

A REVOLUTIONARY CONCEPT

Meeting the Challenge of Building New, Profitable Stadia

The recent Premiership match between Arsenal and Manchester United at The Emirates Stadium was fascinating viewing, not only for the game itself, but for the atmosphere in which it was played: the fantastic quality on the pitch and the magnificence of the stadium. Contributing to a 274% increase in profits, Arsenal's stadium is also an economic powerhouse of a facility, pushing the team into the "Premier League" of World Football.

Don't think, however, the team's financial transition has been smooth. Bond issues, and potentially crippling interest payments, have been cushioned by the team's excellent management, both in the boardroom and on the pitch. The team's head coach, Arsene Wenger, has a profit-and-loss report that a City Trader would bite your arm off for. Buying players such as Nicolas Anelka, Patrick Viera, Marc Overmars and Thierry Henry - for £31m, then selling them on for a combined £77m - kept the wolf from the door, whilst constructing the team's new home.

Continued success both domestically and in Europe also bumped up the coffers. The chances of serious financial difficulties have been circumnavigated by a series of steps, including imaginative stadium design; a targeting of corporate revenue; and the development of long-term contracts, including those for catering and naming rights. A 20,000 season-ticket waiting list has also allowed the club to charge a premium on seats in the new stadium, and, as with all major clubs in London, prices are higher than in the rest of the country. One wonders whether other clubs will be so fortunate as to have many of these same factors in their favour, should they decide to build new stadiums.

Yet this is exactly what needs to happen, if clubs are not to be left behind by their rivals. In England, we are now in the midst of what can be referred to as the second phase of stadium reconstruction. The first, kick-started as a result of the Justice Taylor Report on the 1989 Hillsborough Stadium disaster, forced top-tier clubs to convert their stadia into all-seater arenas. But rarely was a new stadium built in the processes of converting existing terracing to seated

areas, or completing one stand at a time in a long, drawn-out process. The cost was just too prohibitive. One consequence was a substantial reduction in stadium capacity, with little or no



change in revenue-generating infrastructure. Phase Two has been a realisation that new stadia had to be built, yet with the experiences of Sunderland, Leicester City, Southampton and Derby County demonstrating that often, the price paid for such worthy ambition is relegation from the league, as construction and funding costs bite into transfer budgets.

On the continent, in the absence of legislative impetus, or the hosting of a major tournament, there has been, overall, limited movement in the redevelopment of old stadia and construction of new ones. Italian grounds, for example, magnificent during the Italia '90, are now viewed as dated, and fail to capitalise on corporate entertainment opportunities.

How, then, can clubs meet this challenge, without encumbering themselves with a troublesome burden of debt? One extraordinary method is the Equity Seat Right (ESR) methodology, developed by Stadium Capital Financing Group, majority owned by Morgan Stanley Principal Investments. Stadium Capital's unique concept allows club ownership to obtain the entire amount of stadium construction financing requirements, *incurring no debt repayments in the process. Ever.* Clubs get funding upfront, in a lump sum. They do not, therefore, face the prospect of cutting back on team investment, which might have serious consequences for trading revenue in the event of relegation.

ESR doesn't just have to be used for new stadia. Clubs which have already gone through a relocation/redevelopment process, or those wishing to refinance existing debt exposures, can also benefit enormously from ESR.

The methodology also benefits a team's loyal fan base. Unlike many other financing techniques that only benefit club owners, this is a great deal for fans, too. With ESR, fans can lock in a fixed price for season tickets, and never have to experience a price increase again. They secure permanent, premium seating and enhanced amenities, as well as having liquidity via access to a secondary ticket market (the same applies for corporate box holders).

ESR is *the* major breakthrough in stadium financing, giving ownership an amazing opportunity to tap into a club's unrealised potential, and to engineer a seismic financial shift in the fortunes of their team, both on and off the pitch. The concept allows club owners to form a unique long-term partnership with fans and corporate sponsors.

More information can be found at www.seatrights.com.