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At Long Last, the Sports Mortgage

In Lean Times, Teams Try 'Equity Seat Rights' to Raise Money; $220,000 for a Seat at Cal

By KEVIN CLARK

For the price of a three-bedroom home with a pool in a leafy suburb, you can now buy something really and truly invaluable. Your own stadium seat.

Earlier this month, the boards of regents at the University of Kansas and the University of California-Berkeley approved plans to fund stadium expansions and renovations by selling something called "equity seat rights." Fans who are approved for financing can buy their seats and pay for them—with interest, of course—over as long as 50 years. Once the seat is paid for, it's yours, just like a house.

If this "mortgage" model catches on, it will mark a radical departure from the past, when most new stadiums were financed with a combination of taxpayer dollars, private loans and corporate sponsorships.

Tottenham Hotspur fans celebrate after a 2008 match at Wembley Stadium.

Cal plans to sell about 3,000 seats under the plan and hopes to raise $270 million. The school's best seats cost $175,000 to $220,000 apiece over a 50-year term, while the cheapest sell for $40,000 per seat for a 40-year term. "Without this program, I don't see any way we could secure the funds," said Cal associate athletic director David Rosselli. "We needed a different approach."

The first professional sports team to try the plan could be Tottenham Hotspur, a London-based English Premier League soccer club that's awaiting government approval to build a new 60,000-seat stadium in pricey North London. The team is currently holding forums with fans to determine what amenities to offer and how much to charge. The mortgage idea is especially attractive In England, where many soccer teams are struggling under large debt loads and where public funding for sports venues is rare.

"We said to our shareholders and fans that we would look at all sources of finance to bring the project to fruition," said Tottenham Financial Director Matthew Collecott.

Though the idea may seem preposterous—and even repellent—given the state of the economy, proponents say the plan is actually a boon for serious fans because it allows them to circumvent the annual pain of rising ticket prices. "If you get a letter from your team that they are increasing season ticket prices 10%, it wouldn't make you real happy," said Lou Weisbach, chief executive of the Stadium Capital Financing Group, the Chicago-based subsidiary of Morgan Stanley that's financing these instruments. "If you own an equity seat right for that team, you're thrilled."

Mr. Weisbach says he came up with the concept in 2004, when he was brought in by the mayor of Las Vegas to work on the city's failed bid for a Major League Baseball team. He says he called a couple of friends into a conference room to brainstorm and together, they came up with an idea: "Why don't we make seats into condominiums?"

The idea differs significantly from the personal seat licenses that are used in the NFL. With these, fans pay a one-time fee merely for the right to buy season tickets—without price controls. PSLs are also usually applied to every seat in the stadium, while equity seat rights can gain the capital needed with just 5% to 10% of the stadium's premium seats sold long-term.

During the life of the seat right, the owner can treat it like a house, selling it at a higher price than he paid. The right is tied to the franchise in any venue and would even transfer to a new city if the team moved, though the seat owner could sell in any situation.

And if you're going to be there for your entire life, you might as well get comfortable—that's why the plan calls for amenities in some stadiums such as Internet access, instant replay TVs in chairs, private clubs and food service.

For Cal's football team, the program is the light at the end of a fund-raising tunnel. For 25 years, the school had been raising money for a major overhaul of Memorial Stadium. Five years ago, they tapped their donors using traditional fund-raising campaigns, and mustered $125 million; but they needed at least $300 million for the stadium project and knew they could not do it the same way. They can now pay for the overhaul by selling just 3,000 seats into the program.

Kansas fans at Memorial Stadium in Lawrence.

The University of Kansas is using the program to fund a 3,000-seat luxury club-level addition to its Memorial Stadium. While its goals are less ambitious than Cal's, Kansas associate athletic director Jim Marchiony believes the school couldn't afford the addition without the program.

While not called "interest," an annual administrative fee of about 6% is charged on top of the seat price. At Kansas, 30 years' worth of club tickets cost $105,000 per seat, and Kansas's ticket prices become unfrozen after the term ends.

Stu Gordon, a San Francisco-based lawyer and lifelong Cal fan, bought four equity seats to watch the Golden Bears play. So even though his team lost to Oregon on Saturday, he could still laugh because he has time to see more wins: "I plan on being here for the next 50 years," he said.

The plan initially had skeptics, but the school says two-thirds of the available seats have been sold—and that the rest could be sold as well.

Cal's Mr. Rosselli believes the equity plan could be the new model for stadium funds. "Public financing has been a failure for stadiums in the last half- dozen years. I think this is going to be the future of how capital projects are done in sports," he said. "We've got scores of teams researching what we're doing. They'd be on board already if they weren't intimidated by the economy."

The money isn't restricted to stadium construction. Mr. Weisbach said his company is fielding calls from professional team owners who have financial problems. Some cannot restructure debt or their lines of credit are coming to an end and need capital, Mr. Weisbach said. The company's COO, Richard Magid, said that in the past year, some teams have considered the program as traditional forms of financing have dried up.

Dennis Howard, a sports finance expert at the University of Oregon, wonders if teams can find enough buyers. "What happens when half or more of the best seats in the house can't be sold under this concept?" he asked.

Mr. Weisbach remains optimistic. "We had a lot of teams that said, 'Once you get one team, come back to us,' " he said. "And now, we're dealing with a lot of next customers."