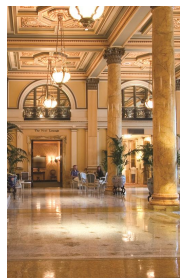




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# LAS VEGAS CASINO AND HOTEL MARKET OUTLOOK 2012

Shannon Okada  
*Associate Director*



## Las Vegas Casino and Hotel: *Market Outlook 2012*

*Visitor volume is the single-largest determinant of Southern Nevada's economic health, driving hotel occupancy, average daily room rates, and gaming revenue. All experienced modest increases in 2011 and are expected to continue to improve in 2012.*

Las Vegas<sup>1</sup> has continued its rebound that began in 2010. Gross gaming revenue for Clark County increased 3.3% in the year-to-date period through November 2011 compared to the same period in 2010. Room occupancy and average daily rates (ADR) were also up from the depressed levels of recent years. With increasing revenues, profit margins for casino-resorts are expected to benefit from the efficiencies implemented during the downturn. With the national and local economies recovering, and discretionary spending slowly rising, the outlook for the Las Vegas market in 2012 is positive, followed by stronger results in 2013.

### VISITATION

Visitor volume is the single-largest determinant of Las Vegas' economic health. Visitors drive hotel occupancy, average daily room rates, and gaming revenue. Overall, 2011 was good for Las Vegas tourism. In 2010, visitor volume grew for the first time since 2007. Year-to-date data through November 2011 indicate that annual visitor volume also grew year-over-year. Year-to-date through November 2011, 36.0 million people visited Las Vegas, up 4.4% from the 34.5 million recorded during the same period in 2010. Table 1 depicts the number of visitors to Las Vegas from 2000 through the year-to-date period ending November 2011 based on data from the Las Vegas Convention and Visitors Authority (LVCVA).<sup>2</sup>

TABLE 1- LAS VEGAS VISITORS- 2000 TO NOVEMBER 2011

| Year  | Total Visitors | % Change |
|---|----------------|----------|
| 2000  | 35,849,691     | 27.1     |
| 2001  | 35,017,317     | (2.3)    |
| 2002  | 35,071,504     | 0.2      |
| 2003  | 35,540,126     | 1.3      |
| 2004  | 37,388,781     | 5.2      |
| 2005  | 38,566,717     | 3.2      |
| 2006  | 38,914,889     | 0.9      |
| 2007  | 39,196,761     | 0.7      |
| 2008  | 37,481,552     | (4.4)    |
| 2009  | 36,351,469     | (3.0)    |
| 2010  | 37,335,436     | 2.7      |
| Year-to-date November:                            |                |          |
| 2010  | 34,450,600     | ---      |
| 2011  | 35,971,217     | 4.4 %    |
| Average Annual Compounded Change, 2000-2010:      |                | 0.4 %    |
| Source: Las Vegas Convention & Visitors Authority |                |          |

<sup>1</sup> Las Vegas, including the Las Vegas Strip, is located in Clark County, Nevada.

<sup>2</sup> Note that Las Vegas visitor data subsequent to November 2011 were not available as of the date this article was written.

A review of the monthly visitation data indicates that the number of visitors year-over-year began to grow on a monthly basis again during the last four months of 2009. As of November 2011, the LVCVA reported 21 consecutive months of gains in prior-year comparisons.

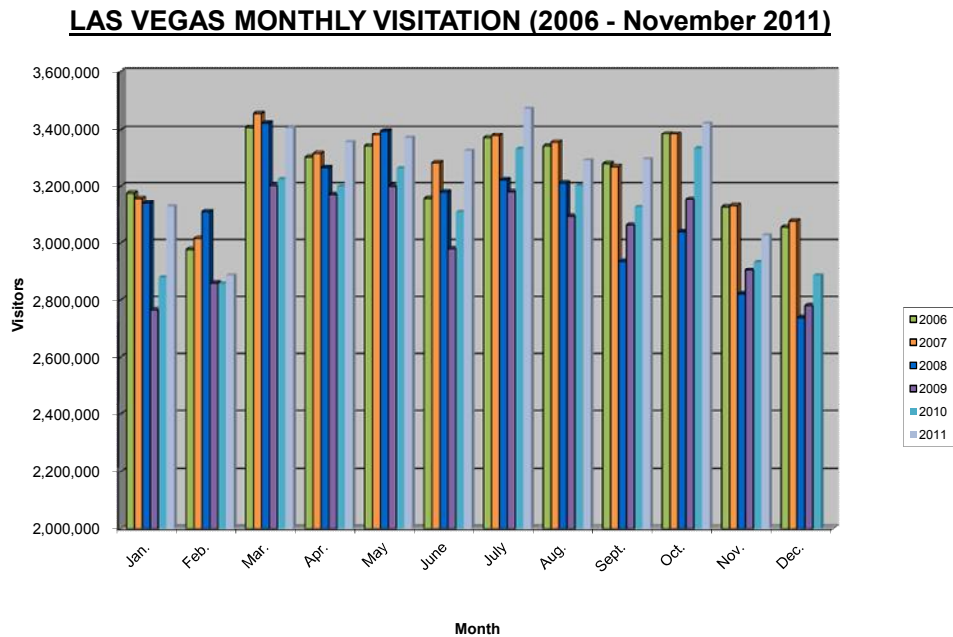
TABLE 2 - LAS VEGAS VISITORS BY MONTH – 2006 TO NOVEMBER 2011

| Month                      | 2006 Visitors     | 2007 Visitors     | Percent Change | 2008 Visitors     | Percent Change | 2009 Visitors     | Percent Change | 2010 Visitors     | Percent Change | 2011 Visitors     | Percent Change |
|----------------------------|-------------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|
| January                    | 3,175,528         | 3,156,419         | (0.6) %        | 3,138,312         | (0.6) %        | 2,765,916         | (11.9) %       | 2,877,716         | 4.0 %          | 3,126,364         | 8.6 %          |
| February                   | 2,977,418         | 3,015,850         | 1.3            | 3,107,997         | 3.1            | 2,858,545         | (8.0)          | 2,856,456         | (0.1)          | 2,884,587         | 1.0            |
| March                      | 3,408,421         | 3,456,738         | 1.4            | 3,423,765         | (1.0)          | 3,202,344         | (6.5)          | 3,224,697         | 0.7            | 3,406,385         | 5.6            |
| April                      | 3,301,734         | 3,314,448         | 0.4            | 3,265,251         | (1.5)          | 3,171,043         | (2.9)          | 3,199,541         | 0.9            | 3,354,283         | 4.8            |
| May                        | 3,341,156         | 3,380,791         | 1.2            | 3,395,991         | 0.4            | 3,199,719         | (5.8)          | 3,262,831         | 2.0            | 3,369,262         | 3.3            |
| June                       | 3,157,228         | 3,282,315         | 4.0            | 3,179,472         | (3.1)          | 2,980,122         | (6.3)          | 3,106,965         | 4.3            | 3,324,290         | 7.0            |
| July                       | 3,369,877         | 3,378,193         | 0.2            | 3,222,456         | (4.6)          | 3,181,139         | (1.3)          | 3,330,658         | 4.7            | 3,472,861         | 4.3            |
| August                     | 3,341,005         | 3,353,997         | 0.4            | 3,211,209         | (4.3)          | 3,092,403         | (3.7)          | 3,201,662         | 3.5            | 3,290,473         | 2.8            |
| September                  | 3,278,884         | 3,268,125         | (0.3)          | 2,936,499         | (10.1)         | 3,062,340         | 4.3            | 3,123,549         | 2.0            | 3,294,117         | 5.5            |
| October                    | 3,384,978         | 3,384,546         | (0.0)          | 3,039,272         | (10.2)         | 3,153,159         | 3.7            | 3,332,628         | 5.7            | 3,422,074         | 2.7            |
| November                   | 3,124,369         | 3,129,508         | 0.2            | 2,821,629         | (9.8)          | 2,904,091         | 2.9            | 2,933,897         | 1.0            | 3,026,521         | 3.2            |
| December                   | 3,054,291         | 3,075,831         | 0.7            | 2,739,699         | (10.9)         | 2,780,648         | 1.5            | 2,884,836         | 3.7            |                   |                |
| <b>Total</b>               | <b>38,914,889</b> | <b>39,196,761</b> | <b>0.7 %</b>   | <b>37,481,552</b> | <b>(4.4) %</b> | <b>36,351,469</b> | <b>(3.0) %</b> | <b>37,335,436</b> | <b>2.7 %</b>   |                   |                |
| <b>YTD November Total:</b> | <b>35,860,598</b> | <b>36,120,930</b> | <b>0.7 %</b>   | <b>34,741,853</b> | <b>(3.8) %</b> | <b>33,570,821</b> | <b>(3.4) %</b> | <b>34,450,600</b> | <b>2.6 %</b>   | <b>35,971,217</b> | <b>4.4 %</b>   |

Source: Las Vegas Convention & Visitors Authority

Just over 3.0 million people came to Las Vegas in November 2011, a 3.2% gain from the 2.9 million recorded in November 2010. Growth in visitation in the year-to-date period bodes well for the Las Vegas market. Monthly visitor totals in April, June, July, September, and October all exceeded prior monthly totals in the 2006 and 2007 boom years and 2011 is expected to be hailed as a record year in terms of visitation once year-end statistics are released by the LVCVA.

CHART 1 - LAS VEGAS MONTHLY VISITATION – 2006 TO NOVEMBER 2011



## MCCARRAN INTERNATIONAL AIRPORT

McCarran International Airport continues with improvements to increase capacity and patron comfort. The airport's \$13 million interior renovation of C Concourse will include new ceiling panels and lighting; more-energy-efficient window tinting, and heating and air-conditioning systems; revised directional signage; new carpeting and wall panels; refurbished jet bridges; and upgraded restroom fixtures. The renovation will also eliminate one gating area in favor of a new Asian restaurant concept and a retail outlet. These interior improvements are expected to be completed by the end of 2012. Additionally, the airport's \$2.4 billion, 14-gate Terminal 3 project is planned to be completed in the middle of 2013. When Terminal 3 opens it will allow for increased air service from domestic and international markets that cannot be accommodated under the airport's current configuration.

Cutbacks by airlines serving McCarran International Airport because of declining consumer demand beginning in September 2008 resulted in a reduced number of incoming and outgoing seats per day, contributing to the declining passenger totals in 2008, 2009, and 2010. The reduction in airline capacity is a critical issue for Las Vegas as the majority of its visitors arrive by air. American Airlines filed for Chapter 11 bankruptcy protection in 2011 and may reduce flights. Airlines are not expected to add flights into Las Vegas until warranted by increased demand from consumers and current flights sell out on a regular basis. Several international carriers continue to build their presence, however, including WestJet, Aero Mexico, Mexico's Volaris, British Airways, and Virgin Atlantic. Statistics for McCarran International Airport from 2000 through November 2011 are set forth in Table 3.

TABLE 3 - MCCARRAN INTERNATIONAL AIRPORT STATISTICS (2000 TO NOVEMBER 2011)

| McCarran International Airport                           |                   |                 |                  |
|--|-------------------|-----------------|------------------|
| Year   | Passenger Traffic | Percent Change* | Percent Change** |
| 2000   | 36,865,893        | —               | —                |
| 2001   | 35,180,960        | (4.6)           | (4.6)            |
| 2002   | 35,009,011        | (0.5)           | (2.6)            |
| 2003   | 36,265,932        | 3.6             | (0.5)            |
| 2004   | 41,441,531        | 14.3            | 3.0              |
| 2005   | 44,267,362        | 6.8             | 3.7              |
| 2006   | 46,304,376        | 4.6             | 3.9              |
| 2007   | 47,729,414        | 3.1             | 3.8              |
| 2008   | 44,074,707        | (7.7)           | 2.3              |
| 2009   | 40,469,012        | (8.2)           | 1.0              |
| 2010   | 39,757,359        | (1.8)           | 0.8              |
| Year-to-Date through November:                           |                   |                 |                  |
| 2010   | 36,673,683        | —               | —                |
| 2011   | 38,275,798        | 4.4 %           | —                |
| *Average annual compounded change from the previous year |                   |                 |                  |
| **Average annual compounded change from 2000             |                   |                 |                  |
| Source: Las Vegas Convention & Visitors Authority        |                   |                 |                  |

Year-to-date data through November 2011 indicate that passenger counts at McCarran International Airport increased 4.4% over the same period in 2010. The airport reported growth each month in 2011 compared to 2010, with its highest monthly passenger count of 2011 in October at 3.7 million passengers.

## CONVENTION ACTIVITY

A significant demand generator of midweek occupancy is visitors who attend conventions, conferences, and other meeting and group activities. Any decline in the number of convention attendees does not bode well for the market. The number of convention attendees began declining on an annual basis since 2006, with the most significant decline in 2009. However, the number of convention attendees is also on course to reverse the declining trend in 2011.

TABLE 4 - LAS VEGAS CONVENTION ATTENDANCE – 2006 TO NOVEMBER 2011

| Month                      | 2006<br>Attendance | 2007<br>Attendance | Percent<br>Change | 2008<br>Attendance | Percent<br>Change | 2009<br>Attendance | Percent<br>Change | 2010<br>Attendance | Percent<br>Change | 2011<br>Attendance | Percent<br>Change |
|----------------------------|--------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| January                    | 733,289            | 780,542            | 6.4 %             | 677,978            | (13.1) %          | 538,415            | (20.6) %          | 449,917            | (16.4) %          | 615,854            | 36.9 %            |
| February                   | 809,658            | 771,985            | (4.7)             | 893,982            | 15.8              | 583,168            | (34.8)            | 518,394            | (11.1)            | 458,623            | (11.5)            |
| March                      | 653,502            | 682,824            | 4.5               | 637,755            | (6.6)             | 446,588            | (30.0)            | 470,005            | 5.2               | 533,579            | 13.5              |
| April                      | 545,856            | 518,065            | (5.1)             | 538,316            | 3.9               | 414,764            | (23.0)            | 426,697            | 2.9               | 435,934            | 2.2               |
| May                        | 424,922            | 506,165            | 19.1              | 509,482            | 0.7               | 341,846            | (32.9)            | 352,357            | 3.1               | 352,303            | (0.0)             |
| June                       | 497,902            | 429,804            | (13.7)            | 438,044            | 1.9               | 355,436            | (18.9)            | 351,731            | (1.0)             | 367,712            | 4.5               |
| July                       | 392,338            | 262,560            | (33.1)            | 264,197            | 0.6               | 249,692            | (5.5)             | 320,724            | 28.4              | 263,441            | (17.9)            |
| August                     | 606,595            | 739,215            | 21.9              | 574,184            | (22.3)            | 235,841            | (58.9)            | 345,095            | 46.3              | 412,902            | 19.6              |
| September                  | 398,836            | 397,349            | (0.4)             | 357,525            | (10.0)            | 401,319            | 12.2              | 291,248            | (27.4)            | 434,373            | 49.1              |
| October                    | 493,207            | 388,475            | (21.2)            | 381,129            | (1.9)             | 349,383            | (8.3)             | 419,076            | 19.9              | 457,686            | 9.2               |
| November                   | 585,047            | 602,605            | 3.0               | 503,545            | (16.4)            | 437,864            | (13.0)            | 372,480            | (14.9)            | 382,137            | 2.6               |
| December                   | 161,809            | 129,664            | (19.9)            | 123,588            | (4.7)             | 137,959            | 11.6              | 155,410            | 12.6              |                    | (100.0)           |
| <b>Total</b>               | <b>6,302,961</b>   | <b>6,209,253</b>   | <b>(1.5) %</b>    | <b>5,899,725</b>   | <b>(5.0) %</b>    | <b>4,492,275</b>   | <b>(23.9) %</b>   | <b>4,473,134</b>   | <b>(0.4) %</b>    | <b>4,714,544</b>   | <b>#DIV/0! %*</b> |
| <b>YTD November Total:</b> | <b>6,141,152</b>   | <b>6,079,589</b>   | <b>(1.0) %</b>    | <b>5,776,137</b>   | <b>(5.0) %</b>    | <b>4,354,316</b>   | <b>(24.6) %</b>   | <b>4,317,724</b>   | <b>(0.8) %</b>    | <b>4,714,544</b>   | <b>9.2 %</b>      |

Source: Las Vegas Convention & Visitors Authority

In 2009, convention attendance was down 23.9% compared to 2008, amounting to a total decline of 29% from its peak in 2006. In 2009, cancellations of meetings and gatherings were experienced and attracting meetings and groups to Las Vegas area properties was hindered because of the economic downturn, the negative connotation of meeting in resort destinations, and companies sending fewer delegates as a result of cost-saving measures. The significant increase in the number of convention attendees year-over-year during the months of July, August, October, and December 2010—although tempered by the decline in attendees in September and November 2010—was the first indication that the downward trend in the meeting and group business had slowed. In 2010, convention attendance ended up down only 0.4% compared to 2009.

The number of convention attendees in the year-to-date period ending November 2011 has already exceeded the 2010 calendar-year total. The number of convention attendees year-to-date in 2011 increased 9.2% compared to the year-to-date period in 2010. Increases during the months of January, March, August, and September 2011—although moderated by the decline in attendees in February and July 2011—are positive indications that the downturn in the meeting and group business has reversed.

## LODGING DEMAND

The growth in the number of occupied rooms in Las Vegas that was exhibited in 2010 continued through the year-to-date period ending November 2011. Occupied room nights increased 5.5% through November 2011 compared to the same period in 2010, and may have reached records levels by the end of the year. Total occupancy still remained approximately six percentage points below peak levels due to ongoing increases in new supply. Average daily room rates increased 10.8%, from \$95.16 to \$105.39, even though room inventory grew in the year-to-date period (3.4%). Table 5 presents annual Las Vegas lodging market statistics from 2001 through 2010 and the year-to-date periods through November 2010 and 2011.

TABLE 5 - LAS VEGAS LODGING STATISTICS – 2001 TO NOVEMBER 2011

| Year  | Inventory | % Change | Total Rooms Occupied | % Change | Total Occupancy | Overall ADR | % Change |
|---|-----------|----------|----------------------|----------|-----------------|-------------|----------|
| 2001  | 126,610   | 1.9      | 39,142,115           | (3.1)    | 84.7            | \$76.39     | ---      |
| 2002  | 126,787   | 0.1      | 38,872,894           | (0.7)    | 84.0            | 76.69       | 0.4 %    |
| 2003  | 130,482   | 2.9      | 40,482,041           | 4.1      | 85.0            | 82.48       | 7.5      |
| 2004  | 131,503   | 0.8      | 42,526,755           | 5.1      | 88.6            | 89.78       | 8.9      |
| 2005  | 133,186   | 1.3      | 43,362,698           | 2.0      | 89.2            | 103.12      | 14.9     |
| 2006  | 132,605   | (0.4)    | 43,415,540           | 0.1      | 89.7            | 119.66      | 16.0     |
| 2007  | 132,947   | 0.3      | 43,867,192           | 1.0      | 90.4            | 132.09      | 10.4     |
| 2008  | 140,529   | 5.7      | 42,967,252           | (2.1)    | 86.0            | 119.19      | (9.8)    |
| 2009  | 148,941   | 6.0      | 41,986,134           | (2.3)    | 81.5            | 92.93       | (22.0)   |
| 2010  | 148,935   | (0.0)    | 43,365,743           | 3.3      | 80.4            | 94.91       | 2.1      |
| Year-to-Date Through November:                      |           |          |                      |          |                 |             |          |
| 2010  | 145,694   | ---      | 40,036,098           | ---      | 81.1 %          | \$95.16     | ---      |
| 2011  | 150,678   | 3.4 %    | 42,249,477           | 5.5 %    | 84.8            | 105.39      | 10.8 %   |
| Average Annual Comp. Change, 2001 - 2010:           |           |          |                      |          |                 |             |          |
|   |           | 1.8 %    |                      | 1.1 %    |                 |             | 2.4 %    |
| Source: Las Vegas Convention and Visitors Authority |           |          |                      |          |                 |             |          |

As indicated in Table 6, the number of occupied room nights declined month-over-month when compared to the prior year between September 2008 and August 2009. However, this trend reversed in September 2009 and, consistent with the growth in visitors, the LVCVA reported 21 consecutive months of gains in prior-year comparisons as of November 2011.

**TABLE 6 - LAS VEGAS OCCUPIED ROOMS BY MONTH – 2006 TO NOVEMBER 2011**

| Month                      | 2006<br>Occupied Rooms | 2007<br>Occupied Rooms | Percent<br>Change | 2008<br>Occupied Rooms | Percent<br>Change | 2009<br>Occupied Rooms | Percent<br>Change | 2010<br>Occupied Rooms | Percent<br>Change | 2011<br>Occupied Rooms | Percent<br>Change |
|----------------------------|------------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
| January                    | 3,546,317              | 3,539,505              | (0.2) %           | 3,577,097              | 1.1 %             | 3,136,845              | (12.3) %          | 3,249,926              | 3.6 %             | 3,639,439              | 12.0 %            |
| February                   | 3,332,418              | 3,372,023              | 1.2               | 3,579,425              | 6.2               | 3,306,564              | (7.6)             | 3,306,585              | 0.0               | 3,360,944              | 1.6               |
| March                      | 3,843,043              | 3,877,125              | 0.9               | 4,120,581              | 6.3               | 3,757,148              | (8.8)             | 3,788,249              | 0.8               | 4,034,573              | 6.5               |
| April                      | 3,717,795              | 3,742,668              | 0.7               | 3,788,603              | 1.2               | 3,720,202              | (1.8)             | 3,734,052              | 0.4               | 3,934,330              | 5.4               |
| May                        | 3,762,270              | 3,801,554              | 1.0               | 3,992,104              | 5.0               | 3,679,140              | (7.8)             | 3,788,006              | 3.0               | 3,965,709              | 4.7               |
| June                       | 3,546,048              | 3,670,940              | 3.5               | 3,881,337              | 5.7               | 3,476,544              | (10.4)            | 3,642,610              | 4.8               | 3,938,100              | 8.1               |
| July                       | 3,766,221              | 3,815,703              | 1.3               | 3,923,469              | 2.8               | 3,680,512              | (6.2)             | 3,854,527              | 4.7               | 4,062,825              | 5.4               |
| August                     | 3,748,100              | 3,770,525              | 0.6               | 3,877,058              | 2.8               | 3,568,121              | (8.0)             | 3,760,211              | 5.4               | 3,888,569              | 3.4               |
| September                  | 3,626,733              | 3,652,990              | 0.7               | 3,377,238              | (7.5)             | 3,531,195              | 4.6               | 3,640,023              | 3.1               | 3,858,430              | 6.0               |
| October                    | 3,796,838              | 3,822,366              | 0.7               | 3,560,497              | (6.9)             | 3,620,033              | 1.7               | 3,880,100              | 7.2               | 4,037,187              | 4.0               |
| November                   | 3,470,121              | 3,484,710              | 0.4               | 3,232,985              | (7.2)             | 3,331,317              | 3.0               | 3,391,809              | 1.8               | 3,529,371              | 4.1               |
| December                   | 3,340,332              | 3,428,624              | 2.6               | 3,164,313              | (7.7)             | 3,178,513              | 0.4               | 3,329,645              | 4.8               |                        |                   |
| <b>Total</b>               | <b>43,496,236</b>      | <b>43,978,733</b>      | <b>1.1 %</b>      | <b>44,074,707</b>      | <b>0.2 %</b>      | <b>41,986,134</b>      | <b>(4.7) %</b>    | <b>43,365,743</b>      | <b>3.3 %</b>      |                        |                   |
| <b>YTD November Total:</b> | <b>40,155,904</b>      | <b>40,550,109</b>      | <b>1.0 %</b>      | <b>40,910,394</b>      | <b>0.9 %</b>      | <b>38,807,621</b>      | <b>(5.1) %</b>    | <b>40,036,098</b>      | <b>3.2 %</b>      | <b>42,249,477</b>      | <b>5.5 %</b>      |

Source: Las Vegas Convention & Visitors Authority

With the number of occupied room nights increasing, operators have begun to recover the significant loss in average daily rates that was exhibited in 2008 and 2009. Average daily rate has been higher month-over-month since March 2010, as indicated in Table 6, though only approximately 75% of prior peak levels exhibited in 2007.

**TABLE 7 - LAS VEGAS AVERAGE DAILY RATE BY MONTH – 2006 TO NOVEMBER 2011**

| Month                      | 2006<br>ADR     | 2007<br>ADR     | Percent<br>Change | 2008<br>ADR     | Percent<br>Change | 2009<br>ADR    | Percent<br>Change | 2010<br>ADR    | Percent<br>Change | 2011<br>ADR     | Percent<br>Change |
|----------------------------|-----------------|-----------------|-------------------|-----------------|-------------------|----------------|-------------------|----------------|-------------------|-----------------|-------------------|
| January                    | \$120.32        | \$134.37        | ---               | \$130.96        | ---               | \$104.89       | ---               | \$99.75        | ---               | \$107.22        | ---               |
| February                   | 120.28          | 135.67          | 12.8 %            | 128.80          | (5.1) %           | 99.25          | (22.9) %          | 97.21          | (2.1) %           | 98.49           | 1.3 %             |
| March                      | 125.25          | 136.15          | 8.7               | 135.11          | (0.8)             | 92.46          | (31.6)            | 93.23          | 0.8               | 111.13          | 19.2              |
| April                      | 127.53          | 146.53          | 14.9              | 135.67          | (7.4)             | 94.08          | (30.7)            | 96.87          | 3.0               | 105.67          | 9.1               |
| May                        | 121.12          | 143.01          | 18.1              | 135.17          | (5.5)             | 96.96          | (28.3)            | 98.87          | 2.0               | 108.47          | 9.7               |
| June                       | 116.66          | 135.12          | 15.8              | 113.48          | (16.0)            | 84.50          | (25.5)            | 89.54          | 6.0               | 101.15          | 13.0              |
| July                       | 104.00          | 117.76          | 13.2              | 105.97          | (10.0)            | 86.23          | (18.6)            | 90.38          | 4.8               | 99.30           | 9.9               |
| August                     | 104.19          | 126.38          | 21.3              | 107.01          | (15.3)            | 84.02          | (21.5)            | 87.40          | 4.0               | 97.11           | 11.1              |
| September                  | 116.57          | 142.47          | 22.2              | 112.58          | (21.0)            | 91.18          | (19.0)            | 97.25          | 6.7               | 111.46          | 14.6              |
| October                    | 117.14          | 135.00          | 15.2              | 115.68          | (14.3)            | 99.59          | (13.9)            | 102.19         | 2.6               | 114.68          | 12.2              |
| November                   | 134.78          | 118.45          | (12.1)            | 108.80          | (8.1)             | 92.61          | (14.9)            | 94.73          | 2.3               | 103.34          | 9.1               |
| December                   | 107.58          | 112.36          | 4.4               | 96.39           | (14.2)            | 90.80          | (5.8)             | 91.88          | 1.2               |                 |                   |
| <b>Total</b>               | <b>\$119.66</b> | <b>\$132.09</b> | <b>10.4 %</b>     | <b>\$119.19</b> | <b>(9.8) %</b>    | <b>\$92.93</b> | <b>(22.0) %</b>   | <b>\$94.91</b> | <b>2.1 %</b>      |                 |                   |
| <b>YTD November Total:</b> | <b>N/A</b>      | <b>\$133.76</b> | <b>N/A</b>        | <b>\$121.01</b> | <b>(9.5) %</b>    | <b>\$93.25</b> | <b>(22.9) %</b>   | <b>\$95.16</b> | <b>2.0 %</b>      | <b>\$105.39</b> | <b>10.8 %</b>     |

Source: Las Vegas Convention & Visitors Authority

## GAMING DEMAND

The Las Vegas gaming market reached record highs annually from 2004 through 2007. Gaming revenues for the Clark County market in 2007 were more than twice those of 1993, increasing from roundly \$4.5 billion in 1993 to over \$10.8 billion in 2007. The impact of the economic downturn is reflected in the decline in Clark County gaming revenues in 2008 and 2009. The declines in gaming revenue for Clark County in 2008 compared to 2007 (9.9%) and in 2009 compared to 2008 (9.8%) are high, due not only to the economic climate but also the multiple years of strong growth immediately preceding the downturn. The decline in Clark County gaming revenues began to reverse in 2010, with growth of 0.8%. The historical gaming win, number of visitors, and gaming win per visitor for Clark County for 2000 to November 2011 are shown in Table 8. The historical gaming win, number of visitors, and gaming win per visitor for Clark County for 1980 to November 2011 are shown in Chart 2.

**TABLE 8 - TOTAL VISITORS, REVENUE, AND WIN PER VISITOR: CLARK COUNTY, NEVADA – 2000 TO NOVEMBER 2011**

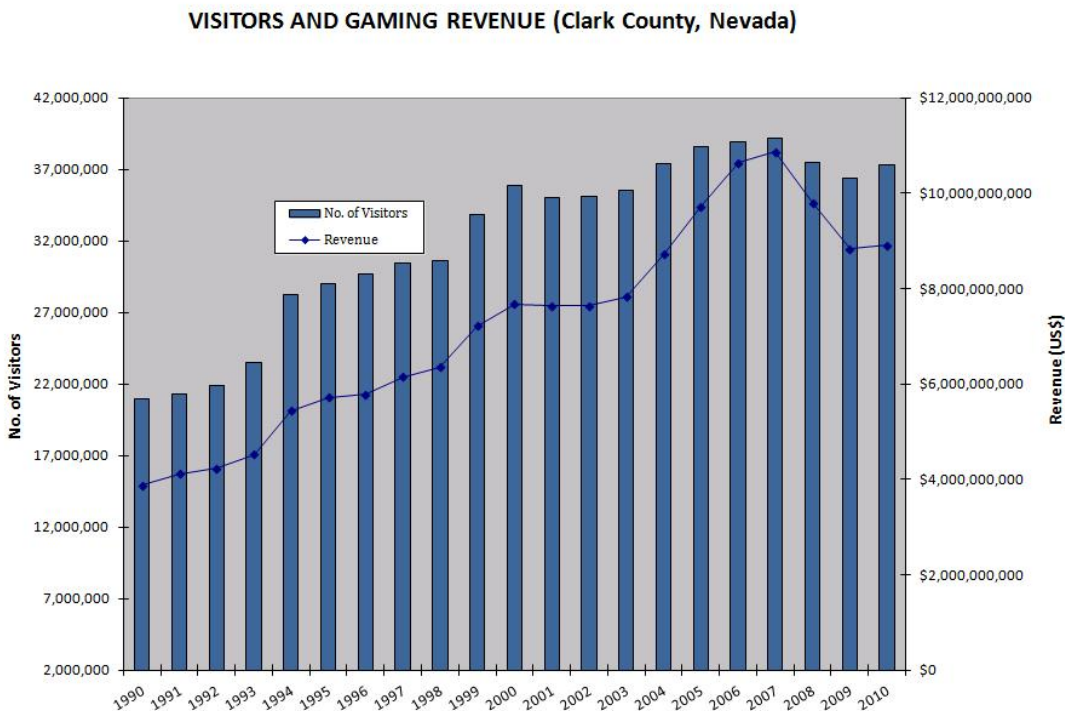
| Year  | Total Visitors | % Change | Total Revenue (Win) | % Change | Total Revenue (Win)<br>per Visitor | % Change |
|---|----------------|----------|---------------------|----------|------------------------------------|----------|
| 2000  | 35,849,691     | 6.0      | 7,673,134,286       | 6.4      | 214                                | 0.4      |
| 2001  | 35,017,317     | (2.3)    | 7,632,021,543       | (0.5)    | 218                                | 1.8      |
| 2002  | 35,071,504     | 0.2      | 7,630,272,759       | (0.0)    | 218                                | (0.2)    |
| 2003  | 35,540,126     | 1.3      | 7,830,675,556       | 2.6      | 220                                | 1.3      |
| 2004  | 37,388,781     | 5.2      | 8,711,243,614       | 11.2     | 233                                | 5.7      |
| 2005  | 38,566,717     | 3.2      | 9,716,860,486       | 11.5     | 252                                | 8.1      |
| 2006  | 38,914,889     | 0.9      | 10,630,387,000      | 9.4      | 273                                | 8.4      |
| 2007  | 39,196,761     | 0.7      | 10,868,029,000      | 2.2      | 277                                | 1.5      |
| 2008  | 37,481,552     | (4.4)    | 9,796,970,000       | (9.9)    | 261                                | (5.7)    |
| 2009  | 36,351,469     | (3.0)    | 8,833,902,000       | (9.8)    | 243                                | (7.0)    |
| 2010  | 37,335,436     | 2.7      | 8,908,698,000       | 0.8      | 239                                | (1.8)    |
| Average Annual Compounded<br>Change - 2000 to 2010: |                | 0.4      |                     | 1.5      |                                    | 1.1      |
| Year-to-date November:                              |                |          |                     |          |                                    |          |
| 2010  | 34,450,600     | ---      | 8,175,086,000       | ---      | 237                                | ---      |
| 2011  | 35,971,217     | 4.4 %    | 8,480,538,000       | 3.7 %    | 236                                | (0.6) %  |

Source: Nevada Gaming Control Board, Las Vegas Convention & Visitors Authority, HVS Consulting and Valuation

The historical gaming win and number of visitors for Clark County for 1990 to 2010 are shown in Chart 2, which appear to indicate that the relatively high gaming revenues and win per visitor in the 2004 to 2007 period may have been an anomaly.



CHART 2 - VISITORS AND GAMING REVENUE: CLARK COUNTY, NEVADA – 1990 TO 2010



The recession prompted visitors to Las Vegas to gamble less. Gaming win for Clark County declined from \$277 per visitor in 2007 to \$261 per visitor in 2008, \$243 per visitor in 2009, and \$236 per visitor in 2010. This downward trend continued through the year-to-date period ending in November 2011, but at a slower rate of decline of 0.6%, compared to the same period in 2010, indicating that the bottom of the downturn in gaming win per visitor has potentially been reached.

### LAS VEGAS STRIP \$72 MILLION AND OVER SUBMARKET

For the major properties located on the Las Vegas Strip—those with gaming revenues of \$72 million and over (hereinafter referred to as the “Las Vegas Strip \$72 Million and Over” market)—gaming revenue continues to be generated almost equally between slot machines and table games, with additional gaming revenue being generated from other sources, specifically keno, sports book, race book, and card games (poker rooms). The Nevada Gaming Control Board does not release the identity of the specific properties; however, the number of casinos in the Las Vegas Strip \$72 Million and Over market fell to 22 in 2010. Historically, slot revenue had provided over half of the gaming revenue for the Las Vegas Strip \$72 Million and Over market on an annual basis; however, due to the growth in popularity of table game play in recent years, most notably Baccarat, table games revenue now represents over 50% of gaming revenue for this market. Segmented gaming revenues for the Las Vegas Strip \$72 Million and Over market is set forth in Table 9.

**TABLE 9 - SEGMENTED GAMING REVENUES FOR LAS VEGAS STRIP \$72 MILLION AND OVER MARKET**

| Year      | Slot Machines      |          |            | Table Games        |          |            | Other (Keno, Race Book, Sports Book, Card Games) |          |            | Total              |          |
|-----------|--------------------|----------|------------|--------------------|----------|------------|--|----------|------------|--------------------|----------|
|           | Win Amount ('000s) | % Change | % of Total | Win Amount ('000s) | % Change | % of Total | Win Amount ('000s)                               | % Change | % of Total | Win Amount ('000s) | % Change |
| 2004      | \$2,535,568        | --       | 52.1 %     | \$2,170,121        | --       | 44.6 %     | \$165,264  | --       | 3.4 %      | \$4,870,953        | --       |
| 2005      | 2,789,933          | 10.0 %   | 50.8       | 2,508,218          | 15.6 %   | 45.7       | 196,215  | 18.7 %   | 3.6        | 5,494,366          | 12.8 %   |
| 2006      | 3,059,256          | 9.7      | 49.6       | 2,860,963          | 14.1     | 46.4       | 243,625  | 24.2     | 4.0        | 6,163,844          | 12.2     |
| 2007      | 3,142,884          | 2.7      | 49.6       | 2,964,579          | 3.6      | 46.8       | 223,981  | (8.1)    | 3.5        | 6,331,444          | 2.7      |
| 2008      | 2,886,892          | (8.1)    | 50.9       | 2,596,219          | (12.4)   | 45.8       | 187,903  | (16.1)   | 3.3        | 5,671,014          | (10.4)   |
| 2009      | 2,471,788          | (14.4)   | 49.0       | 2,408,137          | (7.2)    | 47.7       | 169,655  | (9.7)    | 3.4        | 5,049,580          | (11.0)   |
| 2010      | 2,397,238          | (3.0)    | 46.0       | 2,656,197          | 10.3     | 50.9       | 161,063  | (5.1)    | 3.1        | 5,214,498          | 3.3      |
| YTD Nov.: |                    |          |            |                    |          |            |  |          |            |                    |          |
| 2010      | 2,225,902          | --       | 46.8       | 2,375,957          | --       | 50.0       | 150,149  | --       | 3.2        | 4,752,008          | --       |
| 2011      | 2,301,527          | 3.4 %    | 45.8       | 2,582,108          | 8.7 %    | 51.4       | 136,452  | (9.1) %  | 2.7        | 5,020,087          | 5.6 %    |

Source: Nevada Gaming Control Board

Gross gaming revenue for all segments of the Las Vegas Strip \$72 Million and Over market grew in the year-to-date period ending November 2011 compared to the same period in 2010, at 5.6% overall. It should be noted that gross gaming revenue for the Las Vegas Strip \$72 Million and Over market in the fiscal year ending June 30, 2011, represented 38.2% of total revenue, down from 38.7% in the prior fiscal year.

Win per unit per day (WPUPD) is a statistic that provides the basis for the analysis and comparison of gaming revenues and is calculated by dividing total gaming revenues generated by a particular type of gaming unit by the number of gaming units available and the number of days in a period. The calculation of WPUPD for slots and table games for the Las Vegas Strip \$72 Million and Over market for calendar years 2000 through 2010, as well as for the trailing 12 months ending November 2011, are set forth in Tables 10 and 11.

**TABLE 10 - SLOT WIN PER UNIT PER DAY (WPUPD) - LAS VEGAS STRIP \$72 MILLION AND OVER MARKET**

| Year                       | Slot Win        | % Change | Slot Units | % Change | Slot WPUPD | % Change |
|----------------------------|-----------------|----------|------------|----------|------------|----------|
| 2000                       | \$2,107,673,000 | --       | 50,203     | --       | \$115      | --       |
| 2001                       | 2,055,412,000   | (2.5) %  | 47,175     | (6.0) %  | 119        | 3.8 %    |
| 2002                       | 2,111,912,000   | 2.7      | 47,181     | 0.0      | 123        | 2.7      |
| 2003                       | 2,160,261,000   | 2.3      | 43,787     | (7.2)    | 135        | 10.2     |
| 2004                       | 2,535,568,000   | 17.4     | 44,989     | 2.7      | 154        | 14.2     |
| 2005                       | 2,789,933,000   | 10.0     | 43,377     | (3.6)    | 176        | 14.1     |
| 2006                       | 3,059,256,000   | 9.7      | 41,746     | (3.8)    | 201        | 13.9     |
| 2007                       | 3,142,884,000   | 2.7      | 40,050     | (4.1)    | 215        | 7.1      |
| 2008                       | 2,886,892,000   | (8.1)    | 40,543     | 1.2      | 195        | (9.3)    |
| 2009                       | 2,471,788,000   | (14.4)   | 38,660     | (4.6)    | 175        | (10.2)   |
| 2010                       | 2,397,238,000   | (3.0)    | 37,090     | (4.1)    | 177        | 1.1      |
| Trailing 12 Months Ending: |                 |          |            |          |            |          |
| Nov. 2010                  | \$2,464,691,000 | --       | 38,283     | --       | \$193      | --       |
| Nov. 2011                  | 2,492,817,000   | 1.1 %    | 37,433     | (2.2) %  | 199        | 3.4 %    |

Source: Nevada Gaming Control Board, HVS Gaming Services

**TABLE 11 – TABLE GAMES WIN PER UNIT PER DAY (WPUPD) - LAS VEGAS STRIP \$72 MILLION AND OVER MARKET**

| Year   | Table Games Win* | % Change | Table Games |          | Table Games |          |
|--|------------------|----------|-------------|----------|-------------|----------|
|  |                  |          | Units*      | % Change | WPUPD       | % Change |
| 2000   | \$2,134,219,000  | --       | 2,173       | --       | \$2,691     | --       |
| 2001   | 2,032,847,000    | (4.7) %  | 2,103       | (3.2) %  | 2,648       | (1.6) %  |
| 2002   | 1,944,706,000    | (4.3)    | 2,060       | (2.0)    | 2,586       | (2.3)    |
| 2003   | 1,893,165,000    | (2.7)    | 2,028       | (1.6)    | 2,558       | (1.1)    |
| 2004   | 2,170,121,000    | 14.6     | 2,126       | 4.8      | 2,797       | 9.3      |
| 2005   | 2,508,218,000    | 15.6     | 2,193       | 3.2      | 3,134       | 12.0     |
| 2006   | 2,860,963,000    | 14.1     | 2,223       | 1.4      | 3,526       | 12.5     |
| 2007   | 2,964,579,000    | 3.6      | 2,243       | 0.9      | 3,621       | 2.7      |
| 2008   | 2,596,219,000    | (12.4)   | 2,289       | 2.1      | 3,107       | (14.2)   |
| 2009   | 2,408,137,000    | (7.2)    | 2,236       | (2.3)    | 2,951       | (5.0)    |
| 2010   | 2,656,197,000    | 10.3     | 2,215       | (0.9)    | 3,285       | 11.3     |
| Trailing 12 Months Ending:                               |                  |          |             |          |             |          |
| Nov. 2010  | 2,650,057,000    | --       | 2,262       | --       | \$3,508     | --       |
| Nov. 2011  | 2,881,417,000    | 8.7 %    | 2,293       | 1.4 %    | 3,762       | 7.3 %    |
| * Less Keno, Race Book, and Sports Book                  |                  |          |             |          |             |          |
| Source: Nevada Gaming Control Board, HVS Gaming Services |                  |          |             |          |             |          |

WPUPD for both slots and table games for the Las Vegas Strip \$72 Million and Over market improved in 2010, which continued through the year-to-date period ended November 2011. Further analysis of the revenues for the Las Vegas Strip \$72 Million and Over market table games segment reveals between 2008 and 2010.

**TABLE 12 - SEGMENTATION OF TABLE GAMES REVENUE FOR LAS VEGAS STRIP \$72 MILLION AND OVER MARKET – 2008 TO 2010**

| Game Type                            | 2008               | % of Total     | 2009               | % of Total     | 2010               | % of Total     |
|--------------------------------------|--------------------|----------------|--------------------|----------------|--------------------|----------------|
| Black Jack                           | \$847,895          | 32.7 %         | \$671,958          | 27.9 %         | \$652,763          | 24.6 %         |
| Craps                                | 294,030            | 11.3           | 219,448            | 9.1            | 240,198            | 9.0            |
| Roulette                             | 259,229            | 10.0           | 234,983            | 9.8            | 239,805            | 9.0            |
| Three-card Poker                     | 96,357             | 3.7            | 84,437             | 3.5            | 85,469             | 3.2            |
| Baccarat                             | 764,198            | 29.4           | 921,604            | 38.3           | 1,178,390          | 44.4           |
| Mini Baccarat                        | 97,082             | 3.7            | 70,108             | 2.9            | 59,613             | 2.2            |
| Caribbean Stud                       | 10,582             | 0.4            | 8,231              | 0.3            | 6,204              | 0.2            |
| Let it Ride                          | 35,168             | 1.4            | 31,588             | 1.3            | 27,570             | 1.0            |
| Pai Gow                              | 18,790             | 0.7            | 13,208             | 0.5            | 17,806             | 0.7            |
| Pai Gow Poker                        | 74,290             | 2.9            | 59,448             | 2.5            | 54,836             | 2.1            |
| Other Games                          | 98,598             | 3.8            | 93,123             | 3.9            | 93,553             | 3.5            |
| <b>Total</b>                         | <b>\$2,596,219</b> | <b>100.0 %</b> | <b>\$2,408,136</b> | <b>100.0 %</b> | <b>\$2,656,207</b> | <b>100.0 %</b> |
| Sources: Nevada Gaming Control Board |                    |                |                    |                |                    |                |

Baccarat continues to generate a substantial portion of table games revenues for the properties in the Las Vegas Strip \$72 Million and Over market, at 42.7% in the year-to-date period ending November 2011.

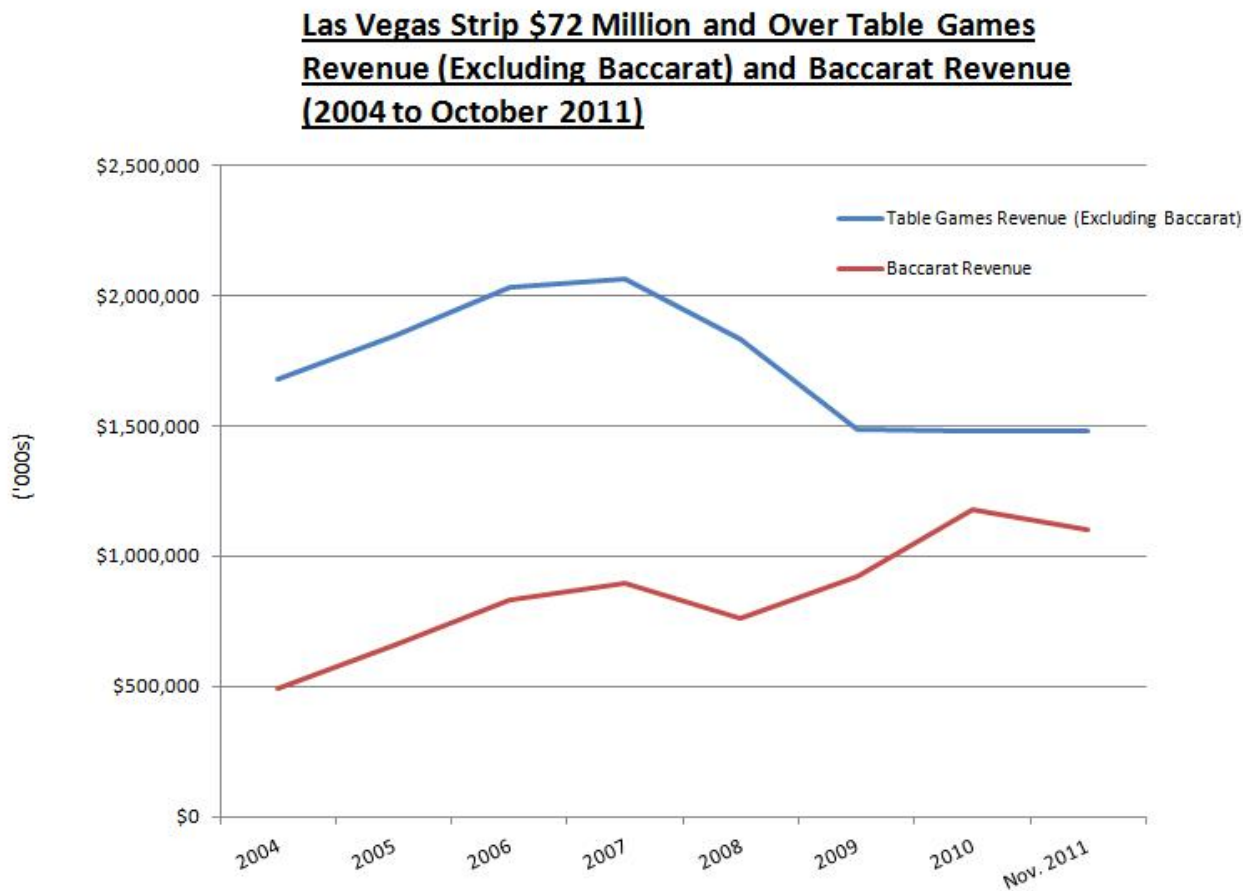
**TABLE 13 - SEGMENTATION OF TABLE GAMES REVENUE FOR LAS VEGAS STRIP \$72 MILLION AND OVER MARKET – YEAR-TO-DATE NOVEMBER 2010 AND 2011**

| Game Type        | Year-to-Date<br>November 2010 | % of Total     | Year-to-Date<br>November 2011 | % of Total     | % Change     |
|------------------|-------------------------------|----------------|-------------------------------|----------------|--------------|
| Black Jack       | \$610,924                     | 25.7 %         | \$661,921                     | 25.6 %         | 8.3 %        |
| Craps            | 204,786                       | 8.6            | 237,785                       | 9.2            | 16.1         |
| Roulette         | 222,553                       | 9.4            | 229,734                       | 8.9            | 3.2          |
| Three-Card Poker | 79,031                        | 3.3            | 91,896                        | 3.6            | 16.3         |
| Baccarat         | 1,021,010                     | 43.0           | 1,103,680                     | 42.7           | 8.1          |
| Mini Baccarat    | 53,718                        | 2.3            | 61,405                        | 2.4            | 14.3         |
| Caribbean Stud   | 5,886                         | 0.2            | 4,148                         | 0.2            | (29.5)       |
| Let it Ride      | 25,733                        | 1.1            | 24,245                        | 0.9            | (5.8)        |
| Pai Gow          | 16,334                        | 0.7            | 8,541                         | 0.3            | (47.7)       |
| Pai Gow Poker    | 50,117                        | 2.1            | 54,548                        | 2.1            | 8.8          |
| Other Games      | 85,864                        | 3.6            | 104,206                       | 4.0            | 21.4         |
| <b>Total</b>     | <b>\$2,375,956</b>            | <b>100.0 %</b> | <b>\$2,582,109</b>            | <b>100.0 %</b> | <b>8.7 %</b> |

Sources: Nevada Gaming Control Board

As further illustrated in Chart 4, the decline in total table game revenues for the properties in the Las Vegas Strip \$72 Million and Over market during the downturn would have been much more severe if not for the growth in gaming revenues from Baccarat.

CHART 4 - LAS VEGAS STRIP \$72 MILLION AND OVER MARKET TABLE GAMES REVENUE (EXCLUDING BACCARAT) AND BACCARAT REVENUE – 2004 TO NOVEMBER 2011



Baccarat is much more popular in Asia markets than in the U.S. and VIP Baccarat represents roughly two-thirds of the gaming revenue for Macau, the largest gaming market in the world. Cross-marketing is being done by gaming companies that have operations in Asia and in Las Vegas (Las Vegas Sands, Wynn Resorts, and MGM Mirage). These casino operators can benefit from lower tax rates in Las Vegas versus Asian markets. Baccarat can be an expensive business for casinos, given the money they have to spend to attract high rollers, which can include flights to and from the casino for the gambler and his or her family, complimentary suites, meals, gifts, and other perks, and is more susceptible to fluctuations in luck. A lucky high-rolling Baccarat player can measurably impact a casino's profitability.

### **LOCAL GAMING DEMAND**

Local gaming demand plays an important, albeit secondary, role in the Clark County gaming market. Gaming frequency among local patrons depends on a number of factors, including the convenience of the casinos, the average age of the populace, and disposable income levels. Typically, local residents can be

expected to allot a higher percentage of discretionary income to gaming activities than other demand segments, such as leisure, convention, and tour and travel segments. Improvement in the market in general could, theoretically, have a ripple effect. With the recession reducing visitation to Las Vegas, the Las Vegas casino-resorts generated lower revenues and operators reduced workforce in order to operate more efficiently and maintain operating profit levels. This contributed to the increase in local unemployment, hurting operators of casinos relying on the locals market by reducing the amount of residents' disposable income available for gaming and entertainment.

By 2009, unemployment rates for the state and Clark County were 3.2 and 3.4 percentage points, respectively, greater than that of the nation. By 2010, unemployment was 15.2% and 14.9% for Clark County and the state of Nevada, respectively. Unemployment finally turned the corner in 2011, with rates declining for the first time since 2006. Unemployment rates for Clark County and Nevada for 1996 through 2010 and for November 2010 and November 2011 are set forth in Table 14.

TABLE 14 - UNEMPLOYMENT – 1996 TO NOVEMBER 2011

| Year                     | Clark County | State of Nevada | U.S.  |
|--------------------------|--------------|-----------------|-------|
| 1996                     | 5.1 %        | 5.2 %           | 5.4 % |
| 1997                     | 4.4          | 4.5             | 4.9   |
| 1998                     | 4.3          | 4.4             | 4.5   |
| 1999                     | 4.2          | 4.3             | 4.2   |
| 2000                     | 4.6          | 4.5             | 4.0   |
| 2001                     | 5.5          | 5.3             | 4.7   |
| 2002                     | 5.9          | 5.7             | 5.8   |
| 2003                     | 5.4          | 5.3             | 6.0   |
| 2004                     | 4.5          | 4.5             | 5.5   |
| 2005                     | 4.4          | 4.2             | 5.1   |
| 2006                     | 4.2          | 4.2             | 4.6   |
| 2007                     | 4.6          | 4.8             | 4.6   |
| 2008                     | 6.6          | 6.7             | 5.8   |
| 2009                     | 12.7         | 12.5            | 9.3   |
| 2010                     | 15.2         | 14.9            | 9.6   |
| Latest Month (November): |              |                 |       |
| 2010                     | 14.9 %       | 14.4 %          | 9.3 % |
| 2011                     | 12.5(P)      | 12.2(P)         | 8.2   |

Source: U.S. Bureau of Labor Statistics

As unemployment levels decline, higher gaming revenue from the local segment is expected. Also, tips for dealers, restaurant servers, and other tip-based positions will start to improve as the market improves overall, which will benefit other supporting industries in the community.

## MARKET DEVELOPMENTS

### Cosmopolitan

The first phase of the Cosmopolitan, comprising 1,998 hotel and condominium-hotel-style rooms and 10 three-story bungalow-style suites, opened on December 15, 2010. An additional 968 hotel and

condominium-hotel-style units located in the West Tower were completed and added to the room inventory incrementally through September 2011, increasing the number of available rooms as of September 30, 2011 to 2,976. The Cosmopolitan comprises approximately 8.7 acres of land and is located on the Las Vegas Strip directly between Bellagio and MGM's City Center. It is expected to be the last major development of a casino-hotel on the Las Vegas Strip until market conditions improve enough to generate the next wave of development.

The Cosmopolitan's approximately 100,000-square-foot casino includes 1,482 slot machines and 77 table games. The casino level also contains several destination bar/lounge areas, a three-story feature attraction using an innovative light-and-music display, as well as an intimate entertainment lounge used to bring live performances to the gaming floor. The casino also has a separate area for high-limit table games and slots, centrally located but distinct from the main gaming floor, catering specifically to higher-limit clientele. An approximately 65,000-square-foot, 1,800-seat showroom, an additional 19 condominium- and/or hotel-style units in the East Tower, and a restaurant will be completed at a later date as management deems appropriate based on various factors, including market conditions.

According to the Cosmopolitan's most recent SEC filing for the period ending third quarter 2011, gross gaming revenues generated by table games and slots were reportedly \$83.1 million for the nine months ended September 30, 2011. The Cosmopolitan's above-market average ADR and occupancy for the nine months ended September 30, 2011, were \$240 and 86.8%, respectively, generating RevPAR of \$207. Other non-gaming revenues included gross food and beverage revenues of approximately \$196.6 million; and entertainment, retail, and other revenues, including the spa and salon, of approximately \$17.4 million in the same period.

### **Plaza Las Vegas**

The Plaza located downtown was closed in November 2010 and reopened in August 2011 following the completion of a \$35 million renovation and refurbishment that included brand-new furnishings, which had originally been purchased for the postponed Fontainebleau development. In addition to refurbishment of the Plaza's 1,000 rooms, public areas were upgraded, and the 80,000-square-foot casino was refurbished. Restaurants were added, including Hash House A Go Go and Oscar's Beef \* Booze \* Broads.

### **Octavius Tower at Caesars Palace**

Construction of Caesars Entertainment's Octavius Tower at Caesars Palace was completed in 2011 and the tower opened in January 2012. The new hotel tower features approximately 662 rooms, including 75 luxury suites, 110,000 square feet of meeting and convention space, three 10,000-square-foot luxury villa suites, and an expanded pool and garden area. The Octavius Tower also features a private valet, entrance, and lobby; large rooms with custom furniture and technological upgrades; and direct pool access. Standard guestrooms in the Octavius Tower are relatively large, 550 square feet. The exterior and interior shells for the hotel tower, the meeting and convention space, and the remainder of the expansion project, other than the deferred rooms, were completed during 2009, but finishing of the rooms was halted in 2009 as a result of economic conditions impacting the Las Vegas tourism sector.

### **LINQ Project**

In June 2010, Caesars Entertainment announced plans to build a retail and entertainment development between Flamingo Las Vegas and Imperial Palace, on the east side of the Las Vegas Strip (referred to as the "LINQ project"). The estimated \$500 million project is expected to feature bars, restaurants, shops, and entertainment along a 1,200-foot pedestrian walkway. Over 20 bars and restaurants opening to the street will be anchored by a giant observation wheel that will reach heights of over 550 feet.

### Skyvue Las Vegas Super Wheel

The Clark County Commission approved the Skyvue Las Vegas Super Wheel project in March 2011. The proposal was submitted by Desert Land LLC and Desert Oasis Investments LLC, both of which are controlled by Las Vegas real estate developers David Gaffin and Howard Bulloch. The Ferris wheel is being touted as the largest in the western hemisphere and third tallest in the world. The project is also planned to include 200,000 square feet of restaurants, retail, and entertainment uses. The wheel will have 40 heated and air-conditioned passenger gondolas that each will hold 20 to 25 passengers. It is scheduled to be completed in the first half of 2013. A similar project proposed for the site stalled a decade ago.

### Sahara Hotel and Casino

The Sahara Hotel and Casino closed in May 2011. The property may be redeveloped by owners SBE Entertainment and Stockbridge Real Estate. SBE owner Sam Nazarian previously indicated that he would like to convert the Sahara into a luxury hotel brand, SLS Las Vegas, which is owned by SBE, and fill the property with SBE's restaurant and nightclub brands. A remodeling plan has been approved by the Clark County Commission. The roller coaster will be dismantled and a 2,830-square-foot beer garden will be constructed. The number of hotel rooms will be decreased from 1,700 to 1,622.

### **OWNERSHIP CHANGES**

As a result of the economic downturn and inability to service debt, ownership of several Las Vegas casino-resorts changed hands, including the Hard Rock Hotel & Casino, the M Resort, and the Hooters Casino Hotel.

Brookfield Asset Management Inc. and Warner Gaming LLC were granted ownership and operational control of the Hard Rock Hotel & Casino in the first quarter of 2011 after state gaming regulators approved their takeover plans. The Hard Rock had been struggling to meet its obligations on \$1.25 billion in debt. After the deal closed, the Hard Rock restructured debt obligation was reportedly reduced to \$898 million as debt owed Brookfield was converted into an equity stake. DLJ Management and Morgans Hotel Group no longer have a financial interest in the property.

Penn National Gaming acquired the M Resort on June 1, 2011, following the purchase of all of the outstanding debt for \$230.5 million and the receipt of requisite regulatory approvals. The M Resort opened in March 2009 on over 90 acres on South Las Vegas Boulevard in Henderson, Nevada. The resort features 390 guestrooms and guest suites, over 92,000 square feet of gaming space, nine restaurants and five destination bars, more than 60,000 square feet of meeting and conference space, a 4,700-square-foot parking facility, a spa and fitness center, and a 100,000-square-foot events piazza. Penn National Gaming purchased the entire outstanding bank and subordinated debt of the M Resort in October 2010, at which time the right to acquire the business in exchange for the property's outstanding debt obligations was secured. Reportedly, the cost to construct the M Resort was \$700 million and the land valued at \$300 million prior to opening in the midst of the economic downturn.

The Hotel San Remo Casino and Resort was purchased by 155 East Tropicana, LLC in 2004 and converted into the Hooters Casino Hotel. On August 1, 2011, 155 East Tropicana, LLC filed for bankruptcy protection due to its debt obligations. The company then reached agreement with its main creditor—Canpartners Realty Holding Company IV—to sell the 696-room hotel to the highest bidder. The auction of the Hooters Hotel in Las Vegas is expected to be complete by March 2012.



## INTERNET GAMING

Since the George W. Bush administration, the U.S. Justice Department had concluded that the federal Wire Act prohibited Internet gambling across state lines. However, in 2011, in response to inquiries from Illinois and New York on whether they could sell lottery tickets to out-of-state residents over the Internet, the Justice Department issued an opinion indicating that the Wire Act applied “solely to sport-related gambling activities in interstate and foreign commerce,” implying that other forms of gaming, including lottery and poker, are allowable. The ultimate impact of this opinion is not yet clear, and could always be withdrawn.

Combined with Nevada’s adoption in December 2011 of regulations for the licensing of companies that offer Internet poker with betting within the state, it is likely that Nevada will be one of the first states with online poker, at least on an intrastate basis, in 2012. Nevada’s new regulations require applicants to prove their ability to maintain controls on player registration, prevent underage play, and establish the location of the players before they are licensed. Other regulations deal with record keeping, fees and taxation, and problem gambling notification. Nevada’s Gaming Control Board had not acted on applications that have been filed by companies seeking to offer intrastate poker play as of the date of this report. No doubt significant efforts will be made to have lawmakers approve legislation legalizing, regulating, and taxing online gaming on the state and/or federal level in 2012. Internet gaming is anticipated to increase acceptability of gambling generally, broaden the market for potential patrons of land-based facilities who desire to experience the “real” thing, and be an opportunity for cross-marketing with land-based gaming operations in the future.

## STALLED DEVELOPMENT PROJECTS

Stalled projects, including Echelon and Fontainebleau, are expected to sit idle in 2012. The opening of Harmon Hotel & Spa, a 400-room non-gaming boutique hotel at CityCenter, was delayed indefinitely and it appears that the structure will be imploded due to construction defects.

### Echelon

Echelon, Boyd Gaming’s proposed multifaceted, world-class resort complex located on a 63-acre site on the Las Vegas Strip, was expected to be among the most significant projects in Las Vegas’ ongoing evolution. Construction on Echelon commenced in the second quarter of 2007; on August 1, 2008, Boyd Gaming announced that, due to the difficult environment in the capital markets and weak economic conditions, the Echelon project was delayed. In its Form 10-Q filed with the Securities and Exchange Commission for the third quarter of 2011, Boyd Gaming indicated that during the suspension period alternative development options for Echelon were being considered, which may include developing the project in phases, alternative capital structures for the project, scope modifications to the project, or additional strategic partnerships, among other things. As of the third quarter of 2011, the company did not expect to resume construction for three to five years.

### Fontainebleau Las Vegas

The Fontainebleau Las Vegas was topped out on November 2008. As the global recession worsened and the demand for condominium units declined, the developer’s banks reportedly declined to provide further financing for the project and forced an eventual filing for Chapter 11 bankruptcy in mid-2009. After nearly \$2.0 billion was expended on construction the property was foreclosed upon and then purchased out of bankruptcy by Carl Icahn for \$150 million in February 2010. Certain furniture, fixtures, and equipment that had been purchased for the Fontainebleau were sold to the Plaza, confirming that there are no immediate plans to complete construction of the project. The new ownership group could wait until market growth returns to a level that it deems appropriate and the project completion is determined feasible, try to market

the property to other entities that might have a different view on what to do with the project, or sell other portions of the structure for material parts.

## CONCLUSION

The future success of the Las Vegas gaming industry is dependent on the strength of the economic rebound and Las Vegas' continued status as an eminent entertainment destination. Overall, the Las Vegas market's rebound is expected in conjunction with improvement in the national and world economies. With no major developments opening in the near term the market will have time to absorb all the new high-quality supply and continued growth in visitation, hotel occupancy, and gaming revenues is expected in 2012. Las Vegas is undoubtedly a unique gaming and entertainment destination. However, given the spread of gaming nationally and worldwide, the emergence of Macau and Singapore as worldwide gaming market leaders, and the impending legalization of online gaming in the U.S., the competitiveness of the marketplace is increasing. It is essential that Las Vegas maintain its unique image as a gaming mecca and entertainment diversity is continuing to grow in importance. Las Vegas is expected to continue to be a dominant domestic and international gaming destination; however, to maintain its competitive edge it must increasingly offer unique entertainment options such as Project Linq being developed by Caesars Entertainment.

## About HVS

**HVS** is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit [www.hvs.com](http://www.hvs.com).

## About the Author



**SHANNON OKADA** is a Vice President with HVS Consulting & Valuation and Associate Director of the HVS Gaming Division. He holds a Masters of Science degree in Hotel Administration from the University of Nevada, Las Vegas, a Masters in Business Administration

and Juris Doctor degrees from Pepperdine University, and a Bachelor in Business Administration degree in Marketing and Management from the University of Hawaii.

Since 1980, HVS Consulting and Valuation ("HVS") – the leading global hospitality consulting organization – has provided financial and valuation consulting services for over 10,000 hotels throughout the world. Principals and associates of the firm have written textbooks and thousands of articles regarding all aspects of the hospitality industry.

Mr. Okada can be contacted at:

HVS Consulting & Valuation - Las Vegas  
8170 W. Sahara Avenue, Suite 201  
Las Vegas, NV 89117  
United States of America  
Tel: +1 702 242-6723  
[sokada@hvs.com](mailto:sokada@hvs.com)