

Working paper on Land holdings

Introduction

1. This paper examines at a national level the duration and use of the largest grocery retailers' land holdings. It first examines the extent of land holdings, and second, analyses the duration of time for which controlled land is held without development. The relative length of this duration might indicate whether these sites are being held as a strategic device to deter or prevent entry into local markets for the supply of groceries.
2. We find that the largest four grocery retailers each control more than 100 land sites across the country. Furthermore, many of these sites have been held by the retailer for a period of time, well beyond the proportion that in the past have been held for that length of time. This holding of sites appears to occur *before* the planning application is submitted. Sites are not held for an unusually long period of time *after* the grant of planning permission. We identify a list of candidate areas in which retailers have stores with strong local positions together with landbank or controlled land sites that may protect these positions.

Grocery retailers' land holdings

3. The extent of grocery retailers' land holdings was first examined in our working paper on 'Land holdings and use issues', published with Emerging Thinking in January 2007. In the current working paper, we have refined our definition of the landbank in light of further evidence received since publication of the January 2007 working paper. The implications of these holdings for individual grocery retailers' shares of national grocery sales were also assessed in our January 2007 working paper, and we do not intend to revisit that issue.

Defining the landbank

4. Defining the landbank is an important step in our location-based analysis; as such, we have refined our preliminary definition in light of the comments received after the publication of our January 2007 working paper.

5. For the six largest grocery retailers, we have measured the size and number of sites within their landbank. We estimated these by taking the total land interests¹ of these retailers and excluding land that:

(a) is currently used for grocery retailing or related support operations;

(b) is leased to third parties; and

(c) falls within a site that is currently used for retail or retail support.

For ease of reference, we have termed this measure of land holding the grocery retailer's 'landbank'.

6. The land included in each grocery retailer's landbank, under this measure, will include land holdings at various stages of development. For example, development of some sites will be relatively advanced with planning permission already having been secured, while planning permission may not have been sought on other sites. Our measure of grocery retailers' landbanks also includes land that may have been earmarked for disposal, lease, or development after 1 July 2006. Where a sale was yet to be agreed on that date, we have taken the view that the stated intended future use remains a matter of conjecture.²

7. Figure 1 shows the total number of controlled land sites for the four largest grocery retailers in the UK as at 1 July 2006. This is broken down into landbanks and other sites over which the retailer retains the power to prevent rival entry (for example,

¹Land interests include land owned outright by the grocery retailer, and also land owned by a third party, either on behalf of the grocery retailer or with whom the retailer has an agreement to acquire an interest at a future date or on a future event.

²Examples of this uncertainty include a site owned by Tesco that we have been told is scheduled for disposal but has since been removed from the market and is now back in development as a potential store (⌘).

through covenants on land belonging to a third party or land owned by the retailer that is leased to a third party).³ Our analysis shows that [X] has the largest number of landbank sites, whilst [X] and [X] lease the most sites to third parties. Overall, [X] controls the largest number of land sites, double that of [X].

FIGURE 1

Land controlled by selected grocery retailer

[X]

Source: CC analysis.

Note: The area occupied by different categories of land use is shown in Figure 16.

8. Figure 2 shows what retailers have described as the uses of their landbank sites. Note that the majority of sites at [X] and [X] are planned disposals.

FIGURE 2

Use of landbank sites

[X]

Source: CC analysis.

Land transactions as a strategic means of impeding entry

9. A number of parties have told us that because land is not readily available for retail development in many local areas, some grocery retailers strategically acquire land or carry out other land transactions to prevent entry by competitors, and thus protect their local position. To assess whether this might be taking place, we have undertaken an analysis of:
- (a) the extent to which grocery retailers have land holdings in respect of which they have not sought planning permission or land holdings in respect of which planning permission has been granted but construction has not commenced (see paragraphs 10 to 43);

³We define a controlled land site to be one over which the retailer retains the ability to prevent a rival using the site for grocery retail, regardless of the use to which the retailer puts that site (eg leased to third party) or whether the retailer owns the land site in question (eg restrictive covenants on any land site not owned by the retailer). Sites that were wholly, or in part, used on 1 July 2006 for retail or retail support are excluded from this definition.

- (b) the extent to which grocery retailers retain some form of control over sites that are not used for retail, nor left empty, including:
 - (i) the imposition of restrictive covenants on the use of land owned by third parties (see paragraphs 45 to 47); or
 - (ii) the lease of land owned by the retailer to third parties (see paragraphs 48 and 49); and
- (c) to a lesser extent, competitive bidding between retailers looking to acquire the same sites (see paragraphs 50 to 56).

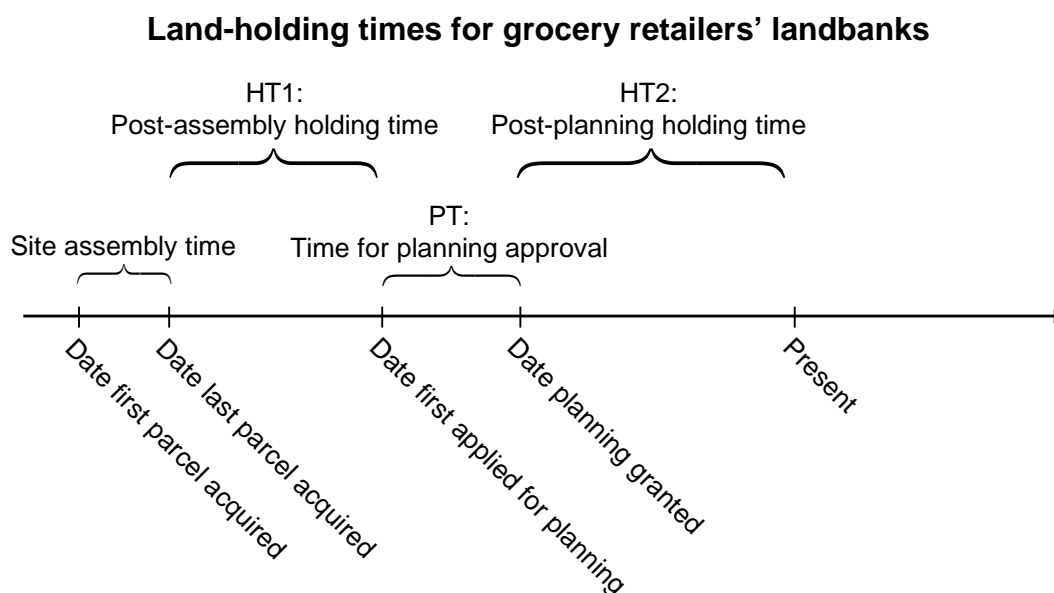
(a) Duration of grocery retailers' land holdings

10. The period of time that a site is held by the retailer without development moving forward offers a potential insight into the motives of the retailer holding that land. Holding a site without developing it imposes a cost on the retailer. As a result, we might expect that a lack of development, in the absence of other explanatory factors, such as delays in obtaining planning permission, would therefore contribute to a payoff to the retailer that offsets the cost of holding the undeveloped land. One way in which this payoff might be realized is through the formation of an effective barrier to local entry.

11. For sites held by the four largest grocery retailers (namely Tesco, Asda, Sainsbury's and Morrisons) at any point between 31 January 1996 and 1 July 2006, we have measured the duration that the site was held by the relevant retailer. We divided the land-holding process into three separate stages:
 - (a) *Post-assembly holding time (HT1)*: the time between assembling a site and applying for planning permission (or 1 July 2006, if no application had been made by that date).
 - (b) *Post-planning holding time (HT2)*: the time between the grant of planning permission and either:

- (i) the date on which the store opened; or
 - (ii) 1 July 2006, for sites which had not opened by that date.
- (c) *Planning time (PT)*: the time between applying for, and receiving, planning permission on a site.

FIGURE 3



Source: CC analysis.

Snapshot and cohorts

12. In conducting the duration analysis outlined in paragraphs 25 to 43, we encountered the problem of how to measure the length of holding. In our land working paper published in January 2007 alongside *Emerging Thinking*, we used a snapshot approach for the analysis. Among the responses to that working paper, it was argued that the snapshot approach held a bias towards overestimating the duration of a site's holding time. It was put to us that a cohort analysis of sites at the same stage of development would solve this bias. We therefore discuss both the snapshot and cohort approaches in the section below.

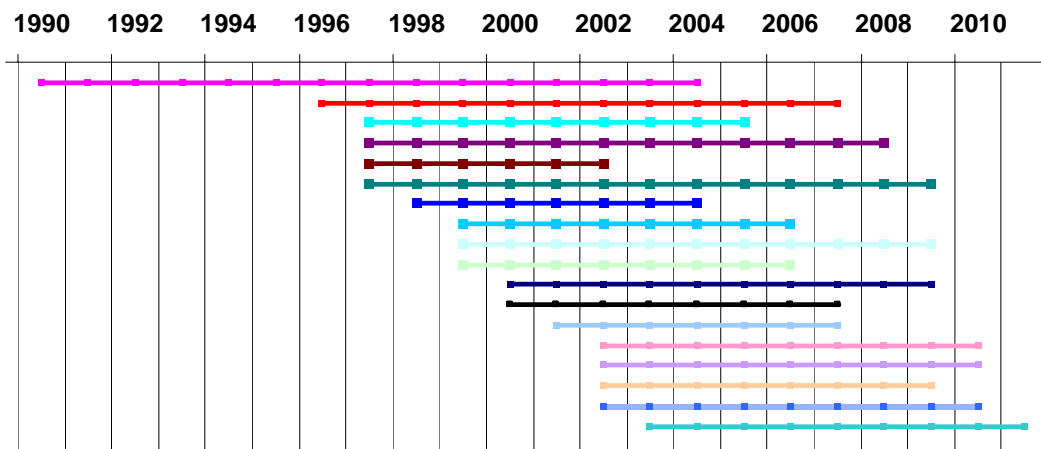
The snapshot approach

13. Using the snapshot approach, we obtained a list of sites that had been acquired by the largest four grocery retailers after 31 January 1996 and which had not opened for

trading as of 1 July 2006. We then measured the duration for which each site had been held in each of two periods of time which we label HT1 and HT2 (see Figure 3). In Figure 4 is a hypothetical distribution of holding times. For simplicity, here we disregard the period during which an application for planning permission is being considered (ie PT=0). This is of course unrealistic but allows us to join HT1 and HT2 together in the graph as a single uninterrupted period of holding time (HT).

FIGURE 4

Hypothetical sample of HT for 18 sites



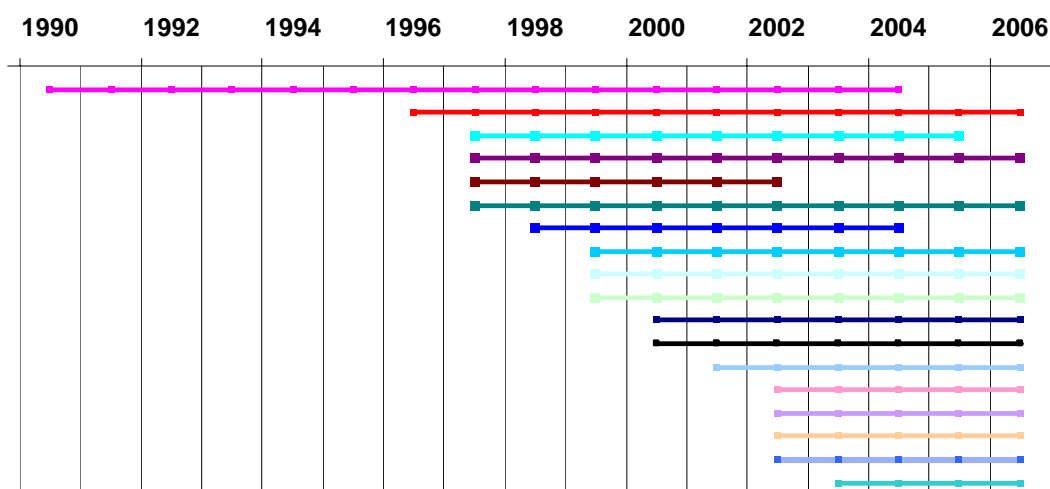
Source: CC analysis.

14. Ideally, the approach to measuring the duration of these holding times would be to look at the complete duration for all the sites in the sample. For example, HT for site 2 lasts for 11 years (mid-1996 to mid-2007). We would measure this for each site and hence obtain a distribution and average for HT. In this case, the average for the 18 sites would 8.44 years.

15. In reality, of course, we are unable to see the entire holding time for each of the sites. Using the snapshot approach, in 2006, we would instead observe the following.

FIGURE 5

Hypothetical sample of HT for 18 sites (as observed in 2006)



Source: CC analysis.

16. A snapshot analysis taken on 1 July 2006 would therefore miss a substantial portion of the holding time at each site. As a result:
- (a) if we required that the snapshot only apply to those sites that were undeveloped at the time of the snapshot, the average would fall to 6.07 years;
 - (b) if we included both undeveloped sites and those that were developed prior to 2006, the average would be 6.55 years; and
 - (c) if we used only those sites for which we had observed the entire holding time (ie where development had begun and ended during the period: sites 1, 3, 5 and 7) the average would be 8.25 years.
17. As a general rule, a subset of entire durations would be expected to be more representative of the definitive average duration than a large number of partial durations. However, the disadvantage of limiting our analysis to sites for which we can observe the entire holding time is that we are excluding the sites that were *currently* being held at the time of the snapshot. These are the most relevant sites, since they form potential barriers to entry that actually exist, rather than those that previously existed.

18. Unfortunately, as illustrated in paragraph 16, using only these existing land holdings potentially biases the estimate of the average (and the distribution). In this case, the estimated average holding time is underestimated though this may not always be the case.

The cohort approach

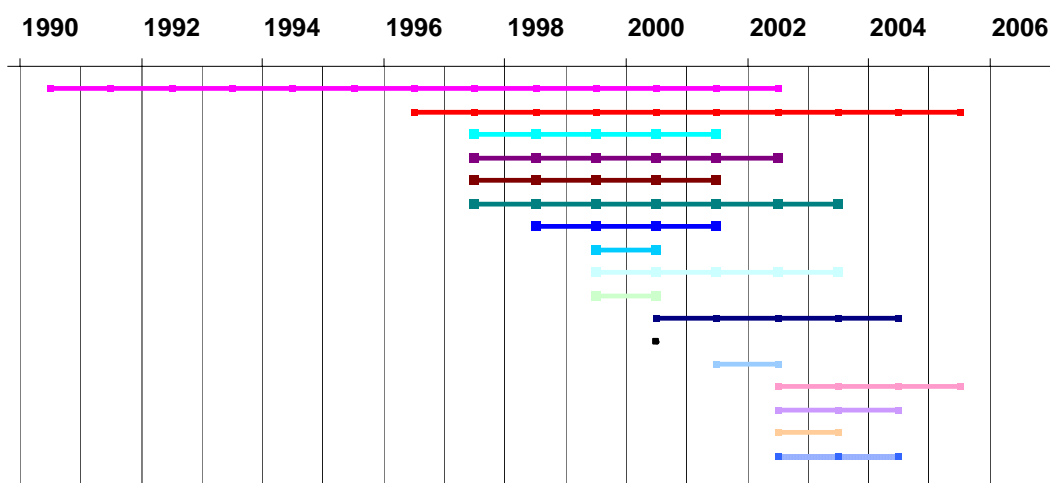
19. An alternative approach that has been suggested by Tesco would involve analysing a cohort of sites that were each purchased in the same year (or applied for, or granted in the same year).
20. There are two problems with such an approach. First, depending on the cohort that is analysed, this may involve measuring defunct barriers to entry. For example, land holdings where a store has opened will no longer constitute a barrier to entry, although they will appear in the cohort.⁴
21. The second issue is the potential for significant variation in the average holding time for each cohort. The result of this variation could be an inaccurate measure of the average holding time on a site. For example, Figure 6 shows the HT1 at 24 sites. Here the cohort acquired in 1999 has an average holding time (HT1) of 2 years and the cohort acquired in 1997 has an average holding time (HT1) of 4.74 years. In contrast, the average for all completed sites is 3.65 years.⁵

⁴Where development has occurred on a site that fails to pass the retailer's hurdle rate, it might be argued that the site still constitutes a barrier to entry. However, duration analysis would not be an appropriate tool for analysis in such cases.

⁵This is the average of the 17 sites for which we observe the entire holding time.

FIGURE 6

Sample of HT1 for 24 sites



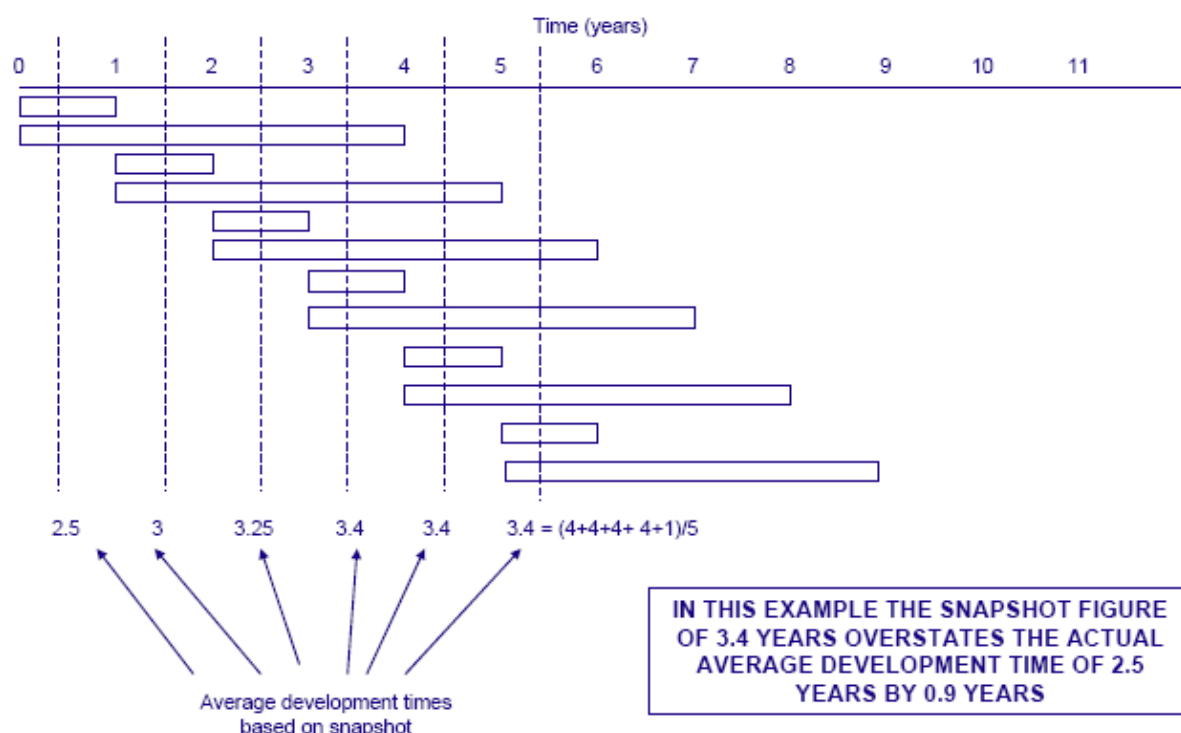
Source: CC analysis.

22. Choosing multiple cohorts would improve the accuracy of the estimation. However, it then becomes unclear how this approach would differ from that described in paragraph 16(c). As such, it would again be undesirable, on the basis that the identified barriers were now defunct and hence could not be expected to affect the degree of existing local competition.

23. To summarize: measuring the duration of time for which a group of sites has been held is a difficult task and the snapshot approach that we have employed may have a bias. However, this bias is not evidently one that consistently leans towards an *overestimation* of the length of time for which land has been held. Furthermore, we see no reason to believe that a cohort approach would provide a more accurate measure of duration except in the highly stylized scenario presented by Tesco below in Figure 7.

FIGURE 7

Tesco presentation slide: ‘the bias problem ...’



Source: Tesco analysis.

24. To be clear, Tesco’s representation of the snapshot approach in this slide is incorrect and misleading. Our implementation of the snapshot rule in year 6 of such a scenario would give us an average of 2.2 years⁶ which again underestimates the average of 2.5 years by 0.3 years (or four months).

Duration analysis

25. In light of the discussion above, we present a revised snapshot based analysis of holding times 1 and 2 in the paragraphs below. However, rather than simply examine these snapshots in isolation, we have gone on to identify a holding time that measures the complete period of time that the retailers have, in the past, held on to their land sites. This is intended to provide a representative benchmark holding time

⁶This is derived from $(4+3+2+1+1)/5$, Tesco’s calculation of $3.4=(4+4+4+4+1)/5$ would imply that we were able to see into the future and thereby observe the length of time for which sites within the snapshot will be held.

(for both HT1 and HT2). To create this benchmark, we initially selected cohort years on the basis that every site that the retailer finished assembling (HT1), or in respect of which planning permission had been granted (HT2), in that year was complete (in the sense that planning permission had been applied for (HT1), or the relevant store had opened (HT2)) before 1 July 2006.

26. This selection process would have ensured that recent short duration sites⁷ would not lead to an underestimation of the benchmark holding time. This possibility exists because recently acquired sites that are held (and may be held for some time) will not be included in the benchmark as they remain incomplete. In contrast, short duration holding times would be included in the benchmark and hence would result in a shorter benchmark holding time, which would in turn make development of certain other sites look relatively slower.
27. Unfortunately, using a cohort of complete sites is not possible since our dataset contains sites which the retailers purchased more than ten years ago. Hence we would need to use a cohort that was at least a decade old. This would reduce the number of sites that we could include in the benchmark, and in any case we might expect changes in holding patterns to have occurred over such a long period. We therefore exclude from our completed sites benchmark all land sites that had been acquired since July 2004 (for HT1) or where planning permission had been granted since 2004 (for HT2). This removes the recent short duration sites and therefore increases the accuracy of the benchmark.
28. The rationale behind the benchmark is that although these sites' locations are irrelevant (now that they are no longer held, and therefore no longer constitute a barrier to entry); the time that they were held can be measured and will be

⁷For example, a site that was acquired in July 2005 for which a planning application was submitted in November 2005.

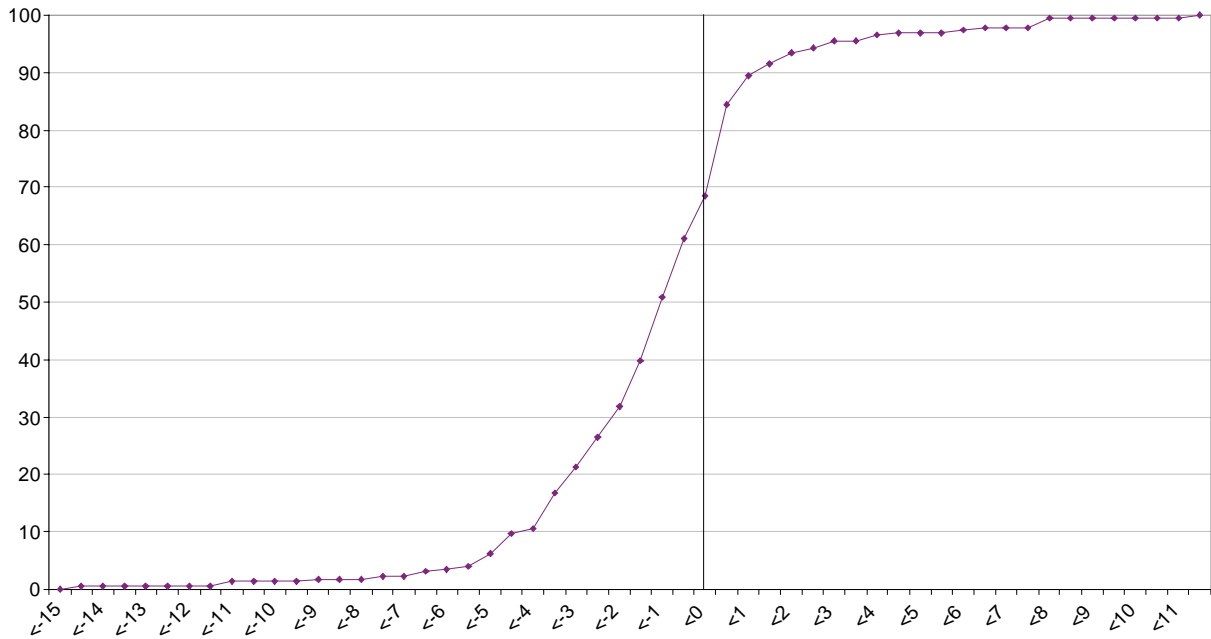
representative of the distribution of holding times. We will then compare this benchmark holding time with the holding time (both for HT1 and HT2) observed for sites in the snapshot. The snapshot itself is intended only to represent the holding time of relevant (still held) sites, and in this, it will tend to underestimate holding times since it cannot observe the full holding time duration of these sites (since, by definition, these sites are of interest because they are still undeveloped). Those sites where holding times are longer than the benchmark will be of particular interest. An unusually long holding time would imply a large opportunity cost and might therefore suggest that these sites form a strategic barrier to entry.

HT1: Post-assembly holding times

29. Figure 8 shows our analysis of the benchmark for post-assembly holding times of completed sites. This measures the time elapsed between the date of acquisition of the last parcel in the site and the date on which planning permission was first applied for. As in our previous working paper on land issues, planning applications are often submitted before a site has been fully 'assembled'. The graph shows the cumulative distribution of durations plotted along a timeline that is set to zero at the date of acquisition (full site assembly). This shows that in the past, 60 per cent of planning applications were submitted prior to the acquisition of the final parcel in the site. This figure rises to 90 per cent submitted within a year and a half of site assembly.

FIGURE 8

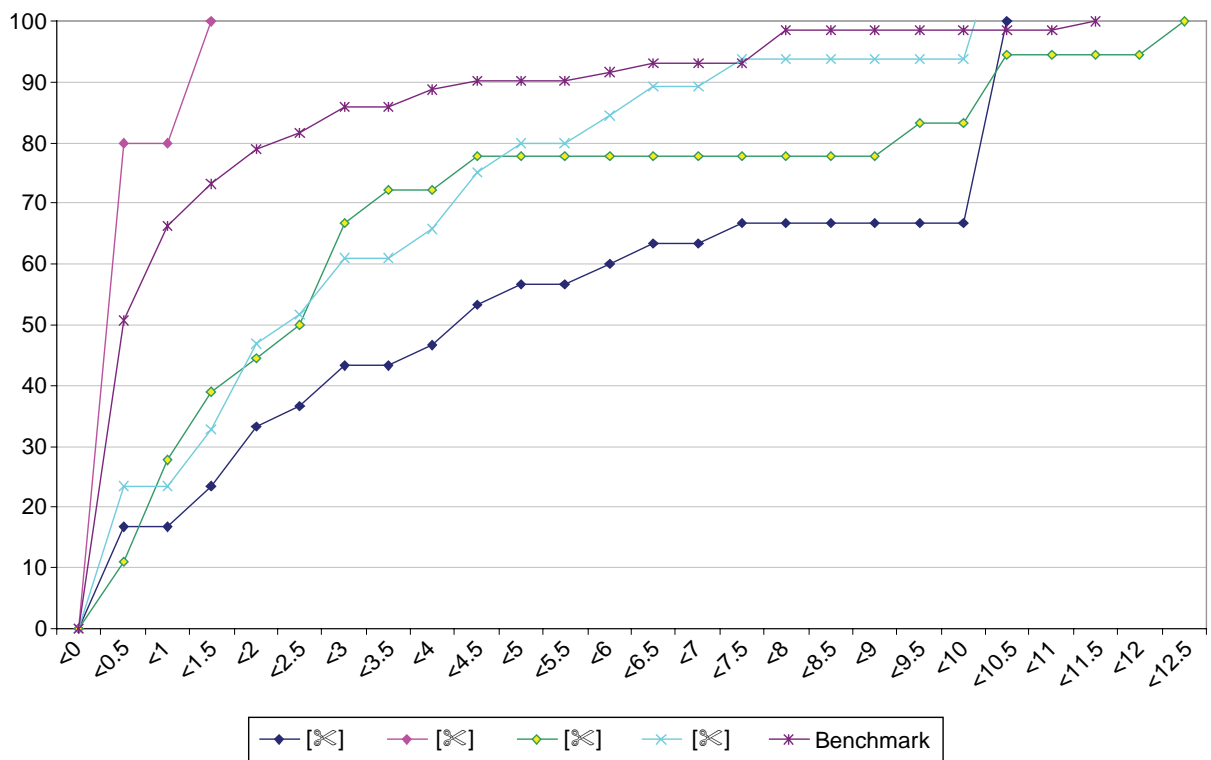
Benchmark HT1



Source: CC analysis.

FIGURE 9

HT1: Snapshot landbank holding times, by grocery retailer vs benchmark distribution of positive holding times



Source: CC analysis.

30. The snapshots for each retailer in Figure 9 include only the sites for which HT1 is continuing, that is, sites that were held at the snapshot date where no application for planning permission had been made. As such, there are no negative figures since planning permission has not been applied for on any of these sites. These sites are therefore strong candidates for evidence of a strategic barrier to entry, since in each case, the retailer will not have submitted an application for planning permission, in some cases years after assembly of the site was completed.
31. The comparison to note in Figure 9 is between the snapshot of each firm and the benchmark. From the full benchmark in Figure 8, we have here excluded all negative HT1 holding times. We do this on the basis that it might be argued that a comparison with the snapshot, which is necessarily positive, is only justified for benchmark sites that would have been included in previous snapshots (ie the positive ones).
32. Comparing the snapshots with the benchmark, we note that only [redacted] snapshot is faster than the benchmark. [redacted], [redacted] and [redacted] all hold these incomplete sites for a significantly longer period than the benchmark holding time for HT1. For example, over 63 per cent of [redacted] snapshot sites have been held for more than two and a half years, while the same figure for [redacted] and [redacted] is 50 and 49 per cent respectively. This stands in comparison with just 19 per cent of sites in the benchmark being held for that long. We therefore conclude that the identified HT1 landbank sites are being held in HT1 for an unusually long (and in some cases unprecedented) period of time within the context of historical land development records. This might therefore be taken to indicate a strategic motive for holding the sites in question.
33. In consultation with the parties, a number of issues were raised with respect to our methodology and measurement of holding times. In particular, we were told that there are significant variations between sites in terms of whether a site is acquired

from a developer already assembled and with planning permission having been granted, or whether a series of land parcels needs to be acquired by the grocery retailer to assemble an entire development site on which planning permission must subsequently be obtained.

34. We note that a retailer's role in assembling a site does not prevent it from applying for planning permission before or after the date of final assembly. In this sense, the retailer faces the same decision over the speed with which an application for planning permission is made, whether it assembles its own site or purchases the site from a developer. The crucial difference is the assembly process itself. Therefore, to account for the effect of this difference we have collected further information in order to specify the date at which the site assembly process (if any occurs) is completed. This makes it possible for us to compare durations of holding time across the retailers.

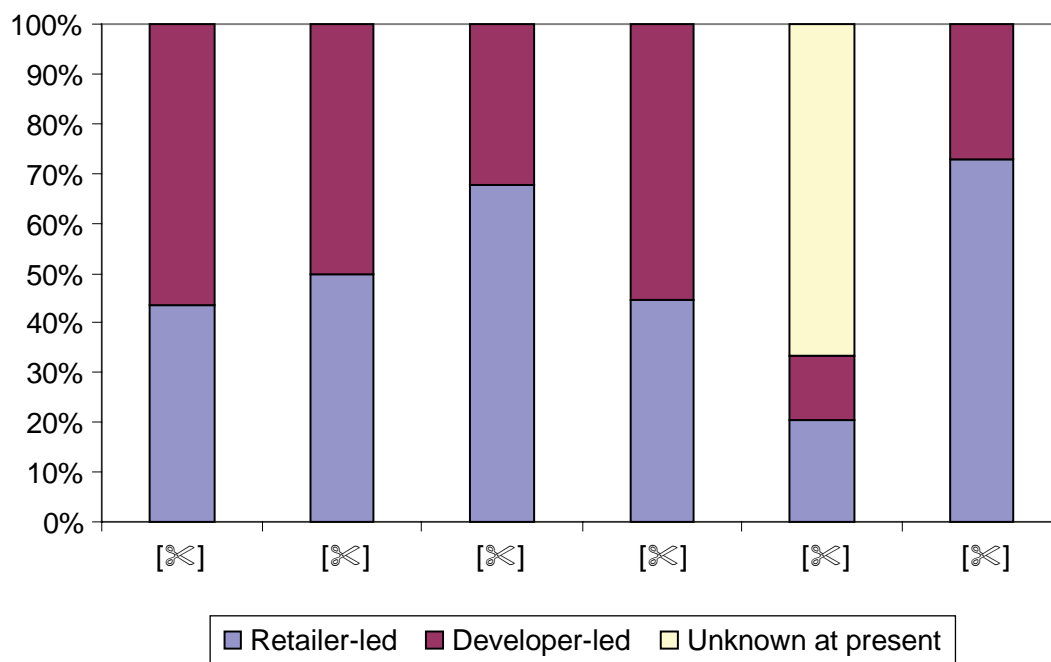
35. We have identified those sites that are acquired from developers (developer-led) and those that are assembled by the retailer (retailer-led), in order to observe any systematic effects on duration time that are attributable to the use of developers. Figure 10 shows that similar proportions of developments are led by the retailer and the developer at [X], [X] and [X]. [X], [X] and [X] appear to be leading more of their own developments so far, although the conclusion in respect of [X] is only based on a sample of its sites at this stage.

36. In Figure 11 we then contrast the completed site-holding times at [X] for developer- and retailer-led sites. From this graph, it would appear that planning permission for developer-led sites is likely to be applied for earlier than retailer-led sites, though this is only true where the application pre-dates the final assembly of the site. Where planning permission is sought after site assembly, the difference in holding times

between developer-led and retailer-led sites is negligible. Only positive HT1 durations are relevant to an assessment of strategic holding by the retailer. Thus, we have no reason to believe that the HT1 for retailer-led sites should differ significantly from that of developer-led sites.

FIGURE 10

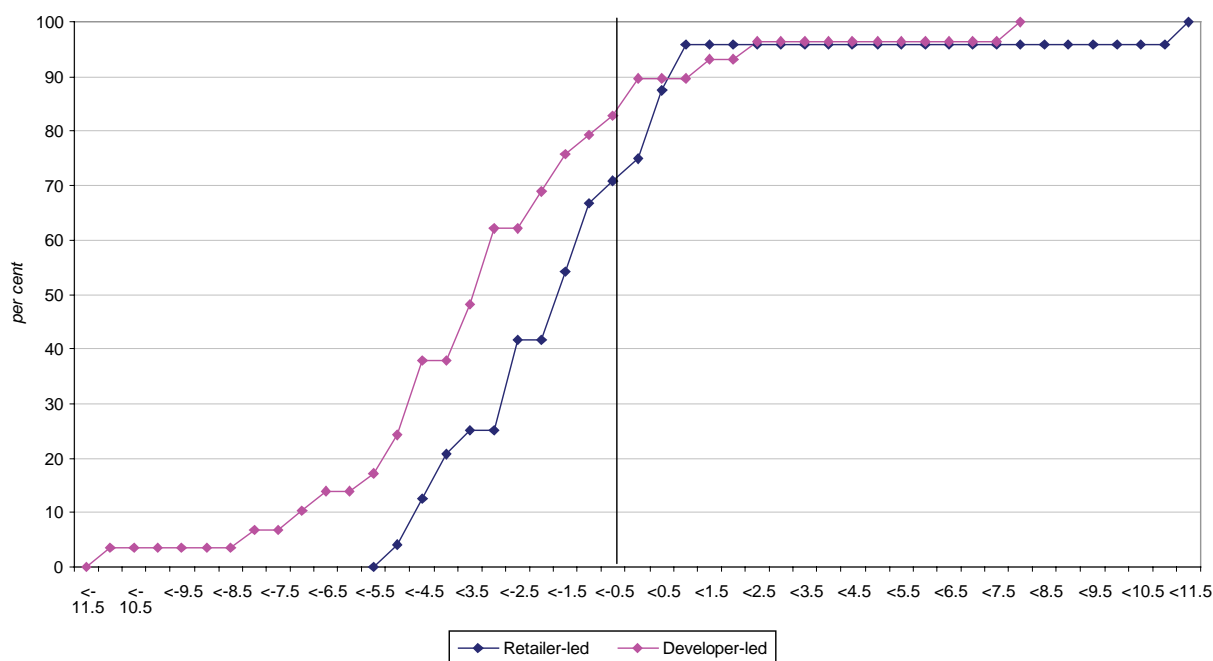
Proportion of retailer- and developer-led site developments, 2000 to 2006



Source: CC analysis.

FIGURE 11

Completed sites HT1, split by retailer- and developer-led ([%])



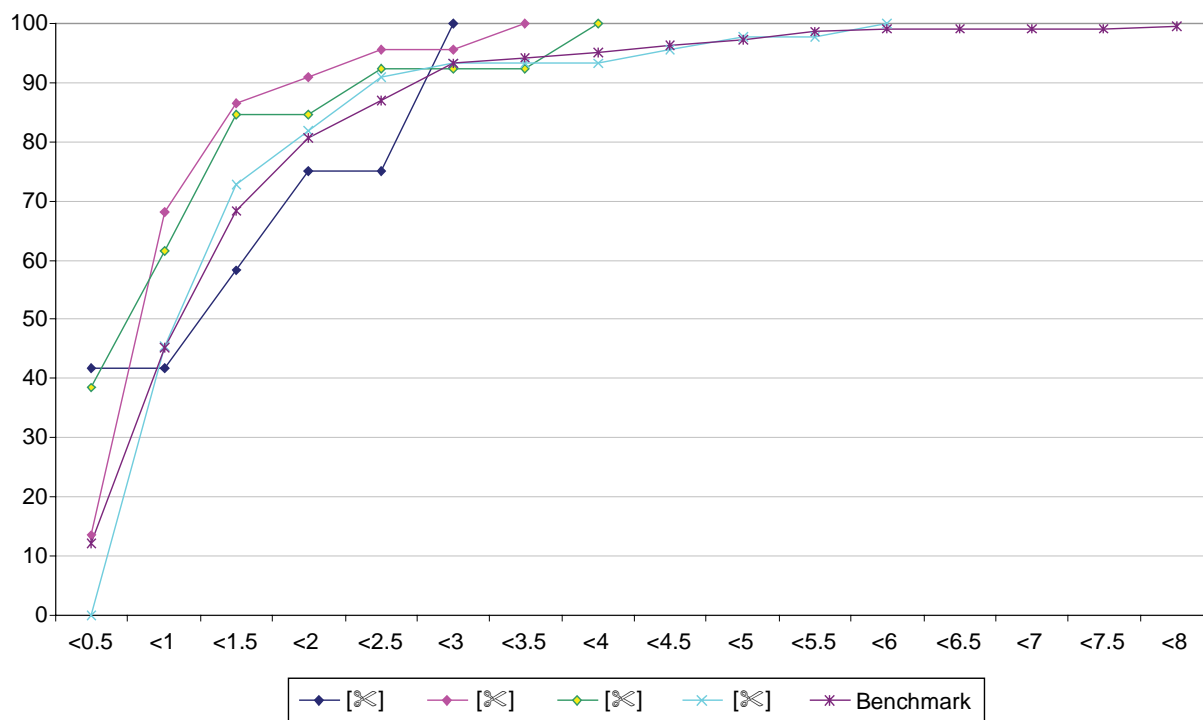
Source: CC analysis.

HT2: post-planning holding times

37. Figure 12 shows the snapshot for HT2, the time elapsed between the granting of planning permission and the opening of the store (or 1 July 2006, if the opening had not occurred by that date). This shows that each of the four largest grocery retailers have some sites where more than two and a half years have elapsed between the grant of planning permission and the opening of a store.

FIGURE 12

HT2: Landbank holding times (grant of planning permission prior to July 2006), by grocery retailer



Source: CC analysis.

Note: Zero is the date of grant of planning permission.

38. In Figure 12, we compare the benchmark distribution of (HT2) holding time⁸ and the snapshot taken on 1 July 2006. We note again that the snapshot will underestimate the entire length of HT2 for the relevant sites (those still held by the retailer). In contrast, the benchmark will not have this underestimation since it observes the entirety of the completed sites' HT2.

39. We can see that [X] and [X] are behind the benchmark and therefore are not holding sites for significantly longer than usual between the grant of planning permission and store opening. The significance of these conclusions is supported by a test for the statistical difference between the means of the two distributions.

⁸The construction of HT2 is discussed in paragraphs 26 and 27.

40. Notably, it would not appear that benchmark HT2s are consistently shorter than those identified in the snapshot. As such, we might conclude that strategic holding appears to be, if anything, predominantly an activity that occurs prior to applying for planning permission.
41. Any conclusion on the extent to which land-holding times are indicative of strategic behaviour by a grocer retailer aimed at deterring entry by competitors into a local market requires an analysis of land-holding times for those sites that are in areas where a grocery retailer may wish to protect its position. Our analysis here looks at this issue in terms of grocery retailers' development sites in aggregate.

PT: planning times

42. The period of time spent within the planning system is labelled as the planning time (PT).⁹ We note that the most common retailer estimates were of a period of 1 to 2½ years for the time between lodgement of an application for planning permission and *completion* of a development.¹⁰ Estimates for the actual build time obtained from some of the parties indicate a period of 20 to 40 weeks.¹¹ The time spent within the planning system will therefore generally be expected to fall within 6 to 24 months. A planning time substantially outside of that forecast would therefore indicate:
- (a) pre-planning grant, pre-build difficulties (eg hazardous waste);
 - (b) call in by central government;
 - (c) time spent appealing the result of the original application; or
 - (d) delay initiated by the parties within the planning system.

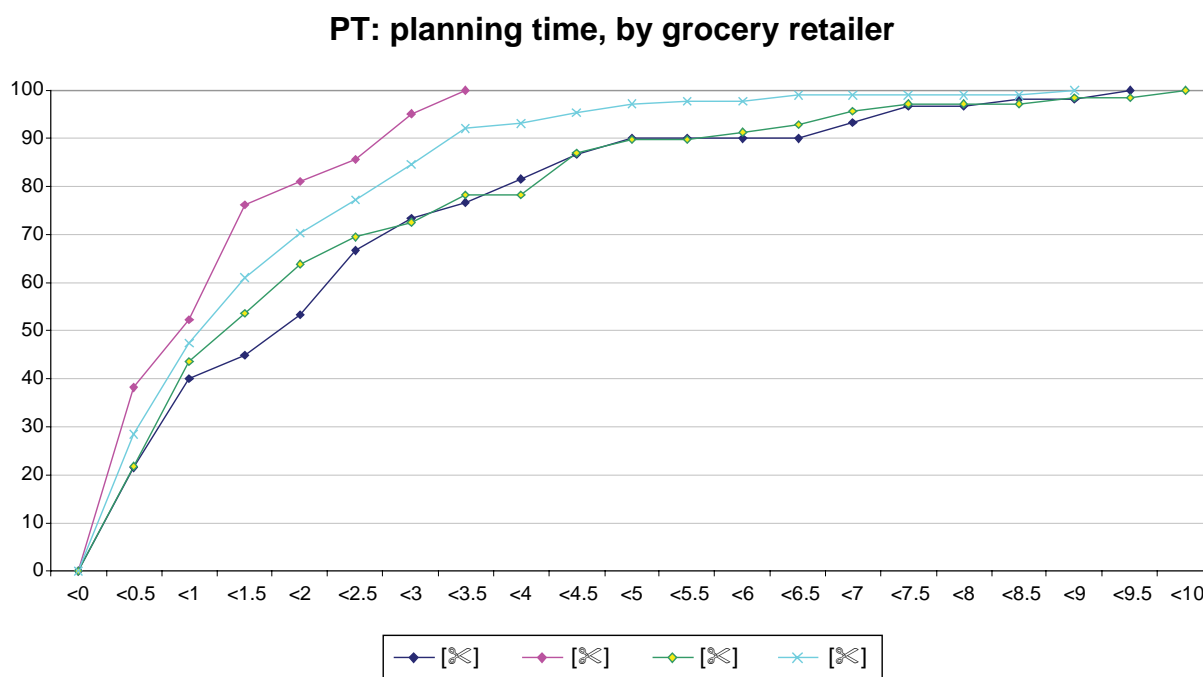
⁹That is, between the initial submission of an application on a site and the granting of permission to begin development of the store.

¹⁰Responses to Main Parties' Questionnaire. Sainsbury's said 1 to 2 years, Morrisons said 1.5 to 2.5 years. Somerfield 1.5 to 2 years. Waitrose said 1 to 2.5 years. Asda said 0.5 to 2 years.

¹¹Responses to Main Parties' Questionnaire. Morrisons said 40 weeks. Tesco 18 to 31 weeks. Netto said 26 to 35 weeks.

43. Delay within the planning system may be created by a retailer in the following ways:
- (a) submitting multiple revised applications after the initial application;
 - (b) allowing a delay between the rejection and the appeal of decisions; or
 - (c) allowing a delay between the granting of outline permission and the submission of reserved matters.
44. Figure 13 shows the distribution of planning times at the four largest grocery retailers. We note that [X] and [X] have a relatively large proportion of sites that remain in the planning process for substantially longer than the 6 to 24 month figure that came out of the retailers' submissions. [X] shows the quickest progress through the planning system [X]. Meanwhile, [X] sites pass through the planning system consistently faster than those of [X] and [X].

FIGURE 13



Source: CC analysis.

(b) Further land under retailer control

Restrictive covenants and exclusivity provisions in leases

45. Retailers may not have to own land to bar their rivals from developing it. Here we examine the imposition of restrictions on the use of land now owned by third parties. We do this at the aggregate level with the intention of linking these sites to the local market characteristics in subsequent analysis in paragraphs 57 to 69. We distinguish between:

- (a) land disposed of by the retailers with a restriction on future use (ie restrictive covenants); and
- (b) land that, as a result of a condition in a lease that a retailer owns on a separate site, is restricted in the uses to which the owner (or leaseholder) can put it (exclusivity provisions).

46. Figure 14 shows that each of the six largest grocery retailers impose restrictive covenants and exclusivity provisions. [X], [X] and [X] have imposed the largest number of the former, and [X] and [X] are also the most active in the latter.

47. In some cases, a developer or freeholder creates exclusivity provisions in order to attract an anchor store to a site. In such cases, it is the judgement of the developer/freeholder that such provisions are necessary to ensure that a grocery retailer is attracted to the development. In some other cases, exclusivity provisions are used to enhance the value of the site, by preventing competitors entering nearby. In the majority of cases, the area covered by the agreement is adjoining the store. However, in some cases, the area of barred entry is further afield. Sunderland, Sheringham and Bridgnorth councils have all concluded agreements that restrict the use of other council-owned land. In at least one of these areas, the agreement appears to have barred attempted entry by a competitor (Budgens in Sheringham).

FIGURE 14

Sites covered by restrictive covenants and exclusivity provisions



Source: CC analysis.

Leases to third parties

48. Alternatively, the retailer may retain ownership of the land and lease it directly to a third party. In so doing, the retailer retains the power to bar its rivals from leasing the site, and the practice therefore potentially constitutes a barrier to entry. We have included these leased sites in our measure of retailer-controlled land sites.

49. We have been told by one retailer ([REDACTED]) that the rental yield for some A1 retail uses is higher than that obtained from grocery retailing. In such cases, the viability of using this method to prevent competitor entry would be enhanced.

(c) Competitive bidding between retailers for land sites

50. On initial examination of responses to the main parties' questionnaire, we identified 88 successful and unsuccessful bids from grocery retailers that were matched to the same land site. Further analysis found 223 sites on which an unsuccessful bidder claimed knowledge of the winner's identity. Of those, not all were grocery retailers

and in all, 102 of the matches were between members of the largest four grocery retailers.

51. Whilst it is possible to draw the conclusion from these findings that retailers do not often bid against each other and therefore land cannot be scarce, we remain sceptical of such a theory. First, all the largest grocery retailers will often assemble their own developments rather than purchasing them from developers (see Figure 9). This strategy would in many cases remove the necessity of bidding against rivals for developed sites.
52. Secondly, it has become apparent that the process of acquiring a site from a developer is far from the simple auction model that we might have expected to see. Instead we see: sellers of land (developed and undeveloped) sounding out retailers; extensive informal negotiations; and non-board-approved bids. As a result, a straightforward auction of an identifiable site is rarely observed.
53. Thirdly, a number of the parties including [X], [X], [X], [X] and [X] have all submitted that, for various reasons, there is a scarcity of desirable site locations in the UK.
54. Where we do see bidding taking place, there are often negative premiums paid by the successful retailer. That is, the successful retailer appears to pay less than the unsuccessful bidder. Such instances are presumably explained by changes in the value of the site between bids; nevertheless, they cast further doubt on the use that can be made of this dataset.

55. We do have a dataset of prices paid by the retailers for each piece of land purchased between 31 January 1996 and 1 July 2006. However, attempting to explain the price of land in the absence of a valuation from any other retailer is not feasible since:
- (a) undeveloped and developed land are incomparable;
 - (b) the details of the locality are unobservable (visibility, access etc); and
 - (c) the identity of the losing bidder may be unclear if a developer bids (whether on behalf of a retailer or independently).
56. Since data on retailers' bids for identical sites do not appear to exist, we have not attempted to collect it.

Concentration and controlled land sites

57. For an assessment of the role of land holdings as a strategic barrier to entry, we have considered each retailer's controlled land sites—ie the retailer's landbank plus those sites under the control of the retailer in the ways described in paragraphs 44 to 49. We have then linked these controlled land sites to the retailer's stores, and identified areas in which individual grocery retailers have a strong local position and one or more controlled land sites.
58. In what follows, for the purposes of identifying grocery retailers' stores that have a strong local position, we have adopted a simple method of drawing a 10-minute drive-time isochrone around each store of the largest four grocery retailers. This reflects the conclusions of our working paper on market definition (May 2007), which shows that rival entry, on average, has a significant effect on a store's margin when it occurs within 10 minutes' drive of that store but an insignificant effect beyond that. Thus we focus on controlled land sites and concentration levels within a 10-minute drive-time isochrone.

59. Within this isochrone, we have then counted the number of stores, the number of fascia, and the size of the other grocery stores. Using this data we calculate a store's share of total grocery floorspace (net sales area) within the isochrone. We have also collected data in relation to the characteristics of the store and its surrounding area.

Stores and controlled land sites

60. In this section, we look at how many of each retailer's stores larger than 1,400 sq metres have a controlled land site within a 10-minute drive-time of the store.

TABLE 1 **Controlled land sites and stores, by retailer**

	<i>Landbank</i>	<i>Third party lease</i>	<i>Restrictive covenants (retailer)</i>	<i>Restrictive covenants (other)</i>	<i>Total controlled land sites</i>	<i>Number of stores > 280 sq m</i>	<i>Number of stores > 1,400 sq m</i>
Asda Morrisons Sainsbury's Tesco				✂			

Source: CC analysis.

Note: The store count was taken in May 2006.

61. As can be seen in Table 1, Tesco has the greatest number of landbank and controlled land sites and the largest number of stores greater than 1,400 sq metres. Figure 15 shows over [✂] per cent of all large Tesco stores have a controlled land site within 10 minutes' drive of an existing Tesco store larger than 1,400 sq metres.

62. Of the other largest grocery retailers, Asda and Morrisons have more stores without a nearby controlled land site. In contrast, Sainsbury's and Tesco have a higher proportion of stores associated with a nearby controlled land site. This partly reflects their larger store numbers as well as their larger numbers of controlled land sites (see Table 1).

FIGURE 15

Percentage of stores (>1,400 sq metres) with a controlled land site within 10-minute drive-time isochrone

[✂]

Source: CC analysis.

Note: Controlled land sites here do not include restrictive agreements on land around an existing store. This data was not available in time to include in the mapping exercise.

Concentration and controlled land sites

63. Here we identify areas where one of the largest four grocery retailers has a store with a strong local position in combination with control of a land site within a 10-minute drive-time isochrone of that store. Table 2 shows the proportion of stores larger than 1,400 sq metres for each of the four largest grocery retailers in terms of their share of the net sales area (of all grocery stores larger than 1,400 sq metres¹²) within a 10-minute drive-time.¹³ The table also sets out the proportion of stores within each of these categories where the relevant retailer also has a controlled land site¹⁴ within a 10- or 20-minute drive-time. In those areas where a grocery retailer has a greater than 50 per cent share of net sales area, the extent to which the retailer in question also has a controlled land site within a 10-minute drive-time ranges from 10 per cent of these areas for [✂] to 23 per cent for [✂]. For example, at 35 per cent of [✂] stores larger than 1,400 sq metres, [✂] has more than half of the net sales area of grocery stores larger than 1,400 sq metres within a 10-minute drive-time of that store. Of these stores, almost one-quarter (ie 8/35 per cent in Table 1) have more than 50 per cent of the net sales area *and* a [✂]-controlled land site within a 10-minute drive-

¹²Based on a share of net sales area for grocery stores larger than 1,400 sq metres in a 10-minute drive time isochrone around a store larger than 1,400 sq metres.

¹³In our working paper on market definition (May 2007), we note that our analysis of the 1,400 sq metre threshold as a boundary between types of stores that may be able to exercise a competitive constraint on each other does not indicate, at this point, particular significance for this size threshold. In relation to the geographic market, we continue to consider that the market is local and that the most significant competitive constraint occurs between stores that are located less than 15 minutes' drive-time from one another. The store size and drive time divisions used for Table 1 do not necessarily reflect the results presented in our working paper on market definition. However, we consider that the table still provides a useful indication of the relationship between store holdings, local concentration and land holdings.

¹⁴Here, we define a controlled land site to be one over which the retailer retains the ability to prevent a rival using the site for grocery retail, regardless of the use to which the retailer puts that site (eg leased to third party) or whether the retailer owns the land site in question (eg restrictive covenants on any land site not owned by the retailer). Sites that were wholly, or in part, used on 1 July 2006 for retail or retail support are excluded from this definition.

time. Table 3 extends this analysis to all Tesco and Sainsbury's stores larger than 280 sq metres.

TABLE 2 Concentration and controlled land: stores > 1,400 sq metres

	>0%	>10%	>20%	>30%	>40%	>50%	>60%	>70%	>80%	>90%
<p><i>Tesco: 538 stores > 1,400 sq metres</i> Proportion of Tesco stores larger than 1,400 sq metres with > x% share of net sales area for grocery stores larger than 1,400 sq metres within 10 minutes' drive-time —and a Tesco-controlled land site within 20 mins —and a Tesco-controlled land site within 10 mins</p>										
<p><i>Sainsbury's: 400 stores > 1,400 sq metres</i> Proportion of Sainsbury's stores larger than 1,400 sq metres with > x% share of net sales area for grocery stores larger than 1,400 sq metres within 10 minutes' drive-time —and a Sainsbury's-controlled land site within 20 mins —and a Sainsbury's-controlled land site within 10 mins</p>										
<p><i>Asda: 301 stores > 1,400 sq metres</i> Proportion of Asda stores larger than 1,400 sq metres with > x% share of net sales area for grocery stores larger than 1,400 sq metres within 10 minutes' drive-time —and an Asda-controlled land site within 20 mins —and an Asda-controlled land site within 10 mins</p>										
<p><i>Morrisons: 356 stores > 1,400 sq metres</i> Proportion of Morrisons stores larger than 1,400 sq metres with > x% share of net sales area for grocery stores larger than 1,400 sq metres within 10 minutes' drive-time —and a Morrisons-controlled land site within 20 mins —and a Morrisons-controlled land site within 10 mins</p>										

Source: CC analysis.

Note: This data applies to all stores open in the month of May 2006.

TABLE 3 Concentration and controlled land: stores > 280 sq metres

	>0%	>10%	>20%	>30%	>40%	>50%	>60%	>70%	>80%	>90%
<p><i>Tesco: 733 stores > 280 sq metres</i> Proportion of Tesco stores larger than 280 sq metres with > x% share of net sales area for grocery stores larger than 280 sq metres within 10 minutes' drive-time —and a Tesco-controlled land site within 20 mins —and a Tesco-controlled land site within 10 mins</p>										
<p><i>Sainsbury's: 492 stores > 280 sq metres</i> Proportion of Sainsbury's stores larger than 280 sq metres with > x% share of net sales area for grocery stores larger than 280 sq metres within 10 minutes' drive-time —and a Sainsbury's-controlled land site within 20 mins —and a Sainsbury's-controlled land site within 10 mins</p>										

Source: CC analysis.

Note: This data applies to all stores open in the month of May 2006.

Duration and concentration

64. The next step towards identifying controlled land sites that might be used strategically to block entry is to refine further the list of candidate sites. In the previous section we linked the location of controlled land sites to the competitive environment that the land-holder's nearby store(s) faced. Here, we take the analysis a step further by including the duration for which a landbank site has been held.
65. Figures 9 and 12 showed the distribution of Tesco landbank holding times in periods HT1 and HT2. Here, we take the landbank sites with the longest HT1 or HT2 duration, ie those measuring more than three years in duration of either HT1 or HT2. Then, using just these sites, we identify local areas in which a retailer has a strong market position (as approximated by the retailer's share of net sales area within particular drive-times of that store) and owns nearby land sites.
66. Table 4 shows the preliminary results of this analysis. Of the [X] Tesco stores larger than 280 sq metres, there are [X] stores where Tesco has a site with a land-holding duration above three years within a 20-minute drive-time and where Tesco has a greater than 50 per cent share of the net sales area within a 10-minute isochrone of the relevant store. When the drive-time range for landholdings is reduced to 10 minutes, we find [X] Tesco stores that fit these criteria.

TABLE 4 **Tesco stores larger than 280 sq metres**

Share of 280 sq m net sales area (10 mins) %	No of stores with a longstanding* landbank within 20 mins	No of stores with a longstanding landbank within 10 mins		
>30	([X])	([X])		
>40				
>50				
>60				
>70				
>80				
>90				
100				
Total stores >280 sq m			733	733

Source: CC analysis.

*Longstanding here refers to sites that have been held for three years or more in either HT1 or HT2.

67. Table 5 shows the difference in the number of sites that fit the same criteria when we use a 1,400 sq metre threshold. The share of sales area includes only those stores that are of the same size band (ie also >1,400).

TABLE 5 Tesco stores greater than 1,400 sq metres

Share of 1,400 sq m net sales area (10 mins) %	No of stores with a longstanding landbank within 20 mins	No of stores with a longstanding landbank within 10 mins
>30	()
>40		
>50		
>60		
>70		
>80		
>90		
>90		
100		
Total stores >1,400 sq m	538	538

Source: CC analysis.

68. Tables 6, 7 and 8 refine the analysis by calculating the average duration of HT1 for the landbank sites and comparing this with the retailer's share of sales within that area. These stores are split into bands to reflect their share of sales area within a 10- or 20-minute drive-time isochrone. Noticeably for Tesco, there would appear to be some positive correlation between duration of HT1 and the share of net sales area within the defined isochrone. By contrast, for Sainsbury's and Asda this correlation is not apparent.

69. Table 6 would therefore appear to indicate that Tesco has a tendency to hold on to sites in areas where it retains a large proportion of the net sales area for a longer duration than in those areas in which it lacks a large share. Such a pattern of behaviour is consistent with the strategic holding of land to prevent entry into areas of strength. There is no evidence in Tables 7 and 8 of similar behaviour from Sainsbury's and Asda.

TABLE 6 Average durations, Tesco

	0–10%	10–20%	20–30%	30–40%	40–50%	50–60%	60–70%	70–80%	80–90%	90–100%
<i>Tesco share of net sales area within 10 mins</i>										
Number of stores										
Number of stores with landbank sites within 10 mins										
Mean HT1 of landbank sites within 10 mins (days)										
<i>Tesco share of net sales area within 20 mins</i>						✂				
Number of stores										
Number of stores with landbank sites within 20 mins										
Mean HT1 of landbank sites within 20 mins (days)										

Source: CC analysis.

TABLE 7 Average durations, Sainsbury's

	0–10%	10–20%	20–30%	30–40%	40–50%	50–60%	60–70%	70–80%	80–90%	90–100%
<i>Sainsbury's share of net sales area within 10 mins</i>										
Number of stores										
Number of stores with landbank sites within 10 mins										
Mean HT1 of landbank sites within 10 mins (days)										
<i>Sainsbury's share of net sales area within 20 mins</i>						✂				
Number of stores										
Number of stores with landbank sites within 20 mins										
Mean HT1 of landbank sites within 20 mins (days)										

Source: CC analysis.

TABLE 8 Average durations, Asda

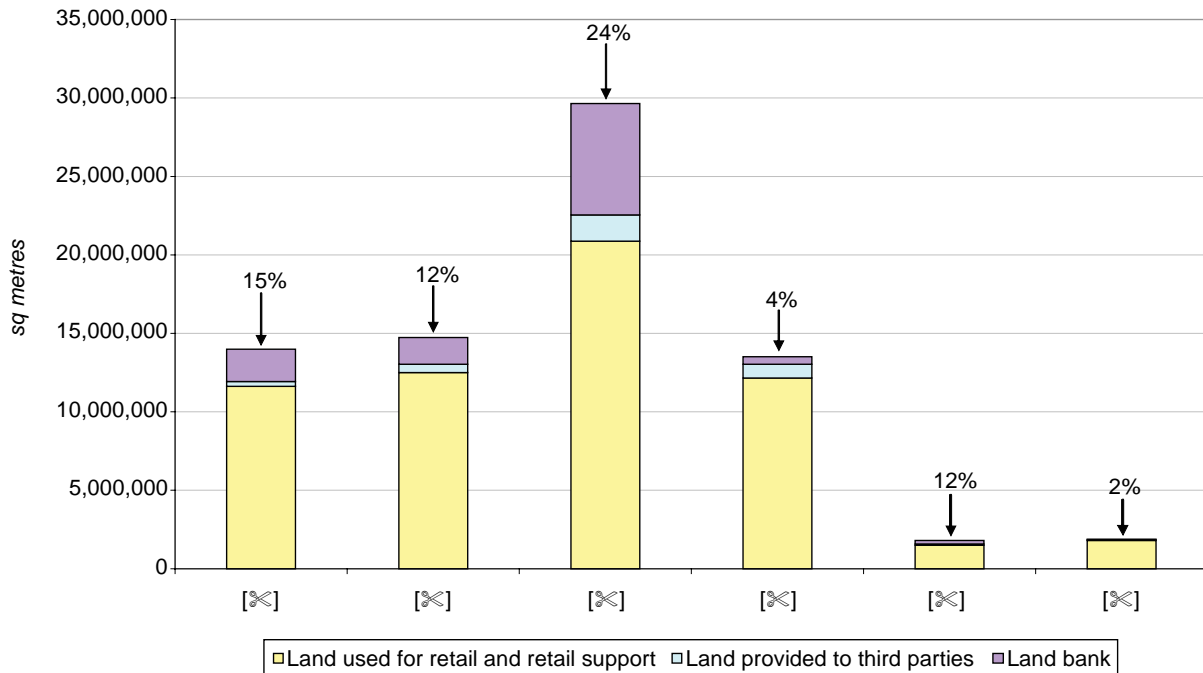
	0–10%	10–20%	20–30%	30–40%	40–50%	50–60%	60–70%	70–80%	80–90%	90–100%
<i>Asda share of net sales area within 10 mins</i>										
Number of stores										
Number of stores with landbank sites within 10 mins										
Mean HT1 of landbank sites within 10 mins (days)										
<i>Asda share of net sales area within 20 mins</i>						✂				
Number of stores										
Number of stores with landbank sites within 20 mins										
Mean HT1 of landbank sites within 20 mins (days)										

Source: CC analysis.

- Figure 1 shows the space in sq metres that is used for landbank, third party lease and retail and retail support across all of the retailer’s land.

FIGURE 1

Space and use for selected grocery retailers



Source: CC analysis.

Note: Data excludes two farms, one owned by [X] and another owned by [X], representing [X] sq metres and [X] sq metres respectively.

- Table 1 lists the Tesco stores that are featured in Table 4.

TABLE 1 The Tesco stores featured in Tables 4 and 5

<i>Store ref</i>	<i>Postcode</i>	<i>Town</i>	<i>Store ref</i>	<i>Postcode</i>	<i>Town</i>
------------------	-----------------	-------------	------------------	-----------------	-------------



Source: CC analysis.
