

Property managers in Scotland – a market study

Annexe D - market definition

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1 MARKET DEFINITION

- 1.1 Any analysis of competition usually begins with the definition of the relevant market or markets – this is normally a process which allows us to state, both in terms of products and geographically, what is included in the 'market' under consideration.
- 1.2 In many circumstances market definition can be a relatively formal process. Frequently the hypothetical monopolist framework is adopted to provide a guide for definition of the relevant market. This framework, also frequently known as the SSNIP test, is set out in the OFT's Competition Act Guideline on Market Definition.¹ However, the purpose of defining the limits of the market in the case of this market study is to identify the most important competitive constraints that act on suppliers of the product that we are interested in, in this case, property management services for common areas in multi-occupied residential buildings. As a result the OFT has not conducted a formal SSNIP test but has examined the potential alternatives to consumers and the potential alternative suppliers.
- 1.3 For the purposes of the study, the OFT initially started by looking at the provision of management services for common areas in multi-occupied residential buildings. The level on ongoing maintenance of common areas may be very low for some properties and the need for repairs may be infrequent. Therefore, for some properties having no arrangement for repairs and maintenance may be possible, in the short run at least. However, in practice for most properties consumers need to maintain and repair their property on an ongoing basis, hence the only alternative to using a property manager is to self manage the repairs and maintenance. Therefore, on the demand side the only alternative to using a property manager is self management.

¹ The SSNIP test refers to a 'small but significant non-transitory increase in price' of the group of products in question (the prospective market definition) to test whether there are close enough substitutes to make such an increase unsustainable. [Market definition](#) OFT403.

- 1.4 On the supply side businesses such as estate agents and letting agents may be able adapt their business in order to offer a property management service and indeed some of them do. However, the extent to which the threat of letting agents or estate agents, or any other business not currently operating as a property manager, diversifying into property management acts as a constraint on existing property managers is likely to be limited.
- 1.5 The OFT notes that there are three broad categories of suppliers that offer management services for common areas in multi-occupied residential buildings: Private sector property managers, local authorities and registered social landlords (RSLs). Although there may be some limited overlap in their activities we understand that a number of RSLs and local authorities will not provide services to properties where they do not have a previous or current ownership relationship. Therefore, a group of owners currently receiving services from an RSL, for example, may, if they can secure the necessary majority, opt to use a private sector property manager. Private sector property managers may therefore exert some constraint on RSLs and LAs. However, RSLs and Local authorities exert less of a constraint on private sector property managers.
- 1.6 Notwithstanding the differences in competitive constraints the OFT has included all types of providers of management services for common areas in multi-occupied residential buildings in the remit of the study.
- 1.7 Within this market though competitive conditions vary according to whether the property in question is in a new development, one already with a property manager, or one that does not currently use one. This is discussed further in Chapter 4.

Geographic market

- 1.8 Property managers of all sizes offer services in the area local to their offices – for example, through a history of managing tenements, there are a number of the large property managers servicing Glasgow and the Strathclyde region. Edinburgh has a different group of local providers

owing to a different history of housing ownership. Aberdeen and Dundee have their own locally - based suppliers.

- 1.9 While a number of locally-based suppliers will provide alternatives at the local level, the extent of the geographic market will depend on how far a property manager with an office in one locality can provide services beyond its locality. Even if smaller property managers do not provide services outside their area, if a sufficient number of larger ones do so (or are capable of doing so), then there is a case for a geographic market definition beyond the local area.
- 1.10 In terms of the range they can cover from one office, one major property manager commented:
- 'The only practical constraint is the area that can be covered by a car for property visits etc. Most clients never visit our offices. Communication with clients is now by e-mail or telephone, with meetings taking place at the property ...'
- 1.11 Another though commented though it was difficult to provide services to Central Scotland from offices in Glasgow or Edinburgh:
- 'As Property management is a very difficult business, you have to be communicating, liaising, speaking and meeting with the clients on a regular basis'.
- 1.12 These – and other - rather mixed views do not support a decisive view on this issue. There do appear to be examples where a large development is managed by a property manager based at some distance but, in general, it is probable that most property management is provided by locally based businesses.
- 1.13 The OFT has not therefore formed a final view as to whether the geographic market extends beyond the local area. The OFT notes that the PMAS' website indicates that in all Scottish regions a number of members appear to offer services, suggesting reasonable choice at the local or regional level. It was therefore not necessary to consider further

whether property managers from further afield would also offer choice in that locality.

Land maintenance

- 1.14 We have considered the extent to which the different models of ownership are substitutes both from the perspective of the developer, who makes the initial decision, and home owners. A developer will make a decision whether to make transfer land to the local authority in exchange for a lump sum payment, or to home owners while appointing a property manager, or to a land maintenance company. It appears that Local Authorities may have preferences over the three models and may be able to influence the developer's decision to some degree and individual developers also have their particular preferences.
- 1.15 We have not been able to obtain sufficient information from developers to ascertain exactly how close these options are as substitutes for different developers. In particular it is not clear to the OFT the extent to which developers are responsive to differences in the level of charges to homeowners between the various options. However we have not found it necessary to go further since it is clear that the options for developers do not go beyond the three options set out in Chapter 6. For example, no developer has suggested that it would seek to take on the management of the open space itself or some other alternative solution.
- 1.16 For the purposes of the study we have analysed the market on the basis that some substitution by developers at the planning stage is possible so all options could form part of a single market. However we recognise that such substitution may be fairly limited and that therefore it may also be appropriate to look at competition between land maintenance companies who are willing to take on land as distinct from managers operating under the common ownership model.
- 1.17 From the perspective of home owners, once the developer has determined the arrangement, the possibility of switching to a different model seems low. Such changes would involve changes to deeds and transfer of land and are therefore not straightforward. However one LA

has told us of occasions when groups of home owners switched from using a factor under the common ownership model and have transferred land to the LA with payment of an appropriate commuted sum.