ultimate sports & recreation facility

PROJECT FINANCING BEGINNER’S GUIDE
Financing with a proper blend of debt and equity is crucial to the success of any sport, entertainment, or recreation venue.

The number one reason most new sports and development projects are stalled is due to lack of funding resources. Financing a new project can be a complex endeavor. Investors and financing sources will want to understand the risk management, legal implications, market trends, and other factors that go into these operations.

Today’s lending climate and investment communities seek safe and credible projects led by proven teams, financial presentations based on current day operations, and a combination of other factors to support the security of early-stage investments. Where feasible, public contribution in the form of property tax abatement, infrastructure, or cash contribution is also a powerful tool during the financing phase.

The SFA early financing guide contains guidelines and best practices, equipping you with foundational knowledge so you can achieve project funding:

4....................Early Financing Keys
5....................Preparing For Financial Presentations
6....................About SFA Services
What is a feasibility study?

A feasibility study is an intensive analysis of the viability of an idea - or in the case of sports and recreation complexes - the viability of a facility. The feasibility study is comprised of a narrative style feasibility report and the financial pro forma.

Why do I need a feasibility study?

Today’s financing sources require independent feasibility studies for most privately funded venues. Institutions prefer a conservative approach, the extraordinary detailed of financial documents, and current operations data. Business facility planning and financial forecasting models should be based on actual market conditions.

What is the feasibility study process?

The [SFA] process is launched with pre-work and research. Meetings are held to facilitate strategy and program planning. This powerful series of discussions allows a close working relationship between consultant and client to develop a business model and plan that’s based on your mission and business objectives, “right-sized” to a market, and designed to increase the likelihood of success during financing.

Following your session the consultant will conduct the necessary research, define preliminary construction and start-up costs, analyze and document cash flow, and evaluate the opportunity in your marketplace. In most cases, this process requires 7-12 weeks from the initial planning session. Clients find this energizing and educational, and report that the process opens their eyes to opportunities and realities they hadn’t previously considered.

The business planning meetings establish the guidelines around which the feasibility study is centered.

- Mission & Purpose
- Vision & Goals
- Financial Forecasts
- Program Requirements

... 7-12 weeks ...

client contracts
project kick-off
firm research
firm site visit
firm creates
client & firm
firm presents
firm
discussion
phase
(optional)
feasibility study
review study
draft
findings &
report

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What’s included in the report?

» An executive summary
» Market and demographic overview
» Sports participation analysis
» Existing service providers
» Facility program and construction cost estimate
» An outline of the programming, sports offerings, and revenue streams
» Key financial performance summary
» Conclusion with key findings, recommendations, and next steps

Is a feasible outcome guaranteed?

No. The firm you choose to partner with to conduct your feasibility study should not skew the results in any way to give you the desired feasibility yes. A massaged feasibility outcome has negative long-term financial, ethical, and societal implications.

[For SFA clients] About 30% of outcomes generally conclude with feasibility ‘yes’, 30% feasibility ‘no’, and 40% feasibility ‘yes, if’. The ‘yes if’ option calls for the client and firm to make changes to the business plan to create a feasible, sustainable outcome.

What’s next?

If you’ve received a feasibility ‘yes’ then it’s time to approach funding sources. Today’s lending and investment communities seek safe and credible projects led by proven teams.
At SFA, we like to say that we “Plan-to-Fund” meaning that project financing should be a priority from day one.

Early planning should discussions should include the market opportunity, construction & start-up costs, along with the capital needed to turn your concept into a reality.

**Debt/Equity Mix Ratios**

Projects are generally financed with a blend of equity or “down-payment” and debt (mortgage payment). In most cases, the debt and equity mix for new facilities ranges from 50/50 to 60/40.

That’s 50% debt and 50% equity to as much as 60% debt and 40% equity. So in a $5 million development, $2-2.5 million in equity must be raised. This can be in the form of land, cash, and/or a building and this is the portion that most of our private clients need to raise through investor presentations. The rest is raised through bank lending. An often made, critical mistake is to over-leverage the operation with too much debt. Doing so can increase the monthly mortgage payment to a level that causes the business to be unsustainable.

**Understanding Investors**

Investors seek secure, reliable, investment opportunities that feel familiar. So you will not be pitching them on your sports facility, but instead will be presenting this as a real estate development that has an exciting sports operation as its backbone.

This phase of raising money requires a sport and site-specific business plan, repayment terms, return-on-investment, and other structuring of the investment opportunity. But importantly it will also require investors to trust that the concept is sound and that the presentation of ROI and other factors is trustworthy. Achieving this is more science than art. Even if with great contacts and good credibility, when it comes to placing money with you, investors must also consider other ways they could put their money to work.

**Find a Partner**

One highly effective strategy is to get an early stage investor with a vested interest in your project. A club, league, city parks department, or other program operator would be examples of this. Partnering with a land owner who understands that your venue will increase the value of their adjacent properties is another way to raise equity capital.
For the private developer, obtaining project financing is one of the most difficult, yet critical stages in a new facility development.

One of the most common mistakes in the development of sports, entertainment, & recreation complexes is to seek funding too soon and to show up unprepared.

Approaching potential financing sources without a refined business plan or finalized numbers means you may waste a possibly once-only financing opportunity. Here are six ways you can avoid that mistake and be prepared.

1) Prepare Documentation
Arrive at your first meetings with fully documented business plan, financial forecasts, and the market research to back-up your financial model. You will also need to have basic terms in mind for the debt and equity stack, and for the source of the first-money to be put into the project.

2) Bring A Team
Very few projects obtain financing with a single entrepreneur. The unique nature of sports complexes and the fact that re-payment to the funding source will depend upon operational success, makes it imperative to showcase your team experience and approach.

3) Understand The Risks
Every project contains some risk. Understand these risks and be prepared to address them in your presentation. Accommodate for this risk by developing a program that offers multiple sources of revenue. These may include revenue streams within the categories of sport, entertainment, recreation, & special events.

4) Take Some Risks
Funding sources need to know that you are committed to the project. You demonstrate your commitment with dollars and forethought that must extend beyond opening day. Decide on a management model and commit resources to the project so that when asked you can respond to questions related to your long term commitment to the project.

5) Have Options
Consider the consequences of a variety of different funding models. The amount of debt that the venue can handle is dependent upon the revenue and program plan. The ROI equations for investors is also calculated based on modeling various scenarios. It’s key that you understand these scenarios before you begin negotiating for capital.

6) Stay Passionate
Don’t feel like you have to leave your passion at the door. Share your enthusiasm and passion by discussing more than bottom line results. Discuss the social, economic, and community benefits of your project with financing sources. You can also demonstrate your passion and awareness by discussing competitors & other venues.
ABOUT SFA:  
THE SPORTS FACILITIES ADVISORY

Every year SFA now performs over 100 feasibility studies for projects like yours. Founded in 2003, SFA has worked with over 800 clients & communities on more than $6 billion in projects. Our mission is to dramatically improve the health and economic vitality of the communities we serve.

With SFA on your team, your project can be presented as another successful sports complex that will employ approaches in proven management, marketing, financial tracking, and sponsorship sales. This access to SFA and SFM’s (Sports Facilities Management) experience reduces risks for investors and provides our clients with the necessary peace of mind to keep moving forward with their projects.

Sports Facilities Advisory is a valuable resource for serious and committed entrepreneurs and institutions attempting to evaluate investment/risk/lending for these types of projects. We are engaged to produce development funding documents, support clients, and provide advice and perspective. While we occasionally choose to invest in projects, more than 98% of our relationships with clients are paid for through a fee schedule that is designed based on our role.

Here at Sports Facilities Advisory, we are eager to help you with the development of your project – whether it be a sports complex, recreation center, adventure sports facility or family entertainment center. Contact SFA today to learn more about our funding services and to schedule a meeting with our team.