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Stadia Mania: The Business, Civic, And Legal Issues Of New Stadium Construction – Part II

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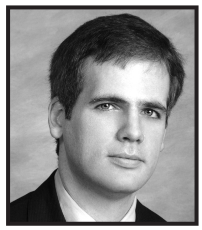
Cashing In: Economic Benefits Of New Sports Facilities

In Part I of this article, we briefly examined two of the most prominent issues related to the successful completion of new sports facilities projects: public financing of new stadia; and the use of eminent domain to acquire all or part of the proposed stadium site at a lower price than might otherwise be paid in a free-market transaction. We now turn our attention to two important ways that sports franchise owners exploit their teams' new stadia and arenas to maximize the additional revenue: the sale of naming rights to new facilities and the introduction of suites and other high-end seating typically targeted to new and existing corporate clientele.

The (Lucrative) Name Game: Naming Rights Deals

While there often appears to be no limit to sports marketers' ability to create new sponsorship opportunities, one of the most important first steps is the sale of naming rights for the new stadium, which frequently occurs before the facility is actually built.

In 1991, only five professional teams in major American sports played in facilities with a naming rights deal, and the average annual price tag for such sponsorship was less than $1.25 million.[1] By 2005, the number



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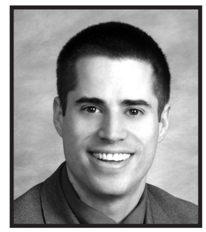

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of such deals had skyrocketed, with 63 percent of Major League Baseball ("MLB") teams, 83 percent of National Basketball Association ("NBA") teams, 58 percent of National Football League ("NFL") teams, and 90 percent of National Hockey League ("NHL") teams playing in facilities with naming sponsors.[2] In 2006 alone, thirteen naming rights deals were negotiated among the MLB, the NFL, the NBA, the NHL, and Major League Soccer ("MLS"), totaling more than $4.5 billion.[3]

Several factors have contributed to this meteoric rise in the number and size of these deals. For sponsors, entering into long-term sponsorships of sports facilities – particularly new stadia or arenas – enables them to build an immediate and sustainable awareness of their brands.[4] In addition, unlike the naming deals from years ago – which consisted primarily of the sponsor's associating its corporate name with the facility – more recent transactions contemplate a wider array of sponsor benefits. Although deals vary based on a number of factors,[5] such additional benefits often include advertising time during telecasts, signage both inside and outside the facility, luxury suites, tickets to events, and preferred parking.[6] For teams and facility owners,[7] the primary benefit is self-evident: money, and lots of it.

Recent deals struck by several teams in the greater New York metropolitan market are a microcosm of this trend. For example, in November 2006, in the most lucrative naming deal in the history of professional sports, Citigroup invested $20 million per year over a twenty-year period – with an option to extend the contract an additional fifteen years – to name the Mets' new stadium Citi Field.[8] The deal also includes the right for Citi to place its brand throughout the new park, use the Mets' logos, advertise on the Mets' cable network, and jointly develop business opportunities with the club boasting the third-highest revenues in all of baseball behind the Yankees and the Red Sox.[9] Similarly, in January 2007, the Nets reached a twenty-year, $400 million naming rights contract with Barclays Bank for the team's planned arena in Brooklyn, while Prudential Financial agreed to pay $105.3 million over twenty years for the right to name the Devils' new Newark arena the Prudential Center.[10]

Thus, in a span of less than three months, three New York area teams from different sports generated almost $1 billion in sponsorship fees[11] Such astronomical numbers can be attributed not only to the location of the facilities, but also to the pent-up demand for such agreements. Indeed, prior to this string of deals, the last naming rights agreement in the New York area had been in 1996 when Continental Airlines put its name on the former Brendan Byrne Arena in New Jersey's Meadowlands sports complex.[12]

The prospects for future naming deals look even brighter in the New York area. Many believe that the planned 82,500 seat stadium at the Meadowlands for the Giants and the Jets will garner the most lucrative naming rights deal ever.[13] Given the Giants' improbable victory in Super Bowl XLII; the immense popularity of the NFL and of the

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two teams; the size, location and planned cutting-edge technology and amenities of the new stadium; and the opportunity for the sponsor to showcase its name at least sixteen days each year on national television, it is very likely that the deal will be extremely lucrative.[14] Similarly, although the Yankees do not plan (at this time) on renaming their new $800 million palace – as the Yankee Stadium moniker is as sacrosanct as names can be in sports – they do plan on selling naming rights for each gate at the stadium.[15] In light of the history, popularity, and importance of the New York Yankees, these mini naming rights deals should prove very profitable as well.

Hanging With The High Rollers: Luxury Boxes, Premium Seating, And PSL's

Sports franchise owners seeking public support and financing for new stadia and arenas frequently assert that their current facilities are "outdated." However, those facilities rarely are no longer safe or functional, but instead simply lack any (or enough of) the luxury boxes and other premium seating that generate substantial revenue from corporate customers willing to pay top dollar in order to wine and dine their own clients and associates or reward employees.

Luxury suites at professional sports facilities typically cost more than $100,000-$300,000 per year to rent, and boast amenities and services unavailable to the typical fan. For example, at the newly-opened Prudential Center in Newark, each of the 79 luxury suites features high-end food and liquor, touch-screen ordering, multiple flat-panel televisions, Wi-Fi internet access, plush seating, and granite countertops. The suites offer side-view locations with exceptional sightlines to game action, and three rows of open seating. Patrons with luxury suite tickets also have access to a private entrance, VIP parking, and a full-service concierge staff.

Similarly, one of the biggest reasons behind the Yankees' decision to demolish the "House that Ruth Built," and move across the street to their new ballpark late this year, is the opportunity a new stadium presents for introducing a wide range of high-end services and seating that the original facility entirely lacked. For example, the new Yankee Stadium will boast 51 luxury suites, two large outdoor suites, and eight party suites with seating for up to 410 people in total; a conference area with video conferencing; party suites; a members-only restaurant; a martini bar; and a concierge available to procure theater tickets or restaurant reservations for corporate patrons. As Yankees' chief operating officer Lonn Trost flatly admits, "We tried to reflect a five-star hotel and put a ballfield in the middle."[16]

Club seating sections are a second level of premium seating that are typically substantially less expensive than luxury suites, generally costing less than $10,000 per year. Unlike suites, which are usually confined to a separate area of the stadium or arena to which other fans have no access, club seating is usually located in special sections among the general seating areas in the facility. However, club seating sections typically feature wait service, a broader menu of higher-quality food and beverages, video screens, wider seating and aisles, and prime locations. The amount of revenue generated from these offerings can be astounding. For example, in the 2003 season, the Washington Redskins' revenue from their 2,500 club seats was $33 million.[17] And the Minnesota Twins hope to generate $20-30 million per season from premium seating in their new open-air stadium due to open in 2010.[18]

In certain instances, sports franchise owners have required fans and corporations to pay a one-time up-front fee for a Personal Seat License ("PSL") granting them the right to purchase season tickets in a new facility. The Carolina Panthers became the first U.S. professional sports team to require PSL's when it entered the NFL as an expansion team in 1993. Since then, a number of franchises have used PSL's to help defray costs of new stadia, particularly where no direct public funding was available. Most prominently, the St. Louis Cardinals raised approximately $40 million by selling lifetime PSL's for 10,500 of the best seats in the new Busch Stadium, which opened in 2006, and the San Francisco Giants raised $50-60 million through the sale of 15,000 PSL's for seats in their new ballpark when it opened in 2000.[19] However, the use of PSL's is somewhat controversial, since long-time season ticket holders may resent having to pay an additional one-time "user fee" to have the right to renew their seats. Also, government officials may not react favorably where a team owner seeks to introduce PSL's at a new facility that has also received substantial public funding. These are two key reasons why neither the New York Mets nor Yankees plan to require the purchase of PSL's for their new stadia, even though it is conservatively estimated that by doing so each team could raise more than the Cardinals' $40 million. As David Howard, the Mets' executive vice president of business operations told Bloomberg, "We had a visceral feeling it would not be well received by our fan base, which was confirmed by our market research."[20]

The business, civic, and legal issues surrounding the construction of new stadia and arenas are diverse and complicated, requiring experts in disciplines ranging from site planning and construction to intellectual property and lobbying. However, despite such complexities and the long lead times, inevitable cost overruns, and frequent lawsuits associated with such projects, the financial, economic, and social benefits emanating from new sports facilities will continue to be championed as the current wave of construction continues.

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[1] *Maidie Oliveau*, What's in a Name? (Or, Why Pay Millions to Name a Building), *Entertainment and Sports Lawyer, Volume 23, Number 1, Spring 2005, at 29.*

[2] Id.

[3] *Howard Bloom*, Location, Location, Location – the sports naming rights bar is raised again thanks to the Big Apple, *Sports Business News, January 22, 2007*, available at *http://sportsbiznews.blogspot.com/ 2007/01/location-location-location-sports.html (last visited January 6, 2008).*

[4] *Elise Neils*, Brand Value Plays a Role in Stadium Naming Rights, *Absolute Brand, August 11, 2002,* available at *www.absolutebrand.com/RESEARCH/Default.asp?dismode=article&artid=115 (last visited January 6, 2008).*

[5] *The benefits afforded to sponsors obviously depend upon the value of the naming rights deal. There are a host of factors impacting how much a sponsor is willing to invest, including: the team's record and attendance, the facility's location, the audience's financial demographic, and the popularity of the sport.* Id.

[6] *Jeffrey B. Gewirtz, Remarks at the Annual Meeting of the Forum on the Entertainment and Sports Industries,* The Sports Revenue Game: Latest Developments in Media, Sponsorship, and Licensing, *(October 13, 2007).*

[7] *Teams and facilities are not always under common ownership, which complicates the nature and scope of these transactions.*

[8] *Bloom*, supra, *note 3.*

[9] *Ben Klayman*, Stadium Naming Rights Deals Make Rebound, *Commercial Alert, November 24, 2006,* available at *www.commercialalert.org/news/archive/2006/11/stadium-naming-rights-deals-make-rebound (last visited January 6, 2008).*

[10] *Bloom*, supra, *note 3.*

[11] Id.

[12] *Kurt Badenhausen*, Mets Break The Bank, *Forbes, November 14, 2006,* available at *www.forbes.com/2006/11/14/baseball-mets-citigroup-biz_cz_kb_1114naming.html (last visited January 6, 2008). On October 11, 2007, the New Jersey Sports and Exposition Authority ("NJSEA") announced that it had selected IZOD as its new naming rights partner for the Meadowlands arena. The deal, which is a five-year commitment, was in place in time for the New Jersey Nets to open their season against the Chicago Bulls in the newly-named IZOD Center.* NJSEA, Press Release, IZOD Selected as Arena Naming Rights Partner – Arena to be Named IZOD Center, available at *http://www.izodcenter.com/(last visited February 10, 2008).*

[13] *Janet Frankston Lorin*, Prices of Stadium Name Sponsorships Soar: Stadium Naming Rights Deals Grow Pricier; New Giants, Jets Stadium Could Set Record, *Newsweek*, available at *www.newsweek.com/id/109778/page/1 (February 10, 2008).*

[14] Id.

[15] *Bloom,* supra, *note 3.*

[16] *Associated Press, Martini Bar,* Other Amenities Help Drive Cost of Yanks' New Home to $1.3B, *February 8, 2008*, available at *http://sports.espn.go.com/mlb/news/story?id=3235847 (last visited February 10, 2008).*

[17] *Adam Brenner*, Welcome to the Club, *FORBES, September 2, 2004,* available at *www.forbes.com/2004/09/02/cz_ab_0902nflclubseats.html (last visited February 8, 2008).*

[18] *John Vomhof Jr.,* Ballpark Suites Going Fast to Minnesota Companies, *MINNEAPOLIS/ST. PAUL BUSINESS JOURNAL, February 1, 2008,* available at *http://twincities.bizjournals.com/twincities/stories/2008/02/04/story2.html (last visited February 8, 2008).*

[19] *Danielle Sessa*, Yankees, Mets Won't Sell Seat Licenses; Stadium Funds in Place, *May 11, 2007,* available at *www.bloomberg.com/apps/news?pid=20601079&refer=home&sid=afsBin7aRTDA (last visited February 11, 2008).*

[20] Id.