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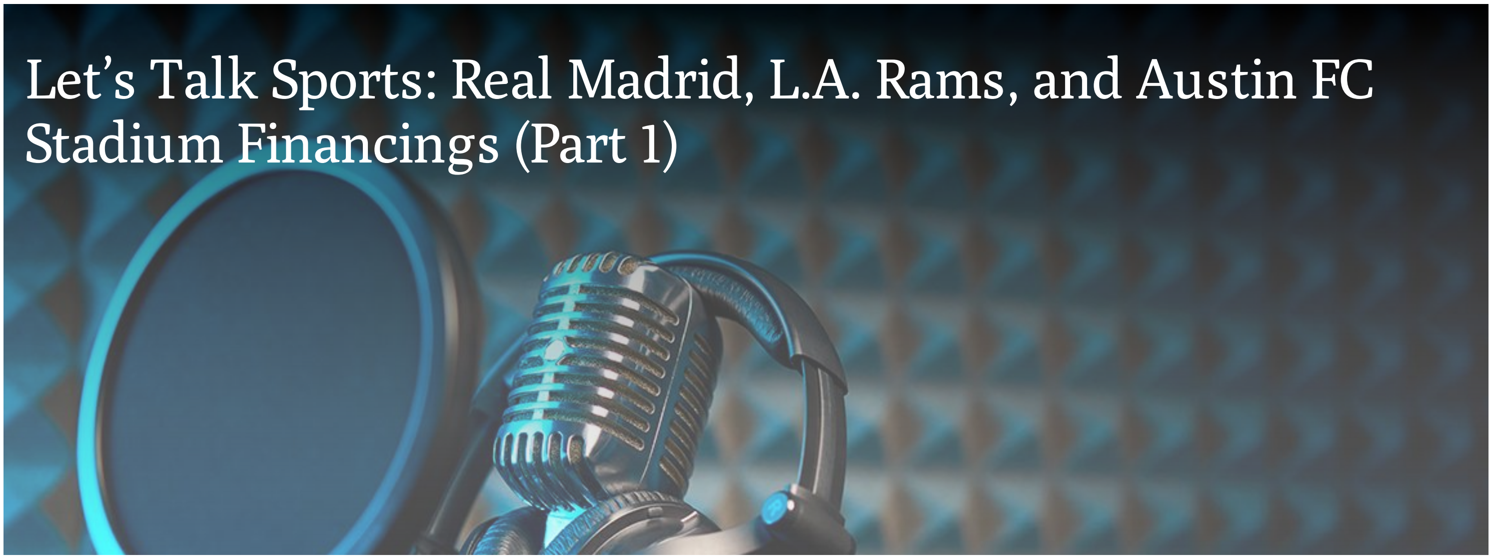
PODCAST

Let’s Talk Sports: Real Madrid, L.A. Rams, and Austin FC Stadium Financings (Part 1)



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In this two-part episode of Let’s Talk Lending, Winston & Strawn Partner Alan Hoffman is joined by guest speaker Zach Effron, an Executive Director at JPMorgan focused on global stadium and arena financings.

The episode focuses on the following topics:

- Breakdown of the structures for the L.A. Rams, Real Madrid, and Austin FC stadiums that Winston and JPMorgan worked on together
- The different types of revenue streams that are typically monetized at stadiums
- The role of the local city government in a stadium financing transaction
- How stadium financing technology has been applied to stadia in foreign countries

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Audio Transcript

Alan Hoffman: Welcome to Winston & Strawn's Let's Talk Lending podcast. My name is Alan Hoffman and I Co-Chair the Project Finance group at Winston & Strawn, and I also head the firm's Arena and Stadium Finance Practice. Winston is recognized as one of the leading law firms in sports finance. And as part of my practice, I have closed transactions in the arena and stadium finance space for teams in Major League Baseball, the NFL, the NBA, National Hockey League, Major League Soccer, for premier soccer clubs in Europe, for minor league baseball teams, for the Tennis Center at Flushing Meadows where the U.S. Open has played, and for various NCAA facilities as well.

We are fortunate to be joined today by another leader in the industry, Zach Effron, an Executive Director in J.P. Morgan's investment bank, where Zach is responsible for the firm's global stadium and arena finance practice. Zach brings two decades at least of experience having raised tens of billions in capital for clubs across all the major leagues in North America, as well as for various football clubs and soccer clubs throughout Europe. He's structured a broad range of financings, both recourse and non-recourse at the team level and for affiliates of the team, whether they be a stadium company or arena company.

As one recent example, Zach and I worked together on the new football stadium for the Los Angeles Rams, which is not only an incredible building from an aesthetic standpoint, but an unbelievable site to watch a football game, and people probably noticed that when they watched the Super Bowl this year. So welcome Zach, and thanks very much for making yourself available today.

Zach Effron: Great. Well, thank you so much to Alan and Winston & Strawn for having me this afternoon. Happy to be here to chat with you on one of our favorite topics.

Alan Hoffman: Zach, maybe we begin with a bit of name dropping, which I wouldn't normally do, but I think it does help to reinforce just the scope of J.P. Morgan's practice in this sector. So I was wondering if you could maybe describe or reference several of the stadium deals, arena financings that we've worked on together.

Zach Effron: Sure, I'm happy to. Might as well talk about what you started with SoFi Stadium, one of the most recent transactions that we've been fortunate to be a part of and always looking to push the market as far as we can and deliver the best results for our client. It was the largest stadium financing ever completed. It started at $2.25 billion during the construction phase and ended up at $2.75 billion through the refinancing. It was refinanced through a combination of long term debt, the U.S. private placement that went out 35 years. So the longest stadium financing that's ever been put out into the market, as well as a bank loan of $1.1 billion of which J.P. Morgan has half of it on their balance sheet. So it was a great project for our clients, Stan Kroenke for the NFL with their new West Coast headquarters, and really couldn't have ended up much better for the LA Rams winning the Super Bowl there this year.

A very large and exciting transaction to be a part of and really provides the next level of where stadiums and arenas are looking to go to, at which leads into another project that Alan and I have worked on over the last several years, the remodeling of the Santiago Bernabéu for Real Madrid, one of the largest football teams in the world. It was so interesting getting to know this client and Alan was part of this where they said, we've got one of the largest and strongest brands in the world. We're one of the most successful football teams in the world and how do we continue to take this club and this fan base to the next level? And a lot of it came with them, looking at how we operate and run our stadiums here in the U.S., whether it was AT&T where Cowboys are or really SoFi and they said, "We need to be doing this."

We've worked across several transactions to raise capital for the club to, they call it a remodeling project, but it's essentially going to be a new stadium by the time that they're done. So those are two of the more high-profile stadium transactions that we've worked on together in recent years. But as you mentioned, we have worked with clients across all the major league, most recently in Canada actually doing a financing at Rogers Place for the Edmonton Oilers, worked recently with the Pacers on their renovation of Gainbridge arena in Indianapolis, with Austin FC providing the construction financing for Q2 Stadium as well as many others.

Alan Hoffman: Great. No, that's impressive and it's only the tip of the iceberg. I know there's 20, 30, 40 other transactions you could have referenced. Zach, maybe for the folks listening, they probably know what lawyers do. We push a lot of paper, nothing too exciting there, but maybe you could explain the role of an investment banker in a stadium financing and how you came to develop the expertise in the area that you have.

Zach Effron: Sure. I would say building a new stadium or arena is one of the biggest endeavors that our clients undertake. We're typically dealing with a generational family that's run a sports organization and building a stadium or an arena just isn't part of their day to day lives and isn't the same as competing to the highest level. And so these projects are very complex and can take years to put together. And in this space, we learn by doing, and the first stadium transaction I worked on was in 2006 for Yankee's Stadium. And what I love about this job is that I continue to learn with every new deal that I do. So we like to get involved early in the process and help our clients.

And while I always say that no two deals are alike, there's a lot that we learn from each deal, and we like to use that experience to help our clients. I guess while I'd say my role is to originate structure and ultimately raise the financing for a project, we really try to help our clients who may be doing something like this for the very first time. A new stadium or arena project is, it's like starting a startup company with a massive mix use construction development project, and so that's a lot.

So having someone who has been through that, through multiple examples in different parts of the world is where we try to help our clients. Our end job is to raise the capital, but we can get involved years before that takes place because there's so many different elements to putting a transaction like this together, which I know we'll get to through our discussion here. But a lot of decisions have to be made on the client side that ultimately can impact the financing, and while that financing may be one or two or three years down the road, we like to be there early as they navigate the various issues that are required to put something like this together.

Alan Hoffman: Right. And for folks who maybe aren't that familiar with a stadium financing, I used the term non-recourse a little bit earlier. That's often very attractive to companies when they look to obtain financing. So maybe you could just describe the basic premise of a stadium or arena financing and what non-recourse structures tend to look like.

Zach Effron: Sure. And so maybe just to take a step back to how teams are typically financing themselves when they're in their existing stadium arena or before they're looking at a new stadium project. Through our private bank here at J.P. Morgan, we finance teams directly where it is a recourse financing typically where we're secured by the franchise value itself, but often there is an element of owner recourse for those transactions. And then the leagues raise financing through their national media contracts and then can use those to provide efficient loans to their teams directly. But when taking on a new stadium or arena project, it is its own animal, something that is often very unique to the folks looking at the project.

So, the way we typically structure them is in order to achieve long term non-recourse financing, we start by forming a stadium company, stadium companies, a bankruptcy, remote special purpose entity that's a sister entity to the company and we structure pursuant to project finance rating criteria to achieve an investment grade rating. The stadium company will essentially be the owner or the landlord to the team and lease the stadium to the team and collect revenues generated by the stadium which we use to secure the stadium financing. We typically start in the bait market, which is a more flexible place to handle potential construction risk or cost overruns or delays, and also the proforma revenue ramp up that any stadium or arena needs to experience.

Then, once we have the stadium built and contracted on the revenue side, we typically refinance the bank loan into the long-term U.S. private placement market to de-risk the project. However, we do have clients that are comfortable with the interest rate risk and prefer to remain in the bank market. In those instances, we keep the project on our balance sheet.

Alan Hoffman: Okay. And I guess when we talk about non-recourse, we of course don't have the credit of the club or even the arena code or the stadium code behind it. It's a revenue based type of financing. And I know from going to concerts or sporting events, there's a lot of different revenue streams when you either look to buy merchandise or look around at some of the sponsorships around the stadium. What are the typical kinds of revenue streams that you would monetize as part of a stadium financing?

Zach Effron: It gets back to putting a structure in place that can achieve an investment grade rating. And so in order to do that, we're looking to monetize the long term stable cash flows that are under contract at a stadium and arena. And so these would be things like the naming rights contract, as we have all seen just the demand for naming rights as an asset continues to grow and the numbers that clubs are able to generate just becomes ever larger in the current market. So naming rights, building sponsorships, and that can be things like the name of your club or your gate or various signage throughout the stadium and the arena, and then premium seating. And so with those three, you have naming rights contract that can be 20 years sponsorship, that can be five or 10 plus years. And then premium seating, typically staggered three, five, seven, gives us a solid robust revenue profile.

We also include revenues that aren't under contract and are a little more dependent day of game type revenues like food and beverage, merchandise, and revenues generated from other events such as concerts. But it's a mousetrap that we've used a well-worn path for many years and many examples and works well with our credit risk team here at J.P. Morgan, as we look to take more and more of these on balance sheet, but also with the long-term private placement buyers. There's just a long track record of these revenues being paid remaining online, resetting at higher and higher levels. So they provide a comfortable financing mechanism.

Alan Hoffman: So when my kids want a $50 Justin Bieber t-shirt, that could also go into the revenue pool?

Zach Effron: Yeah, absolutely. Merchandise is often included.

Alan Hoffman: When you and I started in this business, and then you referenced the Yankee's Stadium financing, which was almost 20 years ago, government entities, municipalities had a fairly significant role in stadium finance. There's been less of that over the last decade for various reasons. Maybe Zach, speak to how the role of the local city government has changed in recent years.

Zach Effron: In almost every instance, they're still going to be a role for the local government, just because it's hard for these not to be community assets, just given what we're dealing with where you've had a team be part of a local city or area for decades and the generational element that these teams have. So even if you're going a hundred percent private, there's still always dealings with the local government. What it really gets down to is public subsidy and whether or not that's going to be part of the financing solution or not. And so I think it really starts with a discussion of how the value of live content has grown over the past several decades. If you look at both team valuations and sports media contracts, it's just been up into the right through the entire time.

I think this strong growth in value coupled either with challenged municipal budgets or quite simply political environment that's less conducive to public funding for professional sports venues has led to buildings being more and more privately financed as the market can support it. We talked about SoFi Stadium, so one of the strongest media markets in the world with two NFL franchises, and that was financed on a hundred percent private basis and that's the largest stadium ever built. So that's astounding where several decades ago, these buildings may have been a hundred percent publicly financed. Now, the largest one that's out there has been a hundred percent privately financed. And we talked about Q2 Stadium and Austin FC, that was also a hundred percent privately financed. I think that was a function of getting a deal done in Austin.

What speaks to me is every market is different, every situation is different. And so that's back to what is our role in these financings, knowing who the parties are around the table and what's important to them and how other deals have gotten done, because there's certainly remain markets where public funding is required to make the numbers work. I think the Buffalo Bills is the most recent example of this, where you have the State of New York and Erie County looking to provide a very large public contribution in order to keep the Bills in Buffalo. I think that's just the facts and circumstances that that's what's required to make that deal work.

Another example that we're talking about is Las Vegas, where Las Vegas is a very attractive market, but as a local government, they've actually been very opportunistic and strategically using the hotel tax to attract professional sports. With the Raiders moving to Vegas with Allegiant Stadium, which just drives more hotel tax, it makes a lot of sense in that instance. I think when it comes to public versus private partnerships, every situation is unique, but there's a lot of different incentives that may be offered to make the deal work. Alan, you mentioned the Yankee's Stadium, Yankee City in Barclays were all done as pilot structures where the team is paying for the building. They're just doing it through a property tax that wouldn't have otherwise be charged. So, just another example of how local governments can get creative.

The big answer to the question is that getting public funding is a lot more challenging than it used to be, but there's a lot of ways to get creative with your local governmental counterparts and things that they can deliver, whether it's through a ground lease or incremental taxes that they don't have now that would only be generated by the project so that a negotiation can be found.

Alan Hoffman: Yeah, and what's interesting in Austin and what you mentioned that there's a city that was desperate for sports. They didn't have any professional sports team and yet we were able to do that deal for an expansion MLS franchise without any funding from the city, even though they were very excited about the project and very supportive, but we got it done with all private financing.

Zach Effron: Look, I think given Austin's a very special place, given where we were, it was pretty much known from the start that through public subsidiaries of the project weren't going to be on the table, but there were other things and other incentives that were provided that enabled that project to get done. And then it's the market, Austin, Nashville, places like that around the country where the market's so strong and growing, they can support a hundred percent privately financed.

Alan Hoffman: Right. So when we do these deals, whether it's MLS, Major League Baseball, whatever it is, the league governing body plays a major role. They may not be directly involved in the financing, but they provide at the very least regulatory oversight and get involved in those transactions. You want to maybe describe what role the league typically plays?

Zach Effron: I think big picture part of the league's job when it comes to financing is to ensure that all of its teams have the most efficient access to capital. There's certain guardrails that they put in place to ensure that this is maintained. So your leagues have debt limits and they're different across all the leagues, just to ensure that none of the teams get over levered. And then when you're looking to build a new stadium or arena and all the leagues are different, but you look at the NFL or NBA for example, they actually waive the debt limit and allow the team to take on additional debt, but they consent to it. And through their consent letter, they have step in rights, which are all various things that ultimately protect lenders and investors in these projects.

So, I think that the oversight that the leagues provide here in the U.S. is very important and gives a lot of comfort to whether it's an institution like J.P. Morgan or a life insurance company buying the refinance of a bank loan that the league is there to support these projects in multiple ways. In some instances, they'll lend money to the projects on a subordinate basis, in other instances, they are keenly aware of their debt rules and whether or not their clubs are in compliance with them, but also providing their clubs the flexibility to go beyond the debt rules to invest in something like a new stadium. I think the leagues see the value and want to help their teams find ways to continue to invest in things like stadiums. MLS is an excellent example of that, where basically the cost proceed at the table is to have your own MLS stadium, and that's something that that league's been very passionate and direct about, but it's worked very, very well for the product and how the product looks on TV.

NFL with a SoFi being one of the most recent examples, just making sure that that league continues to be state of the art and cutting edge. It's very interesting, once one team builds a new stadium, everyone else sees how much additional revenue that they're able to generate. Therefore, they see the need to invest in order to grow the business. The leagues are very helpful in these financings, whether it's the debt rules that they have, the oversight that they provide, but also just having a big voice in the room, even if indirectly, it just gives people comfort.

Alan Hoffman: Right. One of the most exciting things I've noticed over the last couple years is how we've been able to take the technology of stadium financing that we've deployed in the United States and bring it over to other countries. So you're seeing now and Real Madrid is just one example, teams, clubs in other countries, in other leagues availing itself of these innovative financing structures and maybe you want to just touch on that a bit.

Zach Effron: Yeah, absolutely. Here in North America, we've been in a bit of a say a 20-year cycle where it's almost required to remain competitive that your stadium is either rebuilt or upgraded in a significant way. And so I've been fortunate enough to see a couple cycles of that here in North America. But in Europe it's been different in that you have some of the biggest sports franchises in the world playing in stadiums that are in some cases very old. And I think what has started to happen is maybe in simplistic terms, how can you increase revenue for a European football? You can look to invest in the player squad and win more games, and there's some investors out there taking that approach. The media side is managed by the leagues itself, but building a new stadium can be a complete game changer for these European football franchises where, especially if they have a very solid fan base.

A lot of them have a large international media presence through social media and just looking to further increase value of the franchise and really stay competitive as they look for ways to increase revenue to stay competitive on the pitch. Also, investing in the stadium is a way to generate revenue that currently can't be tapped with the existing building. So, when it comes to technology, we have brought the same boxes and arrows and mouse traps that we use here in the U.S. where we're looking to, again raise the most amount of long-term money as possible. Creating a saving company and putting financial revenue streams like naming rights and sponsorship and premium seating that we were talking about earlier is where we're starting in Europe, and we've been at this for quite a while now.

I think you have to remain flexible in terms of structure. You don't have the leagues in Europe the way you do in the U.S. providing the same sort of rules or oversight or protection so just bring the exact same structure and try to overlay it. Every situation is different, and depending on some of the facts and circumstances and nuances, the financings we've done in Europe are all bespoke and all unique in one way or another. But I think the bottom line is there's tremendous amounts of demand on the investor side, whether it's the bank market or the institutional investor to get invested with these clubs.

If a new stadium is part of the investment thesis and from the investor side or underwriting side, we can check all the boxes that we've got strong management on the construction side, we have a strong contractor and development team with an architect and the like, and then solid thought has been put into the business plan and the proformas, it's turning out to be a market that is for certain clubs even more efficient than what we're able to do here in the U.S. For a lot of clubs, not quite the same, but we are finding strong demand for these stadium projects around Europe.

I think it's because it just makes sense to a lot of people. You've got this franchise that's been around for a hundred years with this huge fan base playing in this building, that's 50 years old and you go walk around in it and you almost can't believe it when you compare it to the stadiums that appear in the U.S. When the European teams see the amount of revenue the U.S. teams are able to drive out of their stadium, the light bulb goes off on their side as well.

Alan Hoffman: Thanks, Zach. Really appreciate you joining me today. Thanks to everyone who's been listening to our Let's Talk Lending podcast. I'll remind you that you can subscribe to the podcast via Apple iTunes, or Google, or by visiting the Winston & Strawn website where we provide insights on various topics and the latest market updates and trends in all areas of finance. I hope you enjoy today's podcast, but at the same time, I don't think David Letterman has anything to worry about. But thanks for joining, talk to you soon.

Zach Effron: Great. Thank you so much. Thanks, Alan, thanks everyone at Winston & Strawn.

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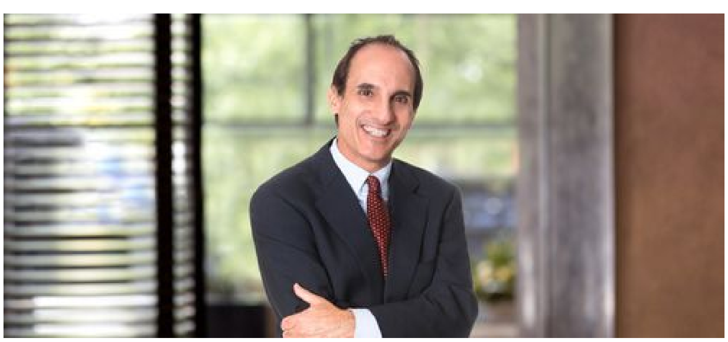

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