Five considerations for private placements in sports and live entertainment venues

As developers of sports and live entertainment venues seek creative financing solutions to pursue a growing number of projects worldwide, there are a number of issues to keep in mind.

MUFG's Jerry Parisi, CFA, Managing Director of Sports Finance, specified five points to consider relating to private placements at the 2019 VenuesNow Conference on September 10 in New York:

1. The typical collateral in venue financing
   Common collateral used in finance sports and other live-entertainment venues includes:
   • The borrower’s equity interests and all assets (personal and real) derived therefrom, including dividends and distributions
   • Naming rights
   • Ticket surcharges
   • Rent
   • License fees
   • Luxury and club-seat premiums
   • Concessions
   • Parking fees
   • Merchandise sales in the venue
   • Sponsorships related to venue clubs
   • All venue-related cash flows not attributable to the franchise team

2. How bank lenders assess cash flows from a particular stadium, arena or venue during construction
   During the construction phase of a venue, there’s obviously no cash flow from the venue itself to assess. However there’s usually an existing fan base to ascertain market demand for live sports—especially the premium segment within clubs and suites.
   Most new venues have smaller capacity that has replaced older facilities with an emphasis on the premium categories within the lower bowl of a venue. Conversely, the upper bowl with the higher construction costs typically yields the lowest return per square foot.

3. The importance of market studies in securing venue financing
   The importance of market studies in securing venue financing depends on the scope of the project being financed. For example, if a sports league is expanding into a new market territory, then other franchises in markets with similar demographics could yield useful data for comparison—particularly in the premium category. Market studies are also useful if the venue in question is somewhat reliant on third-party events.

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4. The importance of revenue from non-sports events in the financing of a typical stadium or arena

Just as demand for live entertainment has evolved to become performance artists’ primary source of income, so has the role of stadiums and arenas, which today serve not only as sports venues—but also as entertainment locales. For this reason, revenue from third-party events is more important today in the financing of a typical stadium or arena, especially amid the scarcity of public funding sources.

Years ago, debt capital was largely unavailable for one-team venues, so their deeper penetration into the entertainment business provides additional revenue diversity.

5. The non-relocation agreement—and its importance to the financing of a stadium or arena

Non-relocation agreements are critical instruments for venue financed by both public and private capital sources. It binds the stadium’s affiliate franchise—and usually, by extension, the governing league—to a certain market territory. All capital providers assess each market’s history, including its fan base and potential support for the relocation or expansion of a venue’s franchise. The agreement provides comfort that the franchise will play all its home games with the legal injunction’s protection of the court system.

An injunction is a legal and equitable remedy in the form of a special court order that compels a party to perform or refrain from specific acts. When a court employs the extraordinary remedy of injunction, it directs the conduct of a party, and does so with the backing of its full coercive powers.