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## Completed acquisition by Countrywide plc of Bradford & Bingley plc

The OFT's decision on reference under section 22 given on 23 November 2004

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### **PARTIES**

1. **Countrywide plc (Countrywide)** is engaged in the provision of a wide range of services in respect of residential property, including estate agency services, financial services, conveyancing, surveying and valuation. **Bradford & Bingley plc (BB)** provides lending on residential and commercial properties, retail savings services and the retailing of mortgage, investment and insurance products. Prior to the acquisition BB also supplied residential estate agency and surveying services. In the year ending 31 December 2003, the UK turnover of BB's estate agency and surveying businesses amounted to £134 million.

### **TRANSACTION**

2. On 15 October 2004 Countrywide acquired the BB Estate Agents business (BBEA) and the entire issued share capital of BB's surveying and valuation services business, Securemove Property Services Ltd (Securemove) for a total consideration of £44.4 million. The statutory deadline for consideration of this transaction expires on 14 February 2005 and the OFT's administrative deadline expires 23 November 2004.

### **JURISDICTION**

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

## RELEVANT MARKET

4. The parties overlap in estate agency services, and in surveying and valuation services, including panel management (where a third party administers the deployment of a number of surveying firms on behalf of a lender) in the UK.

### *Estate Agency services*

5. The principal role of an estate agent is to market residential property for sale and to obtain an offer for the property. The majority of business is transacted through residential estate agency branch offices of which there are around 13,000 in the UK according to the parties' estimates.
6. Many estate agents now advertise properties for sale on their own websites. There has also been a significant growth in property internet portals, where customers can search for a property by themselves. Evidence cited in the OFT's decision of 27 January 2003 on the completed acquisition by Connells Ltd of Sequence UK Ltd suggested that internet sites are primarily complementary to estate agency offices. No evidence received as a result of this investigation has contradicted that view and, as such, it is unlikely that internet sites currently place a strong independent competitive constraint on estate agency offices.
7. It has been estimated by a recent Keynote report<sup>1</sup> that only five per cent of properties are sold without the mediation of an estate agent. This suggests that the competitive constraint from alternative transaction methods (including private sale) is unlikely to be strong.
8. While there may be some national element to competition among the nationwide chains, competition is primarily local as property sellers generally use offices that are local to them. Two-thirds of UK offices are run by independent agents.
9. The OFT's March 2004 report into the estate agency market found that eighty-seven per cent of sellers in England and Wales chose an estate agent within five miles of the property to be sold, and the average distance between the estate agent's office and the property was 2.6 miles.<sup>2</sup> Such analysis and evidence considered as part of this assessment suggests that, for a branch located primarily in a densely-populated area, sellers would typically be located less than two miles from the office of their choice; for

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<sup>1</sup> Estate Agents Keynote report 2003

<sup>2</sup> *Estate agency market in England and Wales*, March 2004, para 4.14 (OFT693)

rural areas the geographic area might be much wider, with around 50 per cent of customers coming from within a five-mile radius. In assessing this case a cautious view has been taken in order to ensure that all potential local issues have been addressed and overlaps between the parties have been assessed on both a two- and five-mile basis.

#### *Surveying and Valuation services*

10. The main service provided within this sector is an internal and external inspection in the form of a standard mortgage valuation to lenders and brokers. Mortgage valuations are carried out to enable a lender to decide what advance can be made on a property offered as security. The direct relationship is between the lender and the surveyor. Some consumers do, however, commission their own, more in-depth survey reports. The parties combined share of supply in terms of such additional survey reports is estimated by the parties at 14.2 per cent and due to the lack of competition concerns identified during this analysis the supply of in-depth survey reports is not considered further.
11. Valuation services are provided in-house by lenders and/or by outsourcing to external surveyors. Many major lenders use both in-house and external surveyors (mainly to accommodate the volatility of workflow) suggesting that in-house provision is currently a competitive constraint on external providers, although it is noted that lenders have differing views on the extent of this constraint. Contracts for valuation business are normally awarded for between three and five years.
12. Looking at the geographic scope of competition, many lenders consider that competition takes place on both a national and regional level and in placing their business with a number of surveyors (often a large number), they enable regional and local firms to compete for valuation business.

#### *Panel management*

13. The administration of lenders' mortgage valuation requirements may be outsourced via panel management (although some lenders carry out this function in-house). When using an external panel manager, the lender remains in control of the identity of surveyors on its panel and the proportion of surveys done by the various surveyors on the panel and the level of fees to be paid. The role of the panel manager is to allocate surveying requests in line with the lenders instructions and to carry out various administrative functions such as quality checking and arranging payment.

### *Conclusions on the sectors*

14. On the basis of the above, the OFT has used the following frames of reference to analyse this case:
- the supply of local estate agency services within either a two-mile or a five-mile radius (however the OFT notes that in certain areas (rural areas for example) the frame of reference may be much wider);
  - the supply of surveying and valuation services in the UK (noting any potential regional effects);
  - the supply of Panel Management services in the UK (again noting any potential regional effects).

## **COMPETITION ASSESSMENT**

### *Estate agency services*

15. According to figures provided by the parties, at a national level Countrywide accounted for nearly 7 per cent of UK estate agency offices in January 2004; BBEA accounted for around 2 per cent. The parties' figures for number of transactions in the UK in 2003 were very similar at around 6 per cent and 2 per cent respectively.
16. At a local level, of the 307 branches being acquired, there are overlaps between the parties in respect of 214 on a five-mile basis. The parties have provided data showing that they will continue to face at least four competitors in all except one location, post-merger. The exception is Midhurst, West Sussex where the parties identify two other competitors.
17. On a two-mile basis, there are 175 overlaps. Of these there are five – Midhurst and Burnside, Tavistock, Disley and Redruth – in which the merged business would face three or fewer competitors.
18. In assessing whether the merger results in a substantial lessening of competition in areas where competitors are limited in number, consideration must be given to barriers to entry and buyer power in the sector. As buyers are individuals they are unlikely to have substantial buyer power where they face a limited choice of provider. The strength of any concern in these areas depends therefore on whether there are barriers to entry and expansion (and on whether the geographic scope of competition might be wider in these locations). Evidence from this case, from the Connells/Sequence case referred to above, and from the OFT's March 2004 report into the estate agency market (see footnote 2)

indicates that current barriers to entry and expansion are generally low. No third party has provided evidence to the contrary during the OFT's assessment of this case. Few constraints exist in respect of office accommodation, set-up costs are modest, and there are few sunk costs. There are numerous examples of entry and expansion in locations across the country.

19. As a result, the evidence points to no significant horizontal competition problems in this case regarding estate agency, without the need to consider whether the geographic scope of competition may be wider in the specific areas listed above.

#### *Surveying and Valuation Services*

20. The parties estimate that the combined share of residential mortgage valuation services to lenders in the UK was around 21 per cent in 2003 based primarily on the number of surveyors in each organisation (Countrywide 15.1 per cent, BB (Securemove) 5.4 per cent). The sector is highly fragmented with a HHI of less than 600.
21. If in-house provision by lenders is excluded the parties' combined share of supply rises to around 26 per cent (increment 7 per cent) but the overall picture remains similar in terms of concentration levels. No issues have been identified at a local level concerning a prospective lack of choice of provider.
22. The OFT considers that barriers to entry are currently modest. Although membership of the Royal Institution of Chartered Surveyors is a requirement the parties have provided evidence of significant flows of staff between firms and growth of competitors. There is no evidence of substantial entry costs, especially sunk financial costs. Reputation is, however, likely to be important. There are a number of examples of firms entering and growing over recent years, however, suggesting that barriers to entry and expansion are currently unlikely to inhibit competition.

#### *Panel Management*

23. The parties estimate that the transaction would increase Countrywide's UK share of supply in panel management (by number of surveys) by around 5 per cent to nearly 22 per cent. There are a number of examples of lenders switching their provider of panel management services and there is evidence of recent successful entry. No issues have been identified at

either a national or a local level concerning a prospective lack of choice of provider of panel management services.

## **VERTICAL ISSUES**

24. There is no evidence to suggest that any significant vertical issues arise in this case.

## **THIRD PARTY VIEWS**

25. The large majority of customers and competitors say they are unconcerned by the transaction. Of the very small number that has raised concerns these mainly relate to Countrywide's position as one of the largest firms in each of the sectors under consideration and, looking ahead, how this may impact on Countrywide's ability to be a leading player in providing Home Information Packs (HIPs)<sup>3</sup>. Some concern has also been highlighted about the parties' presence in specific local areas. These aspects have been considered in the above analysis. On HIPs, the OFT refers to the overall analysis outlined above, the fact that practical implementation is still at an early stage and the lack of general concern expressed by third parties.

## **ASSESSMENT**

26. The transaction qualifies for consideration under the Act as it exceeds the turnover threshold in section 23(1)(b) of the Act.
27. The parties overlap in the supply of estate agency services, and in surveying and valuation services, including panel management. In estate agency services the parties have a low combined UK share of supply. When looking at more localised areas where current competition may not be as prevalent, the OFT considers that the relatively low level of barriers to entry and expansion will act as an on-going constraint on the merged business.

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<sup>3</sup> Home Information Packs are part of the Housing Act 2004. The legislation requires sellers of residential properties in England and Wales, or their agents, to make a Home Information Pack available before marketing homes for sale, and to make a copy of the pack available to prospective buyers on request. The pack includes standard documents and information for prospective buyers (including a home condition report and search results). It is proposed that the legislation will be introduced following a dry run in 2006.

28. In the provision of valuation services the parties combined share of supply in the UK is around 21 per cent (26 per cent if in-house surveyors are excluded) in a highly fragmented sector. In addition to the competition which remains in the sector it is also noted that barriers to entry and expansion are modest.
29. In the provision of panel management services the parties combined share of supply in the UK is 22 per cent. In this sector there are a number of examples of lenders switching their panel requirements to providers other than Countrywide and BB (Securemove) and there has been recent successful entry. For both valuation / surveying and panel management no issues were identified at a local level concerning a lack of choice of provider following the acquisition.
30. Consequently, the OFT does not believe that it is or may be the case that the merger has resulted or may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

#### **DECISION**

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