How Many NHL Franchises Could Canada Sustain?

by Glen Hodgson and Mario Lefebvre | February 2012

Canadians have a seemingly insatiable appetite for hockey. But is that appetite enough to support more NHL teams in this country? And if so, where would the new franchises be most likely to succeed?

Canadians are passionate about their sports. And one sport in particular is at the top of that list—hockey! In this latest release in our Playing in the Big Leagues series of briefings, we look at the question of how many more National Hockey League teams Canada could support.

Today, Winnipeg is once again home to an NHL franchise. And Québec City has a serious business plan in place (including the construction of a new arena at a current estimated cost of $400 million) to bring the NHL back to that city. But if Québec City does succeed in getting a team, is that where Canadian expansion ends? Or could the country support even more NHL franchises?

Last year, the Conference Board published 11 briefings on the business economics of professional sport in Canada. The Playing in the Big Leagues series has laid a solid analytical foundation that helps us to understand why some franchises succeed while others fail.

In earlier briefings, we used our framework to determine why the Quebec Nordiques and the Winnipeg Jets decided to pack up operations in the 1990s and move to the United States. We also addressed the question of whether either of these teams could ever return. The Nordiques and Jets could come back to Canada, we said at the time. (And, in fact, a few weeks later, the NHL announced that it was returning to Winnipeg.) We also used our analytical foundation to examine whether there is room for expansion in the Canadian Football League, and we concluded that up to six more teams could be added over the long term. This time around, we look at the question of outright NHL expansion in Canada.

The Four Market Pillars

In the second briefing (Defining the Market Conditions for Success) of this series, we listed the four pillars of success for a professional sport franchise. We turn to these pillars once again to identify potential new NHL markets in Canada.

Pillar 1: Population Size

For a community to support a professional sport franchise over the long term, there must be a sufficient and growing population base. A community that is home to 50,000 diehard hockey fans would not be big enough to sustain an NHL franchise. And even in a local market with a population of 10 million or more, if that market has little passion for hockey, a franchise will not be successful.

Prior to the 2011–12 season, all NHL franchises in Canada were located in markets with a population base of over 1 million. The return of the Jets to Winnipeg has changed that benchmark, since the population of the Winnipeg census metropolitan area (CMA) stood at a little more than 750,000 in 2010.

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The team has made a great start financially, selling out its available season tickets for years to come, thanks to massive pent-up demand. Still, the basic economics of pro sports apply. Winnipeg is at the lower threshold of population size when it comes to supporting an NHL franchise. Any Canadian market with a population under

750,000 would find it very difficult to sustain an NHL franchise over the longer term and thus should be excluded from the list of potential NHL markets. Given this threshold, there are only two potential new NHL markets in Canada: Québec City and Hamilton. These two CMAs posted head counts that were around 750,000 in 2010. More importantly, the population levels in both of these markets have been rising steadily for years and are expected to continue to do so.

In our 11th briefing (Fantasy Football: How Many Teams Could There Be in the Canadian Football League?), we discussed whether a smaller city could get by in the CFL by representing and drawing upon fans from across a province or region, rather than a city. That arrangement already works for Regina and the Saskatchewan Roughriders, and it could work for Moncton or Halifax in Atlantic Canada. However, it wouldn't work for an NHL franchise. For the CFL, people might reasonably drive up to 300 kilometres (or three hours) to attend nine home games of the provincial or regional pro football team, with most of the games played on weekends. But for NHL hockey, with 41 regular-season home games—many of them played on cold, snowy winter nights during the week—it is not realistic to think that fans would drive from all over the province on a regular basis to cheer on their team.

Pillar 2: Market Wealth

Our second pillar is the wealth of the market. This pillar has grown in importance, given the rapid rise in ticket prices for professional sport events over the past 20 years. Personal disposable income per capita in Winnipeg in 2010 was $29,500. This put Winnipeg in 14th place among Canada's 27 largest census metropolitan areas—but still ahead of Vancouver and Montréal, both of which are home to NHL franchises. What about Québec City and Hamilton? Québec City was ranked 10th in 2010 and Hamilton was ranked 18th—one spot better than Montréal. Therefore, based on market wealth, Québec City and Hamilton are two potential sites for NHL franchises.

Pillar 3: Corporate Presence

In our third briefing (The Case of the Quebec Nordiques and the Winnipeg Jets), a relatively small corporate presence was highlighted as a potential issue for Winnipeg and, particularly, for Québec City. Of Canada's 800 largest corporations in 2009, only 30 had head offices located in Winnipeg. Even fewer—17—were located in Québec City. That is a far cry from the levels in Toronto (286), Calgary (119), Montréal (98), or Vancouver (79). However, Edmonton and Ottawa are home to NHL franchises; and Edmonton had just 26 corporate head offices in 2009, while Ottawa had 19. This suggests that while a strong corporate presence is desirable, it is hard to dismiss Québec City as a potential NHL market simply because of a low corporate presence. Moreover, corporations located across the province of Quebec would likely show interest in supporting an NHL franchise in the city.

Where does Hamilton stand when it comes to corporate presence? Hamilton was home to the head office of only 10 of Canada's 800 largest corporations in 2009. While this is a strike against it, Hamilton has the huge benefit of being located near Toronto, where 286 large corporations have their head offices. A new NHL franchise in Hamilton could likely count on the support of at least some of the large corporations based in the Greater Toronto Area. Therefore, Hamilton qualifies as a potential NHL market in terms of corporate presence.

Pillar 4: A Level Playing Field

The playing field has rarely been more level for Canadian franchises playing in North American professional sport leagues. The Canadian dollar has been at or around parity with the U.S. greenback since 2007, and The Conference Board of Canada expects that it will remain there for the foreseeable future. This is in sharp contrast to 2002, when the Canadian dollar bottomed out at just under US$0.62. A chronically strong loonie is a tremendous help for Canadian franchises that play in the major North American leagues, where teams' largest expense—players' salaries—are denominated in U.S. dollars. Also, taxes on individuals and corporations have been reduced by the federal government and several provincial governments over the past decade, reducing or eliminating the tax spread with U.S. jurisdictions—welcome news for Canadian franchises.

Overall

Based on a review of our four market pillars, Québec City and Hamilton are the only two potential new Canadian markets for the NHL.

Competitive Conditions of the NHL

In the fourth briefing (Competitive Conditions in Pro Sports Leagues) in this series, we introduced the fundamental issue of whether pro sports leagues make an adequate effort to level the playing field among their teams. On this issue, the National Football League is in a league of its own, sharing up to 80 per cent of overall revenues. At the other end of the spectrum lies Major League Baseball, with a soft salary cap system under which a team with a $45-million payroll must try to compete against teams with $220-million payrolls—a very unlevel playing field. The NHL lies somewhere between these two extremes. It has a player entry draft, a hard salary cap, and free agency. At the same time, it has only limited revenue sharing among franchises. The NHL also faces a chronic challenge in terms of keeping its weaker franchises afloat, competitively as well as economically.

Owning a successful sport franchise is all about long-term commitment. Obtaining a franchise in order to do a quick asset flip is a recipe for disaster.

Overall, the NHL has become a much more welcoming circuit for smaller markets since the new collective bargaining agreement with the players came into effect in 2005. The key measure in that agreement—the salary cap—ensures that teams in smaller markets (such as Winnipeg) won't be grossly outspent by those in larger markets (such as Toronto). The NHL salary cap is one more factor making Québec City and Hamilton legitimate contenders for new NHL franchises.

Ownership, Facility, and Fan Support

Even under the best local market and league conditions, professional sport franchises can still fail if:

- ownership makes bad decisions and does not provide its fan base with the best possible product;
- the playing facility is not adequate; and
- the franchise does not understand the demographic evolution of its market.

Owning a successful sport franchise is all about long-term commitment. Obtaining a franchise in order to do a quick asset flip is a recipe for disaster. Responsible ownership would be key to the success of NHL franchises in Hamilton or Québec City.

An adequate playing facility is a must for success. Originally, Copps Coliseum, which is owned by the City of Hamilton, was built in the hope that Hamilton could draw an NHL franchise. Construction started in 1983, and the arena was completed in 1985 at a cost of $33.5 million. The facility has a seating capacity of a little over 17,000. Is the arena still NHL-adequate? The NHL business model has evolved greatly since 1985. Arenas have grown in size, and corporate boxes have become increasingly important. Copps Coliseum would likely need considerable renovating and upgrading before the NHL would agree to place a franchise in Hamilton. Still, the facility provides a good starting point.

When Jim Balsillie, the former co-CEO of Research In Motion (RIM), tried to bring an NHL team to Canada, he considered putting it in the Kitchener–Cambridge–Waterloo (KCW) area. That's where RIM's headquarters are located. But more importantly, KCW is outside the territories that belong, under NHL franchise rules, to the Toronto Maple Leafs and Buffalo Sabres. Establishing a team in KCW would therefore avoid the fuss of a territorial battle. The question then becomes, Which business proposition is the less costly? On the one hand, by establishing the team in Hamilton, the owner would have to buy out the territorial rights but would not have the cost of building an arena from the ground up. On the other hand, by establishing a team in KCW, the owner would avoid the territorial battle but would have to build a new arena from scratch. Overall, the Hamilton option remains the best one, based on costs and also because of Hamilton's closer proximity to Toronto's large market and corporations.

The situation is different in Québec City, where the state of Le Colisée was one of the reasons why the Nordiques moved to Denver in 1995. Today, any serious plans to bring the Nordiques back must include the construction of a new building. Toward that goal, the City of Québec has already borrowed money to get the project under way. Once the construction plans are finalized, a groundbreaking ceremony will likely be held this coming summer or fall.

In both Hamilton and Québec City, NHL-worthy facilities are either just a renovation project away or are on the way to being constructed—strengthening these two cities' position as the only two potential new NHL markets.

Two Teams in One Market?

Could any single market in Canada support two NHL franchises? When this question arises, three markets—Montréal, Toronto, and Vancouver—are generally mentioned.

At 2.4 million people, Vancouver is triple the minimum size required to support an NHL franchise. So, could it support two? Probably not. The Vancouver market is still too small to be home to a second NHL franchise, since the risk of market saturation would be too high.

Montréal is home to over 3.5 million people, but the Montréal region has been grappling with a relatively underperforming economy for decades. Indeed, average annual economic growth in Montréal has been below 2 per cent over the past 25 years. As a result, Montreal's per capita disposable income has slid steadily in the rankings and stood 19th among Canada's 27 largest urban centres in 2010. Moreover, we are talking about Montréal—home of the storied Canadiens with their 24 Stanley Cup championships and long history. It is hard to imagine any individual or corporation investing millions of dollars to try to compete with the Canadiens on their own turf.

That leaves the census metropolitan area of Toronto. Based on the first of our four pillars, population size, the city would have a tough time supporting two teams due to market saturation. In 2010, the population of the Toronto census metropolitan area stood at 5.7 million people. Toronto is already home to a Major League Baseball team, a National Basketball Association team, a National Hockey League team, a Canadian Football League team, a Major League Soccer team, and a National Lacrosse League team. When we add up the fan requirements for each of these teams (see Table 1), there does seem at first glance to be room for one more NHL franchise in the Toronto CMA. However, Toronto is also home to many other regular sporting events, including Ultimate Fighting Championship (UFC) events, the Honda Indy Toronto car race, the Rogers Cup tennis tournament, Buffalo Bills games, occasional professional golf tournaments, and other special events. Adding all these pro sports events to the total changes the picture substantially.

Table 1
Total Fan Requirement in Toronto

Team	Number of home games (including pre-season)	Fans per game	Total population requirement
Toronto Blue Jays	81	30,334	2,457,054
Toronto Raptors	45	17,319	779,355
Toronto Maple Leafs	45	17,122	770,490
Toronto Argonauts	10	23,441	234,410
Toronto FC	19	17,870	339,530
Toronto Rock	9	9,723	87,507
Total			**4,668,346**

Source: ESPN; Canadian Football League; Major League Soccer; National Lacrosse League; Statistics Canada; The Conference Board of Canada.

Getting and keeping a second NHL team in Toronto would be difficult.

Other obstacles standing in the way of a second NHL team in Toronto include the cost of building a new arena, the acquisition cost or expansion fee, and the paying of a territorial fee to the Toronto Maple Leafs (and perhaps the Buffalo Sabres). Moreover, the prospective owner of a second Toronto NHL team would have to negotiate market entry with the combined new Maple Leaf Sports and Entertainment ownership group that now includes both Bell and Rogers. These large communications and media organizations recently acquired the Leafs' corporate owner, MLSE, in order to maximize Toronto sports content for their various media platforms. A second NHL team in Toronto would

represent even more media content and would further complicate the already-complex negotiations on who gets to broadcast what.

Given all these factors, getting and keeping a second NHL team in Toronto would be difficult.

Conclusion

Canada could sustain a maximum of nine NHL franchises—a conclusion based on our analysis of the market conditions required to support an NHL-level professional hockey team today. And while Winnipeg, Hamilton, and Québec City do appear to be viable locations for NHL franchises, they are all at the lower limit. These markets have only the minimum market size and income, and a relatively small number of corporate head offices. They would need the Canadian dollar to remain strong. As well, these smaller markets will always be more exposed than their larger competitors to any negative shocks to the national economy or to their community.

Yes, they could be successful in the NHL—but only if they have dedicated owners who are in it for the long run and who manage their business operations carefully.

(In our next briefing, we will do what The Conference Board of Canada has been doing best for over 30 years—forecasting. We will use our full analytical framework to offer a picture of what the professional sport scene will look like in Canada in 2030. How many professional sport franchises could there be in Canada by then? Which professional sports will be on the rise, and which will be on the decline? Stay tuned.)