Stadium ownership

Competitive edge or unwanted burden?
There is a lot of interest in the sporting industry about building and owning boutique venues, rather than sharing infrastructure with others. While there are benefits, sporting codes and teams must also be aware of the risks and challenges.
Across Australia, governments at all levels have invested heavily in stadium infrastructure. Currently there are numerous major stadium projects at various stages of development including the new Perth Stadium, Western Sydney Stadium, and Townsville Stadium – all of which are largely funded by government and will be government owned.

While no sporting code or team is likely to turn down government investment into facilities, this comes with a number of potential challenges for users, typically including:

- venues being multi-purpose or at a minimum multi-use;
- users having limited operational control of the venue, even on match days;
- venues being built to cater to premium events with capacities in excess of the requirements of week-in-week-out users; and
- teams and codes not owning the end-to-end fan experience.

Given these challenges, sporting codes and teams have been investigating the option of owning their own venues. Recent examples include:

- the purchase of Etihad Stadium by the AFL;
- the proposition by the Central Coast Mariners to buy Central Coast Stadium from Central Coast Council; and
- proposed plans by numerous A-League expansion hopefuls for new boutique football stadia.
How much do governments invest in stadia development?

- Western Sydney Stadium (New Development) - 100%
- Newcastle Stadium (Western Stand) - 100%
- Perth Rectangular (East Stand) - 100%
- New Perth Stadium (New Development) - 100%
- Melbourne Stadium - 100%
- SCG (Noble, Bradman, Messenger Stands) - 100%
- Robina Stadium - 100%
- Lang Park - 100%
- The Gabba - 100%
- Townsville Stadium (New Development) - 96%
- Adelaide Oval - 93%
- Carrara Stadium - 91%
- Kardinia Park - 84%
- Central Coast Stadium - 80%
- Sydney Showgrounds - 70%
- MCG (Northern Stand) - 18%
- Stadium Australia - 2%
- Docklands Stadium - 0%

Source: KPMG analysis of publicly available data
The benefits

The benefits of owning a venue are clear and many sporting codes and teams see this as a way to ‘control their own destiny’. For example in football, many Australian (prospective) clubs are looking to the example of Major League Soccer (MLS) in the United States where new and existing teams are investing in purpose built stadia.

Benefits are understood to include:

**Fan experience:**
The broader fan experience is recognised by all codes and teams as being critical to successful fan attraction, engagement and retention. This includes the experience from travelling to the game until you are home again, and incorporates the full range of interactions a fan has with the team, service providers and other spectators.

Codes and teams are judged on this fan experience, however, in many instances they have little or no control over the services being delivered or the facilities being provided. Stadium ownership gives the code/team full control over the in-stadium experience and allows for stadium development to suit the respective sport – including factors such as sight lines, premium seating, members and active support areas, technology and food and beverage infrastructure.

**Right-sizing:**

Much disenchantment with sporting stadia in Australia is because the stadium size is not appropriate for the content. Stadiums with capacities of 80,000+ cater well for finals, local derbies or international events, however, are not necessarily the best venue to watch a match with smaller crowds.

Governments have justifiable reasons for building large venues – they need to compete for large scale events which drive economic activity. But they cannot be seen to spend the significant capital required for just two to three major events per year. These venues must be shared with other codes and teams to build out the event calendar (and to support financial viability).

The ability for a code or team to build a stadium that works for their current event and attendance profile (and be flexible to scale up and down as appropriate) would be a significant advantage over its competitors.

**New revenues:**

Typically when hiring a venue, the hirer gets a share of the various revenue streams generated by an event, such as ticketing, premium seating, food and beverages, and signage and sponsorship. There is, however, significant revenue leakage to other parties such as service providers and the venue manager/owner. Venue ownership allows the code or team to retain all revenues associated with venue and event management.

It allows the code or team to create and sell new signage, sponsorship and corporate products to existing and new partners, which incorporate both the team and the venue.

Improving the fan experience, investing in digital technologies and right-sizing the venue can also generate increased gate takings and incremental sponsorship and revenue opportunities.

**The pitch:**

Each sport has its own preferences when it comes to factors such as turf variety, grass length and pitch size. Stadium ownership allows the code/team to tailor the pitch to their requirements.
AFL content represents approximately 70 percent of the venue’s content, and approximately 20 percent of the content of the entire AFL. Etihad Stadium is also well positioned to be more than a sporting asset. The venue is:

- multi-purpose with a strong event calendar of around 70 AFL and other sporting and entertainment events each year; and
- located within the important Docklands precinct in the Melbourne CBD which boasts a resident population of approximately 12,000 (projected to increase to approximately 22,000 within 10 years) and a major transport hub in Southern Cross Station which delivers over 60 million passenger trips per annum.

If a way can be found to further ‘open up’ the stadium and its surrounding precinct to both sporting and non-sporting demand drivers, it is well placed to enhance its position as an important sporting, entertainment and social asset for Victorians and for the AFL.
Cost:

Stadia are capital intensive assets. The upfront cost of major stadia (re)developed in Australia over the past 10 years is in the order of $10,000 per seat in current day dollars (noting many are in excess of this benchmark).

A 20,000 seat ‘boutique’ stadium translates to capital costs (assuming $10,000 per seat) in the order of $200 million, not including the cost of an appropriate site (it should be noted that design and development techniques and construction materials are advancing rapidly and lower cost options are available).

Stadia require significant ongoing repairs and maintenance, and ongoing investment into capital refurbishment and replacement. Together, these costs can equal in excess of 2 percent per annum of build cost on average (e.g. $4 million per annum for a $200 million stadium). This represents a significant baseline cost of ownership.

Not core business:

Codes and teams have high levels of experience in managing elite sporting teams or running a league, however, in the Australian market they do not typically have strong facilities management capability.

Where teams have had venue ownership/management responsibilities, this has at times led to situations where investment into the stadium has suffered due to a preference for investment into the sporting program and on-field success. This leads to long-term underspending on the venue, deterioration in the asset, and in the experience of those attending events.

If a code or team does want to invest in venue ownership it is critical to ensure facilities management is appropriately valued and resourced.

The risks

Despite these opportunities, there are a number of risks that codes and teams should consider before jumping into venue ownership.
Limited event calendar:
One of the key reasons for a lack of investment by sporting codes and clubs into major stadium ownership is that they do not have a big enough event calendar to support stadium development. Can a team afford to spend $200 million for a venue which is used for 10-15 regular games per year?

Sporting codes which channel content from multiple teams (e.g. the AFL) are more likely to be able to secure a strong event calendar to support operational profitability, however, individual teams may need to rely on other funding streams. Historically, governments have managed this risk by securing multiple tenants.

Financial risk:
As outlined earlier, stadia are capital intensive assets with high-risk and volatile cash flows. While evidence suggests a new venue can attract additional attendance to events in its own right, the predominant factor tends to be on-field success. In the environment of equalisation (e.g. through a salary cap) in many sporting codes, this is never guaranteed.

Few major stadia in Australia generate a financial return commensurate with the level of investment and the degree of risk involved – hence the limited private investment to date. Therefore, a code or team will likely need strategic objectives in addition to a straight ‘commercial’ return for venue ownership to make sense.

Keeping up:
The landscape of venues and events can change quickly. Sports stadia can structurally last for more than 50 years, however, can become obsolete well before. New in-stadium technologies, trends in premium hospitality offerings and the increased security requirements following terror-related events are impacting the design and performance of venues in ways not envisaged during their development.
In addition to the benefits and risks identified above it is also important to address two of the most common misperceptions of stadium ownership:

1. **We will attract more events**

   While it is true that large non-sporting events such as concerts can be lucrative for the host stadium, stadium owners need to be realistic as to the number, type and size of such events that will be attracted to a venue.

   The number of artists who can fill major outdoor venues on a regular basis is somewhat limited and the attractiveness for international artists to tour Australia is dependent upon a range of external factors such as the exchange rate. Successful major venues typically attract between one and three such events per annum.

2. **It will be a community asset**

   Another claim made by venue proponents, particularly those seeking government funding or approval, is that it will be a community asset.

   Allowing community access and utilisation can deliver good outcomes (e.g. connection with the venue/team, promoting social cohesion, supporting health and wellbeing outcomes). However, venue proponents should understand that many users will not have the capacity to pay on commercial terms, and many social, economic and community benefits cannot be monetised. Being a community asset is an admirable goal, however such claims should not be made lightly.

Overall, as long as the code or team investigating venue ownership is strategic and well informed of the risks and challenges, there is likely to be a competitive advantage in venue ownership. Venue ownership by codes is by no means a new concept (e.g. the Western Australian Cricket Association and the Sutherland Sharks NRL team both own their own venues). The current, planned and desired developments present an interesting opportunity to observe whether the Australian sporting and economic landscape is ready to reward those willing to take the punt.
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