

## So, You Want to Own A Sports Team

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Millions of people around the world recently watched one of the biggest spectacles in sports: the Super Bowl. Whether you are an avid Chiefs or Eagles fan, or just a sports fan in general, it's hard not to be excited about the Big Game. It has become such a huge part of American culture that some have argued the day after the Super Bowl should be a national holiday.

For many people, watching the Super Bowl conjures big dreams, and a bit of cockiness. Fans are famous for thinking they can call better plays, put together a better roster, and overall do a better job than current management. After all, they dominate their fantasy football league every year. How different can it be in real life? Then, when you see pictures of the Hunt or Lurie families enjoying the game from one of the suites at State Farm Stadium in Glendale, Arizona, it is hard not to let your mind wander and wish you could be an owner. "If only I had the money" you think to yourself.

It doesn't have to be an NFL team, there are other sports out there; basketball, hockey, baseball, soccer (the other football), lacrosse, auto racing, and many others. You can even own a professional pickleball team now. Within each of these sports, there are multiple levels to choose from including various minor, independent, and major levels. There are many different ways to become a sports team owner. However, if you set aside the complexities of actually running a team and you somehow had the money to consider buying a team, would now be a good time to be a buyer? Focusing on the major professional leagues, what is the state of the market for sports teams?

At the moment, there are more teams on the market than at any point in recent memory. Depending on how they are counted, it is estimated over \$20 billion worth of teams are either officially or unofficially available for sale. Some of the larger names mentioned include the Washington Commanders, Ottawa Senators, Los Angeles Angels (though Arte Moreno recently announced he was going to maintain ownership of the team), Washington Nationals, Liverpool FC, and Manchester United. This doesn't include the many limited partner interests that are on the market, as well as expansion teams that might be available. Overall, the supply of teams is very high.



Despite the influx of teams on the market, prices are also at an all-time high. The Denver Broncos recently sold for \$4.65 billion and the Phoenix Suns for \$4 billion. These were both record-high valuations. Several sources have also estimated if the Commanders sell, they would fetch a significantly higher price. Due to explosive growth in television contracts, global viewership, and a decade of wealth creation, there has been an exponential rise in sale prices across all sports. This, coupled with the fact that there are a limited number of teams available, helps drive prices higher. In the "Big Four" American sports leagues (NFL, NBA, MLB, and NHL), each league has 30-32 teams, and they don't come up for sale often.

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Over the past two decades, only a handful of the teams have traded hands. The sky-high prices have limited the number of people who can afford to purchase a team. To combat that issue and support the high values, many leagues have begun to loosen their strict ownership guidelines. Not only have they reduced the percentage of ownership necessary to be considered the controlling owner, several leagues (other than the NFL) have begun allowing institutional investors and sovereign wealth funds to become limited partners in teams.

In addition to the allure of owning a professional sports team, there is a financial benefit owners of teams have been enjoying. The values of these teams seem to be uncorrelated to the major stock markets, like rare art or vintage comic books. While 2022 saw stock markets plunge over 20%, the teams sold during the same year were at record highs. Revenues for these leagues have continued to rise and most leagues currently have labor peace with collective bargaining agreements (“CBA”) in place for several years. What was once a situation of annual cash flow concerns, often with losses, most teams now generate tens of millions of dollars annually.



To understand what is happening in the market, one simply has to look at a few macroeconomic factors in play. One of the biggest factors driving growth in values is an explosion of media and digital rights agreements with long term contracts. The NFL has its rights under contract until 2033 for around \$10 billion per season. The NHL and MLB signed new deals at record levels. Even Major League Soccer signed a deal with Apple for \$250 million per year. The next rights deal will be with the NBA whose current deals extend through the 2024-25 season. Some early estimates suggest the NBA could be seeking a threefold increase to the current \$24 billion deal. Whether that is a negotiating stance or reality, the new deals should provide a significant increase in revenue for NBA teams.

Despite the strong economic standing of professional sports franchises right now, not everything is expected to be rosy. Turbulence in the Regional Sports Network (“RSN”) industry is threatening the local revenues of NBA, MLB, and NHL teams. RSNs are television channels that primarily broadcast local professional and collegiate sports within those teams’ local markets. They provide a key local revenue source to professional sports teams in the form of local broadcasting rights fees. Operators in the RSN industry have faced increasing financial pressures in recent years, and the practicality of the RSN business model as a whole has come into question. In fact, Diamond Sports Group, the owner of 19 RSNs, is anticipated to file for bankruptcy, a move that ultimately might allow them to stop paying rights fees to the 42 different teams that they broadcast. If the RSN model does ultimately collapse, it is unclear whether the leagues themselves will step in and take over the broadcasting rights. Major League Baseball Commissioner Rob Manfred has stated that the MLB might step in if it comes to that. In addition to the RSN problem, other local revenue sources may have difficulty growing as inflation pressures and new stadiums may price out the average fan from attending games.

However, despite a few potential bumps in the road, revenue growth across sports is expected to remain high, driving values upward going forward.

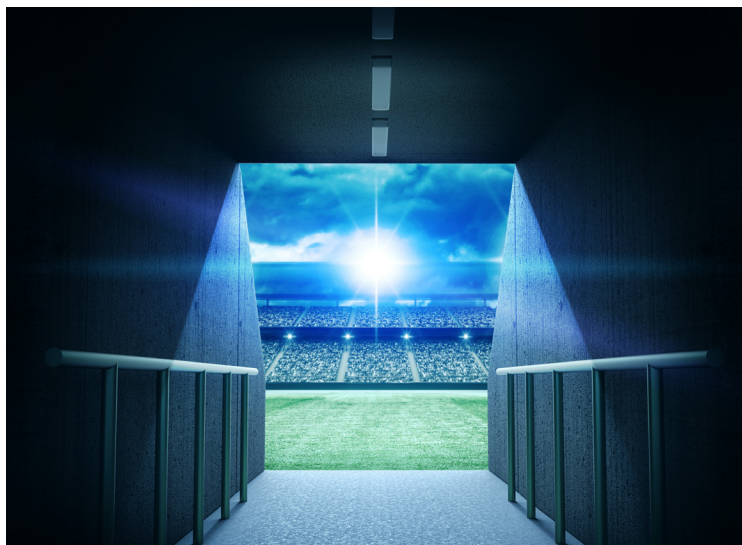
The largest expenses for any team are player costs with each league handling it slightly differently: Some have what’s called a hard cap, where teams cannot spend more than a certain amount. Others have a soft cap, where if a certain amount is exceeded, there are penalties (i.e., a luxury tax levied against the team). Most sports have a CBA that was negotiated between the teams and the players’ union. These multi-year agreements generally ensure labor peace during its tenure. Sometimes there are strikes and lockouts that happen at the expiration of a particular CBA. Yet during the length of the agreement,

owners of a team can be fairly confident the rules must be followed by both sides, providing stability around the largest expense. The NFL has a CBA in place through the 2030 season and the NHL has one through the 2025-26 season. The NBA's CBA is currently being negotiated with the current version expiring after the 2023-24 season. Both sides have a June 30 opt-out option if the two sides don't work out a deal.

Now that you understand a little behind the economics, it is important to know that the new team owner has to oversee a multitude of different businesses. Not only does the owner have to oversee the composition and performance of the team through the player roster, coaches, general managers, and other support personnel, they must understand and run the operation of the stadium, various marketing and sponsorships relationships, and possibly even media rights. Running a sports team is a multi-faceted conglomerate of businesses that each have their own challenges.

Outside of the economics of owning a team, there are many intangible benefits available to an owner. Most importantly is to be involved with a team or sport that you love. It is hard to imagine a sports team owner not being a sports fan first. Getting to be a part of sports is a thrill that drives many. The challenge is also running the team like a business and putting the most qualified personnel in positions to make the correct decisions.

In addition, the team owner has access to networking opportunities with other owners in the league. This yields advantages such as cross-selling with their other businesses or developing real estate around the stadium or arena. While living in the spotlight and having your every decision questioned can be tiresome, many team owners live for this situation. While you don't have to choose to be in the spotlight all the time, local sports fans believe the team is as much theirs as it is yours. As such, they will criticize any decisions they don't agree with.



In the end, the question becomes -- assuming money is no object -- will owning a sports team be the right thing for you? As with everything, it depends on what is important to you; there are a lot of things to consider: While the cash flows generated year to year will not provide a large annual return on your investment given current pricing, over the past handful of years, the appreciation in sale prices has more than made up for any shortcomings during your ownership tenure. In the interim, you'll have the ability to enjoy all of the intangible benefits of ownership including the notoriety and the connections with some of the most influential people in sports. You can even see if your dominance in your fantasy league can transfer into real life. There are many ways to measure a good deal, not just from a monetary perspective. Taking everything into account, only you can determine if it's a good deal. Luckily, in the current marketplace there are several options to choose from. If only you had the money.



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Kevin leads Empire's Sports Valuation group. He has valued professional sports franchises including but not limited to those in the National Football League, National Hockey League, National Basketball Association, and Triple-A and Major League Baseball. These valuations and fairness opinions are generally performed for teams in relation to estate planning, recapitalizations, and other corporate planning purposes.

In addition to sports valuations, Kevin has performed valuations of many businesses including everything from large multi-national companies to small local businesses. These have included, household name product manufacturers, large real estate holding conglomerates, private REITs, real estate development companies, apparel manufacturers, restaurant franchises, movie theatres, night clubs, and many others.