Luxury suites rule in professional sports revenue

By Mark Koba, CNBC.com

All 137 luxury suites at Lucas Oil Stadium were sold out months before the opening kick-off for Super Bowl XLVI, according to stadium officials in Indianapolis.

With a minimum reported price of $80,000 per box, that kind of money has turned luxury-suite revenue into one of the most dominant forces in sports, analysts say.

"Luxury suites have been growing in importance since the 1990s and are an essential part of any new stadium being built," says Emily Sparvero, assistant professor at the Sports Industry Research Center at Temple University.

"In fact, most new stadiums are built not because they are physically obsolete, but they are financially obsolete," adds Sparvero.

In the past 20 years, 75% of American sports teams have either built or remodeled their venues, with luxury suite additions being a major reason for the construction and renovation.

Ticket sales, once the main source of any professional team's financial success, are now just part of the revenue mix, along with television contracts and heavily marketed merchandising.

Whether it's the NBA, NHL or Major League Baseball, suites now account for anywhere between 5% and 20% of total team revenue, according to the latest statistics. What started out as a status symbol has evolved into a necessity.

"With greater payroll expenses from player free agency, owners have to find ways to raise more revenue," says Mark Conrad, an associate professor at Fordham University's school of business. "Luxury boxes provide a constant flow, no matter how good or bad the team is playing. The payment is already made and it's part of the revenue generated by the facility."

The money can be huge. While the number of suites varies — the new Yankee Stadium has 68 while Dallas Cowboys Stadium has 300 — any given suite can sell from $224,000 to more than $900,000 per year.

Demand is high, even if the suite — or stadium — has yet to be built. The NFL's San Francisco 49ers plan to sell 124 suites at Levi's Stadium for a minimum of $316,000 per season, with suites for the new 49ers home stadium selling out within four hours of going on sale.
This year, USA TODAY and Facebook are partnering on the Super Bowl Ad Meter. You'll be able to view, rate and share Super Bowl ads during the game and after on an app at USATODAY.com and Facebook. Voting ends on Tuesday, Feb. 7 at 6:00 p.m. ET/3:00 p.m. PT. The winner will be declared Tuesday evening.

VIDEO: See pre-game teasers and some game ads now.

Francisco 49ers want to build a new facility, and even though the project is still being planned, the team says it’s already sold $138 million in luxury suites.

As for who’s buying the suites, it's a matter of money, as well.

"Corporations and high net-worth individuals are purchasing suites," says Chad Estis, president of Legends, the premium ticket sales company that handles teams such as the Cowboys and Yankees.

"The most common reasons to purchase a suite are to entertain and build relationships with clients and prospects or for families to spend time together," adds Estis. "And if you deliver the right experience, suite holders can be some of the most loyal supporters of a team."

What suite holders get for their generosity is definite luxury. The benefits most often include:

- Luxury, theater-style seats
- Multiple flat TVs
- Private entrance to the stadium on game day
- High-end food and premium liquors
- Access to team events and players

Luxury suite buyers get sweet tax benefits as well. Corporations that buy them can deduct anywhere up to 50% of their cost, as well as that of refreshments for business purposes.

Not everyone, however, sees a perfect game plan with luxury suites. Larry DeGaris, an associate professor of sports marketing at the University of Indianapolis, says there are pitfalls.

"The danger in chasing corporate dollars is that they tend to evaporate during down financial times," DeGaris argues. "Though luxury suites seem to have weathered the recent economic storms well, probably because corporate profits have been healthy."

But not all luxury suite buyers make it through the bad times.

Phil Matalucci runs Luxury Suite Alternative, an online firm that matches event buyers with suite owners. He once sold luxury suites for the Philadelphia Eagles and the NBA’s 76ers, but found some buyers wound up over their heads.

"One guy came to me and said he wanted to get out of his suite contract, so I started reselling his seats," says Matalucci, who registered $2 million in sales last year.

"The economy turned upside down and some businesses were asking, 'What do I have this box for?' " Matalucci says. "Other firms say, 'Why do we need to go to all the games?' They need help in selling the tickets, and that's where I come in."

Tickets for the traditional fan are also caught up in the luxury box rage, says Kara Boatman, an economics professor at Saint Mary’s College of California.

"With more luxury suites, that meant fewer regular seats, and team owners raised prices to cover some of the cost of building the suites," she says.

Boatman argues that the luxury-suite phenomenon was pushed by the NFL’s revenue-sharing model, which until July 2011 allowed owners to keep all funds from luxury suite sales and drove up the average ticket price.

Because the revenue from luxury suites in the NFL must now be shared with players, as it is in Major League Baseball, that could change how suites are viewed in the future, adds Boatman.

"NFL owners still have some enticement to build suites, but the lower revenue will reduce
the incentive relative to what it is now," she says.

As for the average fan who occupies the less expensive seats, don't worry about them, says Bill Ordine, a former sports reporter in Philadelphia and Baltimore who now runs a sports fantasy and promotion website.

"Fan loyalty is always based on team performance rather than a sense of being disadvantaged because of luxury suites," Ordine says. "Besides, most fans aspire to be rich enough to afford a suite."

There's no question about the ongoing loyalty for luxury boxes from team owners. While the building boom of new or renovated stadiums may be over, says Fordham's Conrad, luxury suites and their revenue are literally set in cement for now.

"Luxury suites are here to stay for the next few decades. Most franchises have them. You can't really tear them down," says Conrad. "As long as there is demand, they will be a good source of revenue."

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I may be a conservative GOP'er, but even I find this ridiculous: "Corporations that buy them can deduct anywhere up to 50% of their cost, as well as that of refreshments for business purposes."

I think the amount of money going to pro sports is pretty sickening, especially given that us taxpayers then need to pay to build the stadiums.

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I agree with this statement 100% give one of the boxes revenues to pay back the tax dollars at least.

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Corporations that buy them can deduct anywhere up to 50% of their cost, as well as that of refreshments for business purposes. --

This is just wrong - just more tax cuts for the rich. Congress allows this sort of thing - I bet they get to use the suites, often. This is why congress' rating is so low. They have no ethics or morals.