

Atlantic City Tourism Performance Indicators (AC-TPI) 2014 Year End

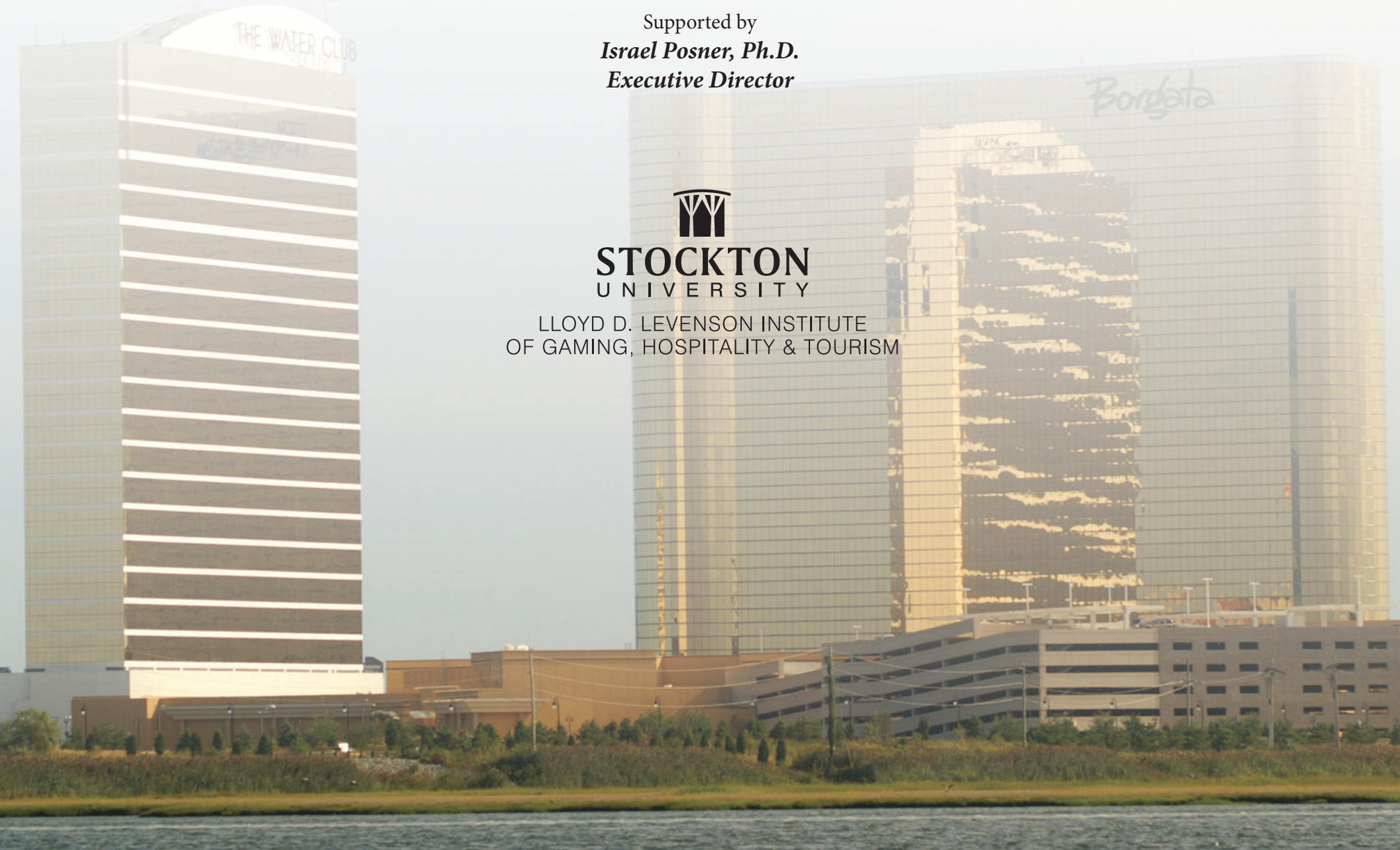
Prepared by
Brian J. Tyrrell, Ph.D.

Supported by
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Executive Director



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OF GAMING, HOSPITALITY & TOURISM



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Acknowledgements

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Introduction

For several years, the Lloyd D. Levenson Institute of Gaming, Hospitality and Tourism (LIGHT) has been producing the Atlantic City Tourism Performance Indicators (AC-TPI) as a quarterly report describing non-gaming revenue for the Atlantic City region. The impetus for the report was the changing dynamics with respect to gaming supply in the U.S. northeast, particularly following the introduction of Pennsylvania gaming in 2006. The increased competition for the gaming dollar resulted in significant gaming dollar losses for the Atlantic City region. However, there continued to be growth in non-gaming revenue for the Atlantic City region, growth that was not garnering attention in light of the regional declines in gaming.

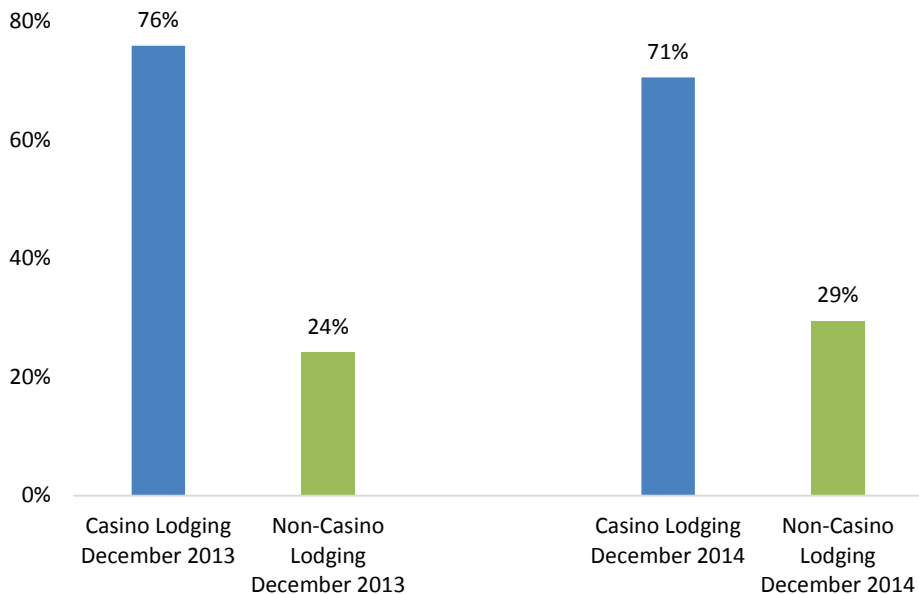
The dynamics changed again in 2014, this time internal to the region, as four casinos (Atlantic Club, Showboat, Revel and Trump Plaza) ceased operation during the calendar year. The AC-TPI analyzed changes in three taxes whose combined revenues were driven either exclusively (the Atlantic City Casino Parking Fee) or significantly (Atlantic County Lodging Fee and the Atlantic City Luxury Tax) by revenue generated at casino properties in Atlantic City. Since there were significantly fewer parking spaces and hotel rooms at casino properties, these fees undoubtedly would be lower. Yet much of the business from these four closures remained captured by the Atlantic City casino market. Per property performance for the remaining casinos in the Atlantic City market increased. This restructuring of the local marketplace dynamics required a change in the manner in which the AC-TPI captures performance of non-gaming for the Atlantic City region.

Originally, the AC-TPI settled on the three taxes for two main reasons. First, the taxes were publicly available and therefore easily verified. Second, because of some unique characteristics of the market place, certain measures that are commonly used to measure hotel performance were not available for the Atlantic City region. Specifically, many destinations describe the dynamics of their local hospitality industry using lodging Occupancy, Average Daily Rate (ADR) and Revenue per Available Room (RevPAR). STR, Incorporated solicits owners of lodging properties to supply operating performance on either a monthly or a daily basis, and the provider in turn receives, for a fee, feedback on their performance relative to their local competitive set. Destinations can purchase the

data to describe their total performance over time, and many regularly do. Unfortunately, for the Atlantic City region, the casino hotels do not participate in this program. The Trend Reports for the region thus do not capture the most significant driver of revenue for the Atlantic City region, namely the casinos.

Still, the Trend Report does capture a significant portion of the non-casino lodging in the Atlantic City region. Since the closure of the four casino properties in 2014, that portion of the local lodging industry has grown significantly. Figure 1 shows that the month prior to the first of the four closures, December 2013, non-casino lodging accounted for 24% of the Atlantic City region (Atlantic County N.J.). One year later, after all four closures, the December 2014 non-casino lodging accounted for 29% of lodging in the Atlantic City region. Thus, there is a growing need for performance measures for the Atlantic City region that separate out the performance of the non-casino lodging industry and report the Occupancy, ADR and RevPAR that STR, Incorporated provides. While it will certainly not suffice alone to describe lodging performance, it can supplement our use of the Atlantic County Lodging Fee which does capture the performance of the casino properties in Atlantic City.

Figure 1: Casino Compared to Non-Casino Lodging Rooms for the Atlantic City Region, Before and After the 2014 Casino Closures



Indeed, in choosing to begin including the Occupancy, ADR and RevPAR of non-casino lodging in the Atlantic City region, we provide a balance to the AC-TPI which has always reported the Atlantic City Casino Parking Fee, a casino-only fee. We additionally removed the Atlantic City Luxury Fee in the most current AC-TPI, a measure that we had previously included as it captures some entertainment and beverage revenue, but for which there is significant overlap with the Atlantic County Lodging Fee. That the Luxury Fee was primarily generated from the sale of lodging properties meant the two fees tracked very similarly and thus represented significant overlap.

Further, to account for the changing supply of casino parking spaces and casino lodging rooms, the two fees that we previously included in the report, the Atlantic City Casino Parking Fee and the Atlantic County Hotel Fee, we will be reported as the figures per available supply. Such reporting will assist in signaling changing dynamics moving forward, while still providing comparable base-line performance given the significant changes over time to the supply of both.

The current version of the Atlantic City Tourism Performance Indicators (AC-TPI) now provides a much clearer picture of the performance of non-gaming revenues on a per property basis for the Atlantic City region. The enhanced measures provide insight into not only non-gaming tourism performance measures, but can now also distinguish between casino-only measures (Atlantic City Casino Parking Fee) and non-casino measures (STR, Incorporated figures for Occupancy, ADR and RevPAR). Meanwhile, we retain a measure of the entire Atlantic City region's tourism performance by retaining the Atlantic County Lodging Fee. Given the additional time put into this year-end report for 2014, we have chosen to include currently available data that runs through February 2015. Future reports will be produced to correspond with quarters, beginning with the release of April 2015 figures for the first quarter update of 2015.

Atlantic City Casino Parking Fee

The Atlantic City Casino Parking Fee data is provided by the NJ Casino Control Commission (NJCCC). This figure serves as a surrogate for transportation, assuming that if the number of vehicles taxed has gone up or down, then so too will other expenditures on transportation to and from as well as within the resort. The tax is described by the NJCCC as:

“By law, casinos remit a fee of \$3.00 per day for each parking space used by patrons in their facility. \$0.50 of the parking fee is deposited into the Casino Revenue Fund, with the remaining \$2.50 forwarded to the Casino Reinvestment Development Authority for public projects in Atlantic City. The commission audits and certifies the amounts payable by each casino under the law.”

The fee, charged to patrons of the casino hotel parking garages, is necessarily subject to the number of available parking spaces. Over the past 10 years there have been some significant changes to the supply of casino hotel parking spaces. Figure 2 shows that the monthly supply, calculated as the number of available parking spaces times the number of days in the month. The largest gain during that time frame occurred following the opening of

Revel, adding more than 7.6 thousand daily parking spaces, an increase of 237 thousand (18%) for March 2012 compared to March 2011.

In mid-January 2014, the Atlantic Club closed, reducing the supply by 1.4 thousand daily parking spaces. Three more casinos closed in September of 2014; the Showboat and Revel, both at the beginning of the month, followed by Trump Plaza in mid-September. The impact of these three closures further reduced the daily parking spaces available at casino hotels in Atlantic City by 2.6 thousand, 3.4 thousand and 7.6 thousand respectively. The most recent monthly supply figures for casino parking spaces in Atlantic City indicates there were 1 million available parking spaces in February 2015, a reduction of 384 thousand or a 28% decrease from February 2014.

These significant shifts in the number of parking spaces presents a challenge when analyzing the Atlantic City Casino Parking Fee over time. Particularly with the most recent closures, simply examining the total fee provides little insight about per property performance relative to driving visitation to the remaining casinos. In order to account for this, we present, in Figure 3, the Atlantic Casino Parking Fee on a per supply basis (per 100 parking spaces) utilizing the figures displayed in Figure 2. Figure 3 is labeled with the annual

Figure 2: Atlantic City Casino Parking Supply, January 2005 to February 2015

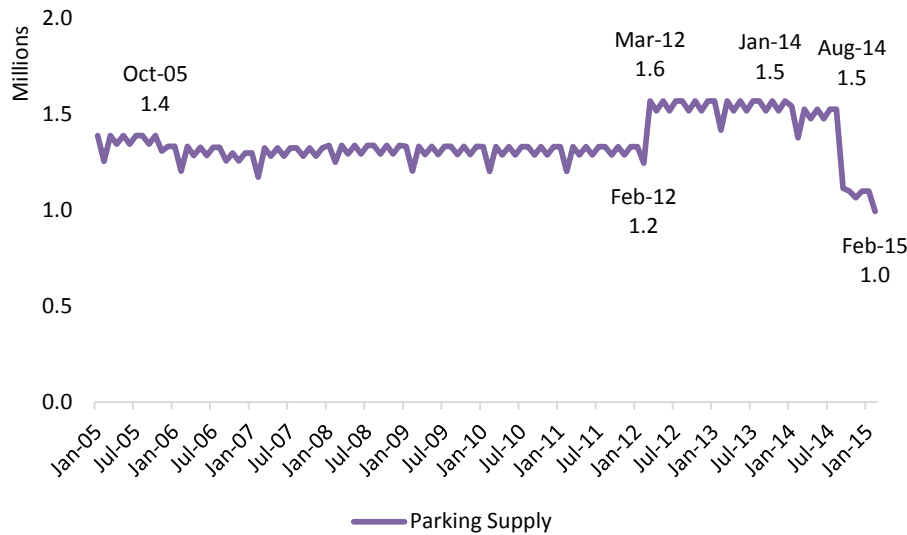
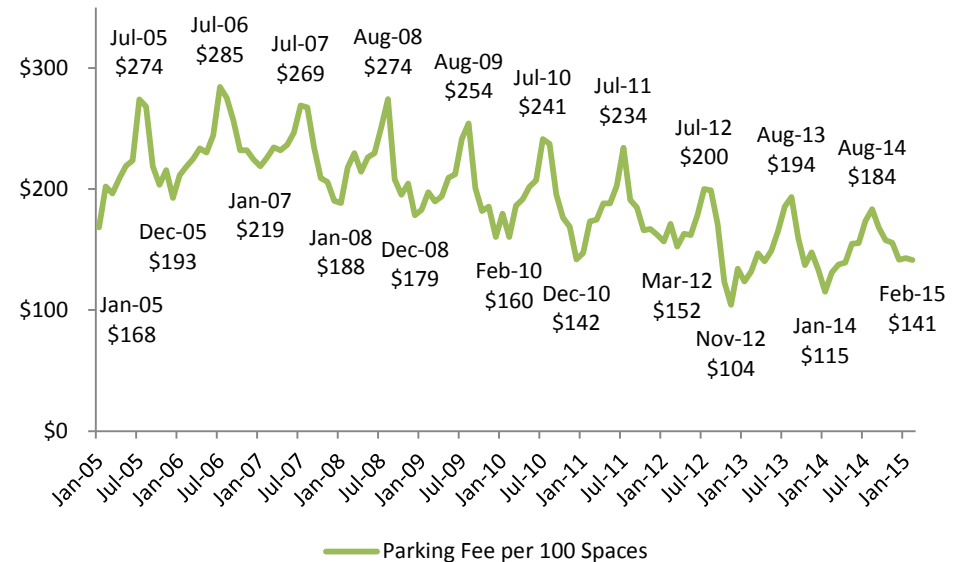


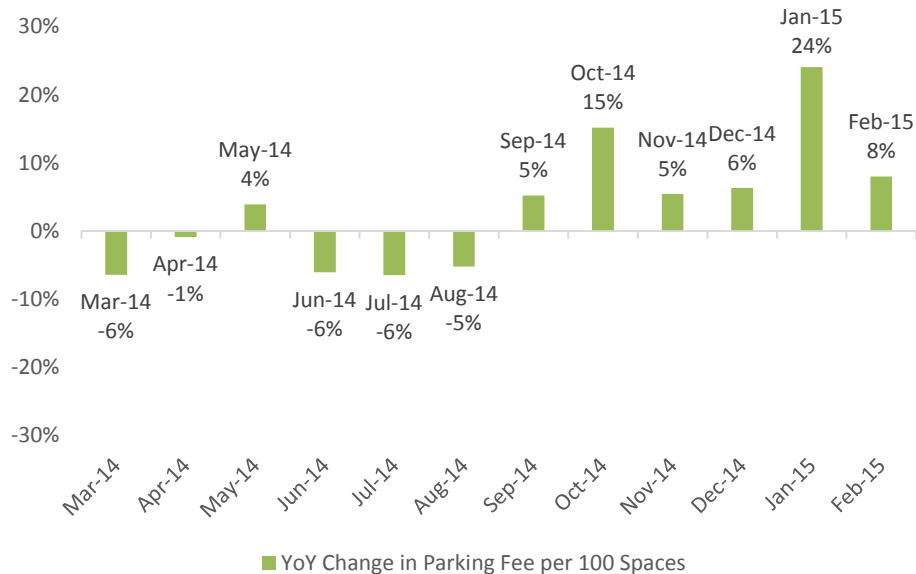
Figure 3: Atlantic City Casino Parking Fee per 100 Parking Spaces January 2005 to February 2015



high (labeled above the data series) and the annual low (below the data series) for each of the past 10 years. Highs occur in July or August, with the best recorded month occurring in July 2006 (\$285) and the current 12 month best occurring in August 2014 (\$184). Typically, the slowest month is recorded in the winter months, the exception being March 2012 (\$152) and November 2012 (\$104), the latter of which being the result of Hurricane Sandy. The highest annual low recorded was in January 2007 (\$219). The low in 2014 was recorded in January 2014 (\$115).

Figure 4 shows the year over year change in the Atlantic City Casino Parking Fee per 100 parking spaces for the prior 12 months. Following the closures of the final three properties in September of 2014, significant gains were seen in revenue when examining the tax on a per parking space basis. Double-digit gains were realized in October 2014 (15%) and January 2015 (24%). Per property performance has increased on average for each month during the past six months. Clearly not all of the business previously captured by the Atlantic Club, Showboat, Revel and Trump Plaza was lost from the Atlantic City region, results that are in keeping with recently reported figures for gaming revenue in Atlantic City on a per property basis. Indeed, the May 2014 more modest increase of 4% is still significant in that, outside of

Figure 4: Year over Year (YoY) Change in the Atlantic City Casino Parking Fee per 100 Parking Spaces, March 2014 to February 2015

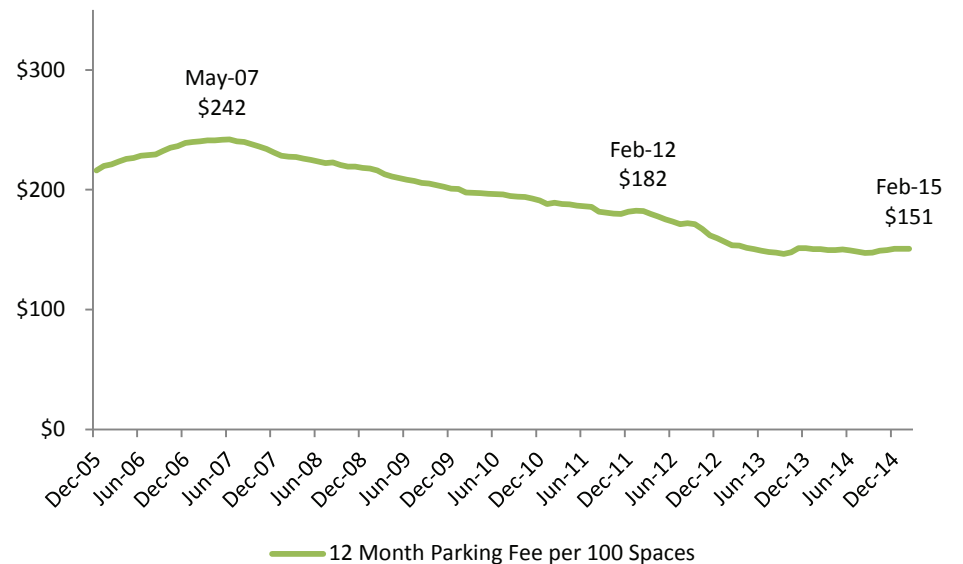


the Hurricane Sandy impacted months, the Atlantic City Casino Parking Fee on a per 100 parking space basis had been negative every month since August 2012.

Given the seasonal nature of the Atlantic City Casino Parking Fee (see Figure 3), it is easier to visualize the long term trend by examining the 12 month trailing total for the fee. Figure 5 shows the 12 month trailing total for the Atlantic City Casino Parking Fee per 100 parking spaces. The 12 months ending in May 2007 produced the highest Atlantic City Casino Parking Fee per 100 parking spaces at \$242. The per available space fee continued its decline after the opening of Revel in March 2012. More evidence that on a per property basis, these declines may have reached a floor. This perhaps signals a balance on the supply and demand characteristics in the wake of the decrease in supply.

Continuing to monitor the Atlantic City Casino Parking Fee on a per 100 parking space basis will prove useful in determining if the per property performance we saw in the final months of 2014 and beginning of 2015 signals a reversal in this long trend. Increases in per property performance can induce job and wage growth if sustainable.

Figure 5: 12 Month Trailing Total for the Atlantic City Casino Parking Fee per 100 Parking Spaces, December 2005 to February 2015



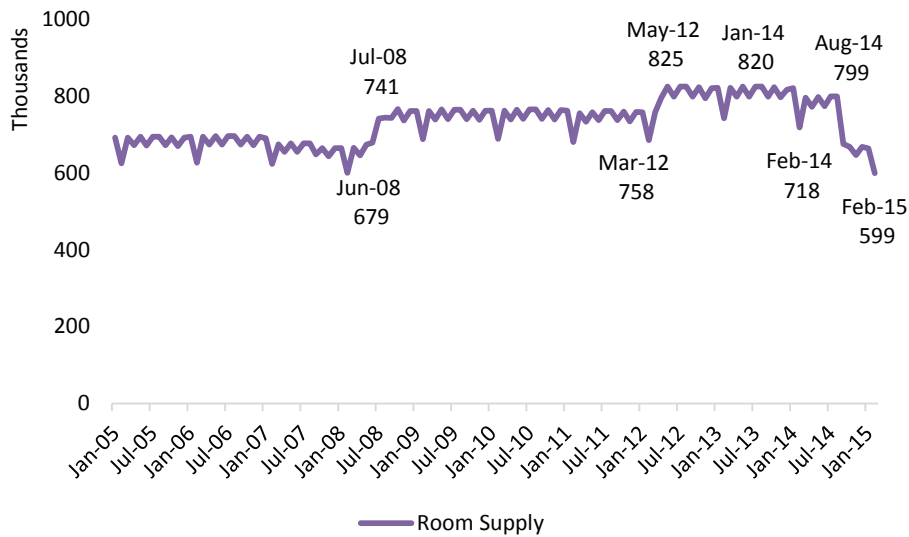
Atlantic County Lodging Fee

The Atlantic County Lodging Fee, the Atlantic County portion of the State Occupancy Fee, is utilized in this report to get a clearer picture of lodging performance for the region. While this figure is not Atlantic City specific, there is general consensus that the Atlantic City tourism market impacts the hotel industry throughout the county and thus is a reliable measure of the Atlantic City tourism economy. The figure is released by the NJ Division of Taxation and is described as:

“Legislation enacted in 2003 (P.L. 2003, c. 114) imposed a 7% State Occupancy Fee on the rent for every occupancy of a room in a hotel, motel or similar facility in most New Jersey municipalities, between August 1, 2003 and June 30, 2004. For occupancies on and after July 1, 2004, the Fee was reduced to 5%. A hotel/motel is a building regularly used and kept open for the lodging of guests, including bed and breakfasts, inns, etc. The State Occupancy Fee is imposed on the room rentals that are currently subject to the 7% New Jersey sales tax and is in addition to the sales tax. Special Rate Provisions: Since Newark, Jersey City, Atlantic City, Wildwood, Wildwood Crest, and North Wildwood already impose local taxes or fees on hotel/motel occupancies, the new State Occupancy Fee is imposed at a lower rate in ... Atlantic City (1%)...”

The same challenges that confront the continued reporting of the total revenue generated under the Atlantic City Casino Parking Fee also affect the reporting of the Atlantic County Lodging Fee total revenue. Namely, the closure of the four casinos in 2014 greatly reduced the supply of rooms in the Atlantic City region. Figure 6 (next page) shows the Atlantic County monthly lodging room supply from January 2005 through February 2015, figures drawn from the STR, Incorporated Trend Report. Notable increases in the supply can be seen in July 2008 with the opening of the Chairman’s Tower at the Trump Taj Mahal, and again in May 2012 with the opening of the Revel. Conversely, notable decreases in the supply occur in January 2014 with the closure of the Atlantic Club (809 rooms), and again following August 2014, after which time the remaining three closures of the Showboat (1,329 rooms), Revel (1,339 rooms) and Trump Plaza (906 rooms) occurred. In total, the four property closures would reduce the monthly supply of rooms in Atlantic County from 718 thousand in February 2014, to 599 thousand in February of 2015, a decrease of 17%.

Figure 6: Atlantic County Monthly Lodging Room Supply, January 2005 through February 2015



The supply of rooms displayed in Figure 6 is used to describe the Atlantic County Lodging Fee on a per 100 room basis in Figure 7. Figure 7 is labeled with the annual high (labeled above the data series) and the annual low (below the data series) for each of the past ten years. Similar to the Atlantic City Parking Fee described earlier in this report, highs occur in July or August. Unlike the parking fee however, the best recorded month occurred only recently in August 2014 at \$106. Lows occur in December or January, with the notable exception of the Hurricane Sandy impacted month of November 2012, following which there occurred a series of months of increased hotel revenue as a result of displaced residents and demand for rooms by those assisting with the recovery efforts. The highest annual low recorded was in December 2005 (\$44). The low in 2014 was recorded in December 2014 (\$32).

Figure 8 shows the year over year change in the Atlantic County Lodging Fee per 100 rooms for the prior 12 months. Once again, following the closures of the final three properties in September of 2014, significant gains were had in revenue when examining the tax on a per room basis. Double-digit gains were realized in October 2014 (20%), January 2015 (17%) and February 2015 (11%). Interestingly, large gains were also realized from May 2014 through August 2014, even prior to the closure of the final three properties (Showboat, Revel and Trump Plaza).

Figure 7: Atlantic County Lodging Fee per 100 Rooms, January 2005 to February 2015

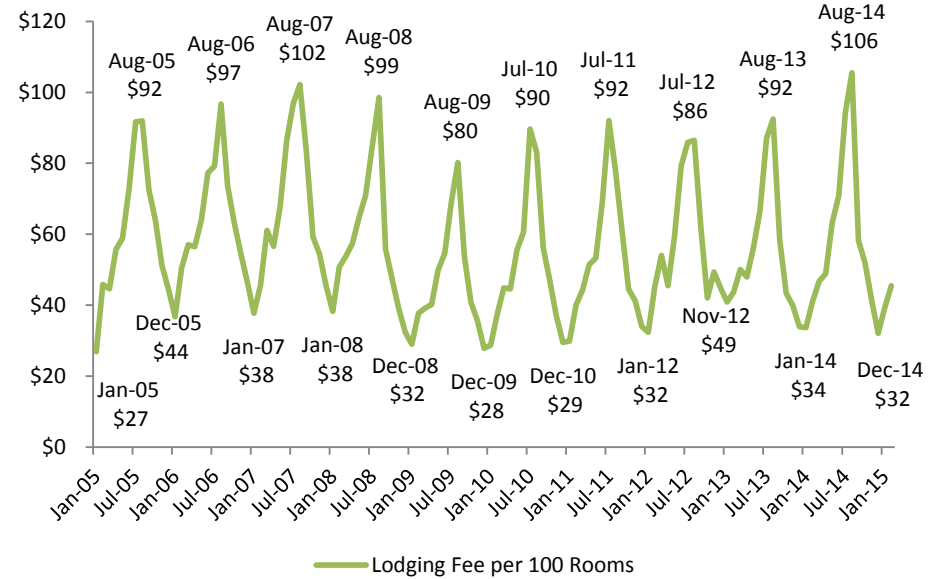
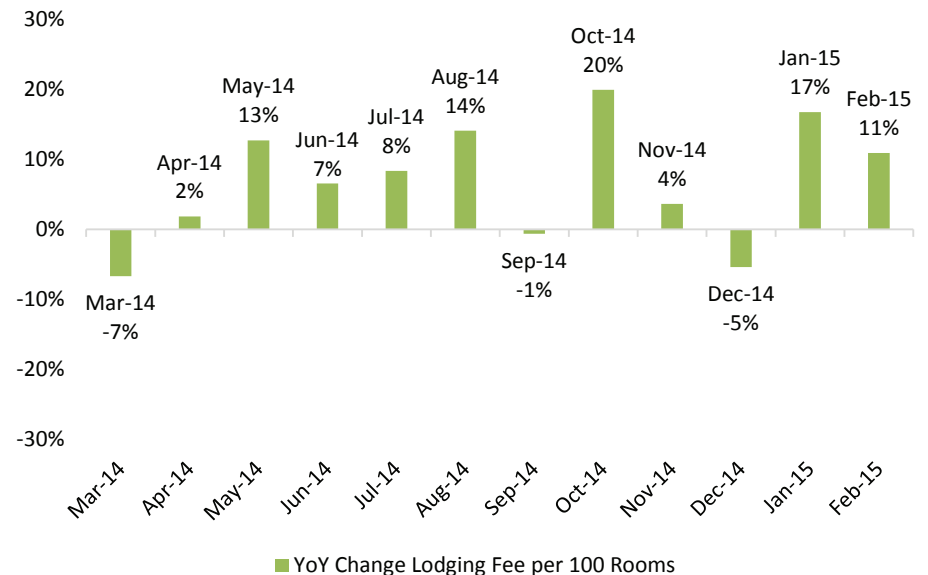


Figure 8: Year over Year (YoY) Change in the Atlantic County Lodging Fee per 100 Rooms, March 2014 to February 2015



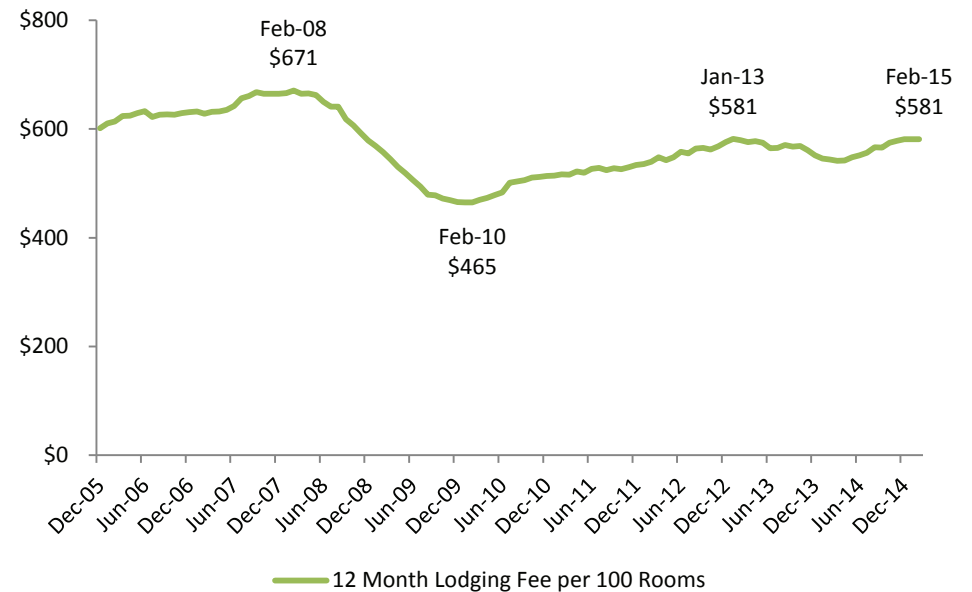


Similar to our analysis of the Atlantic City Casino Parking Fee, it may be concluded that not all of the business previously captured by the Atlantic Club, Showboat, Revel and Trump Plaza was lost from the Atlantic City region, results in keeping with recently reported figures for gaming revenue in Atlantic City on a per property basis.

Given the seasonal nature of the Atlantic County Lodging Fee (see Figure 7), it is again easier to visualize the long term trend by examining the 12 month trailing total for the fee. Figure 9 shows the 12 month trailing total for the Atlantic County Lodging Fee per 100 rooms. The 12 months ending in February 2008 produced the highest Atlantic County Lodging Fee per 100 rooms at \$671. It appears, however, that on a per property basis, declines may have given way to increases. This perhaps signals a balance on the supply and demand characteristics in the wake of the decrease in supply.

Continuing to monitor the Atlantic County Lodging Fee on a per 100 room basis will prove useful in determining if the per property performance we saw in the final months of 2014 and beginning of 2015 signals a sustainable reversal in this long trend. As previously mentioned, increases in per property performance can induce job and wage growth if sustainable.

Figure 9: 12 Month Trailing Total for the Atlantic County Lodging Fee per 100 Rooms, December 2005 to February 2015



Non-Casino Lodging Performance in Atlantic County: Occupancy, Average Daily Rate (ADR) and Revenue per Available Room (RevPAR)

We now introduce the newest measures to the Atlantic City Tourism Performance Indicators (AC-TPI), Occupancy, Average Daily Rate (ADR) and Revenue per Available Room (RevPAR). Data are drawn from the STR Incorporated Trend Report. While new to the report, these three measures have long been a staple of analyzing lodging performance. These three measures have been adopted by numerous destination marketers across the globe in analyzing the health of a tourist destination's lodging industry. While these measures are not available for the casino properties in Atlantic City, they do provide valuable information nonetheless for the non-casino lodging properties in the Atlantic City region (Atlantic County).

Figures 10 through 12 provide STR, Incorporated figures from the Trend Report, showing Occupancy, ADR and RevPAR for the most recent 12 month year over year performance as show in Figures 10 through 12. It is notable that all three measures had 10 of the 12 months showing positive year over year

Figure 10: Year over Year (YoY) Change in Atlantic County Occupancy, March 2014 to February 2015

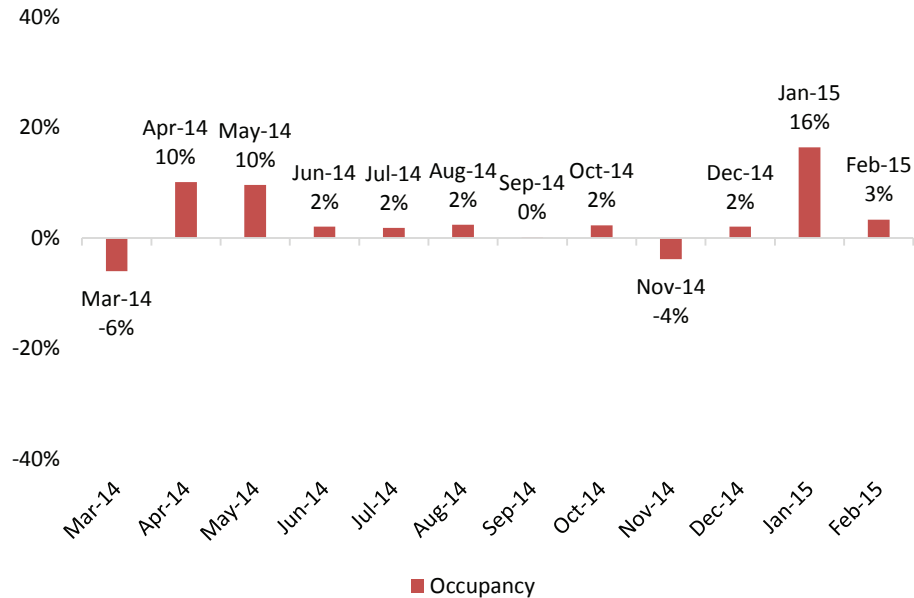


Figure 11: Year over Year (YoY) Change in Atlantic County Average Daily Rate (ADR), March 2014 to February 2015

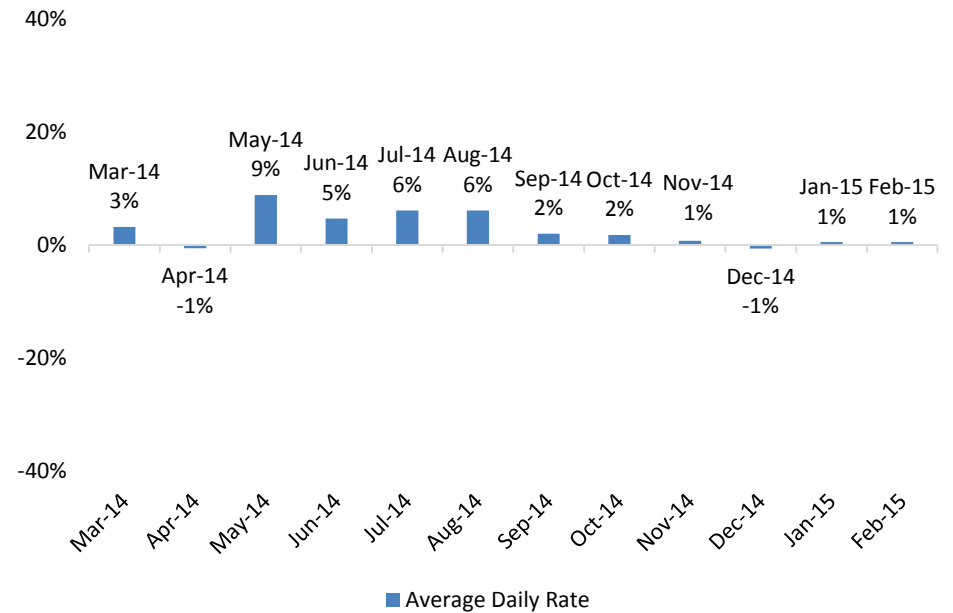
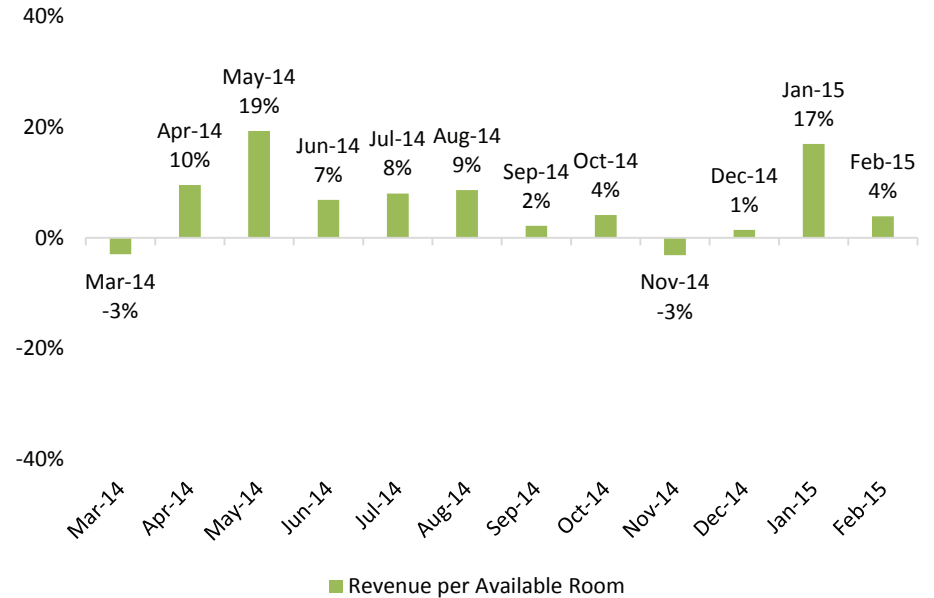


Figure 12: Year over Year (YoY) Change in Atlantic County Revenue per Available Room (RevPAR), March 2014 to February 2015



growth. As with the Atlantic County Lodging Fee, this growth was not limited to the months after the closure of the final three casino properties in September 2014 (Showboat, Revel and Trump Plaza). Still the best performing months for Occupancy both occurred after such time (January, 16% and 17% respectively).

The addition of Occupancy, Average Daily Rate (ADR) and Revenue per Available Room (RevPAR) provides valuable insight into non-casino lodging performance in the Atlantic City region. Of these three measures, RevPAR may be of the most value in determining longer term trends in the market place as RevPAR is a combination of both Occupancy and ADR (Occupancy multiplied by ADR is equal to RevPAR). As such, changes in RevPAR will be the summary variable for the non-casino lodging performance measure included in the AC-TPI Snapshot presented in the final section of this report.



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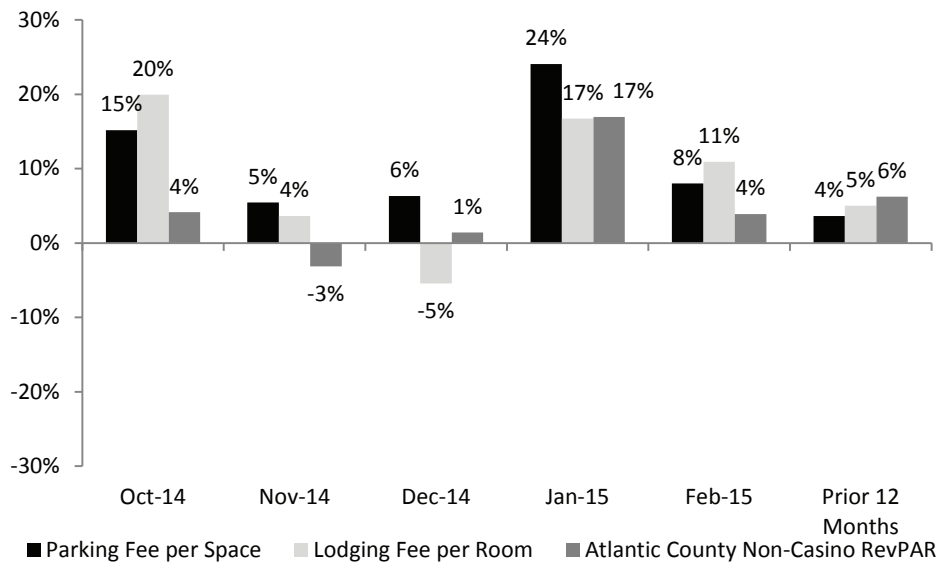
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February 2015 Atlantic City Tourism Performance Indicators (AC-TPI) Snapshot

The Lloyd D. Levenson Institute of Gaming, Hospitality and Tourism (LIGHT) has concluded that non-casino Revenue per Available Room (RevPAR) and the Atlantic City Casino Parking Fee and Atlantic County Hotel Fee (both on a per supply basis) can serve as an effective proxy for the performance of the tourism economy in Atlantic City. These measures, or more precisely the year over year change in the monthly figures for these measures, are compiled into an Atlantic City Tourism Performance Index Snapshot at the end of each quarter. A more detailed annual report is provided to give the longer term analysis of the Atlantic City tourism economy. We are grateful for the support of STR, Incorporated for supplying the RevPAR figures, the New Jersey Casino Control Commission for providing the Parking Fee, and the New Jersey Treasury for providing the Lodging Fee. The goal of the AC-TPI is to provide key measures with analysis that can describe the results of the resorts current efforts at revitalizing the Atlantic City tourism economy.

Figure 13: February 2015 Atlantic City Tourism Performance Indicators (AC-TPI) Snapshot





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