

## LARGE CAPACITY AUSTRALIAN MULTI-PURPOSE STADIUMS: AN INVESTMENT OPPORTUNITY?

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### ABSTRACT

**Problem/Purpose** – Property investment opportunities have moved beyond the traditional core sector to include non-core real estate investment assets, such as childcare centres, entertainment facilities and retirement villages. There is little publically available information as to whether a stadium with a large crowd capacity (over 40,000 seats) is an investment opportunity. This study and research examines the fundamentals of these large capacity Multi-Purpose Stadiums (MPS), in an Australian context, and reveals how these significant entertainment facilities are currently owned, operated and valued.

**Design/methodology/approach** – The literature is remarkably silent on this topic. This study reviews media releases, government documents, scholarly and other relevant sources, and reveals insights from initial enquiries with stakeholders. This provides an important basis for further research.

**Findings** – In Australia, large capacity stadiums represent investment opportunities for institutional investors. State Governments, who own almost all the twelve large capacity MPS, are looking to sell-off infrastructure assets and institutional investors, who are seeking non-core property assets, reportedly have a preference for passive investments. Currently, institutional investors own the operating businesses for two Australian Stadiums (the Etihad and ANZ Stadiums), but not the underlying real estate assets. There would appear to be significant potential for further capital investment by institutional investors. Furthermore, the study found that large capacity MPS valuations are predominantly undertaken for reporting and insurance purposes and rarely for selling purposes.

**Originality/value** - Substantial information as to the ownership, operations and valuation of large capacity Australian Stadiums is revealed in the paper. This information provides valuable insights for future development of this research area, which is of benefit to policy makers, investors and researchers.

**Social Implications** - Government ownership of large capacity stadiums is costly and offers only limited socio-economic benefits. Stadium development and redevelopment activity requires significant funds to complete these projects, while the economic life of a stadium is reportedly reducing. Due to State Government's in Australia currently experiencing financial pressures, they could move to sell off their real property interests in large capacity Australian stadiums. This would trigger a range of implications that include issues regarding the valuation of, and investment in, a stadium's real estate assets. Further research in this area is therefore justified.

**Keywords:** investment, real estate, stadium, operation, ownership, valuation

### INTRODUCTION

Australians' immense appetite for sporting and entertainment events has meant that large crowd-capacity stadiums, such as the Melbourne Cricket Ground (MCG), have gained an iconic status. With the multi-purpose nature of these large stadiums, Australians and tourists have been able to experience national and international events (both sporting and non-sporting) alongside a multitude of social, educational and business functions. As such, stadiums are expected to continue to play an important role in the future.

Public and private investment in stadiums, which are significant assets, is critical. These funds will enable new stadiums to be developed and existing stadiums to be modernised. More recently in Australia there has been an increase in large crowd capacity multi-purpose stadium development and redevelopment activity, which requires both public and private funding: for example the new Perth Stadium project at Burwood Peninsula in Perth (circa \$862 million) and the modernisation projects for the ANZ Stadium, Homebush, in Sydney (circa \$350 million) and the Adelaide Oval (circa \$535 million). This recent activity has been driven by the need for new sporting and entertainment venues and the necessity to ensure existing stadiums remain competitive with modern multi-purpose stadiums. The central argument presented in the media, regarding

these stadium projects, is who (the Government or private sector investors) should cover the majority of the costs.

Funding models for public infrastructure assets in Australia tend to include both public and private sector funding (Commonwealth of Australia, 2008). Sporting and entertainment facilities, which fall under this infrastructure category, have typically been developed using Public-Private Partnership models. However, with the increase in backlog of infrastructure projects on Government books and a lack of funds to deliver those projects, Governments are being encouraged to sell their infrastructure assets, which suggest that public funding of stadiums in the future could be severely restricted or become non-existent. Potentially this could cause a problem, which may need to be bridged through increased private sector funding or even selected privatisation of stadiums.

Due to a large pool of superannuation funds, institutional investors have moved beyond the traditional core sector (such as office, retail and industrial property), towards focusing on non-core property investment assets, like childcare centres, entertainment facilities and retirement villages. The reason for focusing on non-core property is that these assets, when combined with other asset classes in a mixed asset portfolio, have resulted in improved risk-adjusted returns and diversification benefits (Newell & Peng, 2006, 2008).

According to Newell & Peng (2007), the leisure sector is growing in importance in Australia's economy. Although, despite the positive contribution that entertainment and leisure facilities can make to portfolio performance, there appears to be nominal publically available information as to whether large Australian stadiums are an investment opportunity. Historically, institutional investors have invested in stadiums; however initial enquiries as to whether or not stadiums are an attractive investment asset to these investors nowadays indicates there are differing positions on this topic.

The purpose of this exploratory research paper is to examine the important fundamentals of ownership, operations and the valuation of large capacity (crowd capacity of over 40,000 people: permanent seating) Australian Multi-Purpose Stadiums. The research will assist in understanding the state of play of these significant investment assets.

Relevant literature and other material will be reviewed and initial enquiries with stakeholders will be undertaken to provide insights on the study topic. It is expected that the findings will be used by analysts in future studies and by stakeholders to assist them with investment decision making.

## DISCUSSION

Currently, in Australia, there are eleven existing large capacity Multi-Purpose Stadiums (MPS) and a twelfth large stadium in Perth, which is currently under construction (refer to Table 1). The locations (cities and states/territories) and the number of these MPS are shown in Figure 1. How these stadiums are owned, operated and valued is covered in the discussion that follows.



**Figure 1.**  
**The locations and number**  
**of large capacity Australian**  
**Multi-Purpose Stadiums.**

*Source: Author*

**Table 1. Large capacity Australian multi-purpose stadiums (in order of total capacity)**

<b>Officially known as:</b>	<b>Currently known as:</b>	<b>Total Capacity</b>	<b>City</b>	<b>Australian State</b>	<b>The freehold property owner (State Government or another entity)</b>	<b>The statutory authority: oversees the governance of the real estate (land &amp; stadium building)</b>	<b>The (Venue) Operator</b>	<b>Built</b>
<b>EXISTING STADIUMS</b>								
Brisbane Cricket Ground	The Gabba	42,000	Brisbane	Queensland	Queensland Government	Stadiums Queensland	Stadiums Queensland	1895
Subiaco Oval	Patersons Stadium	43,500	Perth	Western Australia	Government of Western Australia	Subiaco Council	West Australian Football Commission	1908
Sydney Football Stadium	Allianz Stadium	44,000	Sydney	New South Wales	Government of New South Wales	Sydney Cricket and Sports Ground Trust	Sydney Cricket and Sports Ground Trust	1988
Sydney Cricket Ground (SCG or "the G")	Sydney Cricket Ground (SCG)	48,000	Sydney	New South Wales	Government of New South Wales	Sydney Cricket and Sports Ground Trust	Sydney Cricket and Sports Ground Trust	1886
Queen Elizabeth II Stadium (QEII Stadium)	Queensland Sport & Athletics Centre (QSAC)	49,000	Brisbane	Queensland	Queensland Government	Stadiums Queensland	Stadiums Queensland	1982
Football Park	AAMI Stadium	51,240	Adelaide	South Australian	South Australian National Football League (SANFL)	n/a	SANFL	1974
Lang Park	Suncorp Stadium	52,500	Brisbane	Queensland	Queensland Government	Stadiums Queensland	AEG Ogden (Brisbane) Pty Ltd (agent for Stadiums Queensland)	1914
Adelaide Oval	Adelaide Oval	53,583	Adelaide	South Australian	South Australian Government	South Australian Government	Adelaide Oval SMA Ltd	1871
Docklands Stadium	Etihad Stadium	56,347	Melbourne	Victoria	Government of Victoria	Places Victoria	Melbourne Stadiums Limited	2000
Stadium Australia	ANZ Stadium	84,000	Sydney	New South Wales	Government of New South Wales.	Sydney Olympic Park Authority	Stadium Australia Management (formed by Stadium Australia Group)	1999
Melbourne Cricket Ground (MCG)	Melbourne Cricket Ground (MCG)	100,016	Melbourne	Victoria	Government of Victoria	Melbourne Cricket Ground Trust	Melbourne Cricket Club	1853
<b>UNDER CONSTRUCTION</b>								
Perth Stadium	Perth Stadium	60,000	Perth	Western Australia	Government of Western Australia	VenuesWest	(To be appointed)	To be completedc. 2018 (currently under construction)

Source: Author - from various sources

## How are stadiums owned and operated?

In Australia, there are various ownership structures for large stadium. Table 1, shows which not-for-profit vehicle owns the real estate property asset (the freehold land and stadium building). Currently it appears that State Governments own the freehold property for eleven of the twelve stadiums (the State Government has vested the property to a statutory authority, namely a trust, sports precinct authority or local council). The freehold property for the twelfth stadium, the AAMI Stadium (officially known as Football Park), is owned by the South Australia National Football League (SANFL), who more recently purchased the freehold from the government.

The operations for each stadium are either managed in-house or outsourced and the operators are shown in Table 1. The large Australian Stadium operators tend to be operated by not-for-profit organisations; however there are a few stadiums being operated by external privately owned operators; namely, Melbourne Stadiums Limited and Stadium Australia Management. Typically, ownership of a stadium has both financial and intangible benefits for investors. Further benefits, especially for major developers such as Mirvac, include the real options associated with stadiums: for example, substantial land releases around a stadium, upgrading the stadium, free holding the land and urban renewal projects (upon the stadium being superseded by other stadiums – at the end of its economic life). Initial enquiries with large Australian stadium stakeholders, revealed that these real options are considered during the investment decision making process.

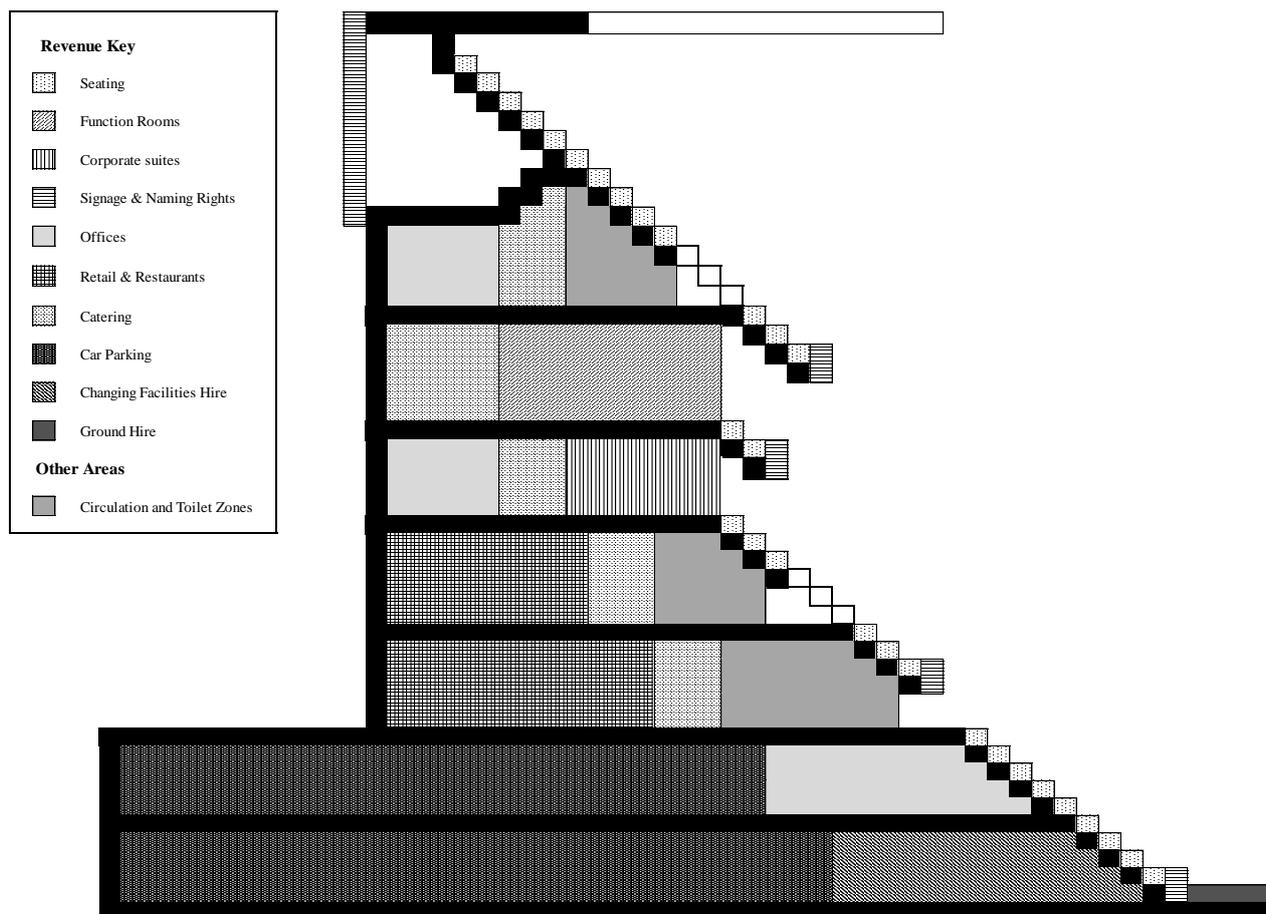
A review of the literature and initial discussions reveal that overseas, the freehold property associated with a stadium is held publically, privately (typically by a professional sport team franchise), or through a Public Private Partnership (PPP). In countries such as the US and Canada, it appears that a PPP is the predominant ownership structure, with the government and the professional sport team franchise (who uses the stadium as their home ground) both having a stake in the stadium. However in Europe and the UK these stadium interests tend to be held by private sector investors or the professional sport team franchise, which has the stadium as a home ground.

The literature review also revealed that a number of studies (e.g. Siegfried and Zimbalist, 2000; Richardson, 2010; Baade and Matheson, 2011) have researched the economic justification for government's involvement in large stadiums: due to not reaching a consensus the debate is still on-going and the matter currently unresolved. A number of Australian studies (e.g. Shirbin, 1999; Taseka, 2008, Commonwealth of Australia (2008) have considered the procurement process and private sector investment in stadiums. However, the literature appears to be remarkably silent in regard to the value of stadiums to a private investor long-term, with only a single study, conducted by the Western Australia Major Stadia Taskforce (2007) that considered the returns to these investors. Hence, the question as to whether a stadium (as a separate asset class) has a role in a mixed asset portfolio remains unanswered and will form part of a larger research project.

Initial enquiries and a review of the literature revealed the sources of operating revenue and the significant costs associated with running a stadium. Operating revenue from a stadium typically includes: signage rights, hireage of the facilities (event rentals), merchandising, and food and beverage sales. Enquiries with a stadium operating manager also revealed that revenue from other sources may include: naming rights and consultancy fees (services provided to either the public or private sectors of domestic or international stadium projects). Further, some stadiums have a variety of sporting, entertainment and retail outlets facing the concourse around the edge of the Stadium, operating seven days a week and including themed sports bar (with dining, bistro and special function capability). Figure 2, presents a typical cross section of a stadium, which identifies the main areas from which revenue is generated.

Recent research (Major Stadia Taskforce, 2007), that considered how large Australian stadiums generate revenue, found that because of the relatively small population size of Australian States and competition from other stadiums, governments should adopt a single venue management model in order to reduce venue overheads. Hence, governments were encouraged to develop or re-develop larger multi-purpose stadiums (not venues dedicated to a single sporting code), with the ability to configure the seating between an oval and rectangular field so that the stadium can cater for a variety of sporting events football (all codes), cricket and athletics as well as be used for non-sporting events and functions.

**Figure 2. Typical stadium cross-section showing areas that generate revenue**



Source: Author

**Table 2. Potential sources of revenues / expenses associated with major venue operations**

Revenues			Expenses		
Item	Owner *	Hirer	Item	Owner*	Hirer
Admissions	X /√	√	Event Day Expenses	X	√
Food & Beverage	√	X /√	Overhead Expenses	√	X
Corporate Suites / Boxes	X /√	√	Mode Change Costs	√	X
Function Rooms	X /√	√	Cost of Trust Operations	√	X
Merchandise	X /√	√	Merchandise Costs	X	√
Ticketing Revenue	√	X /√	Rent	X	√
Naming Rights	√	X /√			
Signage / Advertising	√	X /√			
Pourage Rights	√	X /√			
Venue Membership	√	X /√			

**KEY:** √ = Primary Allocation, X /√ = Potential Revenue Sharing, X = No Allocation, Owner\* = Operator

Source: Perth Stadium Consulting Team, cited in Major Stadia Taskforce study (2007)

Many large Australian multi-purpose stadiums can now cater for up to 45 sporting events per year (on average) and this limits the number of non-sporting events and functions they can host, such as concerts, corporate functions and conferences. However, according to the Major Stadia Taskforce study (2007),

stadiums typically have another 300 days of the year during which no sporting activities takes place. This suggests alternative uses need to be explored and programming models from other stadiums examined, such as Etihad Stadium (officially known as Dockland Stadium) in Melbourne that caters for approximately 85 events and functions per year.

Furthermore, discussions with stadium operators highlighted that nowadays stadium hirers (teams, concert promoters and other event managers) usually have unique contracts. This is due to their differing revenue and expense sharing expectations (refer to Table 2 – previous page).

Table 2 reveals potential items of expense and revenue that these parties could share (the owner\* is the operator). In considering revenue and expense sharing this study also found that hirers, in Australia, preferred a ‘clean’ venue (as opposed to a ‘non-clean’ venue): which means the stadium is provided to the hirer without any seating and membership restrictions.

### **How are stadiums valued?**

In Australia, a stadium is seen as both a real estate asset (land and buildings) and a business asset. The regulatory framework that guides Valuers in assessing the value of these assets includes the International and National Valuation Standards (the IVS and the API/PINZ standards and guidance notes) and Accounting Standards (the IAS and AASB).

A stadium’s operating business is a trading entity. As such, the economic value of the owner’s interest in the *business asset* is determined on a cash flow basis usually for reporting purposes and rarely for selling purposes. Currently there is limited publically available information as to how these businesses are appraised. Accordingly, undertaking research on the two privately owned stadium operating businesses, namely Melbourne Stadiums Limited and Stadium Australia Management, would provide useful insights. As part of this research, comparisons with other infrastructure (e.g. airports, toll roads) and entertainment/leisure assets (e.g. resorts, restaurants, cinemas and theatres) could be undertaken.

Stadiums are deemed to be specialised *property assets*, which mean that the land and buildings are rarely traded and hence there is a lack of market evidence to use as a basis for valuing these properties. The studies that focused on stadiums revealed that valuations of a large stadium’s property assets are undertaken for a variety of purposes: predominantly financial reporting purposes but also for insurance purposes and on a rare occasion for selling purposes.

The methods used for estimating the value of specialised property types have previously been researched. Parker (2011) considered, in an Australian context, valuation methods used to value airports; Bourhill (2008) discussed the four main valuation methods used globally to value stadiums and considered the applicability of these methods in a South African context; Wilmath (2004) considered the methods used to value stadiums in America; and French (2004) reviewed the valuation of a number of specialised property types including leisure property.

Specifically, French (2004, p.538) highlighted that, “it is the property type that determines the method, not the purpose of the valuation”. A number of specialised property types were identified in this study along with the correct valuation approaches to use for each type: these methods were further related to the owner of the property (the public or private sector).

Not-for-profit organisations in Australia have an obligation to report their financial position. In Australia, large stadiums are all owned by not-for-profit organisations (mostly government authorities and in one case a league organisation), as such according to French’s (2004) study the best approach to use is the cost approach. Initial enquiries show that Australian government valuers are using the Depreciated Replacement Cost method (DRC): this method involves the land being valued using the direct (sales) comparison approach and the stadium facility being valued by determining the replacement cost of the building and deducting an amount for depreciation. Wilmath’s (2004) study of American stadiums, also highlights that

valuers need to be aware that the useful economic life of stadiums has been reducing and this needs to be reflected in the depreciation calculation.

Where a stadium's freehold property assets are owned by private investors, such as a consortium of superannuation and institutional funds, then studies (French, 2004; Bourhill, 2008; Parker, 2011) appear to suggest that initially for market purposes, the estimated market value of the property would be determined using an income approach (discounting future cash flows from the property) and a direct comparison approach (although the second approach may not be possible due to the lack of transactions). Further, valuers carrying out revaluations for reporting purposes would then assess the fair value, using the discounted cash flow and depreciated replacement cost methods.

Specialist property valuers, who are required to value the lessees' and lessors' rights associated with a stadium, will be aware that the nature and tenure of these rights tend to differ. A review of official documents revealed that each large stadium in Australia appears to have a unique leasing arrangement. Undertaking such a valuation is complex and made difficult with the market not actively trading these interests (on a regular basis): this is potentially due to a lack of demand and hence turnover.

In Australia most large stadiums are leased. Eleven of the twelve stadiums have a long-term property lease in place. The lessee's interest in the real estate relates to the occupation and use of the stadium over a specified term (terminating lease): which vary and appear to be for a lease term of between 25 and 75 years, with the more recently developed Build, Own, Operate, then Transfer (BOOT) projects opting for between 25 and 32 years. In theory the rent paid by the lessee relates to the productivity of the real estate and therefore the valuation approach used to assess the lessee's interest incorporates the lessee's profit but can also include other rights the run with the lease and other assets. The lessee's interest is "the residual income achievable from the real estate after allowance is made for all costs and obligations of the lease" (Boyd, 1997, p. 3).

## **CONCLUSION AND RECOMMENDATIONS**

Since the 1990s, institutional investors have been growing their asset allocation to non-core property. Accordingly a review of the literature revealed that research of these property types has increased internationally, which includes studies that have focused on leisure, entertainment and infrastructure property assets.

However, despite the global interest in non-core property, the study found that limited research had been undertaken in Australia that focused on the nature of large capacity stadiums as investment assets. In order to extend the knowledge on this non-core property asset topic, the exploratory study examined the ownership, operations and valuation of these Australian stadiums. Insights from the study reveal further gaps on the study topic, which could be explored including: (1) Whether Governments can (in terms of legislation) or want to sell off the remaining large stadiums (freehold the land and building or just the building) to private investors? (2) What role a stadium would play in a mixed asset portfolio? (3) Whether the users would be willing to lease and operate the stadium?

From the research it was also revealed that stadium development activity is growing globally, with stadium owners wanting to develop and redevelop bigger and better stadiums: to generate adequate revenues to cover costs (financing and operational). Initial enquiries with Australian stadium stakeholders reveal that Australia is following this global trend and that substantial funds are required to finance upcoming projects: however the public sector currently has a shortfall of funds and a number of other infrastructure projects they need to complete.

To ensure these iconic Australian venues do not become 'side-lined' the study concludes that re-thinking the ownership of stadiums (who owns the real estate and the level of private investment) their operations (who owns the business and other potential revenue generators) and how they are valued (evaluation using a real option approach) is necessary. Due to the uniqueness of each stadium, a comparative study would be difficult: in Australia the large-capacity multi-purpose stadiums differ in terms of their procurement (which

impacts on its structures), ownership and operations. Accordingly, for further research that focuses on these topics, adopting a case study approach may be one way forward. These case studies are expected to provide important insights, which will assist investment decision makers and analysts.

Carrying out a number of case studies that focus on selected stadiums, would enable researchers to examine: (1) the current ownership and operations of selected stadiums, (2) other ways of owning and operating those stadium, which could be modelled; and (3) alternative ways those stadiums could be valued so as to take into account their useful economic life expectancy and their redevelopment potential during and at the end of that life. Further, through the understanding gained from these case studies it may be possible to determine the role that a Stadium Fund (which holds stakes in each of the case study stadiums) could play in a mixed asset portfolio.

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