

NZIER 2 report.

Data, evidence and assessment of acquisition 'T2'.

NZIER report to Kirkland, Morrison, O'Callahan

2 April 2015

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Version

Commerce Commission application (final 2 April 2015)



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1. Context and analysis

1.1. This document

1. This document summarises our assessment of Wilson application to the Commerce Commission for clearance to acquire parking sites from Tournament. We examine and assess evidence regarding the potential both overall and on a site-by-site basis for this acquisition to provide Wilson Parking with market power sufficient to lessen the competitive process in the market for car parking services.

1.2. The transaction

2. Wilson is not purchasing Tournament parking sites or buildings. Clearance is sought from the Commission for Wilson to acquire the leases on 10 sites across Auckland and Wellington from Tournament. The site leases included in this acquisition are referred to as T2 in this document to distinguish them from the sites that Tournament is retaining (leases and operations of the remaining sites that it owns, referred to here as T3).¹

Table 1 Wilson – Tournament transaction

	Sites	Park bays	Notes
Tournament 2 (T2)	10	2475	Clearance sought to assign 10 leases
Tournament 3 (T3)	3	2241	Tournament retains operating control/ownership and remains an active supplier in the wholesale carpark market.

Source: NZIER

4. The proposal that stems from the T2 option is that Wilson will acquire leases over ten sites; Auckland (6 sites and 1113 bays) and Wellington (4 sites and 1324 bays).
5. The commercial details of the T2 transaction have not been completed pending authorisation by the Commission; hence our assessment of the impact of T2 is based on the transaction scope described in the following table and is limited to the competition effects, the impact of the transaction on market definition in a s47 sense and whether T2 could result in any factors that could lessen competition.² An important aspect for consideration in our assessment is the location and scale of the sites relative to the market situation prevailing prior to T2.

¹ We understand that of the 3 sites that Tournament are to retain control of, 2 have or are being tendered out to the parking operations market for competitive bids. It is likely that Wilson will bid to operate these car parks. Tournament has stated its intention to retain operating control of City Works Depot site only. The owners of Tournament do not want to be car park operators but wish to remain active investors in parking assets.

² The potential terms of the leases (tenure, profit share, renewal periods and the like) have yet to be agreed pending Commission clearance.

Figure 1 Proposed Tournament T2 parking sites

Car Park	Bays	Address	Agreement	Expected Tenure
The Airedale Street Car Park	85	81 Airedale Street, Auckland Central	Lease	Longer than 5 years
The Nelson Street Car Park	207	17-19 Nelson Street, Auckland Central	Lease	Longer than 5 years
The Khyber Pass Car Park	379	459B Khyber Pass Road, Newmarket	Lease	Longer than 5 years
The Rialto Car Park	311	9-13 Kent Street, Newmarket	Lease	Longer than 5 years
The St Benedict's Street Car Park	82	16 St. Benedict's Street, Auckland Central	Lease	Longer than 5 years
The Upper Queen Street Car Park	49	6 West Street, Auckland Central	Lease	Longer than 5 years
The Upper Queen Street Car Park	203	179-181 Victoria Street, Wellington Central	Lease	Longer than 5 years
The Leftbank Car Park	314	28 Bond Street, Wellington Central	Lease	Longer than 5 years
The Marlon Street Car Park	205	26 Marion Street, Wellington Central	Lease	Longer than 5 years
The Plimmer Towers Car Park	602	2 Gilmer Terrace, Wellington Central	Lease	4 years

Source: NZIER & Wilson

6. The total number of bays involved in this transaction is relatively small – 2437 bays at approximately 4% of overall Auckland and Wellington park bays. Wilson plan to invest in capital improvements to these sites and will be seeking longer term leases (longer than 5 years) to allow them to recover these investments from ongoing operations.

1.1. The commercial rationale

7. There are three core reasons for Wilson's interest in acquiring these sites from Tournament. Firstly, they expect to be able to increase the yield from these Tournament car parks by investing in site improvements, by reducing cash-flow leakage and by re-allocating the service offered by Tournament to better meet the demand from the market. They do this by marketing the upgraded parking bays to better match unmet high value customer demand.³
8. Secondly, acquisition of the Tournament sites allows Wilson to achieve a step change in the amount of product it has to sell immediately and to de-risk its supply side portfolio of (mostly shorter term) leased parking properties.
9. Thirdly there are economies of scale and scope for Wilson from expanding their business volume, consistent with the economies that come from most mergers and acquisitions.⁴

1.2. Our approach

10. In September 2014 NZIER provided Wilson with analysis and evidence regarding the competitive effects of Tournament exiting the parking services market and Wilson taking assignment of a number of the site leases that

³ In simple economic terms, this unmet high value demand represents allocative inefficiency.

⁴ Again, in simple economic terms there would be an overall gain in productive efficiency.

Tournament wanted to exit. This assessment of the T2 acquisition draws on the September evidence and analysis.

11. In support of the Wilson T2 clearance application to the Commerce Commission, NZIER was asked to provide analysis and assessment of the competitive environment for each of the ten carparks sites that make up T2 of the Wilson acquisition.
12. The information and data for our assessment is organised around the 'clearance application - template for supporting information' that the Commission provided to Wilson at the pre-application meeting on 30 October 2014.
13. Our assessment is set out in this document as follows:
 - Section 2 is an important recap of the structure and market definition of parking markets that we described in an earlier report to Wilson. A good understanding of how these markets work in a practical sense and the difficulties associated with trying to establish a market definition in a conventional competition sense will make evaluation of the T2 application all that much easier.
 - In Section 3 we establish the baseline market situation that is in place on 31 December 2014. Here we describe and assess what the current market looks like, the overall competitive situation and recent changes especially new entrants. To avoid repetition of details we would refer the Commission back to sections 2 and 4 of our September 2014 report which evidences market conduct and the all-important supply side structure.
 - In Section 4 we describe what is proposed with T2 and identify the high level impact that T2 will have on the market situation described in section 3.
 - Section 5 includes analysis at zone level for each T2 carpark. Detailed data on parkers, pricing, vacancies, competing carpark sites, financial performance/model for each site, leases and other information requested by the Commission. In this section we present evidence and our assessments of the diffuse and shaded nature of the competitive boundaries between both sites in close proximity to the T2 sites and those further away.
 - Section 6 considers the particular constraints on parking market behaviour at site level rather than in the market more generally. This section includes our assessments and conclusions.

2. The parking market

14. This section is something of a recap on the market structure and definition that we set out in an earlier report because it equally applies to T2. Here we also consider the impacts that the market structure has on the competitive and substitution outcomes at the level of individual sites.

2.1. Literature on parking

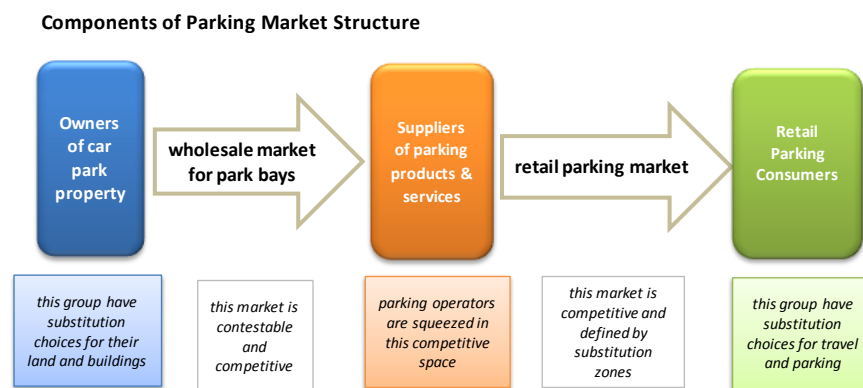
15. In our earlier report to Wilson we researched literature for guidance of various aspects of the analysis of competition in parking markets. We found a sprinkling of material on consumer preferences and sensitivities to pricing but little that assisted us with the market definition and analysis of structure. We also uncovered a number of health warnings regarding the demand variable that elasticity estimates related to (it may be any of demand for travel, for parking, for parking at a particular site or indeed any of the other attributes that we describe in Figure 4).
16. What we were able to identify was that there were various studies that had considered substitutes for urban (CBD) parking and in particular the extent to which public transport and other modes will attract parking consumers. One recent (2006) study that caught our attention was conducted by Booz Allen Hamilton for the Victorian Competition and Efficiency Commission who were investigating transport congestion in Victoria. The BAH paper on parking was orientated towards the design of different parking policy approaches, but had a particular focus on the effects of different policy option on the 'parking system'.
17. The BAH survey and analysis included an extensive review of the international literature on parking policy and provided evidence on how parking is managed in different countries and major cities. What struck us was how the variables that we describe in Figure 4 (especially quantity, location, pricing and access of parking) are actively managed by parking policy makers to direct commuters to different transport modes (including public transport), to park in locations that reduce congestion or to adjust the balance between supply and demand for on-street and off-street parks.
18. The other aspect that struck us was the evidence presented in the case studies in the report which illustrated the complex interactions between the parking variables (attributes) in both wider CBD markets and narrower more micro markets. The BAH report also highlights the dangers of separating attributes (parking duration into long stay and short stay for example) in a highly differentiated market.

2.2. Parking market structure

19. This T2 transaction is taking place within the wider car parking market. The basic structure of the parking business is shown in Figure 2 below – it is made up of three essential components;

- a site on which to provide parking bays
- the ability to convert the parking bays to parking products that capture the attributes that consumers are seeking when purchasing a car park
- a service delivery capability that, when combined with appropriate parking products, enable market demand to be met and revenue collected.

Figure 2 The parking business



Source: NZIER

20. Owners of parking property face the problem of how to earn the best net return on the use of their assets. They can either manage the sale of parking services using these assets themselves or engage a specialist to retail parking services using their bays under a number of possible commercial structures.
21. End-users of parking want access to a parking space as part of their decision to travel by car. The length of stay (and requirement for certainty of availability) varies considerably – from permanent 24 hour access (at a pre-set location) down to a short 10 minute stay ('near' the travel destination), and everything in between. Accordingly when contemplating a journey, end-users of car parking services make two substitution decisions - firstly the mode of transport to use for the journey and secondly which car-park service to use based on the attributes of each service.
22. A clear understanding of the elements of market structure is important in assessing the competitive effects of the T2 transaction. This is not an acquisition in a retail market for homogenous parking bays but rather it takes place in a wholesale market for the leases on parking bays that are the raw material for parking operators who provide parking services to retail customers. Both ends of this market are competitive and both are characterised by substitution, for site owners at the input end by choices of how to use their building and location and for consumers at the retail end by travel mode choices.

2.3. Commercial arrangements

23. An important determinant of retailer conduct is the commercial arrangements between site owners and the retailers of parking services. These arrangements are important because they determine the potential and nature of market power. The potential for market power falls differently depending on whether the site owner also retails its parks, or hires a parking retailer to manage the retail of carparks on the owners' behalf or leases a block of parks to a retailer. There is danger in generalising the competitive effects of different commercial arrangements into one single outcome.
24. To illustrate the point, under the 'managed model' the potential for market power lies with the property owner who retains control of the site and the strategic marketing (including pricing). The parking operator has control over the service delivery process only. A similar argument can be made regarding parking sites that are 'fully integrated'. Here the potential for market power is total with the site owner who controls the entire value chain⁵. In the Auckland CBD 50% of park bays are controlled under this managed market model.
25. Consumers may see different branded parking sites but the different allocations of control over retail decisions between the site owner and specialist retailers are not visible to consumers. However the different arrangements are important in the assessment of who has the power to impact the competitive process and from that the potential for this acquisition to be harmful in that regard.

2.4. Market definition

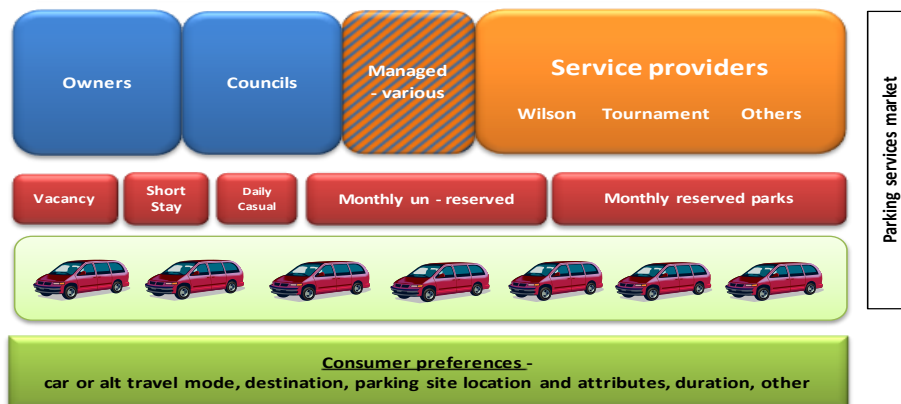
26. Our view of market definition in terms of s47 will be similar to that described in our earlier report however, because this clearance application is for specific parking sites we consider the definition on a site by site basis. This necessitates a more micro view - we move down from higher level 'zones of substitution' to consider how substitution take place from closely competing sites for different parking products in these zone specific (T2) sites.
27. This is an artificial construct, which considers 'first round' immediate parking alternatives for the T2 sites. We use it because we need an approach that considers the degree to which competition takes place around each site. By this we mean that competing sites that are close to a particular T2 site would likely offer stronger competition for particular types of parkers. Sites that are further away are a weaker substitute for the T2 site and the different type of parker. We note that this is a partial analysis of the response of consumers as it does not consider the ripple effect of subsequent rounds of substitution between the other carparks in the zones of substitution or the willingness of consumers to switch to other modes of transport in response to small price changes, These effects were both described in detail in our previous report.
28. This approach captures the combined effect of the attributes that each site offers customers in a simple assessment of competitive impact. The closer,

⁵ We describe these commercial arrangements in more detail in section 2.4.2 of our September 2014 report to Wilson.

more tightly defined competitive part of the zone around each site will possibly include monthly parkers whose price sensitivity is lower while the less close and loosely defined outer part of the zone will include mostly daily and casual parkers who are more price sensitive (higher elasticity) and are willing to (say) walk further to their destination. This effect could be thought of as *gravitational pull* from different sites on a product by product basis, rather than the simple process of competition in a specific parking zone.⁶ We use data from the Commission 2013/14 survey of car parking sites in Auckland and Wellington to test this approach to defining the market at zone level.

29. End-users of parking are generally not seeking 24 hour/7 day use of a carpark but want access to a parking space as part of their decision to travel by car. The time at which consumers need access to the carpark, length of stay, and the strength of their preference for a particular site will vary across end users and be influenced by the purpose of the travel and the sustainability of alternative modes of travel. The s47 parking market definition needs to reflect these diverse factors and needs to be dimensioned in a way that enables some type of practical assessment of the competitive effects of the T2 acquisition.

Figure 3 Parking services market



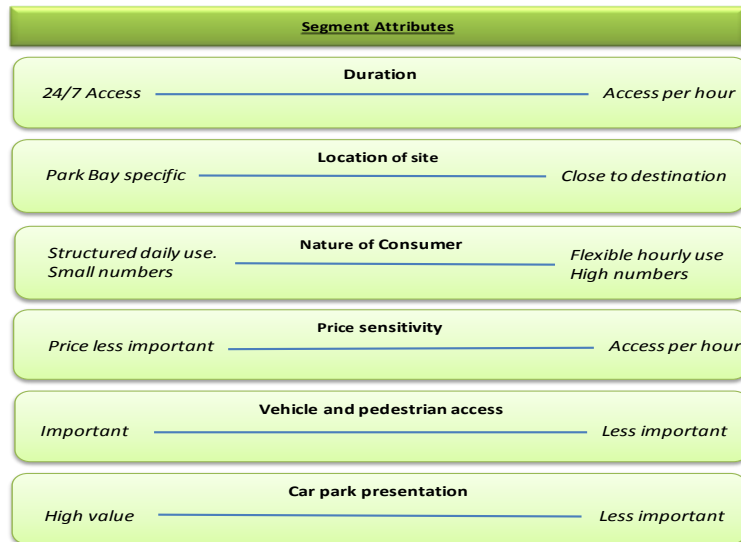
Source: NZIER

30. In examining what makes sense for a market definition in the real parking world, we previously made the point that we are considering the market for parking SERVICES at each site, as in Figure 3 above, and not for the supply of wholesale parking bays which is a separate competitive and contestable market that we assessed in detail in our previous evidence.
31. Because parking is a component of a travel journey that is site specific and for a particular period of time, it could be convenient to broadly describe parking markets in terms of the location of the parking site and parking duration. The real world is not quite this simple however. In Figure 4 below

⁶ We provide an example of this 'closeness of competition' at the Nelson Street T2 zone in figure 6 on page 12.

we illustrate the attributes, beyond location and duration, that consumers attach to car parks when deciding where and how to park their car.

Figure 4 Consumer parking attributes



Source: NZIER

32. The attributes combine at an individual consumer level, making accurate estimates of the elasticity of demand problematic because, at the individual consumer level, these attributes carry different weights in consumer parking preferences. It is these extremes of differentiation that preclude the use of standard competition tools, such as ssnip tests, when assessing parking markets. We argued this point in our earlier report and we maintain that the difficulties are amplified at individual site level.
33. We are of the view that direct competition between parking sites that are more proximate is often observable but quickly become diffuse and difficult as site proximity decreases. For us the Commission’s 2014 car park survey highlighted this situation with customers choosing alternative car parks some of which were quite some distance away when asked what they would do if their first choice car park closed. We evidence these customer choices in our section 5 analysis of the specific T2 sites.

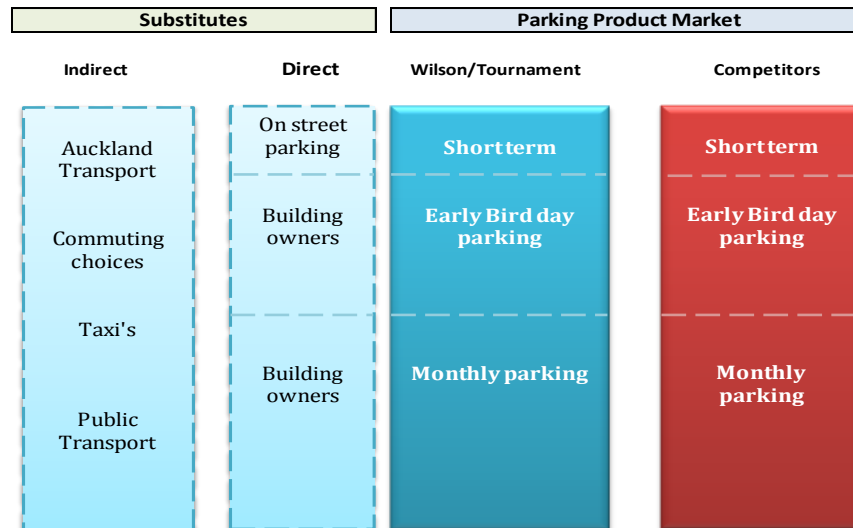
Parking substitution

34. We see quite a range of direct and indirect substitutes for each product market that are illustrated in Figure 5 (the main market dimension is time defined in this example). Drivers seeking short-term parking have many on- and off-street choices depending on the purpose of their journey. Local bodies provide on- and off-street parks to meet various objectives, while shopping malls and supermarkets nearly always have free parking.⁷ Substitutes for daily parking in the competitive market can come from a

⁷ These objectives can include reducing commuter traffic, facilitating pedestrian and public transport rather than private vehicle traffic and supporting retail activity.

range of sources with site owners themselves as parking operators being an obvious commercial option for them.

Figure 5 Duration-defined parking market substitutes



Source: NZIER

35. While Figure 5 is intended to be illustrative, indirect substitutes for duration-dimensional parking are numerous and not always immediately obvious⁸ – we see taxis, public transport and other mode choices as obvious short term substitutes, while commuter choices about where to live and work can be seen as longer-term substitution choices. As such competition between parking sites and across travel substitutes is quite diverse and diffuse making it difficult to define markets. Each demand segment requires a different mix of certainty of availability, duration, proximity to destination and ease of re-entry (during the same journey). The challenge for the retailer with a leased site is how to repackage their 24/7 access to a stock of a parking spaces (for a set term) into a portfolio of variable term retail products for these diverse demand segments.

Location of site – geographic defined substitution

36. The geographic dimension of the market is important to consumers because they have a travel destination in mind. From the s47 point of view however, this dimension of the market is not so easy to define, because consumers bundle site location with a number of other attributes when choosing whether to use a car for their journey or where to park. A parking market definition based on a simple location dimension will likely mis-inform assessment of this clearance application.

37. Based on their considerable market experience Wilson looks at their main centre parking sites in the following manner. Each parking site in the main

⁸ Auckland Council now offers an all-day 'on-street' parking tariff in the city.

city CBDs has its own unique attributes that meet the demand preferences of particular local parkers. These attributes are both geographic (location, proximity to motorways, ease of access for vehicles, etc.) and non-physical (price, convenience for walking to final destination, attended or not, availability of particular parking bays etc.). Consumers wanting to park their car are the ones that identify and attach particular attributes to a parking site; however parking operators do have some discretion as to how sites are used because they can allocate bays to particular uses.

38. Wilson is of the view that consumers consider geographic location in the same matter of fact way that they consider these other attributes of parking sites – each carries a relative weighting which attracts them (or not) to one site or another. If demand attributes at a particular site change (such as the operator making a price adjustment) then the weightings of the relative attribute change and nearby sites will adjust attributes (say price in this case) to meet changes to consumer demand.
39. In this way parking sites overlap geographically in a market definition sense and the ‘overlap’ may include sites in close proximity or more remote, often ‘iconic’ sites, that have wider market influence beyond their immediately adjacent area. Farmers and the Downtown car parks in Auckland and the Westpac Stadium in Wellington are examples of this. We think of this situation as a type of ‘gravitational effect’ which exists regardless of site ownership or location. Again, we would point to the Commission 2014 car park survey responses to illustrate our argument here – Westpac Stadium was nominated as a second choice site by a number of inner city Boulcott Street parkers when asked about where they would park if their first choice site closed. (For non Wellingtonians, Westpac Stadium is approx. 2 kms from the city centre).
40. In our earlier report we argued that thinking about substitution effect in terms of site attributes is a convenient way of linking the market definition under s47 to the real world geographic-defined consumer markets and thereby be able to identify the potential for parking site linkages across the broader parking markets. The existence of these site linkages and the diffuse, ‘non-linear’ nature of the combination of attributes that consumers see in each site, makes the Commission *ssnip* test nigh on impossible to use for market definition purposes.
41. Figure 6 below illustrates this assessment when applied to the Nelson Street zone from T2. The gradual lessening of the ‘closeness of competition’ can translate into different elasticity estimates for different classes of parkers in different parts of the competitive zone. The shading is representative of the classification of sites within each competitive zone that we set out in Appendix A.

Figure 6 Closeness of competition

Example of 'closely competing' zone around 19 Nelson Street (T2)

Source: NZIER

Diffuse and shaded competitive overlaps

42. We have previously argued that parking markets are not made up of simple zones with bright lines at the boundaries, but that the degree of competition and substitution varies depending on the attributes of both the preferred and substitute sites as well as the geographic characteristics of the zones, the size of the price difference and the type of parking service offered and the availability of public transport substitutes. Therefore considerable care has to be taken to ensure 'market definitions' are based on the evidence of actual substitution behaviours in the market rather than simple theoretical hypotheses.
35. Wilson advice is that an apparent high share of sites in a particular area did not give a pricing advantage - but that the sheer volume of park bays did assist them to better match the services offered to consumer demand. This will show up as high levels of site utilisation and low vacancy rates – which to our mind represents an 'efficient' outcome.
36. We are of the view that the appropriate market definition for assessment under s47 has to reflect the full attributes that the market provides to meet consumer preferences. To this end, in our earlier assessment we successfully used the substitution effect to consider the actual market dimensions in the wider Auckland and Wellington CBDs, initially looking for evidence of existing market power and the potential for Wilson to generate market power from the Tournament acquisition. We found no existing evidence and assessed a low risk of a lessening of competition in these 'zones' from the Tournament transaction.
37. Our analysis of competition around the T2 sites is described in section 5 below. The analysis also describes the reality of the shaded and diffuse boundaries between sites as well as the gravitational pull from larger important parking sites. While we have a focus on parking prices, it is only one of the attributes of carparks which makes the hypothetical monopolist ssnip test less helpful here than it would be when considering an undifferentiated market.
38. To apply the ssnip test it would be necessary to consider a different (progressively wider) geographical boundary for each segment – monthly, early bird, and casual. This boundary would quickly become difficult to identify as the linkages between car parks and parking products gets more and more diffuse. The next stumbling block for ssnip test would be the need to consider how those retailers using leased sites would alter the mix of their offering between these three segments to maximise revenue.⁹
39. These factors combine to make market definition for parking difficult to the point of impossible at a practical level.

Market dynamics

40. The retail parking market is not local and static – first order consumer parking responses and preferences at a 'narrow' site cannot be generalised across the wider market. In our September 2014 report we presented our

⁹ Recognise here the fact that these retailers have temporary influence over the retail offering for only about 25 percent of the market.

views that the CBD parking markets are wider rather than narrower and that the absence of bright line boundaries to narrower local parking sites makes market definition difficult in a practical sense. We evidenced our views that this situation results as a dynamic rather than a static market using several examples – notably the entry of SKYCITY to the wider daytime parking market in 2010. This competitive entry was from a fully integrated operator with significant parking capacity which had the effect of adjusting day-time longer duration prices across the wider Auckland CBD.

41. The other more recent example of the dynamics of wider market effects was when Auckland Transport changed their on-street prices twice; firstly in 2013 to encourage greater usage of their parks they reduced prices and then very recently to discourage all day parking and promote public transport they increased prices. Both moves by AT had an impact across various off-street parking sites.
42. We think of the results of the Commission survey as also demonstrating the dynamic nature of the retail market in a similar way. Parking commuters responded in a very dynamic way to survey questions about choices of parking sites. For example responses to a question on site closure ranged from 'don't know' to using public transport to parking somewhere close by to parking somewhere not close by but some ways away. Responses to questions on price changes were equally varied and for us highlighted the highly differentiated nature of the retail parking market.
43. We have not seen evidence since then to alter our views on this important point. We note the Commission use of a 350m screening radius around the sites (apparently based on parkers tolerance for walking distance) in its survey methodology last year but we believe that approach would more likely throw up anomalies than not. In particular the radius does not allow for the availability of public transport substitutes. We could think of several such instances, for example where a site with more than average hourly parkers overlaps with a site that is dominated by monthly or daily parkers (Upper Queen Street could fall into this category). These anomalies would be more visible in Wellington because of the small CBD than in Auckland.

3. The current market

44. Here we describe the current market as a backdrop to our assessment of the T2 sites and the Commission assessment of the clearance application. As noted we use the analytical framework from our earlier report using both traditional metrics from the Commission guidelines as well as metrics that describe market behaviour and dynamics. We explain why we think that the use of traditional metrics is inappropriate for assessing parking markets.

3.1. Market shares

45. We measure market share in numbers of park bays. Parking bays are the 'raw material' input to the car parking product 'production' process because they can be easily configured into various parking products to meet the range of consumer demand preferences. Because of this, as shown in Table 2, we dimension the main markets in simple high-level terms - numbers of parking bays, rather than (say) revenue or the complex but more appropriate 'real world' products sold at sites that have varying degrees of substitutability with both other sites and also other modes of transport.
46. Our reference to competitive share of bays includes 'owner-operator' sites which may or may not be contestable – this depends on the site owner's commercial strategy. Wilson does not have the opportunity to compete for all these sites – however customers do have the opportunity to choose their preferred offering from all of these sites.

Table 2 Reconciled shares of bays at December 2014

Competitive	AKL CBD	AKL NEW	AKL PAR	AKL TAK	AKL AIRPORT	WLG CBD	Total Bays
<i>Auckland Transport</i>							
<i>Care Park</i>							
<i>Cooper and Company</i>							
<i>Prime</i>							
<i>Private</i>							
<i>Secure</i>							
<i>Self managed</i>							
<i>SKYCITY</i>							
<i>Tournament 2</i>							
<i>Tournament 3</i>							
<i>Wilson</i>							
<i>WLG CC</i>							
Total Bays							
% of Total							
Managed							
<i>Wilson managed</i>							
<i>Care managed</i>							
<i>Secure managed</i>							
Total All Bays							

Source: NZIER & Wilson

By way of explanation:

'*Competitive*' refers to leased parking sites where the operator has full decision rights over how they use the parking bays and what prices they charge.

'*Managed*' refers to parking sites where all decision rights regarding how the parking bays are used and the prices charged lie with the site owner.

'*Private*' refers to parking sites that are owned and operated by private entities for their own use.

'*Self-Managed*' refers to parking sites that are owned and operated by private entities that compete in the retail parking market for customers.

'*WLG CC*' refers to the Wellington City Council.

3.1.1. Concentration ratios

47. We are of the view that both simple concentration ratios and safe harbour market shares are inappropriate instruments for assessing this acquisition. Concentration ratios require both clarity of the definition of the market being assessed and that market participants in the concentration measure offer substitute products to those markets. Neither of these conditions can be satisfactorily met at an aggregate level in the wider parking markets for the reasons we discuss in the previous section.¹⁰
48. Further, it is important to recognise that a concentration index is based on the idea that the *structure* of the market is the determinant of both the competitive process and participants' conduct, which in turn underlies market performance. The reality is that the competitive process itself drives the structure of the market, the number of firms, their market shares and how they are organised. We would also point out that greater competition (ie; more competitive action) in a dynamic market may mean that the efficient firms end up with a greater market share and higher margins, and that the concentration index actually increases.

3.1.2. Market share concentration metric

49. Setting aside our views regarding the usefulness of concentration metrics, we have calculated current shares based on the Commission guidelines. The Commission uses a three firm concentration market share (CR3) under which, post-merger, an acquisition is unlikely to raise competition concerns and to require a clearance application if the metric is below the Commission thresholds.¹¹
50. These conditions were previously referred to as market share safe harbours, where:
 - the three largest firms have less than 70% share and the merged firm has less than 40%, and/or

¹⁰ The Commission describe their use of concentration ratios in their Merger and Acquisition Guidelines.

¹¹ The most recent Commerce Commission guidelines place less emphasis on the safe harbours metric, though capacity-based market shares are still prominent as an initial guide regarding competition concerns.

- the three largest firms have more than 70% and the merged firm has less than 20%.
51. Table 3 below is developed from the data behind Table 2 above and shows the share of wholesale parking bays that Wilson have available to use for various retail parking products as at December 2014.

Table 3 CR₃ share of bays – December 2014

	Wilson Share
Auckland CBD	
Wellington CBD	
All AKL + WLG	
AKL + WLG (CR ₃)	12

Source: NZIER analysis

52. Again, we see this data as illustrative only. These shares reflect parking bays which are inputs to retail products, are at a very high aggregated level, and say little about parking market dimensions in the real world. These CR₃ shares appear to be within the Commission’s guidelines.

3.2. Market conditions - state of competition

53. A key characteristic of the use of market power to lessen competition would include systematically increasing prices and possibly limiting output volumes to increase profits above the level that would be achieved in a competitive market. For this strategy to work for retailers of leased sites (site leasing is the business model for Wilson) these retailers would need to be able to increase revenue by increasing prices. Our analysis of the market and the surveys completed by the Commission both indicate that increased parking prices are likely to reduce rather than increase parking retailer revenue.
54. If increased market share conferred market power on a parking retailer (that would be exercised to the detriment of consumers) we would expect to see the following indicators:
- higher prices charged by that retailer relative to either other providers in the same market segment or the market average price,¹³ and/or
 - with-holding of parking spaces to create scarcity or their acceptance of higher vacancy rates.
55. For this approach to be successful we would expect the market to be organised in a manner that assists the firm. The diffuse and shaded competitive environment in parking markets that we described earlier does

¹² This CR₃ excludes Council owned and controlled parking bays.

¹³ We would argue that the test here is not a simple market share analysis but rather a dynamic test. For example, bigger players would be able to lead the raising or lowering of prices and make the changes stick, allowing smaller competitors to follow suit; whereas smaller competitors may not be able to make the price changes stick and do not therefore attempt to change prices.

not support this approach because parking consumers have discretionary choices regarding substitution that will quickly neutralise any market power. The overlap between proximate and less proximate zones amplifies the choices that consumers have.

56. We have also argued that the wholesale supply side structure does not give retailers of parking services incentives to withhold supply as this approach exposes the retailer to loss of revenue through lower occupancy levels without lowering the retailer's commitment to meet the fixed lease costs charged by the wholesaler.
57. Essentially, because the service substitutability between nearby parking sites varies, we argue that it is not possible to define simple submarket zones of parking sites based only on location. The 'in-principle' reason for this is that for sites near any such boundary there is an opportunity for consumers to substitute services from sites *outside* the boundary for services from sites *inside* the boundary and ultimately from public transport. The strength of this effect will vary with the price differential.

3.3. Price differentiation

58. Again we refer back to our September 2014 report and draw on evidence of the wide variations in consumers' willingness to pay for parking for sites that are close to their destination and those less proximate. Consumers are savvy about their parking preferences and would not expect uniform pricing across different sites. For example their pricing knowledge/preference is likely to be a factor in a choice to move to a site further away (like moving from Boulcott zone to Westpac Stadium in Wellington) or to exit the parking market and use public transport.
59. Pricing preferences should not be generalised across sites in a market (Auckland) and sites in another market (Wellington). Our pricing analysis has revealed that higher priced sites in Auckland are generally large conveniently located sites with a greater capacity of short term parks. Various operators including AT are represented here. On the other hand higher priced sites in Wellington are mostly better quality sites that are within the small CBD and have capacity that is given over to commuter and monthly parkers.

3.4. The main parking markets

60. In our earlier report the geographic boundaries of parking sites within the wider parking markets of Auckland and Wellington CBDs were assessed in the manner of these substitution effects. Sites in close proximity, and with *similar attributes*, were grouped to reflect an estimation of how consumers would select substitute parking sites. Recognising that this is an artificial construct we used this approach as a convenient first step in linking the market definition under the s47 competition test to our analysis of parking substitution in the real world consumer markets. These strong substitution zone definitions also identify the site-specific linkages across the broader parking markets.

3.4.1. Auckland CBD market

61. The wider Auckland CBD market is large with the wider CBD/Newmarket area covering about 7 square kilometres that include more than 90 parking sites.
62. Wilson operates their Auckland business in a complex, competitive and fluid market where consumers have a broad range of both demand preferences and willingness to pay. One half of bays in the Auckland market fit under the owner-operated (fully integrated) model; there are a small number of managed model sites (such as for the Auckland District Health Board) where Wilson has no price/product control, and one third of bays are part of the competitive model parks on leased sites where operators have full product and pricing control.
63. Most parking bays are concentrated in Auckland CBD where there are nine competitors for on- and off-street parking consumers. Overall shares of leased and owner-operator parking bays at CBD level are in Figure 6 below. Most participants in the CBD market also operate in the other Auckland markets in Parnell, Takapuna and Newmarket, though on a much smaller scale.

Figure 7 Auckland CBD current market share

Source: NZIER

3.4.2. Wellington CBD market

64. Wilson operates their Wellington business in a market that is somewhat different to Auckland partly because of the geographic shape of the Wellington CBD and partly because of the greater choices for commuting/travelling to the Wellington CBD.
65. The Wellington CBD is significantly smaller than Auckland at about 1 square kilometre that includes more than parking sites, making access between sites much easier for customers than in Auckland. The tight parking density in Wellington obviously impacts the competitive dynamics

and suggests to us that there are both greater competition and substitution choices.

66. The Wellington parking market is influenced by greater use of alternative transport modes, trains and buses by daily commuters in particular. Wilson advises that the Westpac Stadium carpark is a prime example of their having to operate in this market situation. The Stadium is close to the railway and bus stations and in some ways is a separate geographic parking 'market' from the competitive CBD parking market. As we have described it also acts as a substitute site for some CBD parkers.

Figure 8 Wellington CBD current market share

Source: NZIER

67. There are only two managed parking sites in the Wellington CBD (Chaffers St and Skyline), and all other bays are provided under the 'competitive model' described in our earlier report. The Wellington market is characterised by fewer parking sites that are also smaller in size and closer together in geographic terms than in Auckland. Wilson's presence in Wellington pre- and post- the Tournament transaction is greater than in Auckland.

3.5. City Councils in the parking market.

62. The Auckland Council controls approximately of the Auckland carpark market measured by park bays. Around of this capacity is provided through parking buildings with the Council competing actively in all of the major markets: monthly, commuter and short-stay. Auckland Council parking buildings are located at very well-known sites and, with material vacancies, effectively create an overhang of capacity in the market that consumers know is convenient and available.
63. In late 2012 Auckland Council changed its policy on metered street parking to improve access and increase visitation to the CBD. In late 2014 they again changed their policy, doing away with early-bird parking products and raising daily prices to a standard \$17 daily rate to discourage commuters

from bringing their cars to the CBD for all day parking and encourage them to use public transport.

64. In contrast, Wellington City Council controls approximately of the carparks but about two thirds of these spaces are for on-street parking. Accordingly, Wellington Council dominates the short-stay and daily-parking markets but has a very small share of the monthly car parking market. For Monday to Friday parkers the Council targets high turnover of parking bays (especially on-street parks) to maximise revenue via a combination of parking fees and fines for overstaying on-street parking time limits.
65. We conducted a limited survey of Council on street parks in the T2 zones in Wellington to estimate the scale of their influence in the T2 zones. These survey results are reported on in the Section 5 analysis at a site level. Data was not available for us to do the same task in Auckland.

4. Tranche 2 market impacts

66. In this section 4 we describe what is proposed with T2 and identify the impact that T2 will have on the market situation and market metrics from section 3. The T2 acquisition includes the transfer of the leases for ten sites (that contain the 2437 park bays) from Tournament Parking to Wilson Parking. This transaction obviously alters the share of park bays between operators and will affect the metrics that the Commission use to assess the effects the acquisition will have on the competitive process in parking markets.
67. This section also includes NZIER review of the overall impacts that T2 will have on the state of competition in Auckland and Wellington. Section 5 describes the detailed data and our assessments for each of the sites in T2.

4.1. Market shares

67. We retain the Table 2 market shares of ‘park bays’ format, updated to the situation post T2 as follows:

Table 4 Reconciled share of bays – post T2 acquisition

Competitive	AKL CBD	AKL NEW	AKL PAR	AKL TAK	AKL AIRPORT	WLG CBD	Total Bays
<i>Auckland Transport</i>							
<i>Care Park</i>							
<i>Cooper and Company</i>							
<i>Prime</i>							
<i>Private</i>							
<i>Secure</i>							
<i>Self managed</i>							
<i>SKYCITY</i>							
<i>Tournament 3</i>							
<i>Wilson</i>							
<i>WLG CC</i>							
Total Bays							
% of Total							
Managed							
<i>Wilson managed</i>							
<i>Care managed</i>							
<i>Secure managed</i>							
Total All Bays							

Source: NZIER

68. Aside from the obvious change of 2437 park bays between Tournament and Wilson there have been other small changes to market participation since our September report. Wilson has lost leases over parking sites to _____ and _____ in Wellington including _____ at the _____. We comment on the details of these changes in section 6.1.1 – our assessments. Table 4 also includes a small

reclassification of managed bays under lease to Wilson from the upper to the lower part of the table.

4.1.1. Concentration ratios

69. Table 5 below describes the magnitude of the changes to market share of bays in terms of the Commission CR₃ concentration ratios per table 3. The effect of T2 is a market share change in the competitive parking segment post T2 that is visible in Table 5. The combined metrics appear to be within the Commission guidelines.

Table 5 CR₃ share of bays – T2 impact

	Wilson share	Wilson post T2
Auckland		
Wellington		
All AKL + WLG		
AKL + WLG (CR ₃)		

Source: NZIER analysis

4.1.2. Changes to market conditions

70. Overall we believe that this small market share change should not endow Wilson with any ability to lessen the competitive process in either the Auckland or the Wellington market. We have argued that market share is not a determinate of market power in parking markets and a overall change in share from the T2 acquisition does not impact our views. In the Auckland CBD, the dominance of owner operators in the retail market, along with the competitive dynamics of the lease model, prevent any retailer of leased car parks from gaining, let alone profitably exercising, market power.
71. Wilson gain more share of bays in the Wellington market because this market is smaller however because of the dynamic/competitive intensity of the Wellington market we cannot see how Wilson would be able to exercise market power, even temporarily. We discuss this argument on a site by site in section 5.¹⁴

¹⁴ The Wellington market is geographically small, has a higher car parking site density that makes it more accessible and, importantly, has a Council with a high proportion of short term/commuter parking capacity than do private operators. There is also a higher tendency towards alternative transport modes in Wellington, all of which contribute to a greater level of substitution choices.

5. T2 sites – information

72. This section 5 sets out the detailed information and our analysis and assessment for each site in T2. The data is set out in the manner of the template supplied by the Commission while additional material is included in Appendix A.

5.1. Site data

73. Information on each of the T2 sites is presented in a standard template that includes the equivalent data on those car parks that are in close proximity and are considered to compete closely with each T2 site (darker pink shading) and those that compete but in a 'less close' manner because they are further away from the T2 site, or for other reasons (lighter pink shading).
74. These competing car parks may be in the same 'zone' as the T2 site but may also compete closely with sites in other zones. As noted, in our view the intersections between competitive zones are blurred and competition is active between sites that are quite some distance apart. Plimmer Tower in Table 6 below, Marion Street in Table 8 and Leftbank in Table 9 are examples of these complex interactions and are discussed in more detail below.
75. We earlier noted that our use of these zones is an artificial construct that considers first round carpark alternatives to the T2 sites. We use these zones to boil down the complex and highly differentiated parking market to a construct that enables a practical assessment first round substitution. This provides a 'maximum' estimate of market power. We also note here that our research of the parking market literature revealed no similar work and in fact offered us little guidance for this assessment.

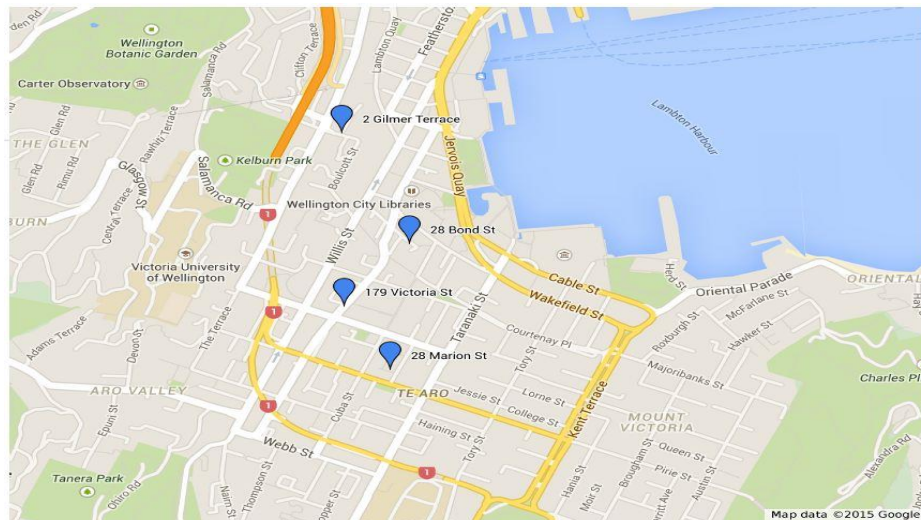
5.1.1. Wellington T2 sites

76. The Wellington CBD is significantly smaller than Auckland at about 1 square kilometre but includes more than parking sites, making access between sites easier for customers. The Wellington CBD appears to fall into two broad zones, one that covers the Terrace/Boulcott St/Willis St/Downtown/Thorndon and the Waterfront and the other that covers the Te Aro/Waterfront and Willis St. Both of these broad zones are compact and accessible with an overlap that extends from the Waterfront back up through the wider Willis Street area. In combination this structure suggests to us the existence of greater competition and substitution choices in Wellington parking.
77. The Wellington parking market is also influenced by greater use of alternative transport modes, particularly trains and buses by daily commuters. Wilson advises that the Stadium carpark is a prime example of their having to operate in this situation. The Stadium is close to the railway and bus stations and competes with several other waterfront carparks in its own competitive zone. It has also been identified by parking customers as a

substitute carpark for CBD sites and as such we see it as a good example of the ‘gravitational pull’ that can be exerted by sites that are less proximate from the competitive CBD parking market.

78. There are 4 Wellington sites in the T2 transaction, covering more than 1300 park bays with size ranging between 200 and 600 bays per site. The sites are all located in what we regard as concentrated and competitive zones – Boulcott Street zone that borders The Terrace and the Willis Street/Lambton Quay area, and Te Aro flat zone that attracts a wide range of car and foot traffic and borders the Waterfront/Willis Street areas. The parking sites in both these zones are easily accessible but the sites have slightly different mix of parking product types. Te Aro has a higher count of short stay parkers while the Boulcott area has more daily commuter and reserved parkers. Both areas are characterised by a strong presence from Wellington Council owned parking – on street especially in Te Aro and WCC parking sites on The Terrace.

Figure 9 Wellington T2 sites



Source: NZIER

79. On-street parking operated by Wellington Council competes with and it provides an alternative to off-street parking for casual parkers. Data on the location of street parks is not readily available for all of the CBD. However to illustrate the size and scale of on-street parking we have analysed the location of on-street parking in the ‘Plimmer Tower’ and ‘Marion Street’ areas¹⁵.
80. Within the area surrounding the Plimmer Tower zone there are approximately on-street parks (mostly concentrated in the CBD) of which on The Terrace compete closely with off-street-parking operated by Wilsons. There are a further on-street parks on the northern edge of the Plimmer Tower area/CBD. This increases the share of Wellington City Council operated parking in the Plimmer Tower area from just under

¹⁵ Our analysis of the Plimmer Tower zone is based on the street parking reported on the website <http://www.parkopedia.co.nz/parking/wellington/>, while the Marion Street on street analysis is based on a physical count and classification of parks in that zone.

percent to percent (or percent if the on-street parks on the northern edge of the CBD are included).

81. We estimate that the City Council has in excess of on street parks in the Marion Street area which is approaching the size of the T2 car park building that is part of the acquisition. About of the Council on street parks are in Marion Street itself with the balance in the close-by streets. We class them as closely competing with this T2 site because the one-way roads in the area tend to require drivers looking for parks to travel around the zone and it is relatively easy for drivers to walk from their selected carpark to other parts of the zone.
82. Our analysis of this on street parking is illustrative of what can be done to examine car park zones and was based on reasonably available public data. Our sense from spot checking of the data is that it likely understates the number of on-street parks in the Wellington CBD area that we have analysed. The available data did not cover the other zones in Wellington but a full physical count of all on street parks seems unnecessary because we feel that we can adequately illustrate our points regarding the material influence of on-street parks with the evidence that we have used here. For the Lombard zone, which was only partially covered in the Parkopedia database, we identified on street parks plus a further parks at the Michael Fowler Centre. Comprehensive on-street parking data was not available for either the rest of Wellington or Auckland.
83. By way of explanation of Table 6 below – 2 Gilmer Terrace is the ‘Plimmer Towers’ car park building, 28 Bond Street is the ‘Lombard’ car park and 179 Victoria Street is the ‘Leftbank’ car park.

Table 6 Competing T2 car parks – Plimmer Tower

Source: Wilson & NZIER

Analysis

84. Wilson previously operated both Plimmer Tower and Capital sites over several years and has a good understanding of the competitive environment in that area. In this area they see [redacted] and [redacted] as closely competing car parks whereas [redacted] (which is very close to Plimmer Tower) is mainly a monthly parking site used by [redacted] with only a small amount of short stay parking.
85. It is worth noting that this picture can change over the next year or two simply from the dynamics of the wholesale market. The leases that Wilson has on the [redacted] and [redacted] sites are [redacted] with the potential that more than [redacted]
86. Besides the sites listed as competing here parking customers see sites that are further afield as alternatives.¹⁶ The following Figure 10 map of the wider Boulcott Street parking area is helpful to identify the scope of the competitive alternatives identified by both Wilson and their customers from the Commission survey.

¹⁶ The Commission 2013 survey of parking customers is a good reference for the understanding of parking alternatives.

87. While the Commission survey did not cover all sites in the Boulcott area the data for the sites at 80 Boulcott Street and Gilmer Terrace tend to evidence our argument that each of these zones will have sites that are both more and less responsive to price increases simply because of the mix of parkers at the sites. For instance the survey identified that in response to a permanent 5 percent price increase at either 80 Boulcott Street or 2 Gilmer Terrace only about 54 percent of the respondents said they would continue to park there and around 11 percent would switch to public transport. However a higher proportion of the Gilmer Terrace respondents (almost 15 percent) could not answer the question either because their employer rented the carparks or 'they did not know'. This tends to fit with the mix of parkers that use these sites – which we describe above.

Figure 10 Competing carpark sites – Plimmer Tower zone

Source: NZIER

88. This result is in no way a surprise. The 80 Boulcott Street survey responses coincide with the average of the mix of different parkers across all Wellington sites whereas the Gilmer Terrace site is dominated by monthly reserved parkers who are likely less responsive than average parkers to price changes. While not part of the T2 transaction, it is worth pointing out that the Chews Lane site which was also surveyed by the Commission (and potentially could be included in the wider Plimmer Tower zone) also exhibited similar responses to the Boulcott/Gilmer sites – that is, lower than average response to a price increase from a higher than average count of monthly parkers and apartment residents.
89. We regard the T2 Plimmer Tower zone as a fine example of the 'shades of competition' that we referred to earlier. On a strict share of park bays, Wilson do not have a dominant position, holding _____ of the total and facing close competition from nearly _____. Besides the competition that they face from closer sites (those listed in Table 6) they also face competitive pressures from sites that are further away, *but are not included in Table 6*, including Queens Wharf and the Westpac Stadium (not shown in Figure 8). These two sites provide nearly _____ park bays in competition with a

number of CBD sites. For us, there is therefore no obvious boundary line around the competitive zone of car parks that compete with Plimmer Tower.

90. As a result we do not see that, post the T2 acquisition, Wilson will be able to generate sufficient market power from within this wider zone that would allow them to pose a threat to the wider competitive process. We believe that any attempt to raise prices would see a flight of customers to a range of alternative transport and parking choices both within and outside of this wider zone. Our views here are also supported by data from the Commission 2014 survey. The survey indicates that if the prices of all carparks are increased by 5 percent permanently, on average only 63 per cent of respondents would continue to use the carpark and 16 percent would switch to public transport.
91. Lease details, pricing and other relevant information for Plimmer Tower and competing sites is in appendix A.

5.1.2. Te Aro Zones

92. Our analysis and assessments of the individual Te Aro zones follows below, but for a range of reasons we believe that these zones should also be looked at as a larger single zone made up of the interconnected and merged smaller zones around the T2 sites being acquired. Again, we recognise this is something of an artificial construct but it is useful to illustrate that we can look at the T2 sites using this competitive zone approach individually (as the Commission apparently sees them) or as wider parking market zones, such as this wider Te Aro zone and the previous Boulcott zone, in the manner that we believe parking consumers do.
93. There are a number of geographic features that enable parkers to choose from a range of parking sites in the Te Aro area, some of which are in close proximity to other sites while others are nearby but not as proximate. As mentioned the area is flat, the city blocks between streets are smaller and there are no major geographic boundaries like motorways. Importantly the area has several one way streets which force drivers looking for parking to travel in a loop past a number of parking sites, which of itself creates a different dimension to the competitive dynamics. Also, people are happy to traverse this area on foot because of its varied and interesting nature as a shopping and entertainment destination. It also has a lot of smaller businesses and accommodation. (As we will describe later in the report, we also view the Newmarket zones in Auckland as connected in a similar way to Te Aro but for different for reasons.)
94. This wider Te Aro parking zone, made up of parking sites surrounding the 3 T2 acquisition sites, contains a little over park bays across 6 different types of operator. Without the T2 acquisition, Wilson has a share of bays, ranked third behind the self-managed sites and who have the dominant share of bays. If all on-street bays were accurately counted it is likely that the WCC would have the dominant market share in this wider zone.

95. Table 7 below sets out the share of bays as they are now and Wilson’s share post the T2 acquisition. We set out our assessments of the T2 sites in the analysis of individual sites below but from this analysis of the wider Te Aro parking market we believe that our assessments of the individual sites are well founded.

Table 7 Te Aro Zones

Operator	Park Bays	% share
WCC		
Self-managed		
Prime		
Care		
T2		
Wilson		
Total		
Wilson before T2		
Wilson after T2		

Source: Wilson and NZIER

- * Note that this WCC on-street count only includes the physical count of bays on the streets immediately around Marion Street and the Leftbank sites. We have not physically counted all bays on the streets in this wider Te Aro zone but would guess that they will add up to many hundreds. Within this zone the WCC Michael Fowler site has bays on its own.

Figure 11 Competing carpark sites – wider Te Aro zones

Source: NZIER

96. In the same way as for the wider Boulcott zone this Te Aro zone has a similar competitive dynamic though for different reasons. We believe that neither Wilson nor other operators will be able to gain and use market power simply because of the choice of several sites, and operators, that consumers have to use for their parking needs in Te Aro. We also are of the view that, in the same manner as for Plimmer Tower, there will be competition from sites that are more remote from this area (potentially Reading and Lombard - shown on Figure 11 in yellow).

5.1.3. Willis Street

97. We mentioned earlier in our report that the area from the Waterfront and up Willis Street was a parking area that could be included in both the Boulcott/CBD zone and in the wider Te Aro zone. It includes both on-street parking and particular car park sites that are operated by Wilson, Prime Parking and Care Parking. Our discussions with Wilson have revealed that the overlaps that occur between zones in the Willis Street area have made this area ultra-sensitive to both the product mix and to pricing.
98. Wilson advises that they have seen consumers very quickly move across to alternative sites that are further into the Te Aro or Boulcott/CBD zones from the Willis Street area. It seems that other operators have also experienced these outcomes from their own attempts to adjust the marketing mix at their Willis Street parking sites.
99. We find this response most interesting but not entirely unexpected. The reported consumer response to changes in the marketing mix suggests to us that this 'zone' is indeed in an overlap between wider competitive zones and that the consumers who park in this overlap are very aware that they

have real choices of where else to park. It is a real world example of the potential revenue impact that flows directly from parking operators changing the marketing mix (that is Wilson and other operators in this area, 'bleed' customers and revenue).

Table 8 Competing T2 car parks – Marion Street

Source: Wilson & NZIER

Analysis

100. On its own Marion Street zone is smaller and a little detached from the other two T2 Te Aro parking zones. We have presented it as a standalone zone but as we will describe we believe that it intersects with the Leftbank zone and likely also with the zones to the north/east that includes the [redacted] car park. We illustrate this point in Figure 11 where the proximity of these car park sites and the closeness of competition between zones are shown.
101. In this way the T2 Marion Street is similar to the Plimmer Tower zone but is a different proposition to Plimmer Tower because of both its geography and the mix of parker types that use the Te Aro parking sites. Post-acquisition Wilson would end up with a [redacted] share of park bays in this zone and immediate closer competition limited to the Council on street parks in Marion Street itself.

102. We are not especially concerned with this situation for two main reasons. Firstly and as we previously described, because these Te Aro zones are quite interconnected and are in close proximity, we believe that any attempt by Wilson (or any other operator including the City Council) to raise prices would see parkers flee to another car park site or use an alternative transport mode. Secondly, from the Commission parking survey we can infer the size of the revenue penalty that Wilson would suffer from any material site specific or across the board price increases in an area that is well served by public transport. Pricing action such as this would likely result in a reconfiguring of prices across both Te Aro zones and adjoining areas as other parking operators could bring spare capacity into the market at prices below Wilson and further negatively impact its revenues.
103. Regardless of the T2 Marion Street acquisition Wilson currently has this pricing option available to them within this and other competitive zones. They have not used it to date for the simple reason that they understand it would harm them through reduced revenue rather than harming their customers.
104. There are other factors that affect the nature of competition in this zone. Access to this T2 site is on Marion Street whereas most of Wilson closer sites are off _____ – Wilson are of the view that generally those sites serve different geographic markets.
105. Furthermore all the sites that compete with Marion Street, which is an established carpark building, are on grade development sites which may be given over to other uses than car parking which changes the balance of market shares. In similar fashion, both the _____ and _____ sites are on a month to month lease _____
The nature of competition in this area is also changing with Prime Property now operating two parking sites.
106. As a result of this T2 assessment we now better understand the dynamics of competition in the Te Aro area and we are of the view that this zone, the Lombard zone and the T2 Leftbank competitive zone below, all have considerable degrees of overlap which are illustrated in the map – Figure 11. This situation is partly driven from the fact that pedestrian access in the Te Aro area is good (it is flat and street blocks are smaller) and people willingly traverse this area on foot. As noted, on-street parking is widely available throughout Te Aro Flat. We do not believe that the acquisition of the Marion Street T2 car park by Wilson poses a threat to competition across these zones.

Table 9 Competing T2 car parks – Leftbank

Source: Wilson & NZIER

Analysis

108. T2 Leftbank on its own is an interesting site because in a similar manner to the T2 Marion Street site, it is subject to considerable competition from other close by car park sites, but also from the considerable volume of on-street parking that is available in Victoria Street and the Te Aro flat area more generally. Close proximity competition is mostly from non-Wilson car parks while less close competition is from a variety of owned sites.
109. Figure 11 above shows the overlaps with the Marion Street zone on the south side and Figure 12 illustrates Leftbank's intersection with the nearby Lombard zone on the north side.
110. Again, for the reasons we previously argued for the Plimmer Tower and Marion Street zones, we do not see Wilson share of park bays in the Leftbank zone as an indicator of the potential for a threat to competition. There appear to be too many substitutes and other market variables that will limit this potential.
111. Note also that the lease on _____ has expired and that this site is on a month to month rental basis in the near future.

Table 10 Competing T2 car parks – Lombard

Source: Wilson & NZIER

Analysis

112. T2 Lombard is a large multi-storey parking building in amongst other car parks that are far smaller. It is one of the iconic sites that we described in our earlier evidence. The only substantial competition comes from the nearby [redacted] car park that is about to re-open after being closed for earthquake repairs.
113. Even though [redacted] is somewhat substandard compared to Lombard, because of its sheer size, Wilson see [redacted] site as the only close competition from within this zone (dark pink shading in Table 10) with less-close competition from [redacted] sites listed.
114. [redacted] car park in [redacted] also provides competition for Lombard though in less proximate manner to [redacted] which is a closer site. [redacted] has been closed for repairs following the 2013 earthquake and re-opened in January 2015. [redacted] car park has yet to open
115. The re-opening of these two large car parks will bring an additional [redacted] bays back into the market which will have an impact on parking pricing and utilisation across the CBD. We believe that over time the outcomes from this experience will provide valuable evidence regarding our assessments of the dynamics of the Wellington parking markets.
116. As we noted previously this zone is in close proximity to the Leftbank zone – two small city blocks away. It also borders on the zone that the Plimmer Tower site is located in as well as the ‘Downtown/Lambton Quay/Waterfront’ zone. Because of this situation we see the potential for shaded degrees of competition and substitution from a wider set of car park sites outside of the zone defined as Lombard in Table 10.

117. To illustrate our views regarding competition from outside of the Lombard zone we have included seven carparks in the map of the Lombard zone (figure 12 below) that are in quite close proximity to Lombard but are not seen as immediate and direct competition in this zone. We believe these seven sites (shaded with yellow markers) could draw customers from Lombard should pricing conditions in this site be regarded by parkers as unfavourable. They are all about 2 blocks or so from Lombard.¹⁷

Figure 12 Competing carpark sites – Lombard zone

Source: NZIER

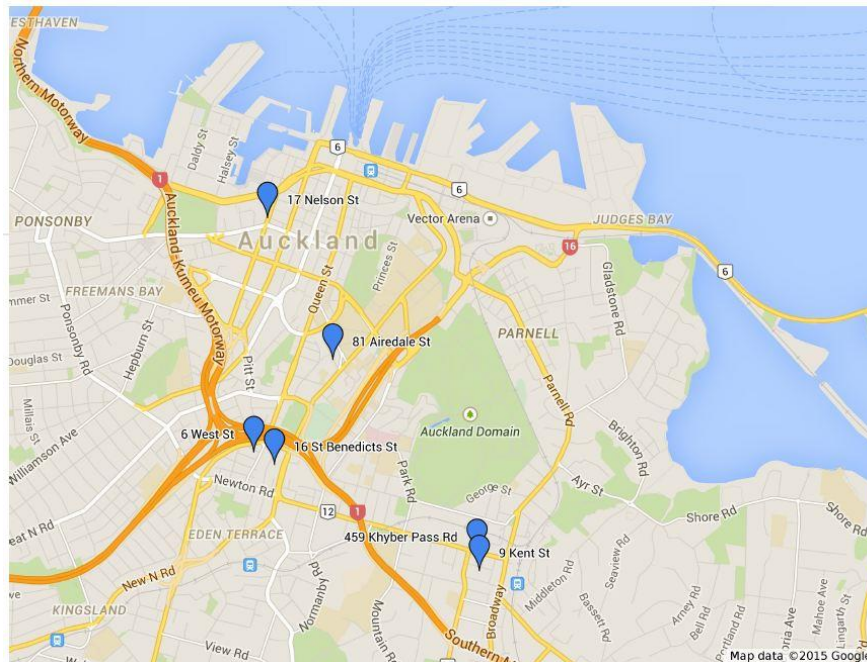
118. Regardless of whether Wilson has a larger or smaller share of park bays in this or any other zone, we do not see Wilson as posing a threat to competition for the reasons we describe.

¹⁷ These seven carparks are in or very close to the Willis Street area that exhibits a greater sensitivity to the marketing mix car park operators offer consumers. Several of these sites are larger and are operated by different competitors. For example Care Parking operate the Capital and O'Reiley indoor carparks that are close to the Lombard zone.

5.1.4. Auckland T2 sites

119. The T2 carpark sites in Auckland operate in a different environment than those in Wellington. While the Auckland CBD market is larger with the wider CBD/Newmarket area covering about 7 square kilometres, the car park site density is lower. This results in less ‘close’ competition between sites within zones (such as we described in Wellington) but more competition between less proximate sites. This is very visible in the site data in Appendix A. In our view this situation applies a very similar discipline to the closer competitive environment in Wellington on the competitive behaviour of Auckland CBD operators and is the driver for the wider competition we describe from iconic sites like and the .
120. Auckland product mix is somewhat different to Wellington, though vacancy levels and pricing are similar. This is partly because of bays in the Auckland market fit under the owner-operated (fully integrated) model where cash flow is important. Unlike Wellington where the model is absolutely dominant, only of bays are part of the competitive model on leased sites where operators have full product and pricing control.

Figure 13 Auckland T2 sites



Source: NZIER

121. By way of explanation, 6 West Street is the ‘Upper Queen Street’ car park; 9 Kent Street is the ‘Rialto’ car park while the other car parks are named from their street address.

Table 11 Competing T2 car parks – Upper Queen Street

Source: Wilson & NZIER

Analysis

122. On the face of it there appears to us to be little concern here for the same reasons that we argued in the case of Marion Street and Leftbank competitive zones. Although Wilson currently have a share of bays, and despite an absence of close-by competition, they face a range of less close competition from a wider group of car parks that, in combination, currently constrain their behaviour. We do not anticipate that a change in share will materially alter this situation.
123. The T2 Upper Queen Street is small at only 49 bays with a minor impact on market shares. Wilson already has the option to raise prices or withhold capacity, but as before they would harm themselves more than the market.
124. In the same way as for the Marion Street and Leftbank zones in Wellington the T2 Upper Queen Street and St Benedict's sites also have considerable overlap and compete across both T2 zones to a greater or lesser degree, hence our merging them in Figure 11 below. We believe that the presence of Auckland Transport with on-street parking and their Burleigh Street and Upper Queen Street car parks act as a material competitive pressure throughout this wider zone.

Figure 14 Competing carpark sites – Upper Queen and St Benedicts zone

Source: NZIER

125. Figure 14 above shows the sites that compete across these two zones.
126. While the Upper Queen Street and St Benedicts zones are bounded by both the motorways and New North Road Wilson do not see these seemingly natural barriers as a physical limitation on the competitive scope of the zones (that is - they do not act as a bright line boundary for these zones). We tend to agree with this view. To illustrate our views we have identified four sites on the CBD side of the motorways that we believe could easily provide competition with both these T2 sites because of their proximity to these zones. The [redacted] site is clearly a competitor while the other three (yellow markers – [redacted]) also provide competition though to a lesser degree than the others listed in Table 10.

In summary we see this zone as diverse and with considerable choice of substitute sites for parkers. The zone is heavily used by commuter and short stay parkers and interestingly it includes a couple of the sites that were included in the Commission survey (City Road and Liverpool Street). Both these sites are dominated by short stay/commuter and in the survey recorded a price response here that was materially higher than the Auckland CBD average (that is - parkers here are much more sensitive to price increases and responded that they would either move to another car park site or use public transport should prices be increased by a permanent 5%).

Table 12 Competing T2 car parks – St Benedicts

Source: Wilson & NZIER

Analysis

128. While neither of the Upper Queen Street nor the St Benedicts T2 zones is especially large we believe that the presence of the wider 'less close' competition should act as a restraint on any threat to competition.
129. The comments and analysis that we made under the Upper Queen Street zone above mostly apply to the St Benedicts zone as well.

Table 13 Competing T2 car parks – Nelson Street

Source: Wilson & NZIER

Analysis

130. The competitive zone around the T2 Nelson Street site is large at park bays (about of all Auckland CBD park bays). Wilson is of the view that more than of the bays in this zone can be regarded as close competitors to the T2 Nelson Street site. Notable among the less-close competitors are the iconic car park sites which together account for park bays in the zone, while has another close competing bays at their
131. However, of itself the T2 Nelson Street site is quite small (at only 207 bays) and will not have a material impact on Wilson overall market share of bays in this zone. We believe that the acquisition has virtually no potential to change the competitive dynamics in this area where customers have a wide range of substitute parking sites and modes of transport to choose from.

Figure 15 Competing T2 carpark – Nelson Street

Source: NZIER

Table 14 Competing T2 carparks – Airedale Street

Source: Wilson & NZIER

Analysis

132. The T2 Airedale Street site is not large (85 bays in a competitive zone of nearly - much like we see with Nelson Street above) so the acquisition by Wilson does not make a material difference to the market share of bays that they have already in this zone.
133. The question therefore is, regardless of the T2 acquisition, whether Wilson already possesses, can exercise and has exercised market power to unilaterally raise prices across these sites. We don't think that they have any existing market power and even if they did they could not afford to mis-use it. We are of the view that the very real threat of potential revenue loss is enough to constrain their behaviour.

134. We say this for similar reasons to our arguments regarding the constraints to raising prices in the Boulcott zone in Wellington. The Commission extensively surveyed car park sites at and around Airedale Street. Evidence from their survey revealed that up to 30% of customers would respond to price increases by parking elsewhere or by using an alternative transport mode. Price increases as such would harm Wilson more than its customers.

Figure 16 Competing car park sites – Airedale Street

Source: NZIER

135. Parking sites in this Airedale Street zone are dominated by short term and daily parkers (monthly parkers are only about 20% of the total). There is also a higher than average level of vacancy as would be expected with a parker profile such as this. As noted, a number of these sites were surveyed by the Commission. Responses from parkers regarding substitute sites were as we would expect given our assessment of how the parking services is structured and behaves.
136. Wilson Airedale Street site is nearly [redacted] and daily parkers and recorded a higher than average response to a [redacted] price increase question while Whitaker Place (which is [redacted] parkers) recorded a slightly less than average response to the same question. In total 7 of the sites in this zone were surveyed and all recorded responses to the 5% permanent price increase question that fits with the parker profile of each site. Generally the survey sites that are more proximate to the Airedale T2 site exhibited less sensitivity to the price increase.

5.1.5. Newmarket Zones

137. The car parking sites in the wider Newmarket area operate in a parking market that appears to us to be different to the CBD – in a similar manner to the Te Aro zone in Wellington. Parkers in Newmarket are generally shoppers and because of this likely have a clear view of where they will park their car, independent of price or parking substitution options. The Newmarket area is small at less the half a square kilometre but is very well served with nearly plus on-street Council parks, again not dissimilar to Te Aro.

Figure 17 Competing car park sites – Newmarket

Source: NZIER

138. We have included both T2 sites on the same map to illustrate the zone overlaps that likely exist in this area. It could be argued that the carparks around Broadway form a competitive zone around this retail area that is different to the sites that are towards the Khyber Pass Road area. We believe that because of the compact nature of this area and the proliferation of car parks that the sites compete with each other across the whole Newmarket area in the same way as for the Te Aro area in Wellington. We have however assessed each T2 site individually, as follows.

Table 15 Competing T2 car parks – Rialto

Source: Wilson & NZIER

Analysis

139. At all bays in Newmarket, the Rialto carpark is not especially small compared to the total bays available in the overall zone however we are of the view that there are still sufficient share of bays outside of Wilson control to act as a disincentive to any lessening of the competitive process in Newmarket.
140. In the same way as for all of the other T2 sites we believe that it is simply not in Wilson best interests to raise prices or restrict access or quality at their sites in these zones as this strategy carries a high risk of lowering gross parking revenue which due to the high level of Wilson's fixed lease costs has a disproportionately negative effect on Wilsons profitability.

Table 16 Competing T2 car parks – Khyber Pass

Source: Wilson & NZIER

141. Our general comments for the T2 Rialto zone above can also be read as applicable to the T2 Khyber Pass site; however we are of the view that this site offers little by way of potential market power to Wilson because of the presence of considerable close competition and widespread less close competition.
142. Figure 16 above illustrates the considerable overlaps across these zones where the same sites compete with each other in different ways. When considering these zones it pays to bear in mind Wilson comments that for many customers (shoppers) these sites are very destination specific and the accepted dynamics of the carpark markets do not apply. We do however believe that these customers will respond to price increases in a similar manner (or even a stronger response because of their likely higher price elasticity) as for other CBD parkers.
143. We have included the site at _____ in this zone analysis despite the fact that it is a managed car park which does not allow Wilson (the operator currently) any latitude over the marketing mix for this site. From a customer point of view this is immaterial.

6. NZIER assessment of T2

144. Evidence in section 3.6 of our September report described how Wilson’s parking prices are not correlated with their share of parking bays in strong substitution zones. Our discussion of the structure, conduct and performance of the market provided a rationale for why a high market share of leased carpark sites does not give the lessee either the ability or the incentive to lift prices, other than by re-allocating the bays to services for which consumers are willing to pay more.
145. Overall our assessment of the potential for Wilson to gain market power from the Tournament transaction has not changed from those views.

6.1. Three simple factors matter

146. Our previous assessment described three factors that inhibit Wilson ability to gain and exercise market power. These three factors still matter.

6.1.1. Market structure

147. For us the wholesale/services market structure remains the most important constraint on any operator’s market behaviour. At a site level the lease arrangements (Appendix A) bear witness to the real potential for Wilson to lose a greater share of any surplus profits to their landlords.
148. The dynamics of the wholesale market for the supply of car parks are clearly highlighted in the following table of changes that have taken place between August 2014 (our previous data update) and December 2014.

Table 17 Wholesale market changes August to December 2014

Site	Bays	August Operator	Area		Bays	December Operator	Area
Westpac	750	Wilson	WLG CBD	=>	750	Carepark	WLG CBD
James Smith	736	Closed	WLG CBD	=>	736	Self	WLG CBD
O’Reilly indoor	39	Wilson	WLG CBD	=>	39	Carepark	WLG CBD
Molesworth	50	Wilson	WLG CBD	=>	50	Prime	WLG CBD
Hope Gibbons	307	Wilson	WLG CBD	=>	307	Self	WLG CBD
Fort St	25	Self	AKL CBD	=>	65	Wilson	AKL CBD
Khyber Pass Uni	300	Closed	AKL NEW	=>	300	Secure	AKL NEW
Wynyard	500	Wilson	AKL CBD	=>	Closed	Closed	Closed
Eden St	377	T3	AKL NEW	=>	377	Wilson	AKL NEW

Source: Wilson & NZIER

149. For us these are compelling evidence of constraints from the wholesale market source.

150. To further illustrate the power that building owners retain in the wholesale market it is worth also noting here the situation that has emerged following the re-opening of the James Smith and Reading sites in Wellington. We understand that Reading Entertainment, Melbourne controls the pricing and product conditions for the Reading Courtney Place site and that Care Park operates it as a manager only. Melbourne has
- which has resulted in a very poor occupancy for the two months since it reopened.
151. Despite being cleared and ready to be opened the James Smith site is not in fact operating because the property company which owns it
- We understand that the owners' initial commercial terms are
- Wilson management advise that
152. As we were conducting final edits on this report we were advised that of the total 66 bays at Butte Garret site (all were Wilson operated), 50 have been put out to tender and won by Care Parking. Yet another example of the competitive dynamics in the upstream wholesale market.

6.1.2. Utilisation of park bays

153. Earlier we used Figure 17 below to describe the vacancy rates for major parking operators in Auckland and Wellington CBD's. The data here remains important because it shows that overall Wilson still has one of the lowest vacancy rates.
154. Analysis of the site data in Appendix A shows that the Wilson sites that compete with the T2 sites have occupancy rates that vary up to but that on average they are not materially different to the Table 17 data. Competitors with higher vacancy rates can still swap park bays into different product segments should Wilson raise prices and create the opportunity for them to profit or they could simply undercut Wilson (higher) pricing and gain market share.

Figure 18 Vacancy rates

155. To recap, Wilson retains its low vacancy strategy and this Figure 18 data are evidence of their high utilisation high performance strategy to meet customer preferences better than their competitors. Higher vacancy rates for competitors is evidence of a real constraint on Wilson (or any other operator's) wanting to raise prices to generate excess profits. Competitors have bays with spare capacity that can be configured and priced to attract customers away from Wilson's higher priced car parks. This is an important and very real market dynamic.

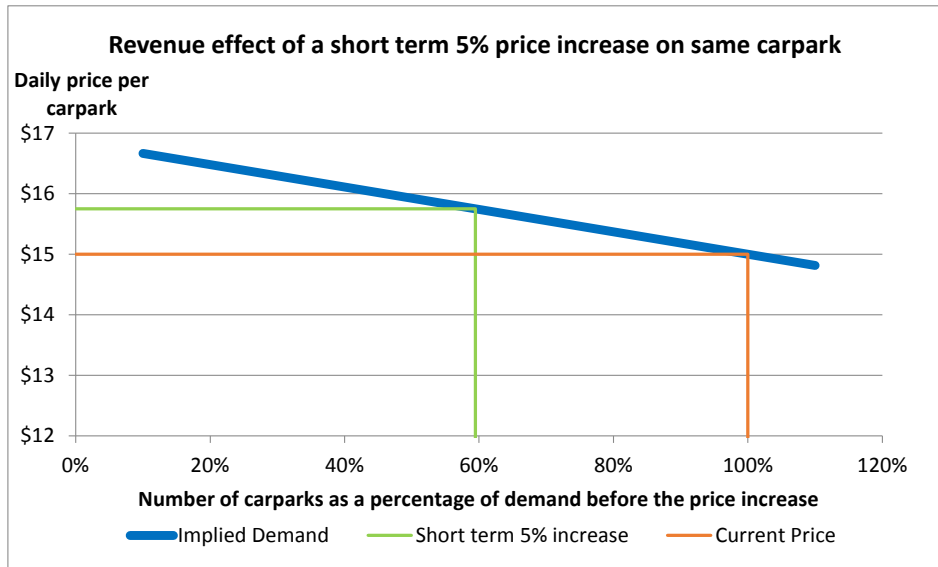
6.1.3. The demand curve

156. We derived Figures 19 and 20 below from the Commission 2014 parking survey. The figures illustrate the effects on carpark revenue of a permanent 5 percent price increase at the surveyed park only and permanent 5 percent price increase for all car parks. We believe it strongly supports the Wilson clearance application by clearly indicating that:

- increasing prices by 5 percent at single car park is likely to reduce revenue for the carpark by encouraging people to:
 - park elsewhere (an average of 21 percent of respondents in Wellington and 28 percent of respondents in Auckland)
 - switch to public transport (an average of 8 percent of respondents in Wellington and 7 percent of respondents in Auckland)
- increasing prices by 5 percent across all car parks in the areas is likely to reduce revenue by encouraging people to:
 - switch to public transport (an average of 16 percent of respondents in Wellington and 18 percent of respondents in Auckland)
 - park elsewhere (an average of 11 percent of respondents in both Wellington and Auckland).

157. Question 5 of the survey asked the respondents where they would park if prices at their preferred car park site increased by 5 percent in the short term. Only 60 percent of the respondents said they would continue to use that carpark following a short term 5 percent price increase as shown in Figure 19 below.

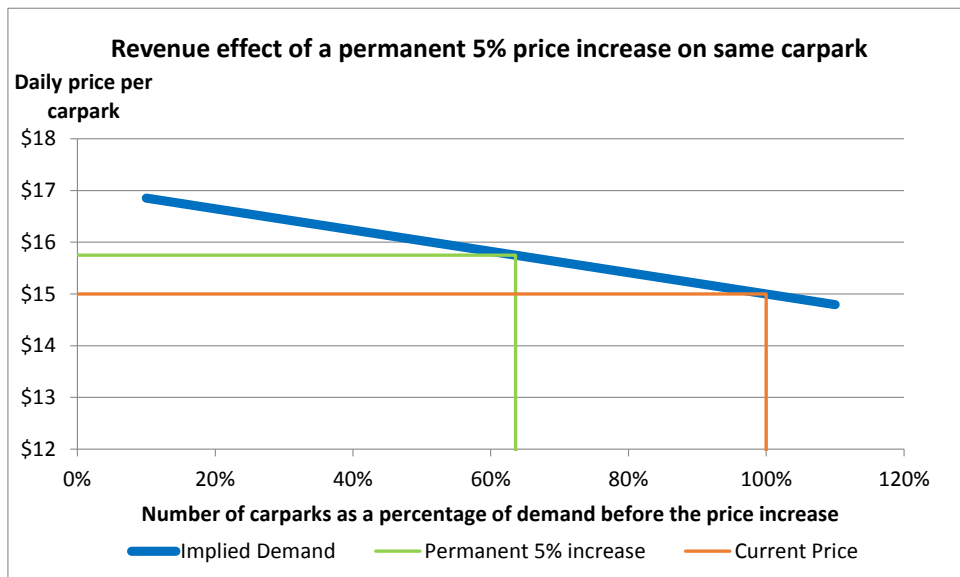
Figure 19 Short term 5% price increase reduces revenue by 40%



Source: NZIER

158. Question 6 of the survey asked where they would park if the 5 percent price increase was applied to all carpark. Only 64 percent would continue to use that carpark following a permanent 5 percent price increase as shown in Figures 20 below.

Figure 20 Permanent 5% price increase reduces revenue by 36%



Source: NZIER

159. The survey responses clearly indicate that the revenue loss incurred by a carpark that increases prices by 5 percent price increase will not be offset by revenue gains at other sites. If the price increase is only applied to one site, many of the surveyed customers that would be discouraged from using the carpark by a 5 percent permanent price increase would not park their car somewhere else – they would withdraw from the parking market. If the

price increase is applied to all parking sites an even larger proportion of respondents would switch to public transport and withdraw from the parking market.

160. These survey responses are critical to an understanding of the dynamics of the parking market and to the constraints on the potential for a threat to competition from increased prices. From this particular analysis we contend that it is not in Wilson interests to raise prices and withhold capacity simply because their business risk would rise very quickly from the loss of revenues, threatening their ability to fund lease rentals.
161. This remains the case for the T2 application and is the unavoidable argument against Wilson exercising market power in any competitive zone, regardless of their share of parking bays.
162. Our site by site analysis of the T2 transaction confirms that for each of the sites individually, and as a group, Wilson remains exposed to competition from other parking service suppliers and to a high level of readiness on the part of some consumers to switch to other transport modes. This competition and willingness to substitute means that:
 - any attempt to increase prices carries a high risk of reducing gross parking revenue
 - Wilson’s most effective strategy to improve profitability is to increase parking bay utilisation by better matching the services offered at the site with demand and reduce its operating cost per carpark. This is their strategy for the T2 acquisition.

6.2. Site leases

163. We have previously argued that

164. We had also described the reasons why Wilson wishes to make this acquisition – operational efficiencies but also access to more car parking sites

Wilson’s existing portfolio of sites

whereas the

All told, in

the 16 months to December 2014 different sites changed operator in
Auckland and Wellington.

165. Given the competitive nature of the wholesale market to us it makes good commercial sense for Wilson (or any operator for that matter) to seek to

manage their financial risks. We are not at all surprised that they are

166. While they have a slightly longer term remaining, the lease durations of competitive sites in the wider T2 zones are not dissimilar to this overall pattern (average 6.4 years and median 4 years), that will, to our thinking, continue to promote competition at the wholesale market level and facilitate entry for parking operators other than Wilson.

6.3. Our conclusions

167. Our views on the Wilson – Tournament T2 acquisition are straight forward and our assessments of the individual T2 sites are described in detail in section 5. However when combined, the three factors described in 6.1 above shape the inability for Wilson to pose a threat to competition: that is the parking market structure, Wilson’s strategy and the
168. We are firm in our views that regardless of market ‘share’ conditions in the T2 zones, these factors will act together to constrain and very quickly cause the decay of any use of market power that Wilson might generate from the Tournament transactions.
169. Parking markets are dynamic. There are low transaction costs and low barriers to entry. The evidence of the past twelve months in Table 16 demonstrates this for us and is very much as we expected. This real world experience has also demonstrated that the market situation cannot be frozen at a point in time to evaluate these transactions but that the dynamics of the markets – the forces in play – need to be considered over time. Because of this situation we are of the view that the traditional analysis (for example CR₃ concentration ratios and market share changes) we described earlier has proven to be unhelpful to our assessment.
170. In the end Wilson has no economic incentive to attempt to reduce access to car park bays by increasing prices as this would simply reduce their revenues and place pressure on their ability to service fixed cost site lease contracts.

Appendix A

Detailed data sheets for Commission attached below.

