

2013 Mid Year Report

UNLV | Colliers International Gaming Group



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Southern Nevada's gaming industry may not be moving as quickly as Dan Tanna's 1957 Thunderbird, but for the last two years it has shown solid improvement. In 2012, Southern Nevada reached a new record in visitor volume and showed improvement in gaming revenue, despite increased competition nationally and globally. With half of 2013 behind us, visitor volume appears to be holding steady, and gaming revenue is on track to show very solid improvement when compared to the past four years. This improved cash flow appears to be spurring construction and renovation on the Las Vegas "Strip" and in Downtown Las Vegas.

As typical of our team, we have extrapolated data on both the gaming market in the State of Nevada and what it means to the ancillary real estate and economic forecast for our State.

As Southern Nevada's gaming sector recovers, it will likely stimulate the region's commercial real estate sector. Renewed construction and renovation on the "Strip" and in Downtown should stimulate the construction sector, and thus industrial leasing and sales. Increased employment on the gaming sector should positively impact the retail market. The office market should likewise see improvement with increased employment, but might also benefit from the potential for resort operators to move their back offices from their own properties to speculative office projects.

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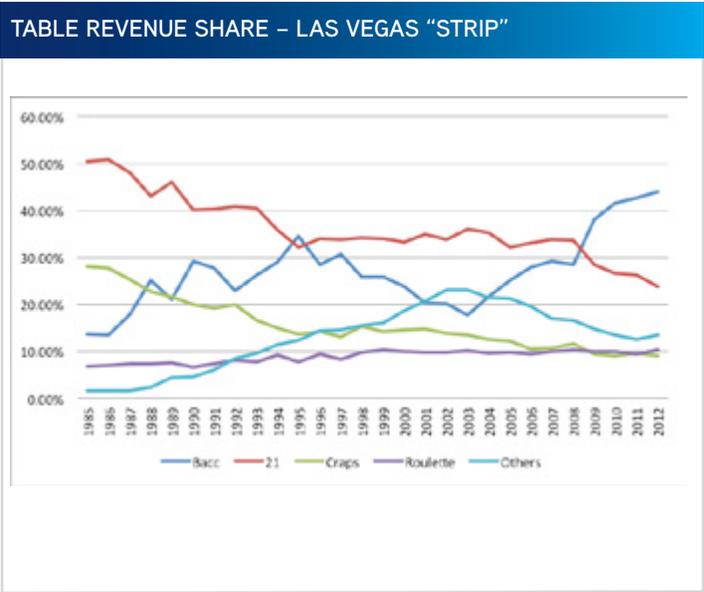
As the rest of the year takes shape, we have provided some overriding themes to look for in the months to come. In the first six months of 2013, three stories dominate the Las Vegas gaming and tourism sector.

BACCARAT BECKONS

Since 2004, baccarat has steadily increased its market share among table games. As seen below, Baccarat's share of table games revenue has seen a steady increase from 21.48% in 2004 to 43.88% as of Year-End 2012. Since January, the trend has continued at over 40% into June 2013.

The increasing emphasis on baccarat is significant for two reasons. First, it illustrates the continuing importance of Asian high rollers (who prefer baccarat) to the financial health of the Las Vegas Strip. As overall gaming revenue remains flat-to-negative, Asian high-end play has been a lifeline for the casinos that have been able to attract it.

This leads into the second key takeaway about baccarat: it is not evenly distributed. Slot win is, dollar for dollar, fairly evenly divided among all of the properties in a given market, with some exceptions for particularly over- or under-performing casinos. Asian high-end play, at the highest levels, is restricted, for the most part, to six properties on the Las Vegas Strip, divided among four companies: Las Vegas Sands, Wynn Resorts, MGM Resorts, and Caesars Entertainment. This means that, in general, gaming revenue is much more unevenly distributed than in the past. A rising tide, in such an environment, may not lift all boats.



CHANGING RETAIL CUSTOMER

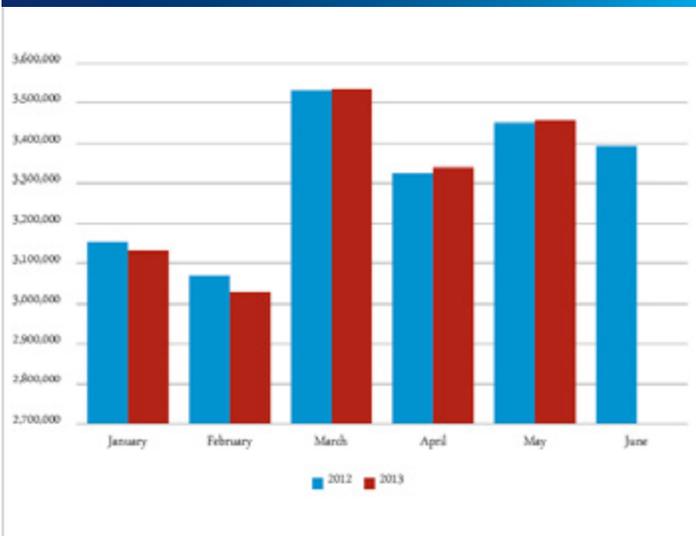
As the Asian high roller remakes the high end of the Strip, the domestic retail customer's profile is changing. Pre-recession, the average retail customer on the Strip was paying higher room rates, spending more on Food and Beverage, and gambling more. The recession led to a reversal of this trend, with a sharp drop in both room rates and gaming win. Since then, gaming win has only gradually increased, despite a growth in overall visitation to record numbers.

It is clear that, post-recession, visitors still love coming to Las Vegas, but they aren't returning to previous levels of spending. In addition, the spending pattern is changing. Beverage revenues, which are tied to nightclubs, have risen to levels 29.56 percent over their pre-recession highs, have been the major winner. Restaurant revenues have also surpassed

LAS VEGAS "STRIP" REVENUE SHARE BY SOURCE					
	GAMING	ROOMS	FOOD	BEVERAGE	OTHER
FY00	45.94%	23.35%	12.34%	4.91%	13.46%
FY01	43.67%	25.06%	12.81%	5.03%	13.43%
FY02	42.98%	24.19%	13.52%	5.35%	13.96%
FY03	42.98%	24.36%	13.68%	5.44%	13.55%
FY04	41.94%	25.37%	13.92%	5.45%	13.32%
FY05	40.94%	26.09%	14.08%	5.43%	13.46%
FY06	40.44%	25.77%	14.36%	5.51%	13.92%
FY07	41.02%	25.80%	13.77%	5.63%	13.78%
FY 08	39.67%	25.77%	14.69%	5.23%	14.63%
FY09	38.67%	24.45%	14.99%	6.15%	15.74%
FY10	38.97%	23.43%	15.19%	6.86%	15.55%
FY11	37.92%	24.27%	15.47%	7.20%	15.13%
FY12	36.38%	25.30%	15.74%	7.55%	15.02%

Source: Nevada Gaming Control Board

VISITOR VOLUME (MILLIONS)



their pre-recession peak. Neither gaming nor rooms have recovered to their pre-recession peaks.

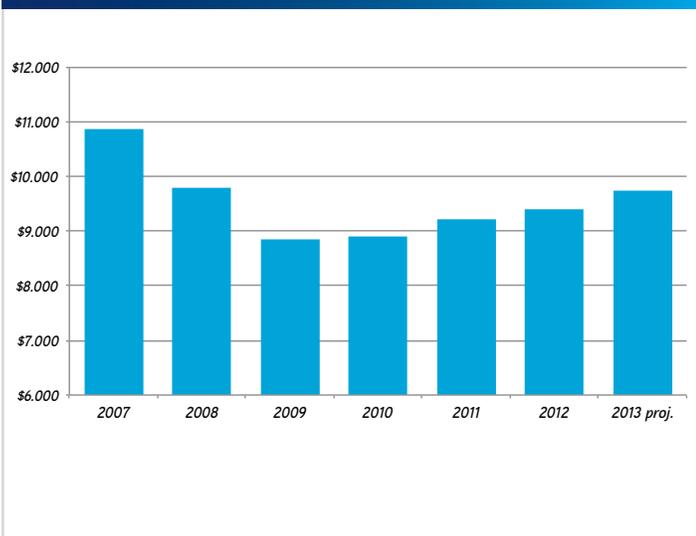
This shift in revenue patterns demonstrates that retail customers, which make up the vast bulk of the visitors to Las Vegas, are looking beyond gaming. This new pattern is true both on the Strip and in Downtown. Both are seeing record numbers of visitors, and while Downtown customers remain more price-sensitive than Strip customers, they are enthusiastic about their love for what they find on Fremont Street. We have reached the stage where we can no longer wait for returns to pre-recession spending patterns, and instead should embrace a new paradigm. The Las Vegas retail visitors will spend less on gambling, but more on food and nightlife. Casinos that adjust their operations to reflect this reality will improve their competitive outlook.

WAITING FOR THE NEXT WAVE

Downtown Las Vegas is, in some respects, leading the Strip. The past five years have seen renovations or expansions at the Plaza, Golden Gate, Golden Nugget, The D, and El Cortez. The next major upgrade will be the Downtown Grand, which will replace the former Lady Luck in early 2014. As a result, Downtown is on the tail end of a renovation curve that has given visitors new reasons to visit.

The Strip, on the other hand, has been largely holding its breath. With the February announcement that Genting was buying the Echelon site and building Resorts World Las Vegas, it is clear that it is a question of when, not if, new product opens on the Strip.

GAMING REVENUE (BILLIONS)



Tellingly, both SLS Las Vegas and Resorts World will be marketing to customers out of the traditional Strip mainstream. SLS will be leveraging its expertise in nightlife, while Resorts World will be building on its large Asian presence.

In the absence of major new developments, existing operators have retooled their properties to better meet the demands of the new customer. The addition of the Light complex, which includes a nightclub and pool/dayclub, to Mandalay Bay Hakkasan at MGM Grand is evidence of this, as is Caesars \$500 million Linq project. Neither have a major gaming component, as both are premised on getting higher non-gaming wallet share from visitors.

Much of the first half of 2013 has been spent waiting for the impact of already opened non-gaming amenities and anticipating adjustments to the projects that will open in late 2013 and 2014. Those operators who have not announced significant changes to their product will be challenged to stay relevant in the coming flood of new major and minor developments.

NONRESTRICTED GAMING LICENSES "GAMING WIN" (\$)			
AREA	2013 YTD - 6/30/13	2012 YTD - 6/30/13	% CHANGE
Statewide	5,441,244,451	5,398,420,592	0.8%
Clark County	4,729,462,036	4,688,097,641	0.9%
Strip	3,099,488,648	3,021,048,000	2.6%
Downtown	256,024,176	263,105,718	-2.7%
North Las Vegas	132,713,851	145,372,097	-8.7%
Laughlin	243,554,338	248,485,289	-2.0%
Boulder Strip	403,688,418	415,469,655	-2.8%
Mesquite	60,563,838	64,110,467	-5.5%
Balance of County	533,428,769	530,506,413	0.6%
Washoe County	371,310,589	358,722,972	3.5%
Reno	354,768,509	341,902,032	3.8%
Sparks	233,452,848	219,202,367	6.5%
North Lake Tahoe	51,542,906	52,835,774	-2.4%
Balance of County	14,146,134	13,733,331	3.0%
South Lake Tahoe	12,521,952	16,555,235	-24.4%
Elko County	20,425,489	21,295,802	-4.1%
Wendover	120,115,832	126,661,678	-5.2%
Balance of County	75,712,207	79,011,743	-4.2%
Carson Valley Area	8,396,690	8,229,305	2.0%
Other	12,304,704	12,344,879	-0.3%

Source: Nevada Gaming Control Board

