

Owners and operators looking to fund new stadia are increasingly adding residential or commercial components as 'enabling development' to help raise vital revenue





**Highbury Square – built on the site of Arsenal FC's old stadium to help fund its move to the Emirates**

The sports stadia of today are as far removed from those of 30 years ago as a meat pie eaten while standing on the terraces is from a gourmet meal served in a banqueting suite overlooking the pitch. But modern comfort and safety comes at a price. The tens of millions of pounds necessary to construct a 21<sup>st</sup> century sporting venue cannot be funded through ticket sales alone and in these times of austerity there is no money in the public purse to pay for them either. As a result, stadium developers have had to become property developers, building supermarkets, cinemas, hotels and flats to cross-subsidise the creation of new sports venues. 'Enabling development' as it is known has now become a necessity for all but the richest sports clubs. Building other facilities on or around the stadium site offers a means of bridging the gap between the cash that a sports club can raise on its own and the often much greater cost of a new stadium. It is no easy option, however. A range of planning, financial and operational hurdles lie in the path of any sporting organisation intending to use enabling development to fund a new venue.

"Historically stadia have always struggled to be funded on their own," says Rod Sheard, senior principal at architects Populous. "In Britain we have suffered from a lack of public investment in stadia until the Olympics – even the £100 million of public funding for Wembley came through the lottery – so we have had to adapt."

David Batchelor, senior director for leisure at property consultant CB Richard Ellis, divides enabling development into two broad types: 'onsite micro' development where facilities such as hotels and conference centres are integrated into the fabric of the stadium, and 'offsite macro' development, where a large property development such as a leisure park or supermarket lies adjacent to the stadium. While the former is more likely to provide an ongoing revenue stream for the venue, the latter generates a greater amount of up-front funding to pay for its construction. In Coventry, the creation of the Ricoh Arena was part-funded by the construction of a Tesco supermarket, and in Bolton, funds to build the Reebok Stadium were generated by the development of the adjacent Middlebrook retail park.

Some enabling development can help to pay for the creation of a new stadium retrospectively. Arsenal FC's construction of the Emirates Stadium in North London was followed by the sale of its old site at Highbury for residential development, a transaction used to pay-off part of the loan that the club had



## ENABLING DEVELOPMENT

taken out to pay for the construction of its new home. Further cash was raised by the creation of more new apartments around the Emirates Stadium.

### Self help

Martin Jennings, a partner in the sports group at consultant Davis Langdon, says that this 'self-developed' model has advantages for sports clubs. The club owns its own ground and retains control over the asset, leaving it with complete flexibility to decide on any changes that it wants to make in the future. However, this option is only available to clubs that can ask a high price for their existing site, and can afford to pay interest on a substantial loan – provided that they can secure one. "To get a loan facility from the major lenders at the moment is a big ask," says Jennings. "The banks view sports investment as inherently risky compared to other property sectors. The proportion of the total development cost that they offer to lend will be lower and interest payments will be higher – if they are willing to lend anything at all."

The alternative, says Jennings is the 'developer-led' model, where a property developer or sometimes a retailer acting as developer enters into an arrangement with the club to provide a new facility owned by the developer. This is then let back to the club, which pays a ground rent on a long lease – typically 25 years. Such deals frequently involve the developer taking over ownership of the club's existing site as well. Everton FC sought to go down this path in attempting to relocate from Goodison Park in Liverpool to Kirkby. The club brokered a deal with Tesco that would have seen it relocate to a site in Kirkby town centre, where the supermarket chain also planned to build a retail park. Tesco was to provide the stadium shell, which would then be let to Everton, with the football club paying for the fit-out of the facility. However, the scheme was rejected by the Secretary of State in November 2009 and the plan was shelved.

St Helens Rugby League Football Club is proposing a similar arrangement with Langtree Group. The property developer plans to build a new stadium and a Tesco Extra superstore on the former United Glass site in the Merseyside town. The scheme has received full planning permission, but the start of construction has been delayed by the unfavourable economic climate.

Another option open to sports clubs is to enter into a joint venture with a developer, in which each party takes a proportion of equity in a joint venture company, which owns the stadium and leases it to the

club. This gives the club more control over its future, but Jennings warns that this route is less appealing to the property market: "Developers quite often don't want to be in a long-term arrangement and if you were a pension fund or other property investor, how attractive that would be to you is questionable," he says.

### Planning law

As the Everton example illustrates, it can be difficult to obtain planning permission for large enabling schemes. Tesco's Kirkby scheme was rejected because it was too big and had significant implications for traffic generation.

Matthew Collings, an associate in the planning and regeneration team at law firm Eversheds says that enabling developments frequently involve a significant departure from local authorities' planning policies, which usually contain a presumption against large-scale retail or leisure development outside town centres. "In planning law, enabling development is development that would be unacceptable in itself, but for the fact that it would bring public benefits that would not otherwise be brought forward," he explains.

As a result, if a sports club wants to argue that a development is necessary to enable a new sports stadium, then the onus is on it to show that the development is just enough to pay for the venue and no more. This may involve close scrutiny of financial arrangements that most big sports clubs, sensitive about commercial confidentiality, would prefer to avoid. Collings says that the preferred strategy tends to be to justify the enabling development on the grounds that it will boost regeneration in addition to the community benefits provided by the stadium.

In such cases, it is vital to have the support of the local council. Julie Clark, head of the sports practice at consultant PricewaterhouseCoopers says: "Clubs can argue to the local authority that they need to move to a new stadium in order to remain competitive. It's quite a compelling argument. There is a great advantage for councils in having a Premiership football club, for example. A city gets

**Highbury Square features 650 apartments, of which 70 are shared equity/affordable housing**

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### ROOM WITH A VIEW

On paper, a stadium and a hotel look like an ideal match: the hotel gets a high-profile location and a source of potential guests; the stadium gets an additional income stream and catering and conference facilities.

"Practically every new stadium is planning to have one, but on average one out of two might work. A hotel won't do well just because it's in a stadium," warns David Harper, a director at consultant Leisure Property Services.

Filippo Sona, managing director of the Bottom Line Hotel Consultancy, says that the location of the hotel in relation to transport infrastructure and the local business and leisure districts is a more important factor in its profitability than its proximity to the stadium itself.

Some hotels are located alongside stadia, but if they are physically integrated with a stadium, the greatest advantage can be achieved for both. At the three-star Old Trafford Lodge (pictured), hotel bedrooms facing the pitch double as hospitality boxes on match days, while at the Reebok Stadium in Bolton bedrooms overlooking the action can be hired at a premium.

Integration with the stadium's operations is also vital if the full benefit of a hotel is to be realised. Hotels are expert in providing conference and banqueting services and frequently do so more efficiently than the stadium's own personnel.

Fit-out must be designed carefully if a hotel that copes with a sudden influx of thousands of supporters on match days is to maintain a fresh appearance. Marble floors wear better than carpet, and washable painted walls keep maintenance costs down.



a lot of pride and profile from that." However, the support of a local authority does not guarantee planning consent if the scheme conflicts with national policy. Knowsley Council supported Everton's move to Kirkby.

### Valuable partners

Local councils can also be valuable partners for clubs undertaking enabling development. Highbury & Islington supported Arsenal in assembling the site for the Emirates Stadium. Councils may also contribute publicly owned land to a development in return for community benefits. Nonetheless, there are limits to what the public sector can do. Roger McLaughlin, national coordinator for regional development agencies' activities in support of England's 2018 FIFA World Cup bid, says: "Most public bodies will not grant funding to professional sports clubs. It's contrary to a lot of EU competition legislation."

Enabling development must also be designed and managed carefully to prevent conflicts with the stadium's own operations. Ben Veenbrink, principal at the Stadium Consultancy, cites the example of the Euroborg stadium at Groningen in the Netherlands, which shares its site with a casino, multiplex cinema and offices: "[Other uses] were integrated into the stadium envelope, which makes it very complicated in terms of safety and security," he says. Veenbrink says the stadium and cinema make for uneasy bedfellows because their peak use times at the weekend coincide, leaving families on their way to a movie stuck in queues of traffic generated by the stadium. Supermarkets near stadia can face similar problems and in some cases have to close on match days, which reduces their value to the retailer and therefore the amount of cross-subsidy that they generate.

Architectural director J Parrish at Arup Sport, says that much hinges on the operators of different businesses learning to work together over time. He adds that if a stadium is located closer to the centre of a city, those issues are reduced because a higher percentage of visitors are using public transport.

Sheard agrees that with clever design and management, potential conflicts can be overcome: "Everybody wants to use a stadium in a slightly different way," he says. "The more uses you can build in, the greater chance you have of satisfying all those different needs." ■

### Author

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