Financial Valuation of Facilities

Objectives. Determine the fair market value of an NHL ice hockey arena for property tax assessment purposes.

Challenges & Methodologies. This project offered a number of unique challenges. First, sports facilities are typically owned by a local government and are not commonly transacted, thus complicating the application of the comparables approach. Moreover, the specific terms of stadium lease agreements are usually confidential, and the amount of revenue generated and the expenses incurred vary significantly by team and facility.

Utilizing the income approach, which involves the projection of future economic income attributable to the facility discounted by an appropriate present value discount rate, also presents issues. The discounted cash flow or income that is generated by a sports facility can be quite difficult to disentangle from the cash flow of the major tenant. This "transfer pricing" issue must be handled carefully.

Finally, part of the reason sports facilities garner public financing is because there may be an economic impact on the community in which they are located. Local businesses, such as restaurants, retail, and lodging establishments, derive greater revenues than would be the case without the presence of the facility. Thus, the financial "value" of the facility partially occurs outside of the facility in the local business district. Merely looking at the cash flow generated within the facility may underestimate the facility value. The cost approach to valuation accounts for this.

Outcomes. An analysis describing how the different approaches to valuation applied to this project was undertaken. We presented the client with a range of arena values and identified the underlying issues involved with all three valuation approaches.