

Anticipated Acquisition by Barratt Developments plc of Redrow plc

ME 7089/24

SUMMARY

OVERVIEW OF THE CMA'S DECISION

1. The Competition and Markets Authority (**CMA**) has found that the acquisition by Barratt Developments plc (**Barratt**) of Redrow plc (**Redrow**) gives rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects in the supply of new-build private residential housing (**new-build housing**) in one local market within the UK.
2. The CMA refers to this acquisition as the **Merger**. Barratt and Redrow are together referred to as the **Parties** and, for statements relating to the future, the **Merged Entity**.
3. As the CMA has found that the Merger gives rise to a realistic prospect of an SLC, the Parties have until 15 August 2024 to offer undertakings in lieu of a reference (**UILs**) to the CMA that will remedy the competition concerns identified. If no such undertaking is offered, then the CMA will refer the Merger for a phase 2 investigation pursuant to sections 33(1) and 34ZA(2) of the Enterprise Act 2002 (the **Act**).

Who are the businesses and what products/services do they provide?

4. Both Barratt and Redrow are UK housebuilders incorporated in England and Wales, active in the acquisition and development of land and the planning, design, construction and selling of new-build housing in Great Britain.
5. The Parties overlap in the supply of new-build housing both on a national basis and at a local level (in locations where both are present).

Why did the CMA review this merger?

6. The CMA's primary duty is to seek to promote competition for the benefit of consumers. It has a duty to investigate mergers that could raise competition concerns in the UK, provided it has jurisdiction to do so. In this case, the CMA has concluded that it has jurisdiction to review this Merger because Barratt and Redrow are each enterprises that will cease to be distinct as a result of the Merger, and because the turnover test is met, as Redrow's UK turnover in 2023 exceeded £70 million.

What evidence has the CMA looked at?

7. In assessing this Merger, the CMA considered a wide range of evidence.
8. The CMA received several submissions and responses to information requests from the Parties. This included information about the nature of the Parties' businesses, the constraint offered by second-hand homes on the Parties, the size of catchment areas in each local area and the Parties' shares of supply.
9. The CMA also examined the Parties' own internal documents, which show how they run their business, how they view their rivals in the ordinary course of business and how they view the geographic scope at which competition takes place (ie national and/or local).
10. The CMA spoke to and gathered evidence from other market participants such as competitors and land agents to understand better the competitive landscape and the main parameters of competition.

What did the evidence tell the CMA...

...about the effects on competition of the Merger?

11. The CMA looked at whether the Merger would lead to an SLC in the supply of new-build housing at the national and local level. This is because some of the key parameters of competition upon which housebuilders compete (such as price and specifications) are set at the national level and flexed locally to account for local realities and competitive dynamics. In addition, location has been identified as one of the most important criteria for customers when purchasing a home.
12. At the national level, the Merged Entity would become the largest housebuilder by volume of short-term land bank holdings. However, the CMA found no competition concerns on the basis that: (i) the Merged Entity would continue to have a relatively modest market position, with a combined share of supply of [10-20]%; and (ii) the Merged Entity would continue to face sufficient remaining competition from other large housebuilders.

13. At the local level, the CMA considered the impact of the Merger in the catchment areas where the Parties have a significant combined presence. The geographic presence of housebuilders (including the Parties) is varied, and not all the competitors identified at the national level are present in the local areas where the Parties overlap.
14. In order to assess local overlaps, the CMA used a decision rule. Decision rules are commonly used in phase 1 investigations to enable the competitive assessment of a large number of local areas to be carried out systematically, efficiently and at proportionate cost. The CMA used a two-limb decision rule, in which the Merger would give rise to a realistic prospect of an SLC in a given local market if, in that local market:
 - (a) the Parties had a combined share of supply of at least 40%, with an increment of 5% or more; or
 - (b) two or fewer competitors would remain post-Merger.
15. The CMA based its analysis of the relevant catchment area on an 11 mile straight-line distance. The CMA calculated shares based on the short-term land bank holdings of the Parties and their rivals. The CMA believes that calculating shares on the basis of short-term land banks provides a good indication of the Parties' and their competitors' forward-looking positions. Short-term land bank shares give an indication of the 'flow' of homes that will be developed in the near future.
16. When calculating the shares of the Parties, the CMA considered the relevant competitor set to include other UK-wide housebuilders and smaller housebuilders that may be active in certain local areas or regions. The CMA excluded from the effective competitor set second-hand homes and providers of affordable housing.
17. Regarding second-hand homes, the evidence available to the CMA indicated that the price of nearby second-hand homes is an important constraint on housebuilders' ability to set prices of new-builds in specific local areas. However, the evidence also indicated that the Parties compete most closely with other housebuilders, and the new-builds and second-hand homes may not be substitutable for customers. As such, the CMA considered second-hand homes as a strong out-of-market constraint.
18. The threshold chosen for determining whether competition concerns arise is a case-by-case assessment, taking into account all the facts and circumstances of a given case. In this case, the CMA determined that a 40% share threshold is appropriate to identify areas in which there is a realistic prospect of an SLC arising. This reflects, in particular, the strong nature of the out-of-market constraints posed by second-hand homes.

19. On this basis, the CMA found that the Merger may be expected to result in an SLC as a result of horizontal unilateral effects in the supply of new-build housing in one local catchment area centred on the Barratt development at Tilstock Road, Whitchurch, which includes Redrow's development at Kingsbourne, Nantwich.

What happens next?

20. As a result of these concerns, the CMA believes the Merger gives rise to a realistic prospect of an SLC in the supply of new-build housing arising from a loss of local competition in one local catchment area centred on the Barratt development at Tilstock Road, Whitchurch. The Parties have until 15 August 2024 to offer an undertaking which might be accepted by the CMA to address the SLC. If no such undertaking is offered, or the CMA decides that any undertaking offered is insufficient to remedy its concerns to the phase 1 standard, then the CMA will refer the Merger for a phase 2 investigation pursuant to sections 33(1) and 34ZA(2) of the Act.