

REAL INSIGHT

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The Impact of Sports Venue Construction on Neighboring Commercial Real Estate

By Marianne Skorupski

The National Trend: From Suburban Visionaries to Downtown Catalysts

Visionary. It's not the first adjective one thinks of for a professional sports franchise when it builds a new stadium or arena, but clubs have a history of creating destination retail and entertainment venues from scratch. These new facilities are constructed where land is available, and that is usually not in the already-activated areas of town. Lower prices for site assemblage are a priority for the club and its investor partners, while minimizing the displacement of businesses and residents is a main objective of the public sector (along with enhancing tax revenues). Most of the time, a new stadium or arena is built in an underutilized part of a metro area that has few demand drivers to spark organic revitalization. Sometimes that is in a suburban or exurban location; recently, stadium and arena construction is following the pattern set by residents, and is migrating downtown.

Once completed, new stadiums bring out tens of thousands of people per event over a decades-long span—these are customers with disposable income. As a result, developers race to identify available properties to create retail and entertainment destinations for before and after games and concerts. New ancillary development, though, typically takes years to reach fruition unless it is part of a master-planned site. Washington, DC's Capitol Riverfront neighborhood serves as an example: Major League Baseball's (MLB) Nationals opened a new park in 2008, but the area did not add a material number of restaurants for pre-game and post-game revelry—nor many apartments and condominium residences within walking distance of the stadium—until years later.

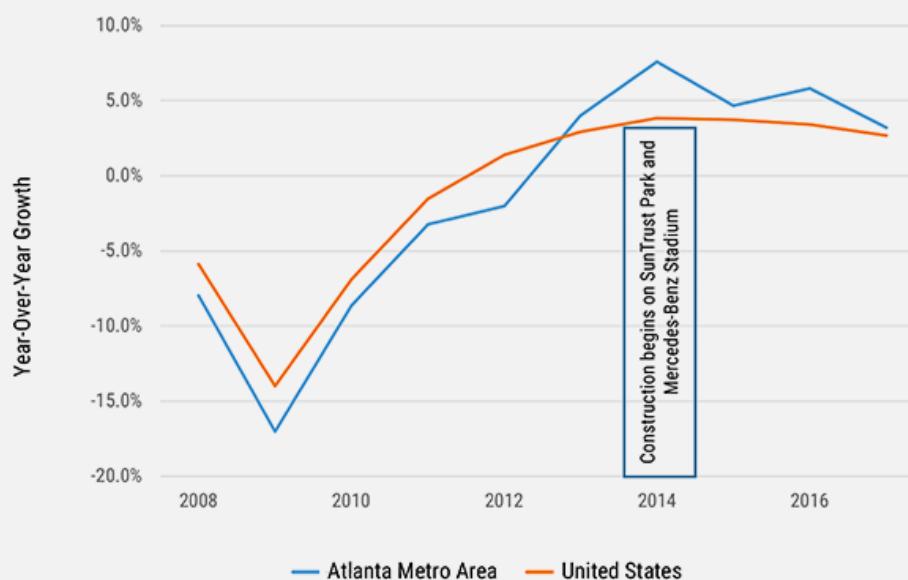
Mixed-use planned developments around sports venues are increasingly popular. In San Francisco, MLB's Giants are planning a \$1.6 billion development, while nearby the National Basketball Association's (NBA) Warriors are under construction on a \$1 billion project. In Detroit, Little Caesar's Arena opened in 2017, home to the NBA's Pistons and National Hockey League's (NHL) Red Wings, bringing all four of the city's major professional sports teams back downtown and across the street from one another, with the goal of stimulating new surrounding development. In Cincinnati, a \$1 billion mixed-use district sits between the city's baseball and football stadiums.

In addition to the displacement of some residents, sports-related neighborhood building has ripple effects for the office and multi-housing markets. Because stadium construction requires many skilled laborers for a duration of 3-4 years, supply is limited for other types of projects. The increasing demand for new homes, office buildings and distribution centers is resulting in a strain on the industry and increased costs, particularly given 1.5 million residential construction workers left the industry when the Great Recession hit and fewer than half of those jobs came back.

Featured Market: Atlanta's Sports-Centric Development Charts Two Paths

Between 2014 and 2017, the Atlanta market built two new professional sports stadiums: SunTrust Park, home to MLB's Atlanta Braves, and Mercedes-Benz Stadium, home to the National Football League's Atlanta Falcons and Atlanta United of Major League Soccer. These developments monopolized a large portion of the local construction labor during this time; in fact, the industry needed to recruit from outside the region to fill vacancies. The increase in the region's construction employment is indicated on the adjacent chart.

CONSTRUCTION EMPLOYMENT



Source: JobsEQ, NKF Research; September 2018

Commercial development surrounding these new stadiums tells two different stories. At SunTrust Park in suburban Cobb County, the stadium anchors a brand-new mixed-use development called The Battery. The Battery is the first master-planned, "18-hour" destination in the county and is owned by the Braves. The site was previously commercial-zoned, leaving limited development obstacles once approved. Since 2014, 389,000 square feet of retail, 264 hotel rooms, 1,100 apartment units and 352,000 square feet of office space has been built in the development. In July 2018, thyssenkrupp Elevators announced it would be establishing its new Americas Complex headquarters at The Battery. Construction is anticipated to start soon on a new movie theater and a 140-room Aloft hotel.

Sitting in downtown Atlanta near the Georgia World Congress Center and the Georgia Aquarium, Mercedes-Benz Stadium was constructed just to the south of the former Georgia Dome. It generated new infrastructure upgrades, including a pedestrian bridge over Northside Drive from the Vine City MARTA (transit) station. The only development directly related to the stadium is the creation of The Home Depot Backyard on the site of the Georgia Dome, a greenspace connecting Northside Drive with Centennial Park. Building on this momentum in downtown, State Farm Arena, home to the NBA's Hawks, is underway on a \$192 million renovation. The largest nearby commercial development in the planning stages is The Gulch, a 27-acre site recently purchased by CIM Group. It would be Downtown's largest development since Peachtree Center in the 1960s, with more than nine million square feet of office space, 1,500 hotel rooms and one million square feet of retail space.

What Are the Implications for Our Clients?

New stadiums provide an opportunity to rejuvenate underutilized real estate. For current property owners, this can result in increased values, particularly if a mixed-use project is completed. Planning and zoning allowances from the local jurisdiction are important for all property owners, as adjustments may be required to the initial plan before approval is granted. Office and retail tenants seeking to be part of a new, well-amenitized development usually will find opportunities, but at a higher price than in nearby existing buildings. A big part of any sports-driven project's success will rest in its ability to complement existing and future developments – to become part of a well-planned and active office, residential and retail environment.

Research

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