

**4) A review of the Operating Pro Forma provided by Global Spectrum
-dated November 10, 2010**

The following are areas where the consultants bring attention to projections made in the pro forma:

Junior hockey tenant

The projections for attendance and for ticket revenues appear to be very ambitious. According to the pro forma, it is anticipated that a junior "a" team playing in the new arena will average 5,000 per game. I assume that means an Ontario Hockey League (OHL) team, as opposed to a team from the Junior A Ontario Junior Hockey League (OJHL). In the latter league, no team this past season averaged even close to 1000 fans per game:

<http://ojhlsite.stats.pointstreak.com/attendance.html?leagueid=231&seasonid=7579>.

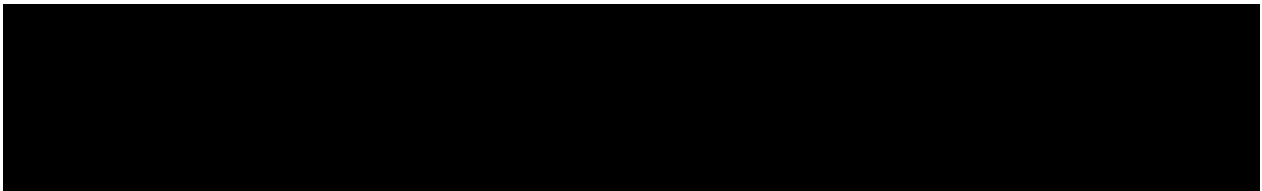
Although much higher than the OJHL, there is little evidence that an OHL teams would come close to the average attendance mark found in the pro forma. For example, the following is the average per game attendance for all OHL teams in 2010-11, with those franchises from the GTA highlighted:

OHL Team Average Attendance (2010-2011)

Barrie	3,490
Belleville	2,583
Brampton	1,749
Erie	1,749
Guelph	3,656
Kingston	2,848
Kitchener	6,340
London	8,947
Mississauga	3,006
Niagara	2,899
Oshawa	3,979
Owen Sound	2,534
Peterborough	2,534
Saginaw	3,333
Sarnia	2,936
Sault Ste. Marie	4,551
Sudbury	3,123
Windsor	6,111

The league-wide average is just over 3,600, with the average for the three Toronto-area teams less than 3,000. It is also important to note that new facilities experience a "novelty effect", where attendance is higher in a new facility and decreases over time. Based on research conducted by Dr. Humphreys, another colleague and me on novelty effects in Canadian Hockey League cities, this effect will likely result in attendance dropping off after six to eight years.

With this in mind, I would not project attendance for OHL games in the new arena to be greater than 3,500 per game, and would expect this number to drop to a league average of approximately 3,000 over time (due to novelty effects associated with the new facility). This will decrease projected initial annual attendance in the facility by 54,000, dropping a further 18,000 annually (for a total of 72,000 fewer attendees annually). Thus, my projection for total junior hockey attendance would be between 108,000 and 126,000 per season.



Concerts

The projections for concerts and other non-sports related events also seem to be ambitious. While the pro forma is based on proprietary information from Global Spectrum, independent data can be accessed from Pollstar, which tracks the concert industry worldwide, and records non-sports entertainment in venues.

According to the Global Spectrum pro forma, total annual ticket sales (including sporting events) projected is 761,500. Without sporting events, total ticket sales are projected to be 551,500. The following is a table that lists the busiest arenas in Canada, and their ranking (by ticket sales for non-sport events) from 2009 to 2011:

Pollstar Worldwide Arena Rankings by Ticket Sales, 2009 to 2011						
Arena	World Rank 2009	Tickets Sold	WR 2010	Tickets	WR 2011	Tickets
Air Canada Centre, Toronto	#22	411449	9	541165	9	582695
Bell Centre, Montreal	10	546328	10	537157	16	488009
Rexall Place, Edmonton	23	406543	31	322114	27	370392
Rogers Arena, Vancouver	43	309015	58	214866	39	314769
MTS Centre, Winnipeg	50	260956	60	196931	64	195090
Scotiabank Saddledome, Calgary	80	164592	50	238712	98	127089
John Labatt Centre, London	56	215919	66	171798	78	158336
Scotiabank Place, Ottawa	not ranked	-----	52	233725	42	303190

The average number of tickets sold to events in the Air Canada Centre over the past three years (511,770) is considerably less than the ticket sales projected in the pro forma. Based on the pro forma's projections, the new arena in will be a busier facility than the existing competitor in the Toronto area (despite the fact that these two venues will likely cannibalize each other for acts), and become one of the ten busiest arenas in the world. Seen in this manner, these projections are likely too aggressive. It is

also apparent from the Pollstar data that the number of tickets sold on an annual basis can vary significantly on a year-over-year basis.

In the pro forma, it is projected that 18 major (attendance of 12,500) and 12 minor (7,000) concerts will be held in the proposed arena annually. The discussion below is based on data from Pollstar, and the following (aggressive) assumptions:

- 1) The Toronto market will attract virtually all of the top grossing acts performing in a given year
- 2) The presence of the Air Canada Centre will mean that, at best, a new arena in Markham will attract 2/3 of those acts (sharing the market with the ACC)
- 3) Any act that averages over 20,000 attendees would seek out a venue in the Toronto area that can accommodate more attendees than the proposed arena would hold (see U2 below).

The following table provides data on the top North American tours through the first six months of 2011:

Rank	Act	Average ticket price	Average tickets
1	U2	87.68	88960
2	Lady Gaga	96.77	17758
3	Bon Jovi	100.5	21153
4	Kenny Chesney	72.41	19544
5	Luis Miguel	89.82	11101
6	Taylor Swift	70.05	30081
7	Elton John	95.19	10143
8	Lil Wayne	90.65	10004
9	Celine Dion	167.56	4195
10	Rod Stewart	106.6	12250
11	Bob Seger	71.6	12863
12	Cirque - Alegria	63.51	14445
13	Cirque - Dralion	64.57	13371
14	Prince	94.1	12002
15	Strait/Reba	75.52	13536
16	Rush	76.14	9577
17	NKOTB	73.88	8372
18	Usher	68.05	11554
19	Cirque- Quidam	69.52	14225
20	Ricky Martin	71.91	8767
21	Phish	52.01	19382
22	Janet Jackson	105.44	6539
23	Jimmy Buffet	97.8	8308
24	Rain	61.83	3996

25	Kid Rock	45.16	6751
26	Chayanne	72.03	17292
27	Brad Paisley	46.73	11618
28	Jason Aldean	35.72	11012
29	Linkin Park	60.32	8505
30	Jeff Dunham	47.87	5224
31	Riverdance	55.44	3665
32	Rihanna	75.17	9578
33	Sugarland	44.96	8983
34	Mana	88.01	28122
35	Eric Clapton	99.59	10934
36	Yanni	65.91	2974
37	Cher	148.23	3955
38	James Taylor	74.11	3392
39	Rascal Flatts	42.87	8942
40	Rammstein	61.68	12175
41	Enrique Iglesias	71.9	11379
42	Michael Buble	74.49	7467
43	Avenged Sevenfold	33.74	7054
44	Ozzy Osbourne	51.36	7257
45	Jeff Foxworthy	62.11	8970
46	Korn	41.17	4696
47	Motley Crue	63.72	6042
48	Mellencamp	96.43	2793
49	Tim McGraw	65.05	2953
50	Zac Brown Band	43.38	9653

From this list, several can be removed: 1) those that are not concert acts; 2) those that are playing in venues larger than the proposed arena; and 3) artists who are targeting smaller venues (see Celine Dion above) or seem to prefer other types of performing venues (see Phish).

This would leave roughly 40 events that the new arena would be in competition with the Air Canada Centre for. Average attendance and ticket prices for these 40 acts would be in line with the projections made by Global Spectrum, although it is clear that in order to host enough acts, less popular performers will need to be booked for the venue. This will likely result in lower ticket prices and attendance than projected in the pro forma for these artists.

Naming Rights

Naming rights have been estimated at a gross of \$850,000 (net \$765,000). While naming rights agreements can be very lucrative, they also vary widely across facilities in North America. A number of factors may influence the amount paid by a company, including the:

1. Number of events held in the facility. All else being equal, the more events held in the facility, the greater exposure the rights holder receives, and the more desirable the rights.
2. Types of events held. Major league sporting events have a greater value than other types of events. Some agreements have special clauses that address if a team leaves or arrives.
3. Presence of corporate entities in the region. A company is more likely to pay a greater fee for naming rights to a facility in a home region.
4. Composition of the rights package. Rights agreements can vary greatly in terms of the relationship between the rights holder and host arena. This can dramatically affect the price.
5. Other unique factors. This might include signage visibility (see BMO Field), or the presence of multiple bidders for the rights agreement.

Previous research has examined factors that influence naming rights agreement amounts. Several work in Markham's favor should the facility eventually host an anchor tenant at the major league level. A study by DeSchraver and Jensen in 2003 explored the factors influencing naming rights agreements. Some of their findings are summarized below:

- "the presence of a new team, either through expansion or relocation, is positively related to the price paid by a sponsor for the facility naming rights. It appears that corporate sponsors value the additional exposure that will come to a facility due to the arrival of a new team" (pp. 360-361).
- "sponsors of facilities with a new expansion team or a newly relocated team pay \$933,000 more per year compared to facilities that do not house a 'new' team. This new team premium may reflect the sponsors' anticipation that they will have above average exposure because of the new team to the region or league" (p. 369).
- "as anticipated, the population variable is positive suggesting that sponsors are willing to pay more for facilities in areas with larger populations. This is consistent with the notion that firms purchasing naming rights in highly populated areas are effectively buying additional advertising" (p. 369).
- "many of the variables that one might think would be important such as the on-field success of teams, the ownership structure of the facility, the average attendance per game, the number of games played per year, and median income in the surrounding area all have little or no effect on the price of naming rights" (p. 369).
- "The data suggest that the most important factor in determining whether a facility will be named is the age of the existing name. From the selection equation we see that facilities with older,

widely-recognized names are less likely to be named because the opportunity cost of selling the name apparently becomes quite substantial" (p. 370).

The projected amount in the absence of a major anchor tenant does not seem unreasonable, based on some of the market factors described above. However, this amount is much greater than the other naming rights fees received by other Ontario venues that have an OHL team as the anchor tenant. For example, naming rights agreements for OHL arenas include London's John Labatt Centre (\$2.9-\$5M/10 years), Kingston's K-Rock Centre (\$3.3M/10 years), Oshawa's GM Centre \$1.647M cash and benefits/10 years). As for other reported naming rights agreements for Toronto area facilities, Ricoh Coliseum (estimated between \$6-\$10M/10 years), BMO Field \$23.7M/10 years, Rogers Centre (\$17.74M/10), Air Canada Centre \$30M/20 years are also comparators. An agreement should be sought with a corporation who has strong ties to Markham and views the association with the venue as another way of strengthening existing ties to the community.

Suites and Luxury Seating

According to the pro forma, it is estimated that private suites will be leased at the rate of \$72000 (\$63360 net after commission). By way of comparison the John Labatt Centre in London hosts 120 events per year and 10-person suites for that facility lease for \$25000 to \$45000, depending on suite location and lease length. The value of suite leases for a new arena in Markham will be limited in the absence of a major league tenant.

Loge seating has also emerged as an alternative to luxury suites. While these may remain popular for some entertainment acts, the arena operator may have to rent loges and suites on a per event basis in order to attract clients.

Conclusions

In sum, most of the projections made in the Global Spectrum pro forma seem reasonable. However, I feel that the projections for attendance for overall entertainment acts and for a junior hockey franchise are somewhat ambitious when examining other comparable arenas and teams. This will impact revenues across many areas, including parking, concessions, etc. In addition, demand for naming rights and luxury seating are likely to be volatile in the absence of a major league anchor tenant, which will likely force the operator to develop more creative strategies to maximize revenues.