

North American Major Sports Teams are Big Business: All Cities are Not Equal

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This study purpose was to better understand the numbers behind North America's top sports leagues and pricing in the luxury suite market. What allows one market to charge a premium when other markets can only command a fraction of the price? When the leagues are aggregated, the National Basketball Association (NBA), National Football League (NFL), National Hockey League (NHL), and Major League Baseball (MLB), are there major distinctions between geographical marketplaces that support different pricing structures? The study limited its scope to teams in the four most popular leagues in North America (n=122).

Introduction

Luxury suites in professional sport are part of the lifeblood of the sport industry. Forbes values change each year. A star athlete may retire or leave, as LeBron James did with the Cleveland Cavaliers. Their Forbes value dropped \$121 million with his departure. While it might be assumed that the team that wins the championship can charge the most for a premium suite, team performance is only one factor. Forbes assembles a list each year valuing sport franchises in each league in the "Big Four" sports, which might also influence suite pricing.

Teams realize that luxury seating is a revenue generator. The annual revenue all teams generate is estimated at \$5 billion for suites and premium seating (Washington and Miller, 2011). Sport franchises keep most of the revenues from their stadiums. Luxury box revenues need not be shared with other teams, the league, or other owners (Greenberg & Ward, 2010). If teams can figure out how to fill suites, the gains can be tremendous.

Method

Data was collected on the four professional sports teams using 2010 Forbes values for MLB, NFL, NHL, and 2011 values for NBA. The values are based on the team's current stadium deal (arena for hockey/basketball) or a pending stadium (Forbes.com). Geographic regions were based on the four regions delineated by the United States Census Bureau: Northeast, Midwest, South, and West. Population data was obtained from the 2010 US Census Bureau and Arbitron.

Results

The Northeast has the fewest teams in the USA, 22, but the highest cost of a suite, at \$537,500. The Northeast has the maximum suite seating capacity for all suites among all areas of North America. The Midwest ranked second highest in number of teams at 29.

By sport, the Northeast region ranks first in three out of four sports for highest mean value of suites: NBA-\$422,000, MLB-\$831,000 and NFL-\$1,128,000. Canada is the only exception and tops the NHL category for suites, with a mean value of \$293,000.

Twenty-two cities have only one professional team: NHL-10, NBA-8, NFL-3 and MLB- 1. Five of Canada's eight teams are in the NHL and are located within these one-team cities.

California, at 15, led the market for most teams in a single state. The West had the lowest mean value in number of luxury suites and ranked third out of four on the high cost of a suite. The Northeast holds the highest mean value for the number of suites, which was consistent with the greater Arbitron population rankings.

Discussion

Los Angeles does not have an NFL team, even though it is the second largest market according to Arbitron. In 1995, the Los Angeles Rams moved to St. Louis, Missouri from Anaheim, California. The team relocated to a newly built St. Louis stadium, and the city guaranteed them "a three-year sellout of sky boxes and luxury seats" (Greenberg & Ward, 2010).

Arbitron's population ranking of metropolitan area plays a role in pricing. The number of Fortune 1000 companies in the marketplace made a significant difference, with few exceptions. The team's geographical location, according to the US Census Bureau, played a significant role in the value of a team (Northeast, South, Midwest or West). Canada's eight teams are part of this study.

Five of the ten most densely populated states in the country are in the Northeast. Washington, D.C. was number one, with 9,856.5 people per square mile. New Jersey ranked a distant second with 1,195.5 people per square mile. Shifts occurred in population growth as well. The South and West experienced the largest increases in population (2010 Census Data). But again, population is only one of many factors.

Stadium location has come full circle. Early ballparks (Yankee Stadium and Fenway Park) were built on inexpensive land, an important issue for owners who financed the facilities. When the population moved from the city to suburbia, the stadium facilities followed.

The issue of teams relocating for better stadiums is not new. The Giants moved to San Francisco for a stadium with 40,000 seats (Chapin, 2000). Walter O'Malley lobbied for a new stadium for the Brooklyn Dodgers in the late 1950s when he recognized the cost/benefit of a modern stadium. The Colts moved to Indianapolis in 1984, the Browns to Baltimore, and the Oilers to Tennessee in the 1990s.

Baseball has grown little since the 1960s—only 12 expansion teams were added up until 1998. It was relatively quiet until the topic of contraction came up, and the MLB determined the Minnesota Twins and Montreal Expos were not financially strong in

relation to the other teams. The league intended to purchase the Twins and contract, or fold the team (Greenberg & Ward, 2010). The Twins remained in Minnesota, and Montreal's team moved to Washington, D.C. The composition of baseball was restructured, but it had little impact on its overall size.

Limitations

Both the Arbitron population ranking of teams and the US Census Bureau findings are limited to US statistics. However Canada should be included given its considerable presence in the NHL. Assessment of population was derived from other sources.

Conclusions

This article provides information about what regions draw the most value for luxury suites. From an economic standpoint, leagues may be assisted with recommendations for new team placements, relocation, or contraction with the actual figures provided. Those people who follow the sports industry might be surprised to discover given the states that lead, these sources of value.

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