noted above, prior to the Merger, Regus was the largest, and Avanta was the second or third largest, provider of serviced office space in central London and Reading. The CMA observed that there were a large number of other providers active in central London (and, to a lesser extent, Reading). However, the CMA also observed that the price, size and quality of these providers' offerings differed significantly. The CMA therefore used evidence submitted by Regus and third parties in order to identify which providers would constrain the merged entity most closely.

(a) Third parties (including brokers, customers and competitors) identified the following providers as the Parties' closest competitors: LEO, i2, TOG, Lenta, Orega and Business Environment.

(b) This evidence was broadly consistent with independent market research reports. In addition to the six providers listed above, the market reports identified: Ventia, Landmark, Office Space in Town, Citibase, and Basepoint as the leading providers of serviced office space in the UK.[55]

(c) Regus submitted data showing that the serviced office space providers identified most frequently in the Parties' internal documents[56] were: Orega, Ventia, London Executive Office (**LEO**), i2, The Office Group (**TOG**), Landmark, Office Space in Town, First Base, Lenta, Beaumont

[55] Mintel 2014, p33; Cushman OAAS, p20.
[56] Regus submitted that it was not appropriate to rely solely on internal documents to assess closeness of competition in a highly fragmented market, in particular because Regus does not prepare significant number of internal reports considering competition in relation to serviced offices (Regus IL response, paragraphs 6.14–6.21). However, as explained above, the CMA did not rely solely on the Parties' internal documents for this purpose.

and Business Environment. Other competitors were mentioned less frequently or not at all. [57]

101. Based on this evidence, the CMA believes that the providers listed above, with the exception of Citibase (which was not identified as a competitor in any of the Parties' internal documents) will be the closest serviced office space competitors to the merged entity, subject to further consideration of the size, quality and location of their centres in each local area. The CMA has nevertheless considered, on an area-by-area basis, whether other serviced office space providers might constrain Regus post-Merger.

102. In line with its conclusions on the relevant product frame of reference, the CMA has excluded from the calculation of capacity shares those companies that Regus told the CMA did not provide serviced office space (ie: Reflex, Workspace, Cygnet and providers of co-working space).[58,iii] However, the CMA is mindful that the office space sector exhibits some dynamic features and that, depending on the characteristics of a local area or local demand, non-serviced office space options may compete more closely with serviced office space. The CMA has therefore taken these 'out-of-market' constraints into account in its competitive assessment in each local area.

Likelihood of entry/expansion by competitors

103. As noted above, the CMA found evidence that the office space sector as a whole (and central London in particular) was growing. However, consistent with the local geographic scope of its analysis, the CMA focused its competitive assessment on evidence of confirmed entry/expansion by competitors in specific local areas, rather than non-specific evidence of broader market expansion.[59]

[57] The CMA found that one internal Avanta document mentioned more than 50 office space providers. For more than half of these providers, this was the only internal document that mentioned the provider. The CMA had concerns that the document was not useful evidence of the competitive constraint (if any) that these providers would exercise on the merged entity. The CMA noted that the document was [✂], and did not provide a detailed qualitative comparison enabling the CMA to distinguish between the strongest and weakest competitors listed. Moreover, the CMA discussed the Merger with the broker during the course of its investigation. During these discussions, the broker identified a much smaller subset of providers as close competitors to the Parties. Given these concerns, the CMA did not place significant weight on this internal document.
[58] No third parties identified Reflex, Cygnet or Workspace as a close competitor of either Party. [✂] Regus submitted that these three providers' centres should be reclassified as serviced office space and their workstation capacity included for the purposes of capacity share calculations (Regus IL response, Annexes 18–20). However, the CMA considered that the Parties' internal documents and evidence from third parties was not sufficient to reclassify these providers as serviced office space. The CMA therefore considered any competitive constraints from these providers as part of its assessment of 'out-of-market' constraints in each local area.
[59] *Merger Assessment Guidelines*, paragraph 5.8.3.

Difference-in-difference analysis

104. As explained above, Regus submitted a difference-in-difference study purporting to show that increased market concentration in relation to serviced office space did not adversely affect prices. However, the CMA identified several difficulties with this study:

(a) First, generally, the CMA considered that the results were unable to prove that (an increase in) market concentration had no impact on prices or margins in the serviced office space sector. The CMA could not verify that the results were sufficiently robust to identify the actual effects of the earlier merger. This was a function both of the difficulty of stress-testing complex econometric analysis within the phase 1 timetable and the empirical problems described in the following paragraphs.

(b) Second, given the differences between the two targets (ie Avanta and MWB) with respect to Regus and the differences in market structure between 2012 and 2014, the CMA was not convinced that an analysis of the Regus/MWB transaction would be sufficiently informative of the competitive effects of the Merger.

(c) Third, the methodology only identified *relative* price changes between the hotspot and non-hotspot groups. Given the density of offices in central London and the difficulty of consistently assigning centres into these two groups, the small relative price changes observed may not reflect the actual effects of the Merger. In this respect, the CMA observed that prices increased by 15 to 20% on average in the areas where Regus' and MWB's centres overlapped.

(d) Fourth, the analytical technique used by Regus (weighted ordinary least squares) assigned more weight to price changes at large centres (in terms of number of workstations) compared with small centres. The CMA saw no reason, from an econometric perspective, why greater weight should be given to price changes at larger centres.

105. The CMA adjusted the model to take into account the latter concern and found that under these adjustments the number of significant increases in prices or margins in the hotspot group relative to the non-hotspot group rose from [✂] (as identified by Regus) to [✂]. This showed that for a number of scenarios, depending on the hotspot definition, prices and/or margins did significantly increase following the Regus/MWB merger. In light of these significant concerns, the CMA considered that it could not place significant weight on the results of the difference-in-difference analysis.

Local area assessment

106. The Parties overlap in the supply of serviced office space in the following local areas in central London and Reading: Hammersmith, Victoria, Paddington, Euston/King's Cross, Canary Wharf/Docklands, West End, Midtown, The City, North of Oxford Street, Mayfair/St James's, Clerkenwell/Shoreditch, and Reading.

107. The CMA has assessed below each of the local areas in which the Parties overlap in the supply of serviced office space.

- *Hammersmith area*

108. There are two Regus centres and one former Avanta centre in the Hammersmith area. The centres are located close to each other in a cluster around 0.2 miles from Hammersmith station.[60]

109. The CMA found that the Parties' combined capacity share in the Hammersmith area was very high ([70–80]%), with a very substantial share increment ([40–50]%). The Parties' combined capacity share within the 0.5-mile radius around Hammersmith station was also very high ([70–80]%), with a very substantial share increment ([30–40]%).

110. Four third parties (two brokers, one customer, and one competitor) told the CMA the Parties were particularly close competitors in the Hammersmith area. The customer told the CMA that post-Merger there would effectively be 'no other options' in this area.

111. On the basis of this evidence, the CMA considered that the Parties were close competitors in the supply of serviced office space in the Hammersmith area.

112. The CMA considered whether the merged entity would face sufficient competition post-Merger. The CMA found that there were three other providers of serviced office space in the Hammersmith area (three centres in total): Orega, Vitaxo and Romulus (Britannia House).[61] For the reasons explained above, based on the evidence it has found, the CMA considered that, of these providers, Orega would be the closest competitor to Regus post-Merger. The

[60] The CMA observed that if it were to flex the boundaries of this local area in order to take account of centres just outside W6, it would be appropriate to include a further Regus centre (Crown House) located 0.4 miles from Hammersmith station in the capacity shares. Regus submitted that because of the Olympia Exhibition Centre, the Kensington Olympia area had a distinct character from Hammersmith. In light of the Parties' very high capacity shares in this area and given the evidence presented below, the CMA did not consider it necessary to conclude on whether the boundaries of the Hammersmith area should be flexed to include the Regus centre in Kensington Olympia.

[61] Network international (one centre) and Kite Studios (one centre) also have centres some distance outside the boundaries of this local area.

CMA found that Orega had one centre in the Hammersmith area, at a similar distance from Hammersmith station to the Parties' centres. However, Orega's centre was located slightly further away from Hammersmith station than Regus' closest centre to the station. Orega's centre accommodated significantly fewer workstations than the Parties' centres: [✂] workstations (a [10–20]% share of capacity in the Hammersmith area, and a [10–20]% share of capacity within 0.5 miles of Hammersmith station). The CMA did not find sufficient evidence to show that Vitaxo and Romulus (Britannia House) would constrain the merged entity in this area.

113. On the basis of this evidence, the CMA considered that rival serviced office space providers would not constrain the merged entity sufficiently to prevent unilateral effects from arising in the Hammersmith area.

114. The CMA considered whether the merged entity would face competition from 'out-of-market' office space providers in the Hammersmith area. The CMA observed that Cygnet was also active in the Hammersmith area. However, none of the Parties' internal documents or third party research reports submitted by the Parties, and no third parties, identified Cygnet as a close competitor of either Party in this area.[62] The CMA did not identify any co-working centres within the Hammersmith area or its nearby surroundings. On the basis of this evidence, the CMA considered that 'out-of-market' office space providers would not provide sufficient competition, individually or in the aggregate, to the merged entity.

115. Regus did not identify any serviced office space centres that had recently opened in the Hammersmith area or were due to open in this area within the next two years. Regus identified several commercial property development projects in the Hammersmith area and submitted that these projects would facilitate significant new entry in the next couple of years.[63] However, the CMA found, on the basis of the evidence submitted, that the timing of the release of some or all of this additional capacity was uncertain and that none of this space had yet been acquired by the Parties' competitors. The CMA therefore considered that there was insufficient evidence of recent and future entry and/or expansion by competitors to offset its concerns regarding the competitive effects of the Merger in the Hammersmith area.

[62] Regus submitted evidence purporting to show that Cygnet's services differed on a centre-by-centre basis but were broadly comparable with those of the Parties. However, in the absence of internal documents or third party evidence to support this view, the CMA considered this evidence was insufficient to classify Cygnet as a close competitor of the Parties.
[63] Regus IL response, Annex 1, paragraphs 1.12–1.15.

116. On the basis of the evidence it has found, the CMA believes that the Merger gives rise to a realistic prospect of an SLC in the Hammersmith area.

- *Victoria area*

117. There are ten Regus centres and one former Avanta centre in the Victoria area. Four Regus centres and one former Avanta centre are located within 0.5 miles of Victoria station.[64]

118. The CMA found that the Parties' combined capacity share within the Victoria area was very high ([50–60]%). The CMA observed that although Avanta only had one centre in the Victoria area, it was the largest centre of any serviced office space provider in this area ([✄] workstations). As a result, the increment arising from the Merger in this area was significant ([5–10]%). Regus submitted that two competitors, i2 and Neuehouse, would open centres in this area in 2015, which would reduce the Parties' combined capacity share in this area to [40–50]% (with an increment of [5–10]%).

119. The CMA considered that given the distance between the area around Victoria and St James's Park stations and the area north of Green Park/St James's Park, and the fact that some customers might have to change tube lines, there was limited scope for customers to substitute between centres based in these two areas. Regus agreed with this analysis. In light of this geographical divide and the distribution of the Parties' and their competitors' centres in this area, and given the importance of Victoria station as a transport hub, the CMA focused its competitive assessment on a 0.5-mile radius around Victoria station.[65]

120. The CMA found that the Parties' combined capacity share within the 0.5-mile radius around Victoria station was very high ([70–80]%) with a substantial increment ([10–20]%).

121. Two third parties (one customer and one broker) told the CMA the Parties were particularly close competitors in the Victoria area.

[64] The CMA observed that if it were to flex the boundaries of this local area in order to take account of centres just outside SW1, it would be appropriate to include a further five centres belonging to the Parties (Regus; two; Avanta: three) in the capacity shares. In light of the Parties' very high capacity shares in this area and given the evidence presented below, the CMA did not consider it necessary to conclude on whether the boundaries of the Victoria area should be flexed to include these centres.
[65] The CMA has considered the Parties' centres north of Green Park and St James's Park in its competitive assessment of the Mayfair/St James's area.

122. On the basis of the evidence set out above, the CMA considered that the Parties were close competitors in the supply of serviced office space within a 0.5-mile radius around Victoria station.

123. Regus submitted that within the local area around Victoria station there was a 'natural split' between the west and east sides. Regus submitted that the Parties did not overlap on the west side and that, to the east, the Parties faced considerable competition. However, the CMA received no other evidence in support of a narrower geographic scope. The CMA therefore considered whether competitors in the local area around Victoria station would provide a significant constraint on the merged entity. The CMA noted that Citibase, First Base, Garner, LEO and Ventia were all active in a 0.5-mile radius around Victoria station. For the reasons explained above, the CMA considered that, of these providers, First Base, Ventia and LEO would be the closest competitors to the merged entity. However, the CMA found that these providers would, post-Merger, account for a very small share of total workstation capacity within 0.5 miles of Victoria station (LEO: [5–10]%; Ventia: [0–5]%; First Base: [0–5]%).

124. On the basis of this evidence, the CMA considered that rival serviced office space providers would not constrain the merged entity sufficiently to prevent unilateral effects from arising in a 0.5-mile radius around Victoria station.

125. The CMA considered whether the merged entity might face competition from 'out-of-market' office space providers in the Victoria area. The CMA observed that Cygnet was also active in the Victoria area. However, as explained above, the CMA received no evidence that Cygnet competed closely with either Party in this area. In any event, Cygnet's total workstation capacity within 0.5 miles of Victoria, post-Merger, would be only around [0–5]%of the total capacity in this area. Regus identified three co-working centres within the 0.5-mile radius around Victoria station. However, the CMA received no evidence that co-working centres would, given the character of this local area or other local factors, constrain serviced office space strongly.

126. On the basis of this evidence, the CMA considered that 'out-of-market' office space providers would not provide sufficient competition, individually or in the aggregate, to the merged entity.

127. Regus identified recent serviced office space openings by LEO, First Base and i2 in the Victoria area. However, only one of these centres had opened in the 0.5-mile radius around Victoria station: First Base's centre on Vauxhall Bridge Road, a small centre with only [✄] workstations. Regus did not identify any serviced office space centres that were due to open in this area within the

next two years.[66] Regus identified two commercial property development projects in the area around Victoria station and submitted that these projects would facilitate significant new entry in the next couple of years.[67] However, the CMA found no evidence that some or all of this additional capacity had been acquired by the Parties' competitors. The CMA therefore considered there was insufficient evidence of recent and future entry and/or expansion by competitors to offset its concerns regarding the competitive effects of the Merger within a 0.5-mile radius around Victoria station.

128. On the basis of the evidence it has found, the CMA believes that the Merger gives rise to a realistic prospect of an SLC within a radius of 0.5 miles around Victoria station.

- *Paddington area*

129. There are four Regus centres[68] and one former Avanta centre[69] in the Paddington area. The Regus centres are located on the same road in the Paddington basin area (Kingdom Street). The former Avanta centre is located at Merchant Square. These centres are located close to each other and close to Paddington station.

130. The CMA found that the Parties' combined capacity share in the Paddington area was quite high ([30–40]%), with a significant increment ([10–20]%). The Parties' combined share within a 0.5-mile radius of Paddington station was high ([40–50]%), with a substantial increment ([10–20]%).[70] Regus excluded from its calculation a Regus centre located in Burwood Place. The CMA found that even excluding this centre, the Parties' combined share in the area around Paddington station was high ([40–50]%) with a substantial increment ([10–20]%).

131. Furthermore, the CMA received evidence from a broker showing that Regus' share estimate significantly overstated Vitaxo's capacity in this area. The third party told the CMA that Vitaxo had only 80 workstations in this area. Following these adjustments, the CMA found that the Parties' combined capacity share within the Paddington area was high ([40–50]%) with a substantial increment ([10–20]%).The CMA estimated that the Parties' combined capacity share

[66] Regus said that i2 was due to open a centre north of Green Park in 2015.
[67] Regus IL response, Annex 1, paragraphs 1.12–1.15.
[68] Regus told the CMA that [✂]. The CMA found that this was [✂], accounting for [✂]. The CMA included this centre in its calculation of capacity shares.
[69] The CMA observed that if it were to flex the boundaries of this local area in order to take account of centres just outside W2, it would be appropriate to include a further three centres belonging to the Parties (Regus: two; Avanta: one) in the capacity shares. In light of the evidence it has found, the CMA did not consider it necessary to conclude on whether the boundaries of the Paddington area should be flexed to include these centres.
[70] Regus' estimate included its new centre at 2 Kingdom Street, which Regus submitted would open in January 2016 but was already accepting customers.

within the 0.5-mile radius around Paddington station was very high ([50–60]%) with a substantial increment ([10–20]%).

132. Three third parties (one broker and two competitors) told the CMA that the Parties were particularly close competitors in the Paddington area. An internal Regus document dated December 2014 identified TOG and Avanta as Regus' only competitors in this area.

133. On the basis of the evidence set out above, the CMA considered that the Parties were close competitors in the supply of serviced office space in the Paddington area.

134. Regus submitted that the merged entity would be competitively constrained by the following serviced office space providers active in the Paddington area: TOG, Lenta, Dorchester House and Vitaxo. The CMA observed that Bourne Capital was also active in this area, with three centres around the Bayswater/ Queensway area. The CMA therefore considered the extent to which these serviced office space providers would constrain the merged entity.

135. For the reasons explained above, the CMA considered that, of these providers, TOG and Lenta would be the closest competitor to the merged entity in this area. Four specialist serviced office space brokers told the CMA that TOG's centre was the principal competitor to the Parties in the Paddington area because it offered similar quality premises. However, the CMA found that although TOG's Paddington centre was located in Paddington station, it was much smaller than the Parties' centres in this area (a capacity share of [10–20]%). As explained below, the CMA found evidence that the TOG and Lenta centres located outside this area, near Baker Street and Marylebone stations, would not constrain the Parties post-Merger (and that, in any event, both of these centres were much smaller than the Parties' centres).

136. The CMA found that other serviced office space providers would not constrain the merged entity in the Paddington area. The CMA found that Dorchester House was small ([5–10]% of capacity within a 0.5-mile radius around Paddington station). Several brokers told the CMA that Vitaxo's centres in the area were small and of lower quality than the Parties' centres, and had been fully occupied for some time. One broker described Vitaxo as a 'grade 2' provider and Regus, Avanta and TOG as 'grade 1' providers. Moreover, as noted above, evidence from brokers showed that Regus had significantly overstated Vitaxo's position in this area. Similarly, Regus' data indicated that Bourne Financial accounted for [30–40]% of capacity in the Paddington area and [10–20]% of capacity within a 0.5-mile radius around Paddington station. However, the CMA found evidence that at least one and possibly two of Bourne Capital's serviced office centres in the area were closed and/or had

been redeveloped into non-serviced office space. As in the case of Vitaxo, several brokers told the CMA that Bourne Capital's centre(s) in the area were small and/or of lower quality than the Parties' centres, and were severely capacity-constrained.

137. On the basis of this evidence, the CMA believes that rival serviced office space providers will not constrain the merged entity sufficiently to prevent unilateral effects from arising in the Paddington area.

138. The CMA considered, further, whether serviced office space providers located just outside the Paddington area might compete with the Parties' centres in Paddington. However, this was not supported by third party evidence. In particular, several specialised serviced office space brokers told the CMA that centres in the Marylebone, Baker Street, and Marble Arch areas were too far away to compete for customers seeking serviced office space in the Paddington area. A number of brokers told the CMA that although the Edgware Road area was only a short walk from Paddington basin, the two areas had very different characters. The brokers said that Paddington basin was similar in character to Canary Wharf/Docklands and was attractive to large corporates and international companies because of its direct transport link to Heathrow airport. By comparison, Edgware Road was less corporate and, according to one broker, was 'not a client-facing area'. On the basis of this evidence, the CMA believes that serviced office space providers located just outside the Paddington area will not provide sufficient competition, individually or in the aggregate, to the merged entity.[71]

139. The CMA considered whether the merged entity would face competition from 'out-of-market' office space providers in the Paddington area. However, Regus did not identify any such providers. Regus submitted that WeWork was planning to open a centre in Eastbourne Terrace that would be closer to Paddington station than either of the Parties' sites. However, the CMA found evidence that WeWork had not yet finalised this agreement and one third party told the CMA that [✂]. On the basis of this evidence, the CMA believes that 'out-of-market' office space providers will not provide sufficient competition to the merged entity.

140. Regus did not identify any serviced office space centres that had recently opened in the Paddington area or were due to open in this area within the next two years. Regus identified several commercial property development

[71] Regus submitted that if centres in the Edgware Road and Paddington areas did not compete closely, then Avanta's Merchant Square centre did not compete with Regus' Kingdom Street centres because Avanta's centre was located in Edgware (Regus IL response, Annex 4, paragraph 1.6). However, the CMA found that brokers distinguished between the Paddington basin area (where both Parties' centres are located) and the Edgware Road area.

projects in the Paddington area and submitted that these projects would facilitate significant new entry in the next couple of years.[72] However, the CMA found that it was not yet certain when some or all of this additional capacity would become available and that none of this space had yet been acquired by the Parties' competitors. The CMA therefore considered that there was insufficient evidence of future entry and/or expansion by competitors to offset its concerns regarding the competitive effects of the Merger in the Paddington area.

141. On the basis of the evidence it has found, the CMA believes that the Merger gives rise to a realistic prospect of an SLC in the Paddington area.

- *Euston/King's Cross area*[73]

142. There are two Regus centres and one former Avanta centre in the Euston/ King's Cross area. The CMA noted, however, that the area delineated by the NW1 postcode was large, extending beyond Camden Town to the north, and included areas such as Regent's Park where there were no serviced office space centres. The CMA noted, further, that the vast majority of serviced office space centres in this area were clustered around the largest two transport hubs in the area, ie Euston and King's Cross stations, which were major national and international rail hubs. The CMA therefore considered that the Parties' combined capacity shares within a 0.5-mile radius of these transport hubs were likely to be more informative of the merged entity's market position in this area than capacity shares calculated on a broader basis.

143. The CMA found that the Parties' market position within each of these narrower areas was strong. Specifically, the Parties' combined capacity share within a 0.5-mile radius around Euston station was very high ([50–60]%), with a significant increment ([5–10]%). The Parties' combined capacity share within a 0.5-mile radius around King's Cross station was high ([40–50]%), with a significant increment ([10–20]%). The CMA also found that the Parties' combined capacity share within a 0.5-mile radius of Warren Street station was very high ([50–60]%), with a very substantial increment ([20–30]%).

144. Regus estimated that the Parties' combined capacity shares in these areas was lower: [40–50]% (with a [5–10]% increment) within 0.5 miles of Euston station, and [40–50]% (with an increment of [5-10]%) within 0.5 miles of King's

[72] Regus IL response, Annex 4.
[73] The CMA previously referred to this area as 'Euston/Marylebone'. However, the CMA believes, based on the evidence it has received, that it is more appropriate to identify this area by reference to the two largest transport hubs in the area (ie Euston and King's Cross) around which the majority of serviced office space centres are clustered.

Cross station. The CMA found that these differences were mainly attributable to the inclusion of a new TOG centre that Regus submitted would open in September 2016. [✄]. The CMA therefore considered that Regus' lower estimates would better reflect the merged entity's market position post-Merger. However, the CMA found that even these adjusted shares were high.

145. Regus submitted, further, that the Parties' centres close to Euston station and close to Warren Street station were not close competitors because they were different in style and/or branding and/or, in the case of the Parties' centres close to Euston station, were separated by a busy road. However, the CMA found no internal documents or third party evidence to support this view. The CMA also received third party evidence that the Parties competed closely in this area.

146. On the basis of this evidence, the CMA therefore found that the Parties were close competitors in the supply of serviced office space in the Euston/King's Cross area.

147. For the reasons explained above, the CMA considered that TOG, Office Space in Town, i2 and Lenta would be the merged entity's closest serviced office space competitors in this area. However, the CMA found that each of these providers would be significantly smaller than the merged entity in this area:

(a) TOG ([20–30]% within 0.5 miles of Euston station; [10–20]% within 0.5 miles of both King's Cross and Warren Street stations). In addition, as mentioned above, Regus submitted that TOG would open a new centre near King's Cross station in 2016. The CMA took this new centre into account in its competitive assessment.

(b) Office Space in Town ([0–5]% within 0.5 miles of Euston station and [0–5]% within 0.5 miles of Warren Street station).

(c) Lenta ([0–5]% within 0.5 miles of King's Cross station).

(d) I2 ([0–5]% within 0.5 miles of Warren Street station).

148. Regus submitted that Centa and 10 Fitzroy Place should also be considered close rivals in this area. However, no third parties identified these providers as close competitors of either Party in this area.

149. On the basis of this evidence, the CMA considered that rival serviced office space providers would not constrain the merged entity sufficiently to prevent unilateral effects from arising in the Euston/King's Cross area.

150. The CMA considered whether the merged entity might face competition from 'out-of-market' office space providers in the Euston/King's Cross area. Regus identified several co-working centres, including: atWork Hubs, Worklife, TOG Clubroom, and The Collective. Regus submitted that Camden was becoming an important hub for start-ups and creative businesses. Regus expected the trend towards greater use of co-working to filter though towards neighbouring Euston/King's Cross area.[74] However, as explained above, the CMA flexed the boundaries of this geographic area in order to focus on the areas within 0.5 miles of Euston and King's Cross stations. Moreover, the CMA found no evidence that there were specific features of the Euston/King's Cross area such that co-working centres (based in Camden or elsewhere in this area) would constrain serviced office space particularly closely in this area. On the basis of this evidence, the CMA considered that 'out-of-market' office space providers would not provide sufficient competition, individually or in the aggregate, to the merged entity.

151. With the exception of TOG's centre (above), Regus did not identify any serviced office space centres that are due to open in this area within the next two years. Regus submitted that the area around Euston station would undergo significant development as part of the HS2 rail link, facilitating competition from new entrants. However, the CMA found no evidence that some or all of this additional capacity had been acquired by the Parties' competitors. The CMA therefore considered there was insufficient evidence of recent and future entry and/or expansion by competitors to offset its concerns regarding the competitive effects of the Merger in the Euston/King's Cross area.

152. On the basis of the evidence it has found, the CMA believes that the Merger gives rise to a realistic prospect of an SLC in the Euston/King's Cross area.

- *Canary Wharf/Docklands area*

153. There are two Regus centres and one former Avanta centre in the Canary Wharf/Docklands area. The two Regus centres are located very close to Canary Wharf station; the former Avanta centre is located south of these centres, towards South Quay railway station.

154. The CMA found that the Parties' combined capacity share in the Canary Wharf/Docklands area and within 0.5 miles of Canary Wharf station was very high ([50–60]%), with a substantial increment ([10–20]%).

[74] Regus IL response, Annex 9.

155. Regus submitted that the Parties' centres in this area did not compete closely because they were located in distinct sub-areas (Canary Wharf and South Quay/Isle of Dogs) and the distance between them was considerable. The CMA observed that centres were a 10- to 15-minute walk apart. However, the CMA also noted that there were very few serviced office space providers in the Canary Wharf/Docklands area and that Avanta's centre was only around a 10-minute walk from Canary Wharf station.[75] Furthermore, two third parties (one broker and one competitor) told the CMA that the Parties were particularly close competitors in the Canary Wharf/Docklands area.

156. On the basis of this evidence, the CMA considered that the Parties were close competitors in the supply of serviced office space in the Canary Wharf/ Docklands area.

157. Regus submitted that the merged entity would be competitively constrained by the following serviced office space providers active in the Canary Wharf/ Docklands area: i2, Servcorp and Angel House Development.

158. For the reasons explained above, the CMA considered that i2 would be the closest competitor to the merged entity in this area. However, the CMA found that i2's share of workstation capacity in the Canary Wharf/Docklands area and within a 0.5-mile radius of Canary Wharf station was only [10–20]%, ie several times smaller than that of the merged entity. The CMA considered whether Servcorp and Angel House might nevertheless constrain Regus post-Merger. However, the CMA found that their share of capacity in this area was also very small (Servcorp: [5–10]%; Angel House: [5–10]%). The CMA found no evidence to suggest that these capacity shares understated the strength of constraint they would place on the merged entity.

159. On the basis of this evidence, the CMA considered that rival serviced office space providers would not constrain the merged entity sufficiently to prevent unilateral effects from arising in the Canary Wharf/Docklands area.

160. The CMA considered whether the merged entity might face competition from 'out-of-market' office space providers in the Canary Wharf/Docklands area. Regus did not identify any managed space providers or co-working centres active in this area. One broker told the CMA that the highest incidence of conventional office space sublettings occurred in Canary Wharf. The broker told the CMA that this may be because the large investment banks located in this area found it easier than tenants in other areas to release, on a short-term basis, office space that had become surplus to requirement due to short-term

[75] The CMA therefore did not agree with Regus' submission that 'the Avanta centre is serviced only by stations offering DLR services (South Quay or Cross Harbour)'. See Regus IL response, Annex 10, paragraph 1.5.

fluctuations in staff. However, given the Parties' significant shares in this area, third party complaints and the weakness of constraints from competitors, the CMA did not consider constraints from providers of short-term sublets to be sufficient to offset unilateral effects concerns.

161. On the basis of the evidence it has found, the CMA believes that the Merger gives rise to a realistic prospect of an SLC in the Canary Wharf/Docklands area.

- *West End (Soho/Covent Garden) area*

162. There are four Regus centres and one former Avanta centre in the West End area (including one Regus centre scheduled to close in November 2015).[76] Three of these centres (two Regus centres and one former Avanta centre) are located within 0.1 miles of Covent Garden station. The Parties were the only two providers with centres located on the main road (Long Acre) linking Leicester Square and Covent Garden stations.

163. The CMA found that the Parties' combined capacity share within the West End area was quite high ([30–40]%) with a significant share increment ([10–20]%). The Parties' combined capacity share within a 0.5-mile radius around Covent Garden station was very high ([50–60]%) with a significant share increment ([10–20]%). The Parties' combined capacity share within a 0.5-mile radius around Leicester Square station was high ([40–50]%) with a significant share increment ([10–20]%). (The CMA found that the lease at Regus' centre in Noel Street terminated on 31 October 2015. The CMA therefore excluded this centre when calculating Regus' capacity share in this area.)

164. Regus submitted that its share of workstation capacity in this area was smaller: [30–40]% (with an increment of [10–20]%) in the West End area, and [40–50]% (with an increment of [5–10]%) within 0.5 miles of Covent Garden station. Regus' calculation included competitors that Regus said did not provide serviced office space but which Regus had assessed as relevant. For the reasons explained above the CMA considered constraints from these providers separately rather than including them in the combined capacity shares.

165. Five third parties (two brokers, two competitors, and one customer) told the CMA that the Parties were particularly close competitors in the West End area.

[76] The CMA observed that if the boundaries of the West End area were flexed slightly to take into account constraints from just outside the boundary of this area, a further ten centres (Regus: seven; Avanta: three) might be included in the Parties' capacity shares in the West End area.

166. On the basis of the evidence set out above, the CMA considered that the Parties were close competitors in the supply of serviced office space in the West End area.

167. Regus submitted that in assessing the competitive effects of the Merger, the CMA should not place undue weight on the proximity of the Parties' centres to Covent Garden tube station. Regus submitted that there were several competitors further away than the Parties from, but nevertheless close to, Covent Garden station. Regus submitted that customers would be willing to walk the short distance from the station to these providers.[77]

168. The CMA observed that the West End area had a small geographic footprint and that unlike in other local areas (eg Victoria), most of the local area was within a 0.5-mile radius from each of the major transport hubs within the area (ie Covent Garden, Leicester Square, Tottenham Court Road). The CMA therefore considered that it would be inappropriate to discount the competitive constraint from close competitors that, while further away from Covent Garden station than the Parties' centres, were nevertheless within a very short walking distance from Covent Garden or other tube stations within the area. The CMA received no evidence that it would be appropriate to sub-segment the West End area further or differently (eg due to localised customer requirements).

169. The CMA therefore considered that competitors located within the local area but further from Covent Garden station than the Parties could constrain the merged entity. The CMA tested the effect of widening the catchment area to include both Covent Garden and Leicester Square. The CMA found that on this basis the Parties' combined capacity share dropped from [50–60]% to [30–40]%.

170. For the reasons explained above, the CMA considered that LEO and Ventia would be the merged entity's closest serviced office space competitors in the West End area. The CMA found that Ventia would have a capacity share post-Merger of [10–20]% within 0.5 miles of Covent Garden Station, and [20–30]% within a broader area comprising both Covent Garden and Leicester Square stations. The CMA found that LEO's shares on this basis would be [0–5]% and [5–10]%, respectively.

171. Regus also submitted that it faced competition from providers in the broader office space sector, including providers of managed and co-working spaces. The CMA found evidence that the West End area had a higher incidence of 'out-of-market' office space solutions than many other parts of central London,

[77] Regus IL response, Annex 3, paragraph 2.2.

including managed space providers (eg Reflex has seven small centres in this area alone) and co-working space.[78] Workspace (one centre) was also active in the West End area.

172. On the basis of this evidence, the CMA considered that ‘out-of-market’ office space providers could provide, in the aggregate, significant competition to the merged entity in the West End area.

173. With respect to entry and expansion, Regus identified one new serviced office space centre that had opened in this area in the last two years (Ventia, W1F). The new centre accommodates [✂] workstations (ie [0–5]% of capacity in the West End today).[79] Regus did not identify any other centre due to open in this area within the next two years. Regus identified three commercial property development projects taking place in the West End area around Covent Garden station. Regus submitted that these developments would lead to further constraints on the merged entity. The CMA received no evidence that some or all of this additional capacity had been acquired by the Parties’ competitors, however.

174. On the basis of the evidence it has found, the CMA believes that the Parties competed closely in the West End area. However, the CMA believes that, taken together, constraints from close competitors and ‘out-of-market’ providers of office space are sufficient to exclude unilateral effects concerns.

175. The CMA has therefore **not** found a realistic prospect of an SLC in the West End area.

- *Midtown area*

176. There are five Regus centres and one former Avanta centre in the Midtown area. Two Regus centres and the former Avanta centre are located close to each other in a cluster around Holborn station (0.07 miles from the station). In addition, one Regus centre is very close to Chancery Lane station (0.04 miles from the station). The CMA observed that the Parties and their competitors

[78] Regus identified the following co-working centres in this area: WeWork, eOffice, The SoHo Collective, SoHo Labs, Sohohost, MEWE360, Workpad, Fouberts Place and 22 Great Marlborough Street (Regus IL response, Annex 3). The CMA considered whether a Regus internal document assessing WeWork’s Southbank premises might inform the assessment of constraints on the Parties from WeWork’s Soho centre. The document identified some shortcomings of WeWork’s premises as compared with Regus office space, which might suggest that WeWork was a weak constraint on Regus. However, the CMA did not place significant weight on this evidence because the CMA was not certain that the conditions of competition in the Southbank and West End areas, and the size/quality of the two WeWork centres in these locations, were sufficiently similar that Regus’ assessment of WeWork’s offering in Southbank could inform the CMA’s competitive assessment of the Merger in the West End.
[79] Regus told the CMA that Workpad was scheduled to open a site in this area in August 2015. However, Regus did not provide evidence of this and the CMA was unable to verify that the centre had opened.

were located in two main clusters, one around Holborn station and one around Chancery Lane station.

177. The CMA found that the Parties' combined capacity share in the Midtown area was significant ([30–40]%), with a small increment ([0–5]%). The Parties' combined capacity share within a 0.5-mile radius of Holborn station was slightly higher ([30–40]%, with an increment of [10–20]%). The Parties' combined share of workstation capacity in the area around Chancery Lane station was low ([20–30]%) with a significant increment ([5–10]%).[80]

178. Three third parties (one broker and two competitors) told the CMA that the Parties were particularly close competitors in the Midtown area.

179. On the basis of the evidence above, the CMA considered that the Parties were close competitors in the supply of serviced office space in the Midtown area.

180. The CMA considered whether the merged entity would face sufficient competition post-Merger. Regus submitted that the merged entity would be competitively constrained by the following serviced office space providers active in the Midtown area: Orega, TOG, LEO and Ventia. For the reasons explained above, based on the evidence it has found, the CMA considered that each of these providers were close competitors of the Parties.[81] With respect to these providers' positions in the Midtown area, the CMA found that:

(a) LEO had a capacity share of [10–20]% in the Midtown area, [10–20]% within 0.5 miles of Holborn station and [10–20]% within 0.5 miles of Chancery Lane station;

(b) TOG had a capacity share of [10–20]% in the Midtown area, [0–5]% within 0.5 miles of Holborn station and [5–10]% within 0.5 miles of Chancery Lane station;

(c) Ventia had a capacity share of [5–10]% in the Midtown area, [10–20]% within 0.5 miles of Holborn station and [10–20]% within 0.5 miles of Chancery Lane station; and

[80] Regus' estimate of the Parties' combined capacity share in this area differed slightly. However, the CMA considered that these differences were small and would not affect the CMA's assessment of the competitive effects of the Merger in this area.

[81] Although Regus contended that the CMA's reliance on internal documents for determining closeness of competition was inappropriate, Regus noted that LEO was referenced in the Parties' internal documents specifically in relation to the Midtown area. Regus IL response, Annex 5, paragraph 3.3.

(d) Orega had a capacity share of [5–10]% in the Midtown area, [10–20]% within 0.5 miles of Holborn station and [5–10]% within 0.5 miles of Chancery Lane station.

181. The CMA noted that Lenta was also active in the Midtown) area, although its share of capacity was very small ([0–5]%)

182. The CMA considered whether the merged entity would face competition from 'out-of-market' office space providers in the Midtown area. The CMA observed that both Reflex (five centres) and Workspace (two centres) were active in the Midtown area. The CMA identified three co-working centres that were active in the Midtown area. The CMA also found evidence that WeWork had recently signed an agreement to develop a Midtown centre.[82]

183. On the basis of the evidence it has found, the CMA believes that the Parties competed closely in the Midtown area. However, the CMA believes that, taken together, constraints from close competitors and 'out-of-market' providers of office space, are sufficient to exclude unilateral effects concerns.

184. The CMA has therefore **not** found a realistic prospect of an SLC in the Midtown area.

- *The City area*

185. There are 22 Regus centres and five former Avanta centres in the City area, located close to one or more of the major transport hubs (ie Monument station, Blackfriars station/City Thameslink and Aldgate station/Liverpool Street station). Regus submitted internal documents showing that four of its centres in this area would close within the coming months.[83]

186. The CMA found that the Parties' combined capacity share in The City area was low ([20–30]%, with an increment of [5–10]%).[84] The CMA found that the principal overlap between the Parties in this area was near Monument station and that the Parties' combined capacity share within 0.5 miles of this station was also low ([20–30]%, with an increment of [5–10]%).

187. Five third parties told the CMA that the Parties were particularly close competitors in The City (three brokers and two competitors).

[82] J Buckley, 'WeWork launches 1.1m sq ft London offensive', *CoStar*, 20 July 2015.
[83] Regus submitted evidence showing that [✂]. Regus provided email correspondence and other internal documents showing to the CMA's satisfaction that [✂].
[84] Regus' estimate of the Parties' combined capacity share in this area differed slightly. However, the CMA considered that these differences were small and would not affect the CMA's assessment of the competitive effects of the Merger in this area.

188. On the basis of the evidence above, the CMA found that the Parties were close competitors in the supply of serviced office space in the City area.

189. The CMA considered whether the merged entity would face sufficient competition post-Merger. The CMA observed that a large number of close competitors were active in this area, including i2, LEO, Business Environment, TOG, Landmark and Beaumont, each with shares of between [0–5]% and [10–20]% in the City area as a whole, and shares of between [0–5]% and [10–20]% within 0.5 miles of specific tube stations. Ventia, Orega, Lenta and First Base were also active in this area (with shares of less than [0–5]% in the City area and within 0.5 miles of Monument station).

190. The CMA considered whether the merged entity might face competition from 'out-of-market' office space providers in the City area. The CMA found that there were nine co-working centres in the area (operated by WeWork, Rockstar Hub, Bathtub, Hot Desking Club, Innovation Warehouse and Co-Working Space). The CMA received mixed evidence on the extent to which co-working centres were likely to constrain serviced office space providers in the City area:

(a) Several third parties told the CMA that the City, or certain parts of the City, were particularly attractive to customers that generally preferred a more formal, business-like environment (such as law firms and insurance companies). Furthermore, a recent report by the City of London Corporation stated that 'pure serviced offices […] are the predominant flexible space offering in the City' and that co-working spaces 'are in their infancy in the City, and are generally only offered as part of a serviced office centre'.[85]

(b) However, the CMA also observed that WeWork, a leading provider of co-working space discussed in several of the Parties' internal documents, had opened two City centres within the last year, and had concluded an agreement to open a further centre on Broadgate. These openings superseded the City of London Corporation's report, which implied that co-working centres may have evolved into a stronger constrain in certain parts of the City since publication of the report.[86]

191. With respect to entry and expansion, the CMA observed, further, that there was evidence of recent and future entry in the City. In particular, i2 (five centres) and Office Space in Town (one centre) had both opened centres in

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[85] City of London Corp. 2014, p36.
[86] Regus IL response, Annex 6, paragraphs 1.6–1.10. Regus submitted that if co-working centres were included in the calculation of the Parties' capacity shares in this area, the Parties' combined share would drop to 20%.

the City within the last two years.[87] Moreover, LEO was scheduled to open a large centre ([✄]) at 5 Cheapside in December 2015.

192. On the basis of the evidence it has found, the CMA believes that the Parties were close competitors in the City area but that, taken together, constraints from close competitors and 'out-of-market' office space providers, and the threat of new entry or expansion by existing providers, are sufficient to exclude unilateral effects concerns.

193. The CMA has therefore **not** found a realistic prospect of an SLC in the City area.

- *North of Oxford Street area*

194. The CMA observed that Oxford Circus station is located close to the southern perimeter of the North of Oxford Street area. The CMA therefore flexed the boundary of this geographic area in its competitive assessment in order to take into account centres located just outside the local area (whether operated by the Parties or their competitors).

195. There are seven Regus centres and four former Avanta centres in the area north of Oxford Street. Four Regus and four former Avanta centres are located close to each other within 0.5 miles of Oxford Circus station (Regus provided evidence showing that one of these centres would close in March 2016). They include the closest centres to Oxford Circus station of any serviced office space provider.

196. The CMA found that the Parties' combined capacity share in the area North of Oxford Street was high ([40–50]%), with a substantial increment ([10–20]%). The Parties' combined capacity share within a 0.5-mile radius around Oxford Circus station was also high ([40–50]%), with a substantial increment ([20–30]%).

197. On the basis of the evidence set out above, the CMA considered that the Parties were close competitors in the supply of serviced office space in the area North of Oxford Street.

198. As noted above, the CMA found that the Parties' centres in this area were concentrated closely around Oxford Circus station but that this station was on the boundary of the North of Oxford Circus area, and on the cusp of both the Mayfair and St James's and Soho/Covent Garden areas. Regus submitted, further, that the area north of Oxford Circus could be further segmented into a

[87] Regus IL response, Annex 6, paragraphs 1.12 & 1.13.

north-west quadrant and a north-east quadrant, and that these two areas had distinct characters. The area to the north-west of Oxford Circus station was closely associated with Marylebone and Harley Street (traditionally linked to the medical profession) whereas the areas to the north-east of Oxford Circus station was more closely linked to the media sector. Regus submitted that competition between serviced office space providers was stronger within than across the two areas.[88] Regus submitted that it faced significant competition in each of these areas.

199. The CMA observed that the number and profile of competitors differed in these quadrants. For example:

(a) LEO had several centres close to Bond Street in the quadrant south-west of Oxford Circus, but only one centre north of Oxford Circus.

(b) There were seven managed space centres (operated by Reflex and Workspace) and one co-working centre (operated by WeWork) in the quadrant south-east of Oxford Circus, but none in the south-west and north-west quadrants.

(c) There were significantly more serviced office space fascias in the quadrants south of Oxford Circus than in the quadrants north of Oxford Circus.

200. The CMA considered that this evidence was consistent with Regus' submission that the conditions of competition were different in each of these areas. Accordingly, the Parties' high combined capacity shares in the areas north of Oxford Street and within 0.5 miles of Oxford Circus were likely to overstate the degree of competition that would be lost in this area as a result of the Merger.

201. The CMA considered that any competitive effects of the Merger in relation to areas south of Oxford Circus would be more appropriately assessed as part of the CMA's assessment in Mayfair/St James's and the West End. With respect to areas north of Oxford Circus station, the CMA observed that, post-Merger, Regus would compete with several close competitors, including TOG, First Base, Ventia, and Lenta. TOG (with a [20–30]% capacity share) – [✄] – and First Base (with a [10–20]% capacity share) would be particularly strong in this area. As noted above, there were also several 'out-of-market' office space providers active in this area, including co-working spaces.

[88] Regus IL response, paragraphs 2.5 & 2.6.

202. On the basis of the evidence it has found, the CMA believes that the Parties were close competitors in the area north of Oxford Street but that taken together, constraints from close competitors and 'out-of-market' providers of office space are sufficient to exclude unilateral effects concerns.

203. The CMA has therefore **not** found a realistic prospect of an SLC in the area north of Oxford Street.

- *Mayfair/St James's area*

204. There are three Regus and five former Avanta centres in the Mayfair/St James's area. One Regus and one former Avanta centre are located just south of Oxford Circus station (0.15 miles from the station).[89] (Regus provided evidence showing this centre would close in March 2016.) Two Regus and one former Avanta centre are a short distance from Green Park station (within 0.3 miles of the station). In addition, there are two former Avanta centres a short distance from Piccadilly Circus station (0.2 miles). One Regus centre is located a similar distance from Piccadilly Circus station but just outside the boundary of this local area.

205. The CMA found that the Parties' combined capacity share in the Mayfair/St James's area was high ([40–50]%) and the increment was substantial ([20–30]%). The Parties' combined capacity within 0.5 miles of Green Park was significantly lower ([30–40]%, with an increment of [10–20]%).

206. On the basis of this evidence, the CMA found that the Parties were close competitors in the supply of serviced office space in the Mayfair/St James's area.

207. The CMA considered whether the merged entity would face sufficient competition post-Merger. The CMA observed that providers in this area were mostly clustered within a radius of 0.5 miles from Green Park station. The CMA noted that there were several centres located within this radius but outside the boundaries of the Mayfair/St James's area. The CMA therefore focused its competitive assessment on a 0.5-mile radius around Green Park station (where, as noted above, the Parties' combined capacity share was significantly lower than across the Mayfair/St James's area as a whole).

208. Regus submitted that the merged entity would be competitively constrained by the following serviced office space providers active in the Mayfair/St James's area: LEO, i2, Office Space in Town, TOG, One Heddon Street, Servcorp and Mayfair Point. For the reasons explained the CMA considered that LEO, i2,

[89] The CMA found that [✂].

Office Space in Town, and TOG would be the merged entity's closest competitors in this area. With respect to these providers' positions in the Mayfair/St James's area, the CMA found that:

(a) LEO had a capacity share of [10–20]% in the Mayfair/St James's area, and [30–40]% within 0.5 miles of Green Park station. The CMA noted, further, that there were an additional three LEO centres located just to the south of this area (which the CMA considered, as explained above, should be considered separately from the CMA's competitive assessment of the Victoria area). One third party described LEO as 'dominant' in this part of central London.

(b) I2 had a capacity share of [10–20]% in the Mayfair/St James's area and within 0.5 miles of Green Park station.

(c) Landmark had a capacity share of [0–5]% in the Mayfair/St James's area and within 0.5 miles of Green Park station.

(d) TOG, Office Space in Town and Ventia all had capacity shares of around [0–5]% in the Mayfair/St James's area and within 0.5 miles of Green Park station.

209. On the basis of the evidence it has found, the CMA believes that the Parties were close competitors in the Mayfair/St.James's area but that constraints from close competitors are sufficient to exclude unilateral effects concerns.

210. The CMA has therefore **not** found a realistic prospect of an SLC in the Mayfair/St James's area.

- *Clerkenwell/Shoreditch area*

211. There is one Regus centre and one former Avanta centre in the Clerkenwell/ Shoreditch area. The Regus centre is located approximately 0.4 miles south of the Old Street roundabout, whereas the former Avanta centre is located approximately 0.2 miles north of the same roundabout.

212. The CMA found that the Parties' combined capacity share in the Clerkenwell/ Shoreditch area was low ([10–20]%, with an increment of [10–20]%). The Parties' combined share of workstation capacity area within 0.5 miles around Old Street station was also low ([20–30]%, with an increment of [10–20]%).[90]

[90] Regus' estimate of the Parties' combined capacity share in this area differed slightly. However, the CMA considered that these differences were small and would not affect the CMA's assessment of the competitive effects of the Merger in this area.

213. On the basis of the evidence above, the CMA considered that the Parties were close competitors in the Clerkenwell/Shoreditch area.

214. The CMA considered whether the merged entity would face sufficient competition post-Merger. The CMA identified several close competitors of the Parties that were active in this area:

(a) TOG had a capacity share of [10–20]% in the Clerkenwell/Shoreditch area and within 0.5 miles of Old Street station.

(b) Business Environment had a capacity share of [10–20]% within 0.5 miles of Old Street station.

(c) Each of Lenta, Orega and Ventia had a share of between [0–5]% and [0–5]% in the Clerkenwell/Shoreditch area. Orega, Ventia and First Base had a share of between [0–5]% and [0–5]% within 0.5 miles of Old Street station.

215. The CMA considered whether the merged entity would face competition from 'out-of-market' office space providers in the Clerkenwell/Shoreditch area. The CMA observed that co-working centres were more prevalent in this area than in other parts of central London. The CMA identified seven co-working centres located within 0.5 miles of Old Street station: The Brew, Hoxton Mix, Co Work, Bourne Financial and First Base. Regus submitted that there were a further five co-working centres in the area, operated, respectively, by: Central Working, Founder, Oval Space, RQ Space, and TOG. Consistent with the prevalence of co-working centres in this area, the CMA found evidence that co-working centres constrained serviced office space more strongly in the Clerkenwell/Shoreditch area than in other parts of central London. This is because customers that typically sought office space in this area tended to prefer, or be willing to accept, a less formal working environment.[91]

216. On the basis of the evidence it has found, the CMA believes that the Parties were close competitors in the Clerkenwell/Shoreditch area but that, taken together, constraints from close competitors and 'out-of-market' providers of office space are sufficient to exclude unilateral effects concerns.

217. The CMA has therefore **not** found a realistic prospect of an SLC in the Clerkenwell/Shoreditch area.

[91] Cushman OAAS, p24 ('The Emerging City includes Clerkenwell, Shoreditch and Hackney, which are home to clusters of digital, technology and creative business and who are target demand for many of these co-working operators' […] 'The Emerging City has the largest concentration of co-working floorspace, with more than a quarter of all floorspace located in this area').

- *Reading area*

218. There is one Regus and one former Avanta centre in this area. The centres are located close to each other, within 0.5 miles of Reading train station.

219. The CMA found that the Parties' combined share of workstation capacity within 0.5 miles of Reading was quite high ([30–40]%) with a significant increment ([10–20]%). The Parties' combined share within 1 mile of Reading train station was low ([20–30]%), with a significant increment ([10–20]%).

220. Three third parties (one broker and two competitors) told the CMA that the Parties were particularly close competitors in the Reading area.

221. Regus submitted that although the Parties' centres were located only 0.1 miles apart, the Parties' centres were not close competitors within this area because they were different in style and character. Regus submitted that its centre was located in a modern and well-equipped building in a recently redeveloped business district, close to the high street and Reading station. Regus submitted that Avanta's centre was in a more 'dated' building closer to the centre of town, overlooking the River Kennet.[92]

222. However, the CMA observed that the Parties centres' were located only 3 minutes' walk away, and were approximately equidistant from the amenities of Reading town centre. In light of this evidence, and given that several third parties told the CMA the Parties competed closely in this area, the CMA considered that the Parties were close competitors in the supply of serviced office space in the Reading area.

223. The CMA identified five competitors within 0.5 miles of Reading station (Business Environment, QC Offices, Premier House, Fountain House, and 73 Milford Road), and a further three competitors within 1 mile of the station (56/58 Queens Road, Eldon Court, ECC). For the reasons explained above, the CMA considered that Business Environment would be the closest serviced office space competitor to the merged entity in this area. The CMA found that, pre-Merger, Business Environment was the largest provider of serviced office space in this local area, with a capacity share of [20–30]% within 0.5 miles of Reading station, and a capacity share of [20–30]% within 1 mile of Reading station.

224. On the basis of the evidence it has found, the CMA believes that the Parties were close competitors in the Reading area but that, taken together,

[92] Regus IL response, Annex 11, paragraph 1.6.

constraints from close competitors and other providers of office space are sufficient to exclude unilateral effects concerns.

225. The CMA has therefore **not** found a realistic prospect of an SLC in the Reading area.

Conclusion on horizontal unilateral effects: serviced office space

226. As set out above, the CMA considers that the merger raises significant competition concerns as a result of horizontal unilateral effects in relation to the supply of serviced office space in the **Hammersmith, Victoria, Canary Wharf/Docklands, Euston/King's Cross,** and **Paddington** areas of central London.

Horizontal unilateral effects: meeting rooms

227. Regus submitted that the Parties faced significant competition from a broad range of meeting room providers, including both office space providers with meeting rooms on-site and specialist providers. Regus was unable to provide share of supply data at the local level but submitted that given the large number of meeting room providers active in each local area, the Parties' combined share would be minimal.

228. In addition to providers of office space that also provide meeting rooms, internal documents identified hotels (eg Andaz Hotels, The Trafalgar Hotel and Strand Palace Hotel) and specialist meeting venue providers (De Vere Venues, ETC Venues, Hamilton House and CCT Venues) as competitors in this area.[93]

229. No meeting-room-only customers that responded to the CMA's merger investigation considered The Parties to be close competitors in this area. A specialist meeting room broker told the CMA that while it was aware of Regus' meeting room business, it did not know that Avanta also provided meeting rooms.

230. There is some evidence that the Parties may not compete closely in relation to the supply of meeting rooms. However, given the evidence set out below, it was not necessary for the CMA to conclude on whether the Parties are close competitors in the supply of meeting rooms.

231. As noted above, the Parties' internal documents and third party evidence indicated that the Parties competed against a larger universe of providers in

[93] Regus submission of 2 September 2015, Annex 3.16b.

the supply of meeting rooms than is the case with respect to serviced office space. As set out in the table below, the CMA considered the number of competitors that the merged entity would face in each local area:

Table 2: Number of competing meeting room providers post-Merger in each local area

Local areas	Category of Meeting Room Competitor		
	Office space competitors	**Specialist meeting venue competitors**	**Other competitors (eg hotels)**
Hammersmith	4	0	0
Paddington	3	0	0
Euston/King's Cross	10	2	0
North of Oxford Street	15	0	0
West End	8	0	1
Mayfair/St James's	16	0	0
Victoria	10	0	0
Midtown	19	2	0
Clerkenwell/Shoreditch	23	1	1
City	25	2	1
Canary Wharf/Docklands	6	2	0

232. The CMA received two complaints regarding possible horizontal unilateral effects in relation to the supply of meeting rooms, including one relating to the Canary Wharf/Docklands area specifically.

233. However, based on the evidence above, the CMA found that a significant number of competing office space providers will compete with the merged entity in each local area. In addition to these providers, specialist meeting room providers and/or other meeting room providers, such as hotels, are active in many areas.

234. Accordingly, the CMA has **not** found a realistic prospect of an SLC in relation to unilateral horizontal effects in the supply of meeting rooms in local areas within central London and Reading.

Horizontal unilateral effects: virtual offices

235. Regus submitted that none of its virtual office products provided an equivalent service to Avanta's products. However, the CMA considered that there were significant similarities between the Parties' mailbox-only and the Parties'

bundled offerings.[94] Furthermore, an internal Avanta document on competition in the virtual office segment [✂].

236. Three virtual office space customers told the CMA that the Parties' virtual office products competed closely. Most virtual office space customers expressed no view on the closeness of competition between the Parties, however, and one customer told the CMA that it was unaware of Avanta. In light of the limited evidence it had received, the CMA could not exclude that the Parties compete closely in the provision of virtual office services.

237. Regus submitted that the Parties faced significant competition from office space providers with virtual office businesses and specialist virtual office space providers.[95] All of these providers offered a full range of virtual office services. Regus submitted, further, that a number of other providers offered only a subset of virtual office services. In Regus' view, customers could choose to source all of their virtual office requirements from one customer, or mix and match elements sourced from several different suppliers.[96]

238. The CMA received two complaints regarding possible horizontal unilateral effects in relation to the supply of virtual offices. However, one customer told the CMA that the market had expanded in the last two to three years and that there were now significantly more virtual office space options available. Another virtual office customer said that there was significant competition in the virtual office space.

239. Most customers that responded to the CMA's merger investigation said that they would not consider sourcing elements of virtual office packages from different providers.

240. The CMA found that the main areas of overlap in the Parties' virtual office services were in mailbox and in telephone answering and that in both areas the merged entity would face competition from a large number of providers. Moreover, with respect to telephone answering services specifically, the CMA found, further, that competition took place at a wider geographic level (potentially national) than local because the provision of telephone answering services was not tied to a specific location. The merged entity would therefore

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[94] Specifically, Regus' Mailbox Plus package offered similar services to the Avanta virtual mailing address product, and Regus Virtual Office (and Virtual Office Plus) offered similar services to the Avanta mailing and telecoms product.
[95] Regus identified, in particular, YourVirtualOfficeLondon.co.uk, VelocityVirtual.com, Londonpresence.com, Hold-everything.com, Moneypenny and eoffice.com. The CMA noted that an internal Avanta document identified the following competitors in the supply of virtual office space: [✂].
[96] Regus submission on further theories of harm (virtual offices), 21 October 2015.

face competition from competitors located outside each of the local areas in which the Parties were active.

241. Accordingly, the CMA has **not** found a realistic prospect of an SLC in relation to unilateral horizontal effects in the supply of virtual offices in local areas within central London and Reading.

Conclusion on horizontal unilateral effects

242. The CMA has found that there is a realistic prospect of an SLC in relation to the supply of serviced office space in the **Hammersmith**, **Victoria**, **Canary Wharf/Docklands**, **Euston/King's Cross**, and **Paddington** areas of central London. The CMA has **not** found a realistic prospect of an SLC in relation to the supply of serviced office space in other local areas.

243. The CMA has **not** found a realistic prospect of an SLC in relation to the supply of meeting rooms or virtual offices in any local area where the Parties' activities overlap.

Vertical effects

244. Some third parties raised concerns regarding possible vertical effects due to Regus' ownership interest in Easy Offices, a specialised serviced office space broker.[97] The CMA therefore considered whether Regus might have the ability or incentive to restrict the supply of brokerage services to competing office space providers (ie customer foreclosure) and/or restrict the supply of Regus office space to competing brokers (ie input foreclosure) in order to favour Easy Offices, therefore harming the ability of its competitors to compete (ie competing office space providers in the case of a customer foreclosure theory of harm and competing brokers in the case of an input foreclosure theory of harm).

245. In relation to customer foreclosure, Regus submitted that Easy Offices provided a narrower brokerage service than competitors, such as Officebroker.com, Instant Offices, Flexioffices, and Search Office Space, because it only listed serviced offices on its website, not meeting rooms and virtual offices. Regus estimated, based on its revenues through Easy Offices

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[97] In addition, one third party raised concerns regarding vertical effects as a result of Avanta's ownership of Davinci. The CMA understands that prior to March 2013, Avanta operated a UK-based joint venture with DaVinci Virtual LLC, Davinci UK. Davinci UK operated independently of Avanta, selling services on behalf of various VO providers, including Avanta and Evans Easyspace, under the Davinci brand. In March 2013 [✂]. At the same time [✂]. The CMA understands, based on the evidence before it that [✂]. On the basis of the evidence it has found, the CMA believes that the Merger does not give rise to a realistic possibility of an SLC as a result of vertical effects relating to the Davinci UK business.

leads, Easy Offices' share of serviced office brokerage services to be around [✂]%.

246. Regus' submissions were consistent with evidence from third parties that Easy Offices is not a significant serviced office space broker and that there are a number of other, more significant brokers. The CMA therefore considered that Regus would not have the ability to implement a customer foreclosure strategy and, for this reason, considered that there is no realistic prospect of an SLC arising through vertical customer foreclosure post-Merger.

247. Regus submitted that any input foreclosure effect needed to be Merger-specific and that, to the extent that the merger gives rise to market power upstream, this would be addressed in the CMA's assessment of horizontal unilateral effects.[98]

248. In relation to input foreclosure, the CMA agreed with this analysis and considered whether Regus may have an increased ability to foreclose rival brokers in those local areas where the CMA found there was a realistic prospect of an SLC through unilateral effects in the supply of serviced office space. In relation to incentives, the CMA observed, further, that [✂]% of Regus' serviced office revenue in London is generated through broker referrals, but that only [✂]% of this revenue (or [✂]% of Regus' total revenue) derived from referrals through Easy Offices. In addition, as noted above, Easy Offices' share of serviced office brokerage services is estimated to be around [✂]%. For these reasons, the CMA therefore considered that Regus would not have an ability or incentive to implement an input foreclosure strategy. In light of these findings, the CMA therefore considered that there is no realistic prospect of an SLC arising through vertical input foreclosure post-Merger.

249. Accordingly, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of vertical effects.

Barriers to entry and expansion

250. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC. In assessing whether entry or expansion might prevent an SLC, the CMA considers whether such entry or expansion would be timely, likely and

[98] Regus submission on further theories of harm (vertical effects), 21 October 2015.

sufficient.[99] In light of its findings above, the CMA has focused on barriers to entry and expansion in relation to the supply of serviced office space.

251. The CMA's competitive assessment in merger cases reflects both short-term competitive dynamics and longer-term dynamic competition through innovation and the development of new business models.[100] The CMA found some evidence that the office space sector is expanding and attracting new entry, including by companies with innovative service propositions.[101] Mindful of this broader industry trend, the CMA has taken account of this dynamic aspect of competition and the implications of entry and/or expansion in specific local areas in its competitive assessment.

252. Regus submitted that barriers to entry and expansion in the serviced office space sector were low, for the following reasons:[102]

(a) the overall pipeline of commercial office space development across London was expected to result in a significant increase in available office space across London in the next 18 to 24 months;

(b) in addition to entry/expansion through acquisition, office space providers could develop their operations through partnerships, developing existing premises, or taking on surplus office space from existing commercial tenants;

(c) there were many examples of recent entry or expansion by providers of serviced office space (including LEO, i2, TOG, Landmark and Servcorp), managed space and co-working space (in particular, WeWork); and

(d) even competitors that Regus considered to have 'little in the way of covenant strength' – such as i2, Orega and Ventia – had made significant recent expansions,[103] demonstrating that low covenant strength did not affect a provider's ability to enter or expand.

253. As regards the 'pipeline' of new office space, the CMA found evidence of existing and planned commercial property development projects in several areas in central London and Reading. However, as explained above, in line with its frame of reference, the CMA placed greater weight on evidence of entry/expansion within specific local areas (or the absence thereof), and in

[99] *Merger Assessment Guidelines*, from paragraph 5.8.1.
[100] Department for Business, Innovation & Skills, Response to consultation on statement of strategic priorities for the CMA, 1 October 2013.
[101] For example, WeWork launched its first centre in 2010 in Soho, New York, but has since expanded to more than 25 centres in eight cities across the USA and Europe, including three in London.
[102] Regus IL response, paragraphs 5.1–5.23.
[103] Regus s109 response, paragraph 8.3.

particular on evidence that new space had been or would be acquired by serviced office space providers, than on evidence that capacity as a whole was expanding.

254. Regus submitted that it was not meaningful to consider whether space in a new development had been acquired by a serviced office provider because when new developments were built they were typically filled by tenants vacating other office space. This, in turn, freed up capacity in the previous location for use by third parties, including serviced office providers. In Regus' view, the addition of new capacity therefore created opportunities for the entry of serviced office providers irrespective of the proportion of the new development space that was taken up by serviced office providers.[104]

255. The CMA disagreed with this view. Unless both 'new' and 'old' office space were acquired by a serviced office space provider, the acquisition of new capacity by the serviced office space provider would have little or no net effect on overall competitive constraints from serviced offices in that local area. That is, unless the 'old' space were also acquired by a serviced office space provider, the arrangements would simply entail a transfer of existing serviced office space competition from location A to location B.

256. Third parties told the CMA that it was difficult for a provider already present in one local area within central London to expand into another local area. (One third party said that expansion into the West End was particularly difficult.) Third parties considered the principal barriers to entry to be: limited availability of space, high rental levels, difficulty of access to finance, and competition between office space providers to lease or purchase available spaces. One third party told the CMA that it took six to 18 months to expand into a new local area.

257. The CMA found evidence that landlords might resist leasing commercial space to tenants with 'weak covenants' because they were perceived as offering lower security of income than other occupiers.[105] Landlords might therefore not lease premises to these providers even if new commercial space became available. A third party told the CMA that the principal reasons for a landlord to reject a prospective tenant were: (1) the tenant did not fit the character of the building, and (2) the tenant had not demonstrated their financial position and covenant strength to the landlord's satisfaction.

258. The CMA considered whether it would be easier for existing providers of meeting rooms to enter the serviced office space segment by converting their

[104] Regus IL response, paragraphs 5.18–5.23.
[105] City of London Corp. 2014, pp37 & 49.

existing meeting room space. Feedback from third parties indicated that although entry in this case could be carried out quickly and at relatively low cost, some meeting rooms used space unsuitable for conversion (eg no natural light). On a cautious basis, the CMA therefore did not consider that the option of converting existing meeting room space to serviced offices would materially lower entry barriers.

259. On the basis of this evidence, the CMA believes that barriers to entry and expansion in the serviced office space are not insignificant. The CMA considers that entry will be easier for existing providers than for *de novo* entrants (because the former have demonstrated their financial and covenant strength in their existing locations). The CMA also considers that it will be easier for 'out-of-market' office space providers, eg co-working spaces, to acquire new space in local areas where that service model is already prevalent (because the tenant is more likely to fit the character of the building). Although the CMA recognises that there is a substantial pipeline of new office space in central London and Reading, the CMA cannot predict with sufficient certainty how much of this space will be taken up by serviced office space providers and therefore what proportion of the 'pipeline' will competitively constrain the merged entity.

260. For these reasons, the CMA considers that entry or expansion would not be sufficient timely or likely to prevent a realistic prospect of an SLC as a result of the Merger. However, the CMA has considered evidence of confirmed entry/expansion by serviced office space providers and 'out-of-market' providers in its local area analysis.

Third party views

261. As explained above, the CMA contacted a large number and broad range of third parties, including customers, brokers, competitors and other stakeholders. A number of these third parties raised concerns regarding horizontal unilateral and/or vertical effects resulting from the Merger. The CMA has taken third party comments into account where appropriate in the competitive assessment above.

262. In addition to these Merger-specific concerns, the CMA received several complaints relating to aspects of Regus' business practices that were unconnected to the Merger. The CMA took note of these concerns but did not consider them further in the context of its merger investigation.

Conclusion on substantial lessening of competition

263. Based on the evidence set out above, the CMA believes that it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC as a result of horizontal unilateral effects in relation to the supply of serviced office space in the following areas in central London: Hammersmith, Victoria, Canary Wharf/Docklands, Euston/King's Cross and Paddington.

Decision

264. Consequently, the CMA believes that it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC within a market or markets in the United Kingdom.

265. The CMA therefore considers that it is under a duty to refer under section 22(1) of the Act. However, the duty to refer is not exercised pursuant to section 22(3)(b) while the CMA is considering whether to accept undertakings under section 73 of the Act in lieu of a reference. Pursuant to section 73A(1) of the Act, Regus has until 25 November to offer an undertaking to the CMA that might be accepted by the CMA under section 73(2) of the Act. If Regus does not offer an undertaking by this date, if Regus indicates before this date that it does not wish to offer an undertaking, or if pursuant to section 73A(2) of the Act the CMA decides by 2 December 2015 that there are no reasonable grounds for believing that it might accept the undertaking offered by Regus, or a modified version of it, then the CMA will refer the Merger pursuant to sections 22(1) and 34ZA(2) of the Act.

Andrea Coscelli
Executive Director, Markets & Mergers
Competition and Markets Authority
18 November 2015

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[i] Following publication of the SLC Decision, Regus submitted that Tosca Vehicle Limited was incorporated for the purposes of its acquisition of Avanta Serviced Office Group plc and that the incorporation took place prior to the Merger, without the involvement of Regus.

[ii] Following publication of the SLC Decision, Regus submitted that in a subletting arrangement, the main tenant can sublet all or part of its premises to a third party. The CMA agrees that this clarification accurately reflects the content of Regus' submissions.

[iii] Following publication of the SLC Decision, Regus submitted that it had assessed these providers' centres as 'relevant' in the data set provided to the CMA because although the providers did not identify themselves as providers of serviced office space, their products were – in Regus' view – so closely comparable to Regus' products that they should be considered serviced office space providers. The CMA agrees that this clarification

accurately reflects the content of Regus' submissions (see, for example, paragraphs 2.28–2.34 and Annexes 18–20).