



*The University of Michigan Center for Sport and Policy  
School of Kinesiology 1402 Washington Heights Ann Arbor, MI 48109  
(734) 647 1309*

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**Dr. Mark S. Rosentraub**

Bruce and Joan Bickner Endowed Professor of Sport Management

**Ms. Madelaine Moeke**

Program Manager

*Dan Schwartz*

Research Assistant

*William Seltzer*

Research Assistant

## **The Value of the Relocation of the Detroit Pistons to Downtown Detroit for The City of Detroit**

The University of Michigan's Center for Sport and Policy (UMCSP) has been asked to provide an assessment of the probable economic impact and other impacts of the relocation of the Detroit Pistons from Auburn Hills to downtown Detroit, Michigan. Five components have guided the analysis: (1) Construction Impacts, (2) Ticket Sales and Entertainment Value, (3) Relocation of Economic Activity to Detroit, and the increment in (4) Permanent Employment.

### **1. Construction Impacts**

The construction impacts from the building of the new community center/practice facility, while a short-term effect, represents new economic impact for Southeast Michigan, Wayne County, and the City of Detroit. The benefit is short-lived as construction will be completed within two years. However, it is appropriately classified as "new economic impact" as in the absence of the relocation of the Detroit Pistons, these construction impacts would **not** occur.

The latest estimates indicate that direct expenditures for the construction of the new venue and the modifications to Little Caesars Arena is expected to be \$123.5 million.<sup>1</sup> The total economic impact of the construction of the community center/practice facility and the retro-fitting of Little Caesars Arena to accommodate the Pistons is estimated to be **\$216.1** million (including direct, indirect, and induced spending). Furthermore, during construction it can be expected that a total of 1,722 jobs or "person-years" of work will be generated.

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<sup>1</sup> Cost figures were provided by ROSSETTI and Palace Sports and Entertainment.

A critical point of understanding is that a portion of this total economic impact will occur across the entire Southeast Michigan commute-shed (10 counties), but a portion will accrue elsewhere depending on the source of the materials purchased for the structures. The conservative measure of the total economic impact for Southeast Michigan assuming that some of the materials would be produced elsewhere is **\$126.6 million** (see Tables 1 and 2). That number would increase if more materials were manufactured in the metropolitan area.

**Table 1. Total Economic Impact from the Building of the Practice Facility and Needed Changes at Little Caesars Arena**

Cost Category	Labor	Materials	Total
Direct	\$41,125,500	\$82,374,500	\$123,500,000
Indirect	35,388,493	57,250,278	92,638,770
Total	76,513,993	139,624,778	216,138,770

**Table 2. Conservative Estimate of the Economic Impact from the Building of the Practice Facility and the Needed Changes at Little Caesars Arena in Southeast Michigan**

Cost Category	Labor	Materials	Total
Direct	\$41,125,500	\$82,374,500	\$123,500,000
Indirect	35,388,493	50,050,746*	
Total Impact SE Michigan	76,513,993	50,050,746*	126,564,739

\*This amount results from the earnings multiplier for wholesale trade in Southeast Michigan

It is possible to deflect some of the anticipated economic activity into Detroit. If that was accomplished, the spending by those individuals would ripple through the entire region. As a result it is more precise to consider the economic impact as taking place across the integrated regional economy. It is also important to focus on both the total economic impact of the construction project and the increment that will take place in the region. All payments to local residents (construction workers), generate spending effects that will elevate the regional economy. Some of the spending on any construction project involves the purchase of products from other regions.

## 2. Ticket Sales and Entertainment Value

The annual economic value of tickets sales (including all luxury products), and entertainment revenue (assuming 37 shows) was also calculated;<sup>2</sup> three different scenarios related to anticipated attendance levels are provided. It should be noted that annual figures are based on 41 home games, 4 pre-season games, and 5 playoff games. In each scenario, “average annual attendance” was a measure of likely or the annual average from five years of operations. It was anticipated that as many as 3,000 seats would be unsold for every basketball in the initial years of the team’s presence at the Little Caesars Arena. If more fans attend games, the spending levels would be larger than what is included in this report. However, it was anticipated that all luxury product would be sold (approximately 3,146). In all three scenarios entertainment revenue was based on the hosting of 37 shows with a projected \$20.2 million in entertainment revenue.<sup>3</sup> Assuming a 20,000 capacity arena, 3,146 luxury seats sold, and 3,000 unsold seats our methodology estimated a total of 16,854 seats sold for each game. There was a 20 percent premium (increment) for playoff tickets in all three scenarios, as this increase would occur regardless of each scenario’s starting point.

Our methodology calculated per game and per season revenue for luxury seating, bowl seating, and a combined figure with the above stipulations. Please note that regardless of ticket price variation, the revenue from luxury seating was constant in each scenario as it was expected that luxury seating would be sold.

### Scenario 1: UMCSP Aggressive

UMCSP Aggressive utilizes league average prices for tickets in the bowl as a base, and then appropriately elevates the prices based on assumptions regarding the demand for events at a downtown arena. Relative to basketball revenues, the league average prices were increased by 20 percent to reflect what typically takes place when teams move to new venues.<sup>4</sup> *This scenario would project annual ticket sales for basketball and entertainment to reach \$98.7 million each year.*

This elevation of ticket prices may be adjusted to fit varying expectations, though the UMCSP is comfortable defending the figures used in this analysis, including the pricing of the luxury product, as it conforms to what was previously projected by the UMCSP for the Red Wings’ new arena. It should be noted that ownership may have opted to set lower price points than was recommended; however, luxury seating was sold for a price in excess of what was considered “aggressive.”

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<sup>2</sup> The number of shows and non-athletic events that will be transferred from the Palace at Auburn Hills to the Little Caesars Arena was provided by Palace Sports and Entertainment.

<sup>3</sup> The net revenue projection from 37 shows was provided by Palace Sports and Entertainment.

<sup>4</sup> In preparing revenue projections for the Detroit Red Wings at the Little Caesar’s Arena UMCSP assessed pricing strategies of teams that moved into new downtown arenas relative to what was charged in the last season of play at an older venue.

Scenario 2: UMCSP Standard

UMCSP Standard uses league average ticket prices, in conjuncture with expected pricing for the luxury products and entertainment. *This scenario projects annual basketball and entertainment revenue to be a combined \$90.1 million.*

Our standard methodology was based on the League Average price per ticket in the 2015-2016 season (with no increment linked to a new downtown arena). The National Basketball Association average ticket price is an appropriate indicator of what could be the average ticket prices at the Little Caesars Arena.

Scenario 3: UMCSP Conservative

*UMCSP Conservative uses the Pistons’ current pricing model (ticket prices at the Palace at Auburn Hills) and would yield approximately \$73.5 million in basketball and entertainment revenue.* That figure in our view should be discarded and we would recommend all discussions involve an annual ticket sales figure to be between \$90.1 million and \$98.7 million. The figure of \$73.5 million uses pricing of tickets at the Palace of Auburn Hills. Every time an NBA or NHL team has moved into a new venue revenues were enhanced. It is therefore highly unlikely that the team’s presence in a new arena would produce only \$73.5 million.<sup>5</sup>

**Table 3. Annual Revenue Projections at Little Caesar’s Arena for the Detroit Pistons and 37 Shows (5-year average)**

Scenario	Estimated Annual Basketball and Entertainment Revenue
UMCSP Aggressive	\$98.7 million
UMCSP Standard	\$90.1 million
UMCSP Conservative	\$73.5 million (discarded)

**3. Relocation of Economic Activity to the City of Detroit**

**The relocation of economic activity from Oakland County to the City of Detroit is estimated to be \$290 million.** This figure includes the salaries paid to players, player operations staff, employees of Palace Sports and Entertainment, and additional employees needed at the new arena to support two primary tenants, as well as sponsorships, parking, food and beverage sales.

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<sup>5</sup> The \$290 million figure was provided to the research team by Palace Sports and Entertainment and is based on their staffing and operational budget.

#### 4. Permanent Employment

The expanded operations at the arena will create **422 permanent jobs in Detroit** (direct and indirect employment). These permanent jobs are a function of the relocation of employees from Auburn Hills to downtown Detroit. The creation of 422 jobs includes all individuals associated with Palace Sports & Entertainment, as well as the Detroit Pistons Organization whom are relocated and therefore, “recreated” to contribute to the creation of new taxes for Detroit.

#### A Summary of Economic Impact and the Relocation of Economic Activity

There are several different elements to a comprehensive impact of the Pistons’ relocation to Detroit.

- (1) The renovations to the Little Caesar’s Arena and the building of a new venue for the Detroit Pistons and the community in midtown will produce \$216.1 million in economic impact. It is anticipated that more than 1,700 construction jobs will be created.
- (2) The Pistons games and the expanded number of entertainment events will generate at least \$90 million in new spending in downtown Detroit.
- (3) The relocation of Pistons’ employees from Oakland County to Detroit will relocate \$290 million of salary income to the city. The city will see a direct increase in local income taxes from the payment of these salaries.

**Table 4. Summary of Economic Impact and the Relocation of Economic Activity (in \$Millions) and Job Creation or Relocation**

Category of Benefit	Economic Impact	Job Creation/Relocation
Renovations & New Venue Construction	216.1	1,722
Annual Ticket Sales & Entertainment Value	90.1	442
Annual Effect of the Relocation of Pistons’ Employees to Detroit	290	
<b><i>Total Economic Activity</i></b>	596.2	2,164*

\*Includes construction and permanent positions