The leisure principle

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In leisure financing there are no certainties. Cash-flow is dependent on future ticket sales and unpredictable revenue streams like food, beverage and entertainment. This unpredictability has, until recently, made European leisure too unattractive for bankers to finance non-recourse.

Yet in the US, banks such as Sumitomo and Chase have already proved that project finance can be a viable way of financing a new game-park or stadium. Sumitomo, for example, has lead arranged deals such as the $250 million Jack Kent Cooke stadium for the Washington Bearskins which reached financial close in 1997 and, more recently, a new $400 million stadium for the Denver Broncos. Chase also financed the San Francisco Giants' new baseball stadium in California.

Conversely, Europe's track record is still not good.

In the UK, Chase recently won the mandate to lead arrange £355 million ($570 million) to fund the construction of a new national stadium at Wembley. Already a source of intense political wrangling, the new stadium will replace an outdated site and could be the key to the country's bid to host the football World Cup or, more likely, international athletic events.

Chase is working with Wembley National Stadium, the English Football Association subsidiary. The 90,000 seat stadium will cost £475 million - £120 million of which has been provided by the Sport England from the national lottery. The remainder will come from the private sector through a syndicated loan arranged by Chase. Further details are expected to emerge by the end of May, but Chase has indicated that the loan may be refinanced by a bond at a later date.

However, Wembley is the exception to the rule. It is one of the few deals that could muster the flow to make it attractive. Stefan Huebner, project manager and associate director at WestLB in Düsseldorf, warns that very few stadium deals have the necessary cashflow to service the whole capital in a project financing. As a result, of the deals financed in Germany, none has taken a true project finance structure and all have relied on some sort of quasi-state guarantee or funding to get off the ground.

Berlin's planned Olympic stadium, for example, will cost around Dm550 million. Of that only 20% to 30% will come from private sources. The rest will be drawn from public and state contributions.

?The cash-flow is fairly predictable in the short-run,? says WestLB's Huebner. ?But since it is always limited compared to the high investment costs, you would need very long-term agreements with the sponsors. And why should they rent lounges or business seats on a long-term basis if one can't even predict how well the sponsored club is going to do in four or five years??

European stadia often have very little potential to make more money because, unlike the US where a stadium can be used for a number of sports all with high volumes as well as music concerts, European stadia often focus on one team and one sport. As a result opportunities to make more money out of a club are limited ? teams only usually play a certain number of fixtures at the stadium and for the rest of the time the site remains vacant. While these sites are used to stage music concerts, the reality is that only a few sites will bring in regular crowds. With most revenue being made on the sale of seats whether in advance to corporates or to season ticket-holders, the strength of an individual team is vital to the cash-flows.

?If you consider a successful and healthy club like Manchester United or Bayern Munich which have continued strong support then perhaps you can rely on a sustained cash-flow,? says Huebner. ?Nevertheless, to successfully finance a stadium, either the support of regional public authorities which always have a strong interest in the project or insurance cover is needed.?

Says Marcus Kleiner, head of transportation and PFI at HypoVereinsbank in Germany: ?We have been reluctant to finance stadium projects because of the way they are so reliant on usage.? He says that while two projects have recently reached financial close in Germany, this is only following heavy state involvement. ?In the past sponsors and banks have been often too optimistic in their assessment of income per capita on leisure projects,? he says. ?Look at EuroDisney. It has been performing for several years. It has a good level of occupancy in its hotels and good crowd levels but this was done on a certain price basis and this is not totally in line with the predicted budget. The project demonstrates how difficult it is to raise or keep steady the number of visitors and the per capita expenses at the same time. There are certain limits to your success.?

With this in mind, banks continue to be sceptical about financing leisure deals on a project finance basis. Perhaps the best example of this scepticism was seen in France in the run up to the 1998 Football World Cup.

France as the hosting nation, had plans to build the Stade de France in Paris in the early 1990s. But with a winning consortium chosen to build the stadium, the government announced it wanted the sponsors to find the financing for the deal. Banks were approached but, claims one project financier, were reluctant to finance the deal when its revenue stream after the World Cup was so uncertain. In particular, while the stadium would be the focus of national events, no regional team wanted such large venue. A number of key French and German banks showed interest but were eventually deterred.

Against this background, the developers contacted Credit Suisse First Boston to come up with a financing package for the deal. In 1996, the bank was awarded the deal.

According to a source from Credit Suisse First Boston, ?We put together a deal which would rely on the potential cash flows of the stadium but was backed by an insurance package.? The state government provides a level of support but not a full guarantee. Yet says the source: ?The project was risky but at the same time we could not imagine a situation where, in the worst case, the French state would not intervene if the deal went bust.?

With a Ffr700.3 million bond issue planned, the deal was due to launch in 1997 but it was not until a year later, with the World Cup, already in progress that the deal was finalized. During that time the sponsors, the Consortium du Stade de France, which has a 30-year concession from the Ministry of Youth and Sport to build and operate the stadium, had borne the cost of the construction.

Doubts over the deal may have loomed into the run up to the games but in the event the timing was perfect. On the eve of the semi final between host nation, France and the Czech Republic, the issue was launched. With World Cup fever gripping the nation, French institutional investors embraced the deal. In the event clever timing, good marketing and the delay proved beneficial.

The deal carries a coupon of 5.25% over 15 years. Only two years before the games, the deal might have had rates closer to 9%.

The bond deal, which was issued through Jersey-based special purpose vehicle Stade Finance, has a wrap from FGIC giving an AAA rating. The SPV makes a limited recourse loan to Credit Suisse First Boston, which in turn lends the proceeds to the consortium. The consortium then uses the money to pay off its sponsors ? Bouygues, GTM (a subsidiary of Lyonnais des Eaux) and SGE (part of the Vivendi group).

This quasi-project finance deal has a securitization-type structure, although in this case the insurer has no rights over the stadium in the event of repossession. However, the state does guarantee to finance the management of the stadium and sell it if there is a default. And even taking into account a drop in the state subsidy over the years, it will still service the debt.

Despite the relative success of the Stade de France, the troubled history before the bond issue has dampened bank appetite for similar deals. Credit Suisse First Boston has since received proposals from other European and Asian sources to finance stadium deals but none have had the right profile. Part of the attraction of the French deal, in the end, involved the participation of the state ? an AAA rated entity.

But while high profile venues are the only ones to attract financiers in France and Germany, other European countries have had more luck in following a straight securitization route for their football deals.

At the end of 1998, for example, Merrill Lynch arranged a L67.5 billion securitization for the AC Fiorentina in Italy. Secured on the club's future ticket revenues, the transaction was largely modeled on a 1997 transaction for Lazio. In both cases, investors accept that amortization speed cannot be predicted accurately and receive an attractive floating rate yield in compensation. Lazio's strong performance in the past, also provided strong comfort.

Jim Weinstien, head of project finance at Sumitomo Bank in New York, says that non-recourse financing is proving attractive in North America because it gives more leverage ? less equity is needed at closing. ?Since most sports teams are cash poor this is very important,? he says. He adds that in the US where there are established sports leagues with good credit risks, conservative capital structures and helpful governments, the trend has picked up. In Europe, ownership structures are different and central governing bodies are weaker than in the US.

Weinstein believes that the model can be transferred to Europe. ?Chase is going to try it with Wembley and I'm sure there will be others ? but only for the exceptional teams.?

As in Germany where the financing of a local stadium is intertwined with the success of a local state government, funding sporting projects is riddled with political implications. In such an environment, only the very biggest deals and those that are most confident of success are likely to attract funding.