

Suite Dreams

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Arco Arena is economically obsolete or will be soon.

So say experts who believe the Sacramento Kings owners should pursue a replacement arena immediately.

At 14 years old, Arco is one of the oldest arenas in the NBA. Some say Arco was outdated when it opened and was not consistent with other arenas that were being constructed at the time.

The city of Sacramento and the Kings owners are beginning to explore the possibility of building a new sports and entertainment arena downtown as part of an overall redevelopment of the old Union Pacific railyard. A report commissioned by the city, team owners and Union Pacific Railroad and released last month found that a downtown sports and entertainment arena is feasible and would cost about \$300 million.

The consultants who prepared the report declined the Business Journal's request to discuss whether Arco Arena is obsolete or at what stage any arena becomes obsolete and needs to be replaced or updated.

Sports arena consultants, developers and managers not associated with the Kings found the question much easier to answer.

Opened in 1988, Arco Arena isn't structurally obsolete. It provides an intimate setting in which to watch the Kings. It's still comfortable for fans.

Arco Arena is a "serviceable arena for Sacramento," said Carl Scheer, managing director of ScheerGame Sports Development LLC in South Carolina and former head of the Los Angeles Clippers, Charlotte Hornets and Denver Nuggets.

"Functionally it's outstanding," said Greg Van Dusen, a member of the Sacramento Sports Commission, a Kings season-ticket holder and part of the group that first owned the Sacramento Kings.

"It's not about the year," said Michael Hallmark, a sports development consultant in Pacific Palisades. "Arco was a very dated building the day it opened."

Hallmark, who toured Arco for previous team owner Jim Thomas before he bought it, said Arco was not consistent with the other arenas being built at that time.

Marc Ganis agreed, and called Arco Arena a "barn with seats when first developed." He is president of Sports Corp. Ltd., a stadium and arena development company in Chicago, and has spent time at Arco for work and pleasure.

Follow the money: Instead of the year, the issue is whether Arco Arena allows the Kings to be financially competitive with other teams. For the most part, it comes down to this question: Does

Arco have enough luxury suites and club seats and other revenue-generating amenities to allow the Kings to afford strong players, coaches and scouting staff? The Kings organization says it has not made a profit since 1999.

Arco has 30 suites and 446 club seats, premium seats that provide a higher level of service and a special menu.

Those are paltry numbers compared to other arenas in the league.

American Airlines Center, which opened for the Dallas Mavericks last July at a cost of \$420 million, has 142 suites and nearly 2,000 club seats, noted Dave Brown, arena vice president and general manager.

Staples Center, home to the Los Angeles Lakers and Clippers, which opened in Los Angeles in 1999, has 160 suites. The Toronto Raptors have 152 suites in their Air Canada Centre, which opened in 1999.

In a market analysis consultant Chris Dunlavey recently prepared for Norfolk, Va., a market he considers similar to Sacramento, he projected a demand for about 65 suites. Dunlavey is president of Brailsford & Dunlavey, a sports facility planning and project management firm in Washington, D.C.

Today arenas typically have closer to 80 suites and 2,000 club seats, Dunlavey said. The league average is 84.

Arenas today are being built bigger to accommodate more luxury suites and club seats, private concourses, a higher level of retail and food service, high-end themed concessions, full-service restaurants, hightech scoreboards and visuals and more restrooms, especially for women. Some arenas offer strategically located parking for suiteholders in which they can park, and walk directly into a private concourse that takes them to their suite.

With the growing popularity leaguewide to sit courtside, some arena plans call for bunker-type suites with private lounges underneath the stands to accompany courtside seats. The Houston Rockets are including such amenities in their arena planned for next year, Ganis noted.

Some arenas in urban settings have daytime clubs for business lunches, which adds value to club members and tax deductions, Ganis said.

Some even add offices for rent to businesspeople who enjoy the sports setting.

All the amenities also help support arena rentals for concerts, family shows, trade shows and such. But amenities in a new arena are more important to a team than to events, Ganis said. A concert that wants to play Sacramento is still going to play Sacramento and ticket prices will remain the same.

Behind the times: Arco is "getting up there in years for that generation of buildings," Brown said.

In the '70s, arenas had no amenities like fine dining, sports bars and suites. They had limited technology to display game presentations and sponsors' advertising, Brown recalled.

In the 1980s, arenas incorporated some suites, but they were limited in number or were not in the best location relative to the court.

In the late '80s, there was more of a trend toward premium seats, Scheer said. Arenas became a focal point of revenue for team owners. Player salaries had begun to escalate in professional sports. It became apparent to team owners that raising ticket prices wasn't going to be enough to

pay those higher player salaries. They asked themselves instead, "Can we get more out of the buildings?" Scheer said.

Charlotte Coliseum opened in 1988, the same year as Arco, with no suites or club seats, Scheer recalled. As the Charlotte Hornets became successful, the building could not support new revenue opportunities being afforded other arenas, Charlotte added its current dozen suites. The community rejected a referendum for a new arena. The team owners declared the city-owned arena obsolete because they couldn't raise enough revenue from it. Now the team is waiting on the final OK to move to New Orleans.

The Charlotte example, some say, demonstrates that team owners and the cities where they play can't wait too long to pursue a new arena.

Consultant Hallmark believes Arco is obsolete now. "It's way past time now," he said. "It's not in a position to capture the full opportunity that Sacramento can provide given the elite status of the team."

However, an arena is really obsolete only if the owners say it is obsolete, he said. The Maloofs have made no such declaration, and have insisted they'll let the city take the lead on the downtown arena proposal.

Similarly, Dunlavey said an arena is not economically obsolete until it starts losing business. If the Maloofs think Arco is OK for business, it's not obsolete.

But Dunlavey added that that Arco is "definitely falling behind."

For downtown arena proponents like Hallmark and Dunlavey, they'd add that Arco is out of date because of its location-outside of downtown.

The Maloofs told the Sacramento Bee in a story published Sunday that they haven't turned a profit since they bought the Kings, Monarchs, Knights soccer team and Arco Arena. In fact, the organization has lost \$15.5 million over the past three years. Last year they lost \$5.4 million on revenue of \$100.6 million.

John Thomas, president of Maloof Sports & Entertainment, said there's no answer to when a new arena becomes necessary and at what point Arco becomes obsolete. "Every one of these facilities is different depending on the quality of design and construction," he said.

Anyway, he said, the Kings organization is instead focused on landing an NBA championship.

The time is now: Whether Arco is currently economically obsolete or is nearly there, now is the time to act to replace it, according to the consultants, developers and managers. Replacing is the answer, not renovating Arco, some said.

"It doesn't have the bones," said Hallmark, who co-founded Ellerbe Becket Sports, one of the largest sports design firms, and NBBJ, a sports and entertainment architectural firm.

Brown, of American Airlines Center, agrees. He doubts that Arco could be renovated. In Dallas, the team went from an arena of 380,000 square feet to one of 860,000 square feet. Other arenas have been renovated, sometimes with disastrous results, he said.

The Kings should act now because getting a new arena planned, partially publicly funded and built can be a three- to five-year process, said the developers, managers and consultants. The team is wildly successful right now. The players are young and likely will continue to be good for the next two or three years, Scheer said. An ownership group needs to act while it can get top

dollar for suites, club seats and sponsorships and while the support might be there for public financing.

"Now's when you want to cash in," Van Dusen said, noting the current high level of interest and support in the Kings.

"Sacramento is really an oasis in sports today. They are the darlings of the NBA," Scheer said. "I would say the time is now for them to strike (for a new arena)."

"If I were them, I would be working on this at earnest," said Ganis, who has worked on the successful development of more than 20 sports facilities.

Citing the Charlotte example, Dunlavey said, "It's wise to start the planning before you're in trouble."

By the numbers: The report commissioned by the Kings owners, the city of Sacramento and the railroad concluded that Sacramento could support an arena that would seat 18,000 to 18,500 for basketball and other events. Arco seats 17,317. The report also found that Sacramento could potentially support some 57 to 67 luxury suites and 1,500 to 2,000 club seats. Arco has 30 suites and 446 club seats.

The proposed arena would be built on the railyard's 240 acres of undeveloped land next to downtown Sacramento. The idea is that a new downtown sports and entertainment district would be anchored by an arena. The arena would cost \$280 million to \$320 million in 2006 dollars, not including the existing city loan on Arco, land costs or off-site infrastructure costs. Arco would need to be reused or demolished, the report found, because the Sacramento market could not support two arenas.

Other markets have a much deeper corporate base to support premium seats and sponsorships, the report found. Sacramento, like other markets with less population, income, spending and corporate depth, can expect less demand for premium seats and sponsorships than the larger markets.

In midsized cities like Charlotte and Milwaukee that don't have a lot of company headquarters, many companies tend to share suites, Scheer said, and Sacramento could do the same.

Among the tough questions to be answered by the team owners and city leaders are how long can the Kings organization remain financially competitive at Arco, where a new arena should be built, where the money's going to come from and just how many of those new revenue-generating amenities are needed in Sacramento.