

It is possible to build Basketball Arenas in Italy

Underdeveloped System

In the last 20 years in the best sports leagues, teams developed the idea of the stadium from “a place where to play” to “a place where entertain the supporters” now called Arena. In the NBA, for example, the franchises are obligated to observe a standard of supporters turnout, merchandising selling, quality of service and many others. It is well known the case of Milwaukee Bucks that in 2013 were forced to change the stadium from then-deputy NBA commissioner Adam Silver that toured the arena and found it unbecoming of an NBA team, the NBA issued a mandate requiring the Bucks to relocate or be close to completion of a new facility by 2017. Exactly four years later the franchise left the old Bradley Center and they moved to the Fiserv Forum that was inaugurated on 3rd October 2018 when Bucks played their inaugural game during the preseason against the Chicago Bulls. Now the Fiserv Forum is one of the most modern Arena in the NBA and it hosts not only Bucks games, but also many concerts, exposition and other sports events. In the first 365 days has been used more than 100 times and it has made to record one of the highest turnout rates of the NBA.

In Italy, on the other hand, teams keep playing obsolete and outdated “Palazzetti” that certainly cannot compete with the US Arenas but not even with the European ones. The most of the complex date back to ‘80s or early ‘90s, the golden age of Italian basketball and time when the entrepreneurs were encouraged to build new infrastructure to develop their brand and invest on youth academy. The result has been fifteen more years of wellness of the system were nobody invested anymore until the big downturn of the early ‘00. From 2005 till now any club team reached Euroleague finals and the national team won any medals to any competition. In the fifteen past years, Italian clubs reached more than twelve times the final four and the national team won an Olympic bronze and a gold medal at European cup.

I assume that there’s a strong relationship between the investment, especially on infrastructure, and the result of a system in a long life term. The supports are the reason while professional sport exists, and the system has to adjust to their needs. If it doesn’t do that, the supports won’t come to the stadium and won’t be passionate anymore about the game. That means lower turnout at the stadium, lower profits, but most importantly fewer children will start the youth academy and obviously less possibility to raise some champions.

The “Palazzetti” are old fashioned in professional sports

There are specific reasons why the stadium got empty in the last decade: the stadium doesn’t adjust supporters needs. Overseas the US Sport System understood that in the ‘90s when started to be renewed or rebuilt the majority of the stadium of NBA, NHL, NFL and MLB; it’s not necessary anymore that the stadiums are only an architectural beauty, as the Italian investors did during the ‘80s, but it has to be really practical and comfortable for the supporters. Many other stadiums have been built here after 2000, but none of them can hold more than 5000 people and they don’t serve the following facilities. At a distance of 30 years from that time is clear that the supporters are not attracted anymore from stadium beauty, but they need other types to amenities. Our “Palazzetti” are much smaller than the European average, and that takes to lower possibilities and worse facilities. Merchandising point and food&beverage are poorly stocked and consequently,

people tend to buy fewer gadgets and eat at the truck food outside of the stadium, taking off profits from the team. In the rest of Europe and the USA, the Arenas have not only huge and well-stocked merchandising store but even different type of restaurant or food-point, entertainment venues for children, museums, mascot point and much more. Many teams also are beginning to use the VR use (close to a global explosion) where the supporters can pretend to be in the middle of the pitch, on the benches, in the locker rooms, talking with the players, be the referee, relive famous shots or even shot virtual ball to the basket. Here the application possibilities are really a lot and the imagination is the only limit; for sure this type of facilities would attract children the most.

Another really critical aspect of our “Palazzetti” is that VIP supports are not welcome. Nowadays the stadiums aren’t a place only for ultras anymore, here we could easily open a parenthesis on the theme “culture of supporting” and why we still have racial abuse or despicable action and how we could avoid them, but also for people from high-middle class people that are willing to spend more. To take a textbook case, in 2006 Arsenal built the Emirates Stadium, that takes the name from the homonymous sponsor, with more than 9000 places for these people divided into VIP seats, Skyboxes, Lounge restaurant, seats next to the benches or even spa treatments. This category itself represents the 35% of stadiums profits and have a frequency index of 97%, once then the supporter tries the quality of those benefits strive to enjoy again the game. In a basketball arena, it is surely more difficult to apply but it isn’t impossible for sure, as evidenced by O2 World in Berlin, built in 2008 for only 165 million euros and represent, probably, the most advanced basketball Arena in Europe. The VIP supporters have the possibility to see the match from a twenty-meter high skybox or next to the players or even with a personal chef. The cost of those packages is really high and it increases incredibly the profits.

The versatility a cost reducer

Another feature that is missing in our infrastructure is versatility. The majority of the Arenas in the world provide its space for every kind of mass-event: concerts, politics event, private party, demonstrations, trade fairs, folk festival, circus, fashions events, theatre performance, magic shows and whatsoever, but mostly for every kind of smaller sports. It is possible because the arenas have been built not as basketball pitch but as multi-purpose space that can offer different possibilities to the organizers of every event. To implement this is necessary to think firstly in the long term, and not only to the single basketball game but to an overall view to recover easily the cost of the investment. There are really a lot of examples that could be taken into consideration, the already mentioned Fiserv Forum or the MHP Arena in Ludwigsburg, cost only twenty-one millions of Euros in 2009 that replaced the old sports hall that was too small to host international games. The Arena has been built right in the city centre, upgrading a bad neighbourhood and is equipped with undergoing car parks and the best service inside for every kind of supports or event logistic needs. It can host “only” 6.000 people during the games and 7.500 during other events, not for a lack of intent, rather than the Porsche Arena in Stuttgart that can host more than 10.000 people and greater prominence occurrence. The MHP Arena became a sort of younger sister of the latter and, as well as hosting the local Champions League’s basketball team, host also the game of the local handball team. It hosted approximately other 30 evens in 2018 and the goal is to raise this number during 2019. It is estimated that the cost of the construction will be

covered in 15 years with the concession to third party, excluding the two sports teams. The result is extraordinary when we think that Ludwigsburg counts only 94.000 citizens.

The Public-Private-Partnership system

The Arena is the property of 70% of the city and of 30% of BAM Group, a German business that is dealing with constructions and investments of major infrastructure, including the MHP Arena. They use a contract called PPP namely Public-Private-Partnership. It is a partnership between an agency of the government and the private sector in the delivery of goods or services to the public. Areas of public policy in which public-private partnerships have been implemented include a wide range of social services, public transportation, and environmental and waste-disposal services. In Europe to realize or modernize the basketball stadium are frequently used system such as private finance creating specific SPV and PPP partnerships with the public entities involved, nowadays this latter can't compete anymore with the progress of the private finance, except in Italy, where basically every Palazzetto built in the new century is property of the local municipality. This kind of partnership is similar to the ones that have been used to build other public buildings (hospital, parking place, mall...). Guessing a project with the SPV created to realize or upgrade an Arena including mixture of funding: equity from sponsor of the project (clubs or institutional investors...), different form of debt (corporate loan, project finance, project bond...) and governments grants from the local authorities (offsetting capital transactions, tax exemptions, subsistence fees, direct holding, selling the right of superficies...). Really helpful for the bankability of the project could also be the guarantees and institutional support (Fip, CONI, Credito Sportivo) and the securitization (commercial agreement where the club sell parts of their future profits with naming rights, technical sponsor, TV rights, commercial contracts, future fan subscriptions...). It could be also followed the example of the NFL that lent one billion dollars to the franchises – using an investment fund created specifically in 1999 – that permit them to finance their new stadiums. This operation brought extraordinary results: the income of the franchises that use partially this fund grew up by 150% and their value raised by 37%. For example, the Chicago Bears, after only two years of the rebuilding of their stadium moved from 15,5 to 193 millions of stadium income. Really huge numbers when we think that Italian basketball teams stadium income represents, on average, only 15% of the total income. The first thing that those projects have to think about is if in a certain area is better to renew an infrastructure or build a new one as it happened for the Renovation AccorHotel Arena in Paris or the Mercedes-Benz Arena that was already placed in a great zone of the city. The PPP has been already used for this type of action and seems to overcome the idea of a long term public property of the stadium that couldn't be fully exploited by the teams. So it's fundamental a strict study of the preliminary feasibility to establish the value for the money of every operation and the real needs of the clubs, the local authorities and the other possible hosted events. In Italy, the regulation of the public contracts has already presented the realization of some infrastructure through PPP, both with public from local authorities and private initiative (club or investors..). At the moment there is a financial institution that is really inclined to PPP, the banks. The Goldman Sachs' managing director Greg Carey said that after the US, Europe took an important role in the sports finance and his bank's goal is to build 60 stadiums before 2025, at the moment they are at 40. Goldman and BALM are the banks that invested 400 millions of pounds on the new stadium of Tottenham Hotspurs that is the property of the team

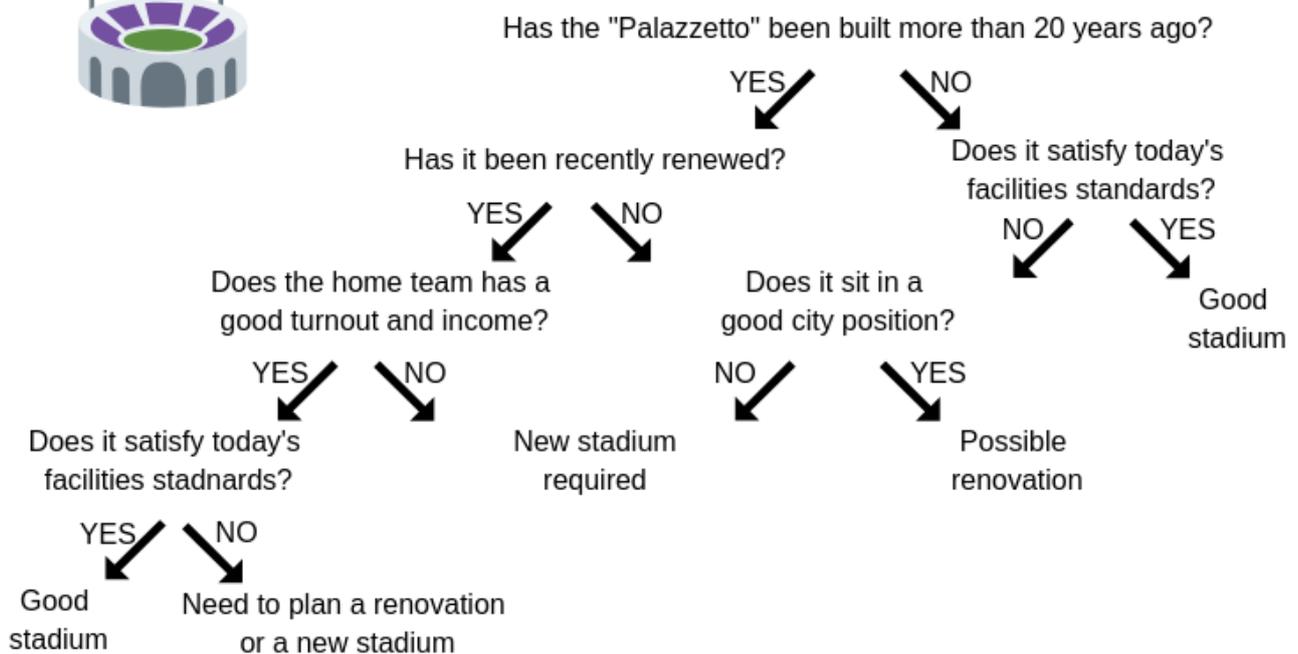
itself. The bank doesn't reveal the revenue of the investment but as Chris Wheeler, bank analyst of Atlantic Securities, said "Profit margins are tempting. This isn't a sector that requires 500 traders to work on, it only needs a small good team."

Naming rights

It is necessary to say something also on this theme. The most of the big arena built all over the world after the construction takes the name from an important company: O2 Dome, Telekom Arena, WiZink Center, Porsche Arena, Megasport Arena, Pepsi Center.... This secondary aspect could be the solution to the new construction of many new or renewed Arenas. In fact, selling the naming rights of a stadium provides a clean income to the handler. In Italy, this good example has been followed only by a couple of teams (PalaAlma, MediolanumForum, PalaLottomatica) but the others keep have the name of important athletes or the city. Philipps will pay to Atlanta Hawks \$185 millions for 20 years. Barclays, a British financial services company, purchased the naming rights to the Brooklyn Nets' home arena in 2012 for \$200 million. The deal will expire in 2032 and will pay out \$10 million per season. American Airlines, headquartered in Fort Worth, purchased the naming rights to the Dallas Mavericks' home arena in 2000. The 30-year agreement will expire in 2030 and pays out \$195 million or \$6.95 million per season. Obviously is impossible to think at this number, but could be more realistic the 30 millions for 15 years from König-Pilsener-Arena or the 18 million for 6 years of the SAP Arena and the 25 million for 9 years to own the right names of Ülker Sports and Event Hall. At the moment Italy is only the 15th country per naming rights number, and 23rd for total deal value, a result that could be for sure improved through a good long term planning that could interest the big business to invest on it.



THEORETICAL ITALIAN CASE



THE PPP SYSTEM

