

Pitch Perfect: How MLS's Emphasis on Stadia Offers Path to Profitability

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Soccer has been the “sport of the future” in the United States since at least the early 1970s, and that future has remained a moving target, with various trends such as the youth soccer boom of the 1980s and massive Hispanic immigration of the past three decades failing to fully win America over to “the world’s game.” But, dreamt in the afterglow of the United States’ wildly successful turn as the hosts of the 1994 World Cup, Major League Soccer (MLS) has through fits and starts established a permanent place on the North American sports landscape. Hemorrhaging hundreds of millions through its first decade of existence, the league’s fortunes have slowly turned towards profitability as teams have increased revenue through mid-sized stadia built specifically for soccer and cost control measures such as a salary cap and structural limits on free agency. Through this carefully-managed growth, and the wild success of recent expansion franchises in Toronto and the Pacific Northwest, MLS has hinted at the potential for offering owners a far higher return on capital than any of the “big four” sports (MLB, NFL, NBA, NHL) while offering far lower average ticket prices.

While the foundation for the league’s viability is built on its “single-entity” structure, its path to profitability comes from its focus on controlling the revenue from its stadia. Playing its first season in largely NFL-sized stadia in 1996, MLS struggled to fill the seats and typically paid large rents to a competing entity. But by 2004, there were signs of a turnaround, with a renewed focus on the bottom line. The appointment of former NFL executive Don Garber as commissioner in 1998 began a decade-long focus on building soccer-specific stadiums, which served two key purposes in buffering MLS’s bottom line. First, by creating artificial scarcity and a more intimate venue, the 20,000-25,000-seat venues would boost the game day experience for fans and generate higher ticket prices than the cavernous NFL stadia. More importantly, teams are able to harness the revenues streams from parking, concessions and advertising their games generate rather than pay rent (Goff 2010). Averaging a new stadium per year over the past eight years, attendance grew to the point at which it is the 13th-best attended soccer league in the world.

Tellingly, the price of an expansion team has gone from the \$10 million Real Salt Lake and Toronto FC each paid in 2004 to \$40 million for Montreal, which will enter the league in 2012. Existing teams have had similar appreciations in value (Mickle 2008). Franchises now are valued at approximately \$30-40 million, compared to \$100 million for the cheapest NHL team, and new technology has allowed teams to build 27,000-seat covered stadiums for as little as \$14 million. Vancouver’s “temporary” Empire Field, built by the Swiss firm Nussli, is a potential game-changer: in theory, if the Whitecaps’ 2011 entrance matches Toronto’s financial performance in 2008 (as preliminary attendance suggests), it could generate \$17 million in revenues and \$2.1 million profit, or a 3.8% ROIC (stadium plus expansion fee) (Constantineau 2010). That would put the team ahead of 16 NHL and 12 NBA teams in 2009 in terms of raw

operating income, according to Forbes estimates, despite exponentially lower overhead (Forbes 2009a, 2009b). Similarly, Portland's MLS feasibility study, which led to the Timbers' 2011 entrance into MLS, estimated that the team could generate as much as \$3 million in sustainable EBITDA off approximately 12,000 per game in average attendance (HVC 2009). Even if the study's authors are off dramatically with their estimates, the lesson is clear: teams that control the revenue streams from their stadiums have a clear path to success operationally and/or via capital gains.

In the presentation, I examine via regression analysis and market studies the effect of the new wave of MLS stadia thinking---that access to mass transportation and a centralized location tend to be more important than the stadium's amenities or acres of parking lots for minivans or, even the team's success. In a particular case study, Vancouver's stadium offers a potential example for older teams in outdated stadia (e.g., D.C. United) to dramatically reshape their balance sheets. The revolutionary addition of three runaway success clubs in the Pacific Northwest (Seattle in 2009, Portland and Vancouver this year), and their precursor in Toronto, has offered MLS a blueprint. While it is doubtful that MLS will compete talent-wise with the English and Spanish leagues anytime soon, or on a raw revenue basis or for television audience with any other major North American sport, it appears it could soon offer something to fans (an affordable product) and owners (operating profits) that are almost extinct in the sports industry landscape.

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