

REGIONAL ANALYSIS

First & Goal for Houston's Super Bowl

Amanda Augustine / Kan Chen / Nathaniel Karp / Boyd Nash-Stacey

- **The net economic impact of Super Bowl LI for Houston will be \$69 million**
- **The largest benefit could come from a boost to the city's brand and image**

"If you're not in the parade, you watch the parade"

-Mike Ditka

For cities lucky enough to host a Super Bowl, the experience can be unforgettable. However, from an economic perspective, a weekend of Super Bowl fanfare is a minor contributor to annual performance given that for most metro areas, it represents less than one half of a percentage point of economic output. Therefore, the challenge for the host city is to secure the highest short-term impact and benefit on a more long-lasting basis.

Five factors determine the ultimate size of the trophy: substitution, crowding out, leakages, cost and intangibles. First, although local residents tend to increase their purchases related to the Super Bowl, they often reduce other types of expenditures to stay within their budget. Thus, while the impact tends to be positive, it may not be as high as expected when taking into account this substitution effect.

Second, increased consumption from visitors on accommodation, restaurants and entertainment boosts economic activity, but some local residents may decide to leave town to avoid crowds and congestion. Likewise, conventions and tourism that may have occurred over the weekend may be delayed or rescheduled. This crowding out of regular economic activity offsets some of the benefit from out-of-town fans.

Third, leakages occur when a portion of Super Bowl-related spending does not remain in the city despite increases in working hours, employment, investment and profits, as some of the labor and business expenditures are imported or require out-of-town workers. Likewise, if a company is headquartered outside the city and not all the revenues are spent locally, the additional profit should not be considered part of the economic impact for the host city. This was the case in 2005 when Jacksonville added cruise ships to meet the minimum number of accommodations necessary.

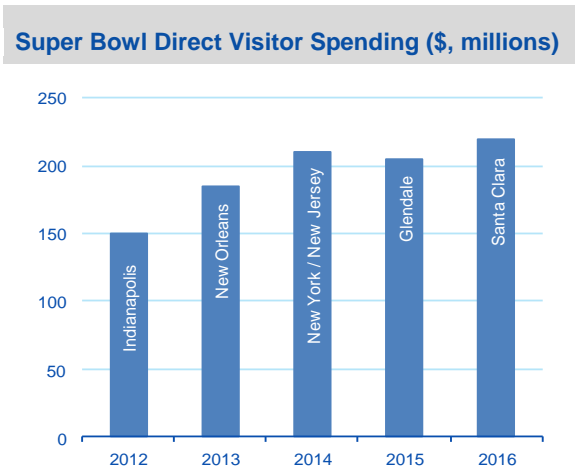
The fourth factor includes the costs of hosting the Super Bowl, which can be high, particularly when they involve additional infrastructure investment. Although these projects provide a short-term economic boost, achieving a positive rate of return will depend on risk allocation, taxes, funding sources and utilization rates. If the project is not well-planned and managed, the outcome could be negative and the losses could be borne by the taxpayer.

Finally, the Super Bowl can bring intangible benefits such as social media exposure and enhanced reputation if the experience is above expectations. This is most likely to benefit cities that are less well-known. For places that are already popular destinations for conventions, business activity and tourism, the benefits may not be as large.

According to our estimates, the net economic impact for Houston will be \$69 million. Houston’s lower relative prices help attract a greater number of visitors. Moreover, few people live close to the event while population density is significantly lower than most host cities. As a result, there is a lower chance of residents wanting to scramble out of the pocket and higher likelihood of residents to attend the parties and events. These factors make Houston less likely to be negatively affected by the substitution and crowding out effects. However, the leakage effect is likely to be similar to previous Super Bowls given analogous increases in the costs of major services like lodging and airfare.

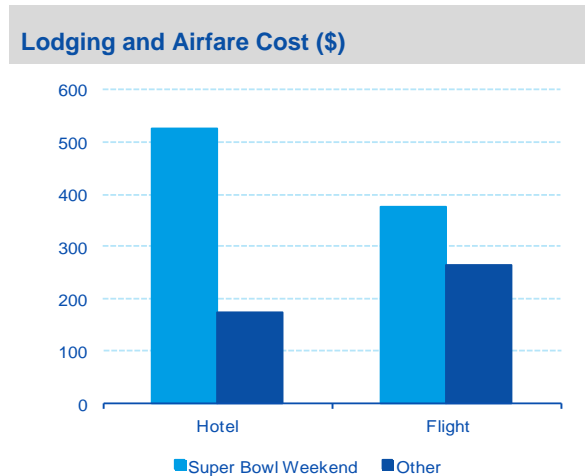
Regarding costs, Houston’s NRG stadium was built in 2002 with the idea of hosting major sports and entertainment events and does not require major renovations. In addition, Houston’s lack of zoning restrictions, abundant supply of land and swift permitting lower construction costs. These more efficient processes have facilitated the construction of multiple new projects in the downtown area, including five new hotels due to open before the Super Bowl.¹ Excluding these factors, the direct impact from visitor spending will be around \$200 million, which matches estimates for the last three Super Bowls.

Figure 1



Source: BBVA Research, Bloomberg & PwC

Figure 2



Source: BBVA Research & Google. Average nightly rate in Houston and round trip from key major cities to Houston

In terms of the intangibles, the biggest short-term upside is the opportunity to showcase a modern, vibrant and cosmopolitan city, which would dramatically alter the perception for many visitors that think of Houston as a hot,

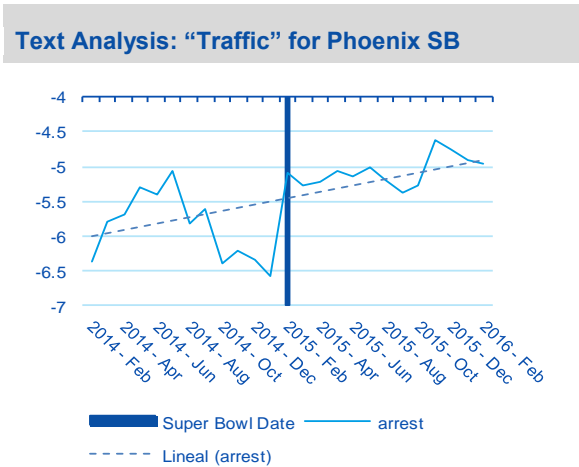
¹ <http://houston.culturemap.com/news/city-life/09-22-15-downtown-gets-ready-for-super-bowl-with-convention-center-revamp-restaurants-galore-and-new-hotel-with-a-rooftop-river/#slide=0>

humid and heavily congested concrete jungle. The growing diversity of its population and businesses, southern hospitality and abundant choices for entertainment, restaurants and shopping will leave fans wanting overtime.

Although the direct economic impact of the Super Bowl may not be as impressive as the NFL estimates, this mega sporting event can provide a good opportunity for the host city to accelerate its urban development and even rebrand its city image. The perception towards the city can be critical to its own prosperity, as it reflects the well-being of the residents. A city with a favorable image will keep attracting human and physical capital. Two major aspects that host cities typically focus on are transportation and safety. Transportation issues plagued the Bay Area and New York Super Bowls as visitors had to travel long distances. Thus, avoiding traffic congestion and providing safety are keys to a successful event.

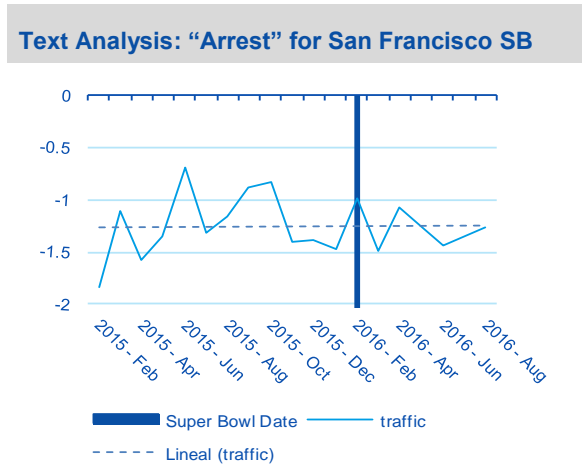
To assess if perception of traffic congestion and safety changed after the event, we applied big data techniques and analyzed news articles and broadcasts that mentioned the words “traffic” and “arrest.” The analysis shows that sentiment depends, to some degree, on the size of the city. For example, traffic and crime sentiment in Phoenix dramatically improved during the Super Bowl month and stayed at a high level. On the other hand, sentiment in San Francisco remained unchanged. Given that Houston is not a popular tourist destination, our big data analysis confirms that the Super Bowl is a great opportunity to boost reputation and perception among both residents and visitors. If done correctly, the Super Bowl can have long-lasting benefits.

Figure 3



Source: BBVA Research & GDELT

Figure 4

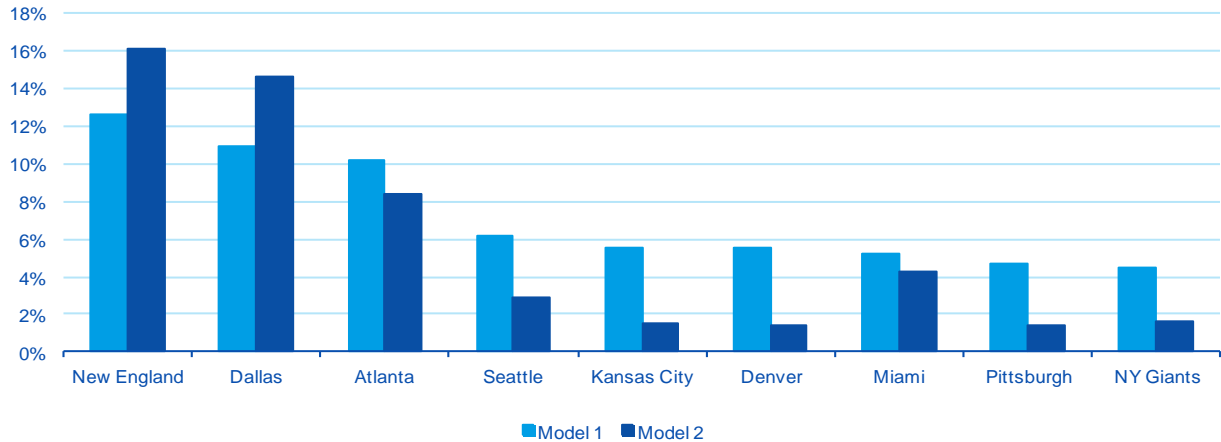


Source: BBVA Research & GDELT

In any case, at the margin, the outcome could be affected by other factors such as which teams make it to the Super Bowl, the weather and changing pro-football loyalties. With this in mind, we analyzed the stats up until week 12 and compared them to previous Super Bowl champions to assess the probability of reaching and winning the game. The results are consistent with current betting odds that have the New England Patriots and the Dallas Cowboys with the highest chance of winning the Super Bowl. With this matchup, the final impact could be higher than expected.

Figure 5

Probability of Winning Super Bowl LI



Source: BBVA Research & NFL

Bottom Line

We expect that Houston will experience a net economic impact of \$69 million from hosting Super Bowl LI. This estimate takes into account the positive effects from direct, indirect and induced spending, and it incorporates slippage due to substitution, crowding out and leakages. While positive, the net economic impact represents a small fraction of the overall size of the economy and will not alter underlying economic trends. Nevertheless, in the midst of the current slowdown, this will be a welcome boost. More importantly, the event has the potential to represent a game winning touchdown for the city’s image. Go Houston!

Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria’s (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.