

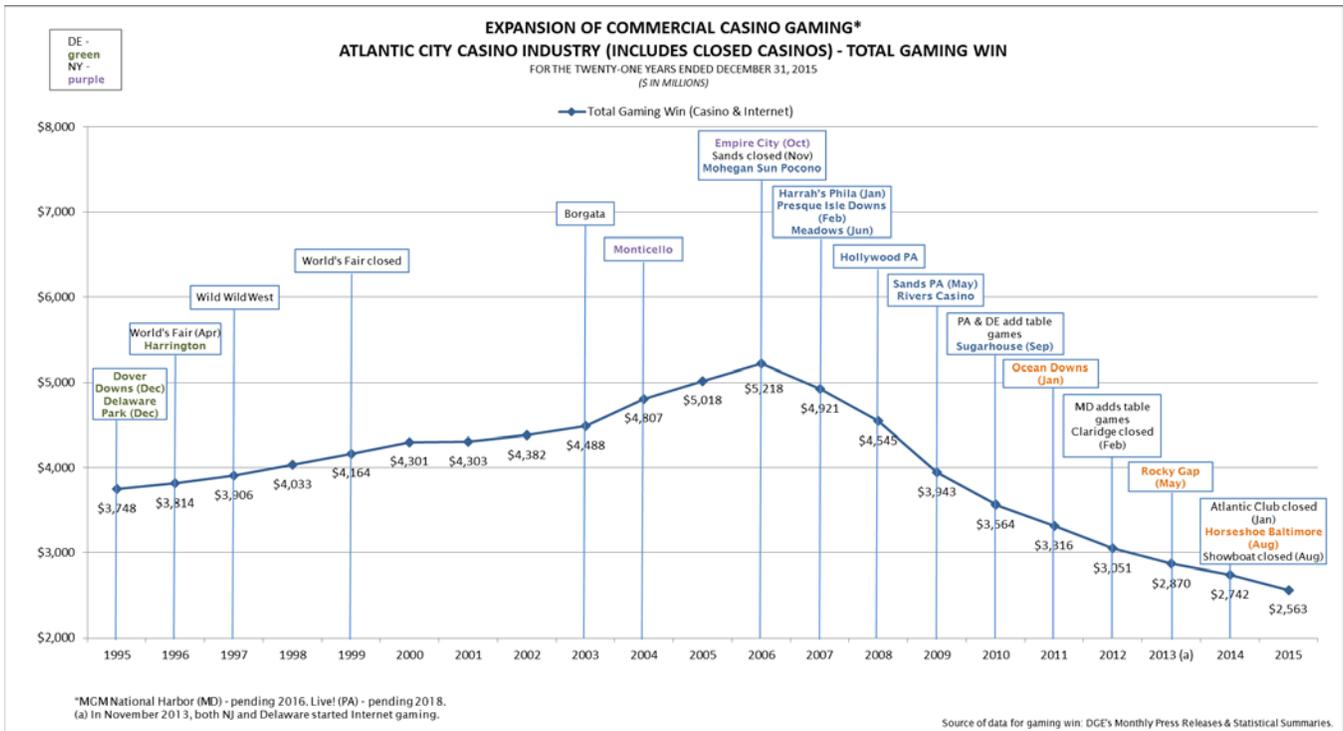
Reshaping the Physical and Economic Landscape of Atlantic City

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For the first time in 10 years, Atlantic City casinos saw a year-over-year increase in total gaming win. This break in the city’s decade-long losing streak, attributed to the rapidly growing internet gaming market, is encouraging but not necessarily the answer to the city’s long-term success.

While Atlantic City may have had an early monopoly on regional gaming, the city has seen a significant increase in competition over the years. Until 2006 the impact did not appear to be significant, but after the addition of several gaming properties in Pennsylvania, the impact on gaming revenues became apparent. Atlantic City gaming revenue was at an all-time high of \$5.2 billion in 2006 and reached its lowest point in 2015 - \$2.5 billion. Figure 1 below graphically depicts the infusion of casinos into the Northeast since 1995 and the impact on total gaming win for Atlantic City casinos.

Figure 1



Source: CCC

Just as Atlantic City had an early monopoly on Northeast casino gaming, the city has enjoyed a similar monopoly on internet gaming. At present only Delaware, Nevada and New Jersey have legalized internet gaming, however, California, Massachusetts, New York and Pennsylvania are all poised to enter that market. As with the expansion of land-based gaming, the impact of this new competition in the internet gaming market may not be immediately apparent.

At present, internet gaming revenue is experiencing record growth. In 2015, growth increased year-over-year by 21 percent, and 2016 saw growth of 32 percent. However, a recent report released by Eilers and Krejcik Gaming suggests that growth will begin to slow in 2017 to a 17 percent year-over-year increase. Internet Gaming may offer a much needed short-term reprieve but it is, as yet, unclear how sustainable that growth will prove in an increasingly competitive market.

Early fears that internet gaming would cannibalize land-based casino revenues have largely been dismissed, with analysts like those from Eilers and Krejcik asserting that the increased exposure to internet gaming has only been good for land-based properties. As reported by the New Jersey Division of Gaming Enforcement, current operators (excluding the Taj Mahal which closed in October 2016), saw an increase of 2.1 percent in 2016 for land-based casino gaming win. For comparison, current operators in 2015 (including the Taj Mahal) saw an increase of 1.9 percent for land-based gaming. In 2014, following the closure of the Atlantic Club, Showboat, Revel, and Trump Plaza, current operators saw a 3.1 percent increase in land-based revenue even as the industry total was down by 8.5 percent. Prior to the closures, land-based casino gaming revenue was down by 5.8 percent in 2013 and 6.4 percent in 2012.

The introduction of internet gaming in November 2013 and the recent decrease in local competition for land-based casino gaming seem to have slowed and begun to reverse the decline in the Atlantic City gaming industry. Still, current revenues for the industry are roughly half what they were a decade ago and are unlikely (given the current and increasing competition in the gaming industry as a whole) to rebound as quickly. If Atlantic City is to grow and thrive in the next 10 years, it may have to look beyond gaming to increase its tax revenue and raise its profile as a destination city. Atlantic City need look no further than gaming industry leader Las Vegas for a model of success.

The state of Nevada leads the gaming industry with \$11.3 billion in total gaming revenue in 2016. Of that \$11.3 billion, \$6.4 billion comes from Las Vegas Strip which still outranks Pennsylvania, at \$3.2 billion, and New Jersey, at \$2.6 billion, in gaming revenue. Las Vegas' casinos saw only a 0.4 percent increase in total gaming revenue in 2016. In comparison, Atlantic City's casinos saw an increase of 1.5 percent (4 percent when only considering current operators) in total gaming win for the year. The story of Las Vegas' continued success has less to do with gaming win and more to do with wins in the non-gaming sector.

In 1984 gaming revenue on the Las Vegas Strip was almost 60 percent of total revenue, while as of 2015, that number is down to about 35 percent. Non-gaming now dominates the revenue share. Non-gaming revenues (rooms, food, beverage, other), which represented about 40 percent of total revenue in 1984, command 65 percent of total revenue in 2015. Figure 2 below shows the relationship between gaming and non-gaming revenue on the Las Vegas Strip for the years 1984 through 2016.

Figure 2: Las Vegas Strip- Departmental Percentages of Total Revenue

Year	Gaming	Rooms	Food	Beverage	Other	Total
1984	58.63%	16.10%	11.41%	7.71%	6.14%	2,162,793,583
1985	57.85%	16.70%	11.27%	7.18%	7.00%	2,279,180,202
1986	57.59%	16.89%	11.45%	7.37%	6.70%	2,380,820,794
1987	56.94%	17.47%	11.28%	7.13%	7.18%	2,805,402,599
1988	57.31%	17.28%	11.18%	6.82%	7.41%	3,034,761,582
1989	58.97%	16.67%	11.16%	6.59%	6.61%	3,431,619,148
1990	57.84%	16.81%	11.20%	6.04%	8.10%	3,939,331,858
1991	57.74%	16.80%	11.15%	5.63%	8.67%	4,531,867,842
1992	56.70%	17.38%	11.51%	5.52%	8.88%	4,463,692,494
1993	56.95%	17.46%	11.28%	5.37%	8.94%	4,707,202,656
1994	55.19%	18.14%	11.41%	5.04%	10.21%	5,777,872,257
1995	53.78%	19.63%	11.16%	4.85%	10.58%	6,537,678,305
1996	52.86%	20.26%	10.97%	4.72%	11.18%	6,866,354,281
1997	51.51%	21.67%	10.93%	4.68%	11.21%	7,087,266,194
1998	50.25%	21.88%	11.47%	4.80%	11.59%	7,397,825,633
1999	48.08%	22.14%	11.97%	4.81%	12.99%	8,585,449,542
2000	45.94%	23.35%	12.34%	4.91%	13.46%	10,195,669,758
2001	43.67%	25.06%	12.81%	5.03%	13.43%	10,569,540,590
2002	42.98%	24.19%	13.52%	5.35%	13.96%	9,882,060,697
2003	42.98%	24.36%	13.68%	5.44%	13.55%	10,448,686,493
2004	41.94%	25.37%	13.92%	5.45%	13.32%	11,708,498,708
2005	40.94%	26.09%	14.08%	5.43%	13.46%	12,906,004,493
2006	40.44%	25.77%	14.36%	5.51%	13.92%	14,937,014,698
2007	41.02%	25.80%	13.77%	5.63%	13.78%	15,823,237,890
2008	39.67%	25.77%	14.69%	5.23%	14.63%	15,794,362,116
2009	38.67%	24.45%	14.99%	6.15%	15.74%	13,783,662,672
2010	38.97%	23.43%	15.19%	6.86%	15.55%	13,257,552,916
2011	37.92%	24.27%	15.47%	7.20%	15.13%	14,494,080,385
2012	36.38%	25.30%	15.74%	7.55%	15.02%	15,272,480,120
2013	37.02%	25.28%	15.54%	7.69%	14.48%	15,538,620,376
2014	36.75%	26.07%	15.42%	7.37%	14.39%	16,307,833,208
2015	34.90%	26.70%	15.86%	7.43%	15.13%	16,741,645,282
2016	34.24%	28.12%	15.98%	7.17%	14.47%	17,102,084,279

Source: Center for Gaming Research, University Libraries, UNLV, 2016.

A major driver of prosperity in Las Vegas is the meetings & convention business. When comparing 2016 to 2015, the Las Vegas Convention & Visitor Authority reports greater gains in convention attendance (7.1 percent) than in the combined gaming revenue of Clark County, Downtown, Boulder Strip and Las Vegas Strip casinos (6.1 percent). Las Vegas has expanded its offerings as a destination to attract both gaming and non-gaming visitors. It has become a city with gaming rather than a gaming city and reaped

the rewards. For the third consecutive year Las Vegas saw a record number of visitors, 42.9 million in 2016.

This shift from reliance on gaming revenue to non-gaming revenue has already begun to occur, to a lesser extent, in Atlantic City. Non-gaming revenue in Atlantic City has gone from a low of 19 percent of total revenue in 1993 to a high of 30 percent in 2013. Figure 3 below shows the relationship between gaming and non-gaming revenue for the years 1989 through 2016.

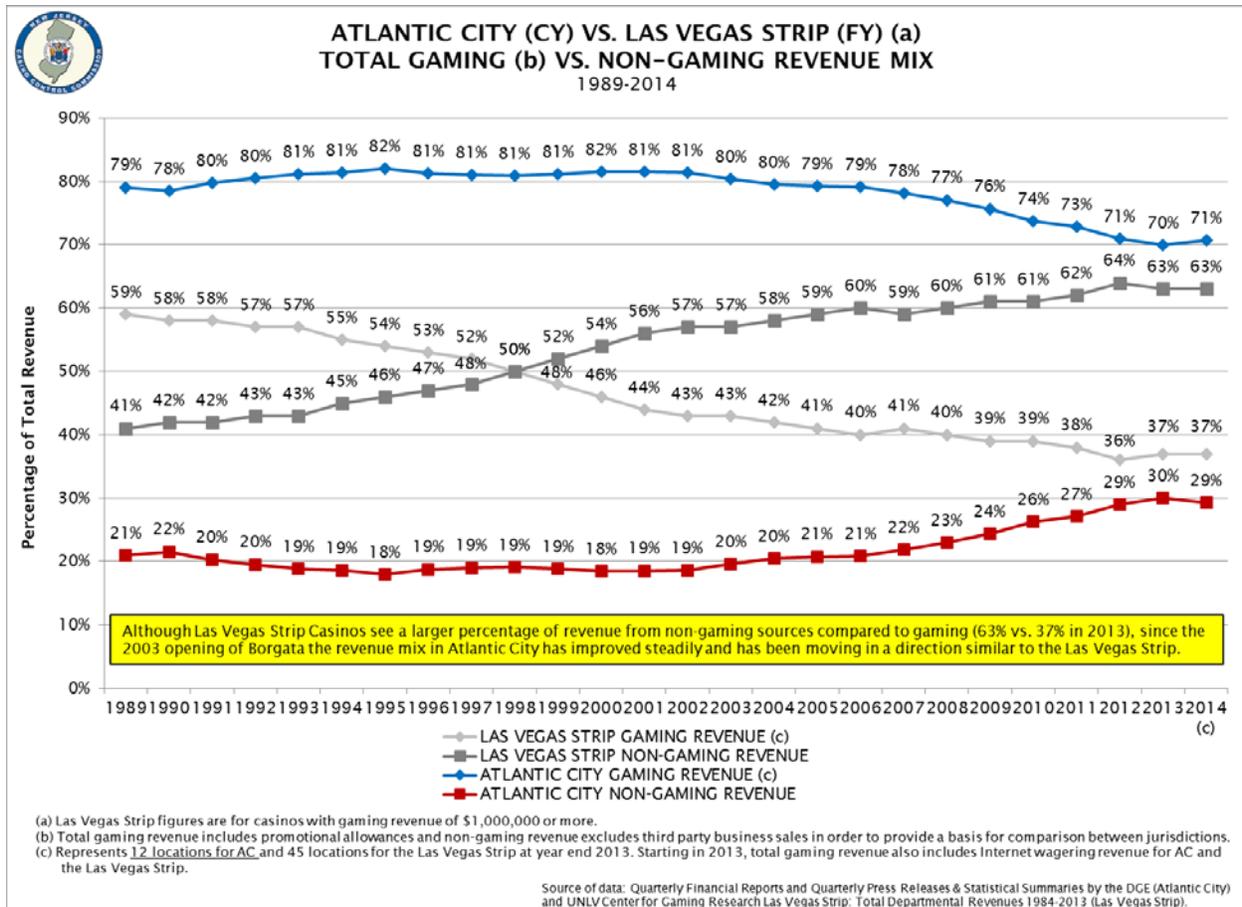
Figure 3: Atlantic City- Gaming/Non-Gaming Percentages of Total Revenue (in thousands)

Year	Gaming	Non-Gaming	Total
1989	79%	21%	\$ 3,509,355
1990	78%	22%	\$ 3,752,428
1991	80%	20%	\$ 3,749,401
1992	80%	20%	\$ 4,019,941
1993	81%	19%	\$ 4,073,947
1994	81%	19%	\$ 4,204,325
1995	82%	18%	\$ 4,551,521
1996	81%	19%	\$ 4,667,513
1997	81%	19%	\$ 4,764,939
1998	81%	19%	\$ 4,914,062
1999	81%	19%	\$ 5,044,670
2000	82%	18%	\$ 4,961,788
2001	81%	19%	\$ 5,097,565
2002	81%	19%	\$ 5,118,414
2003	80%	20%	\$ 5,504,551
2004	80%	20%	\$ 5,957,869
2005	79%	21%	\$ 6,258,316
2006	79%	21%	\$ 6,527,984
2007	78%	22%	\$ 6,256,038
2008	77%	23%	\$ 5,839,137
2009	76%	24%	\$ 5,169,278
2010	74%	26%	\$ 4,800,265
2011	73%	27%	\$ 4,528,999
2012	71%	29%	\$ 4,294,846
2013	70%	30%	\$ 4,067,499
2014	71%	29%	\$ 3,883,366
2015	71%	29%	\$ 3,495,215
2016	72%	28%	\$ 3,509,772

Source: DGE and CCC

This change in trajectory is visually more apparent if we look at Figure 4, which graphically displays the transition within Vegas and A.C.

Figure 4



Source: CCC

However, this change in focus has not always been voluntary for Atlantic City’s casinos, five of which have closed in the last three years.

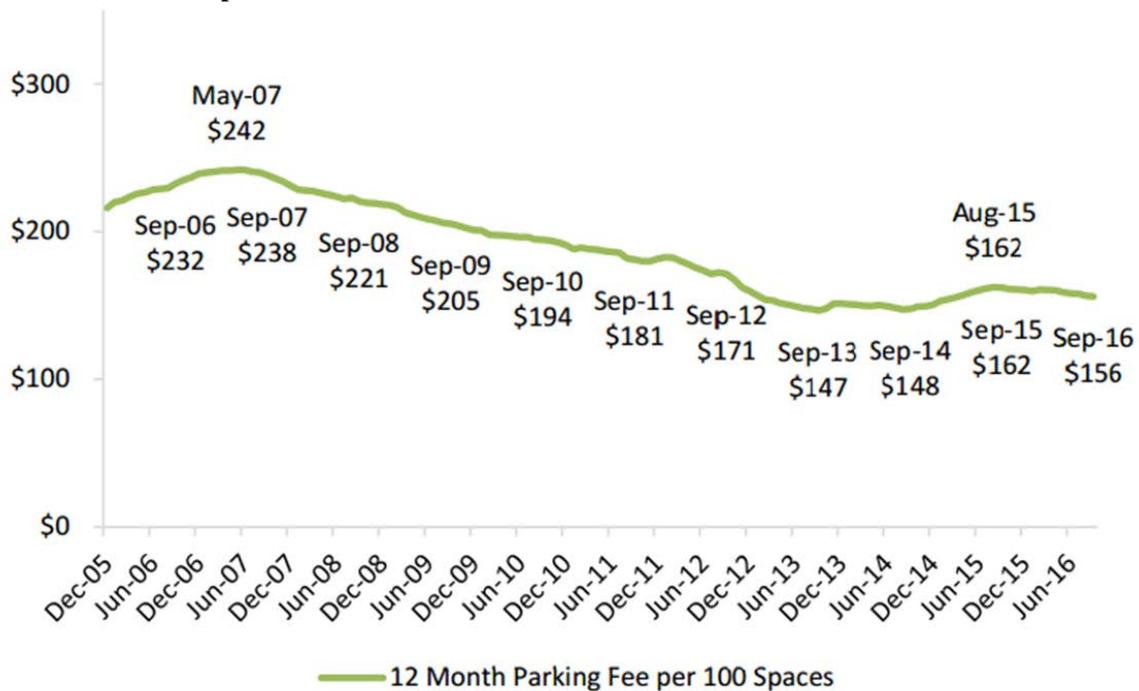
When casinos close, there is more at stake than gaming revenues. The impact of the five casino closures is also felt in the loss of non-gaming revenues from parking, lodging, dining and entertainment. As reported in the New Jersey Casino Control Commission Annual Report, non-gaming revenue from casino properties declined by 7.4 percent in 2014 and 12.3 percent in 2015. This decline is related to the loss of approximately 6,453 casino hotel rooms as well as similar losses in the parking (21,437 spaces lost), dining (approximately 50 establishments lost) and other amenities (entertainment venues, bars, lounges and spas) offered by these properties.

Current operators have adapted to these losses, learning to do more with less. In 2013 (before the first casino closure), casino hotels reported an Average Daily Rate (ADR) of \$99.30 and Revenue Per Available Room (RevPAR) of \$76.86. In 2015 (after the first four closures), those numbers were \$102.77 and \$82.98 respectively. In 2016 ADR was \$105.61 and RevPAR \$86.07.

For comparison, ADR/RevPAR for non-gaming hotels in Atlantic County was \$107.04/\$49.94 in 2013 and \$116.90/\$52.33 in 2015. The substantially lower RevPAR rates for the non-gaming hotels are related to the occupancy rate which was 46.7 percent in 2013 and 45.1 percent in 2015. Casino Hotels reported occupancy of 77.4 percent and 80.8 percent for the same years. Casino hotel occupancy in 2016 was 81.5 percent.

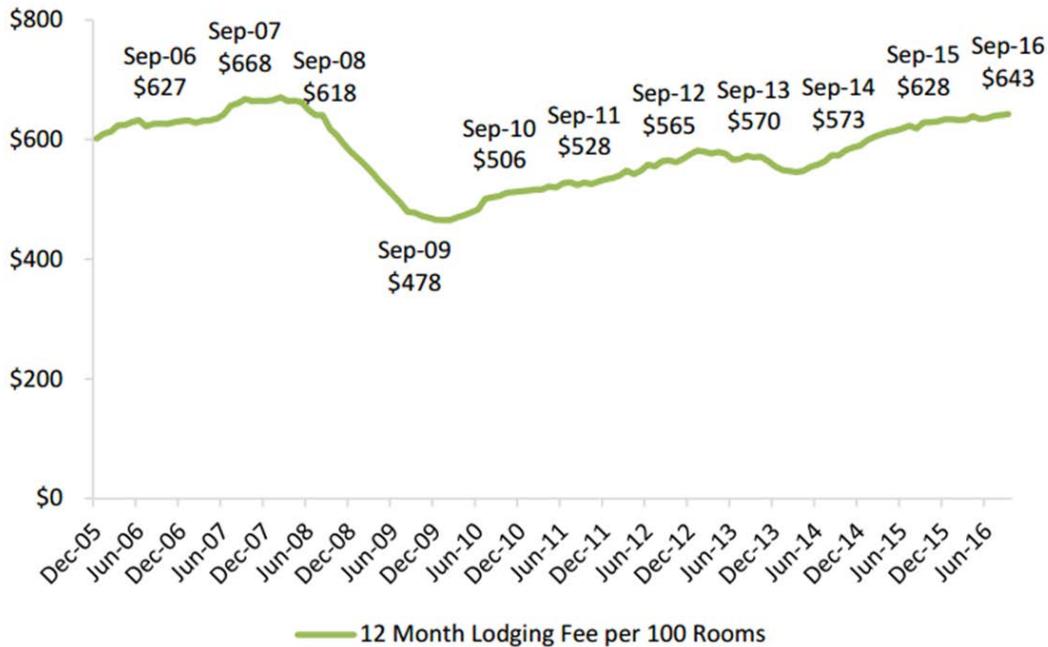
Other performance indicators such as the Casino Parking Fee and the Atlantic County Lodging Fee (both calculated on a per 100-unit basis) paint a similar picture of cautious growth and recovery. Figure 5 shows the 12-month trailing total for the Atlantic City Casino Parking Fee per 100 parking spaces, December 2005 to September 2016 and Figure 6 shows the 12-month trailing total for the Atlantic County Lodging Fee per 100 rooms, December 2005 to September 2016.

Figure 5: 12-Month Trailing Total for the Atlantic City Casino Parking Fee per 100 Parking Spaces, December 2005 to September 2016



Source: The Lloyd D. Levenson Institute, AC-TPI 2016 Q3

Figure 6: 12-Month Trailing Total for the Atlantic County Lodging Fee per 100 Rooms, December 2005 to September 2016



Source: The Lloyd D. Levenson Institute, AC-TPI 2016 Q3

These statistics can only go so far in describing the current environment in Atlantic City and have limited usefulness when predicting the city’s future. Even comparison to Las Vegas falls short when suggesting changes for future development and growth. It shouldn’t be forgotten that Atlantic City is a unique community with a history and identity of its own. Atlantic City has many assets which, though perhaps currently underutilized, could become major drivers of revenue and visitation. Certainly, Atlantic City has one thing in particular which Las Vegas and Pennsylvania do not, a beach.

Despite recent setbacks, New Jersey’s shore communities continue to make significant contributions to the state’s tourism industry. As recorded in the 2016 Economic Impact of Tourism in New Jersey report, Atlantic and Cape May counties contributed 31 percent of the state’s \$41.9 billion in direct tourism sales revenue for 2016 and Atlantic County continues to lead the state in total direct tourism sales and direct tourism employment. According to The Press of Atlantic City, the state’s leading tourism counties, Atlantic and Cape May, possess 40 miles of coastline and about 15 resort towns between them, further underlining the importance of South Jersey’s beaches in the tourism equation.

Many of the same elements that make a destination appealing to visit also contribute to its appeal as a destination for conventions, trade shows and meetings. The opportunity exists to develop and expand Atlantic City as a destination attractive for both leisure and business travelers. Expanding the current conventions and meeting spaces and increasing the number of attractions and entertainments are not beyond Atlantic City’s abilities and rather play to its strengths.

Significant changes to the city's physical and economic landscape are already occurring. Even as the Atlantic City Gateway Project, which includes Stockton University's campus, rises at Albany and Atlantic avenues, shuttered casinos are finding a new life. The Showboat has reopened as a non-gaming resort and even the troubled Taj Mahal is set to reopen in summer 2018 as the Hard Rock Hotel & Casino. Reopening and repurposing the shuttered casinos, even as non-gaming resorts, adds to the city's supply of hotel rooms and meeting spaces, which increases its ability to attract and host larger conventions and trade shows.

Investments in upgrading and expanding meeting and convention spaces at existing properties complement the growing trend in meeting and convention business. In recent years Borgata (\$11M), Harrah's (Waterfront Conference Center-\$125.8M) and Resorts (\$9.4M) have made significant investments in their venues and are already seeing return on that investment. According to the Atlantic City Tourism Sales Barometer, prepared by Atlantic City Convention and Visitors Authority, hotels saw a 23.2 percent increase in the number of conventions, trade shows, and meetings held at their venues in 2016. The total number of shows offered in the city increased by 10.1 percent in 2016, drawing 9 percent more meeting attendees/delegates who used 21.5 percent more rooms. In 2016 these delegates spent \$179,268,321 in Atlantic City.

In addition to these gains in the meeting and convention business, the city has also seen opportunities for growth in attractions and other developments targeted toward an expanding audience of consumers. For Millennials, the Casinos have invested in renovations to their nightclubs and social venues. The Pool at Harrah's (\$3M), the Premier Nightclub (\$14M) at the Borgata and Ivan Kane's Kiss Kiss Nightclub (part of a \$40M renovation) at the Tropicana are all examples of this. For Families (a somewhat new audience for the city), long awaited projects, such as the construction of an observation wheel at the Steel Pier, have recently gained ground. Still other projects, like creating a pedestrian and bicycle route as part of rebuilding and protecting the boardwalk and adding a 350 foot 'Polercoaster', hint at a destination that is looking diversify its offerings.

The shape of Atlantic City is changing just as it did 40 years ago. The process is painful and slower than many would like, but it is coming. The Atlantic City that emerges will be different because it needs to be different, and we need not fear the changes ahead.