Las Vegas Casino and Hotel Market Outlook 2010

Shannon Okada
Associate Director, Gaming Services
Vice President, Consulting & Valuation; HVS Las Vegas

HVS –LAS VEGAS
8170 W. Sahara Avenue
Suite 201
Las Vegas, NV 89117
USA
Tel: +1 702 242-6723

January 2010

Las Vegas Casino and Hotel Market Outlook 2010

The impact of the downturn in the national and worldwide economies, and the resulting decrease in consumer consumption, was strongly felt by the Las Vegas gaming-tourism industry in 2009. Reversal of the declining visitation, average daily room rate, and gaming revenue exhibited in 2009 is not expected until consumer confidence and spending increase. While it is too early to tell what the effects of the opening of the $8.5 billion CityCenter complex in December 2009 will have on the market, year-over-year increases in visitation during the months of September, October, and November 2009 and the year-over-year increase in gaming revenue in November 2009 are potential indicators that the bottom of the cycle has been reached.

Visitation

Las Vegas' streak of year-over-year increases in visitation that began in 2002 ended in 2008, and the decline in annual visitation continued in 2009. Prior to 2008, the only annual decline in visitation in the period from 1990 to 2007 (2.3%) was a result of the terrorist attacks and short recession in 2001. Table 1 depicts the number of visitors to Las Vegas from 1990 through November 2009 based on data from the Las Vegas Convention and Visitors Authority (LVCVA).[1]

[1] Note that Las Vegas visitor data for December 2009 is not available as of the date of this article.

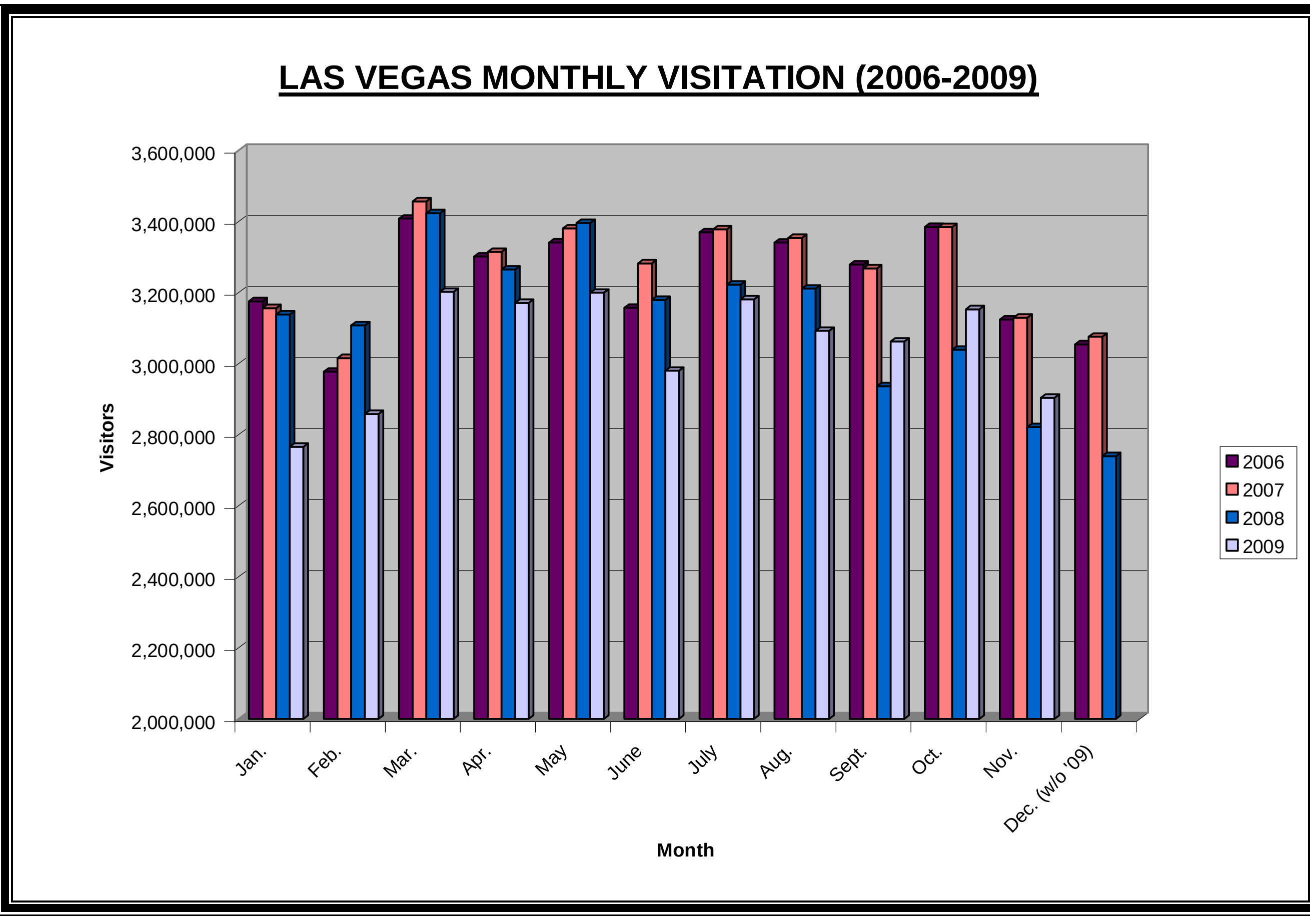
Table 1 – Las Vegas Visitors

Year	Total Visitors	% Change
1990	20,954,420	---
1991	21,315,116	1.7 %
1992	21,886,865	2.7
1993	23,522,593	7.5
1994	28,214,362	19.9
1995	29,002,122	2.8
1996	29,636,361	2.2
1997	30,464,635	2.8
1998	30,605,128	0.5
1999	33,809,134	10.5
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)
Year-to-Date Through:		
Nov-08	34,741,853	---
Nov-09	33,570,821	(3.4)
Average Annual Compounded Change, 1990-2008:		3.3 %
Average Annual Compounded Change, 2001-2008:		1.0 %

As evidenced by Table 1, Las Vegas has a long history of consistent growth. The market experienced year-over-year increases in the total number of visitors from 2002 to 2007, growing to roundly 39,200,000 visitors in 2007. The 4.4% decline in visitation in 2008 was the largest year-over-year percentage decrease during the period examined. Year-to-date statistics through November 2009 indicate that another decline in visitation for the calendar year is likely, although not to the magnitude of the decline as exhibited in 2008. Through November 2009, visitation had declined by 3.4% year-to-date compared to the same period in 2008. The decline in visitation to the Las Vegas area year-to-date is directly attributable to the economic downturn that carried through from 2008 and would have been significantly worse but for operator's reducing hotel room rates, value-added strategies, and other enticements such as discount show tickets, food and beverage comps. While visitation declined further in 2009, a recovery is expected over the mid- to long term. The rate and extent of the recover will likely be slower than following prior downturns due to the diminished discretionary income of consumers and the dramatic contraction in group meeting demand.

Review of monthly visitation data indicates that the number of visitors increased year-over-year during the months of September, October, and November 2009, as exhibited in Chart 1; which may be the first indication that that the bottom of the cycle has been reached and the worst is over. However, comparisons of the market's 2009 year-over-year visitation to the market's performance in 2008, which indicate improvement, are based on comparisons to a poor year that included the beginning of the financial crisis and market collapse in the second half of 2008. Visitation during September, October, and November 2009 was still below the levels attained during those months in 2004.

Chart 1 - Las Vegas Monthly Visitation (2006-2009)



With the opening of the CityCenter complex in December 2009, additional visitation to Las Vegas may have been induced, as new gaming and hotel supply, entertainment, attractions, and other amenities have historically provided an impetus for increased visitation. Development of "must-see" properties, attractions, and amenities, including the Luxor, Treasure Island, and MGM Grand Hotel in 1993, as well as the Bellagio, Mandalay Bay, Paris Las Vegas, Venetian, and Planet Hollywood (previously known as the Aladdin) in the late 1990s, contributed to significant increases in visitation and gaming demand, in addition to changing the overall revenue mixture from primarily gaming to a more balanced distribution between gaming, hotel, dining, retail, and entertainment for the market.

While CityCenter may drive additional visitation, it is unlikely that the growth in visitation in 2010 will reach double digits as in 1994, 1999, and 2000 due to the increasing prevalence of available gaming alternatives nationwide and throughout the world. Since 2004, several quality properties have opened in Clark County, including the Wynn Las Vegas in April 2005, South Point (previously known as South Coast) in December of 2005, Red Rock Station in April 2006, Palazzo in December 2007, and Encore in December 2008. The fanfare and increased visitation upon the opening of these properties have been noticeably insignificant relative to that experienced during previous waves of development.

The decline in visitation to Las Vegas has contributed to the reduction in the number of passengers using McCarran International Airport in 2009. The number of passengers using McCarran in the year-to-date period through November 2009 fell 8.7% compared with the same period in 2008. The percentage decrease follows a 7.7% drop in 2008 compared with the all-time high of approximately 47.7 million passengers who came through McCarran International Airport in 2007. Statistics for McCarran International Airport from 1996 through November 2009 are set forth in Table 2.

Table 2 - McCarran International Airport Statistics

	McCarran International Airport		
Year	Passenger Traffic	Percent Change*	Percent Change**
1996	30,459,965	—	—
1997	30,315,094	(0.5) %	(0.5) %
1998	30,227,287	(0.3)	(0.4)
1999	33,715,129	11.5	3.4
2000	36,865,893	9.3	4.9
2001	35,180,960	(4.6)	2.9
2002	35,009,011	(0.5)	2.3
2003	36,265,932	3.6	2.5
2004	41,441,531	14.3	3.9
2005	44,267,362	6.8	4.2
2006	46,304,376	4.6	4.3
2007	47,728,414	3.1	4.2
2008	44,074,707	(7.7)	3.5
Year-to-Date through November:			
2008	40,911,761	—	—
2009	37,371,630	(8.7) %	—

*Average annual compounded change from the previous year
**Average annual compounded change from 1996

Source: McCarran International Airport/Las Vegas Convention and Visitors Authority

The cutbacks by airlines serving McCarran International Airport because of declining consumer demand are resulting in a reduced number of incoming and outgoing seats per day, a primary reason for the declining passenger totals. The airlines will not add anymore flights into Las Vegas until there is additional demand from consumers and current flights sell out on a regular basis. US Airways, the airport's No. 2 air carrier, indicated in October 2009 that it would reduce service in and out of McCarran International Airport by nearly half, the second time in two years that the Tempe, AZ-based airlines said it was cutting service to Las Vegas.

Lodging Demand

The Las Vegas lodging market has historically achieved occupancy levels well above the national average due to the need for casino operators to fill their rooms at a market-driven price point in order to generate patrons for their casinos. Casino-resort operators are motivated to sustain occupancy because of the need to generate demand for the casino and other ancillary facilities; accordingly, average daily rate has been affected more than occupancy levels.

Table 3 presents Las Vegas lodging market statistics from 1990 through 2008 and the year-to-date periods through November 2008 and 2009.

Table 3 - Las Vegas Lodging Statistics

Year	Inventory	% Change	Total Rooms Occupied	% Change	Total Occupancy	Overall ADR	% Change
1990	73,730	---	22,793,998	---	84.7 %	N/A	
1991	76,879	4.3 %	22,532,851	(1.1) %	80.3	N/A	
1992	76,523	(0.5)	23,434,021	4.0	83.9	N/A	
1993	86,053	12.5	27,514,586	17.4	87.6	N/A	
1994	88,560	2.9	28,768,716	4.6	89.0	N/A	
1995	90,046	1.7	28,922,775	0.5	88.0	N/A	
1996	99,072	10.0	32,689,797	13.0	90.4	N/A	
1997	105,347	6.3	33,222,230	1.6	86.4	N/A	
1998	109,365	3.8	34,249,837	3.1	85.8	N/A	
1999	120,294	10.0	38,638,433	12.8	88.0	N/A	
2000	124,270	3.3	40,414,468	4.6	89.1	N/A	
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)
Year-to-Date Through:							
Nov-08	137,892	---	39,775,607	---	87.1 %	$121.01	---
Nov-09	141,989	3.0 %	38,807,621	(2.4)	82.4	93.11	(23.1) %
Average Annual Comp. Change, 2004 - 2008:		1.7 %		0.3 %			7.3 %

Source: Las Vegas Convention and Visitors Authority

As presented in Table 3, growth in lodging demand in Las Vegas prior to 2008 had been a function of new supply and resulting visitation, as evidenced by the increases in occupied rooms of 17.4% in 1993, 13.0% in 1996, and 12.8% in 1999. However, the 5.7% increase in available rooms in 2008 was accompanied by a 2.1% decline in occupied rooms. As operators implemented strategies to compete for overnight guests to support gaming and other amenities, average daily room rates declined 9.8% in

2008 compared to 2007 and 23.1% in the year-to-date period ending in November 2009 compared to the same time period in 2008. High-end operators, including Wynn Resorts and Las Vegas Sands Corp., have dramatically reduced average daily rates, thereby forcing lower-quality properties to lower rates in order to compete.

Review of the historical occupancy by segment set forth in Table 4 clearly indicates that hotels have historically had higher occupancies than motels, as they have been in the high-80%/low-90% range since 2002.

Table 4 - Las Vegas Occupancy by Segment (2002 to November 2009)

Year	Total Occupancy	Hotel Occupancy	Motel Occupancy	Weekend Occupancy	Midweek Occupancy	Overall ADR	% Change
2002	84.0 %	88.8 %	60.2 %	91.2 %	80.9 %	$76.69	0.4 %
2003	85.0	89.6	60.5	92.8	81.6	82.48	7.5
2004	88.6	92.0	68.7	95.0	85.8	89.78	8.9
2005	89.2	91.8	72.0	95.0	86.6	103.12	14.9
2006	89.7	93.2	65.2	94.6	87.6	119.66	16.0
2007	90.4	94.0	64.5	94.3	88.7	132.09	10.4
2008	86.0	89.8	57.8	89.8	84.3	119.19	(9.8)
Year-to-Date Through:							
Nov-08	87.1 %	91.0 %	58.9 %	90.6 %	85.6 %	$121.01	---
Nov-09	82.4	86.2	50.6	89.9	79.0	93.11	(23.1) %

Source: Las Vegas Convention and Visitors Authority

Las Vegas was a weekend market until the cultivation of convention and meeting and group demand to fill guestrooms during midweek periods. It is significant to note that the data contained in Table 4 indicate that the majority of the decline in the year-to-date period through November 2009 compared to the same period in 2008 was a result of declining midweek occupancy. As significant demand generator of midweek occupancy are visitors who attend conventions, conferences, and other meeting and group activities, the declining number of convention attendees does not bode well for the market.

The number of convention attendees has been declining since 2006, with the most significant declines beginning in the second half of 2008. Table 5 sets forth the number of convention delegates for the greater Las Vegas area estimated by the Las Vegas Convention and Visitors Authority by month for 2006 through November 2009.

Table 5 - Las Vegas Convention Attendance

Month	2006 Attendance	2007 Attendance	Percent Change	2008 Attendance	Percent Change	2009 Attendance	Percent Change
January	738,289	780,542	5.7 %	677,978	(13.1) %	538,415	(20.6) %
February	809,658	771,985	(4.7)	893,982	15.8	583,168	(34.8)
March	653,502	682,824	4.5	637,755	(6.6)	446,588	(30.0)
April	545,856	518,065	(5.1)	538,316	3.9	414,764	(23.0)
May	424,922	506,165	19.1	509,482	0.7	341,846	(32.9)
June	497,902	429,804	(13.7)	438,044	1.9	355,436	(18.9)
July	392,338	262,560	(33.1)	264,197	0.6	249,692	(5.5)
August	606,595	739,215	21.9	574,184	(22.3)	235,841	(58.9)
September	398,836	397,349	(0.4)	357,525	(10.0)	401,319	12.2
October	493,207	388,475	(21.2)	381,129	(1.9)	349,383	(8.3)
November	585,047	602,605	3.0	503,545	(16.4)	437,864	(13.0)
December	161,809	129,664	(19.9)	123,588	(4.7)		
Total	**6,307,961**	**6,209,253**	**(1.6) %**	**5,899,725**	**(5.0) %**		
Total through Nov.	**6,146,152**	**6,079,589**	**(1.1) %**	**5,776,137**	**(5.0) %**	**4,354,316**	**(24.6) %**

Source: Las Vegas Convention & Visitors Authority

In the year-to-date period through November 2009, convention attendance is down 24.6% compared to the same period in 2008. Industry participants have confirmed that cancellations of meetings and events were experienced and attracting meetings and groups to Las Vegas area properties has been hindered due to the economic downturn and the negative connotation of meeting in resort destinations. Company policies regarding cost-saving measures relating to travel is another factor contributing to the decline in occupancy in 2009.

Gaming Demand

In addition to reducing the number of people who come to Las Vegas, the recession is prompting the ones who do visit to spend less on their trips. Moreover, local gaming demand plays an important, albeit secondary, role in the Las Vegas 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; and, with less discretionary income and higher unemployment levels, lower gaming revenue from the local segment is expected.

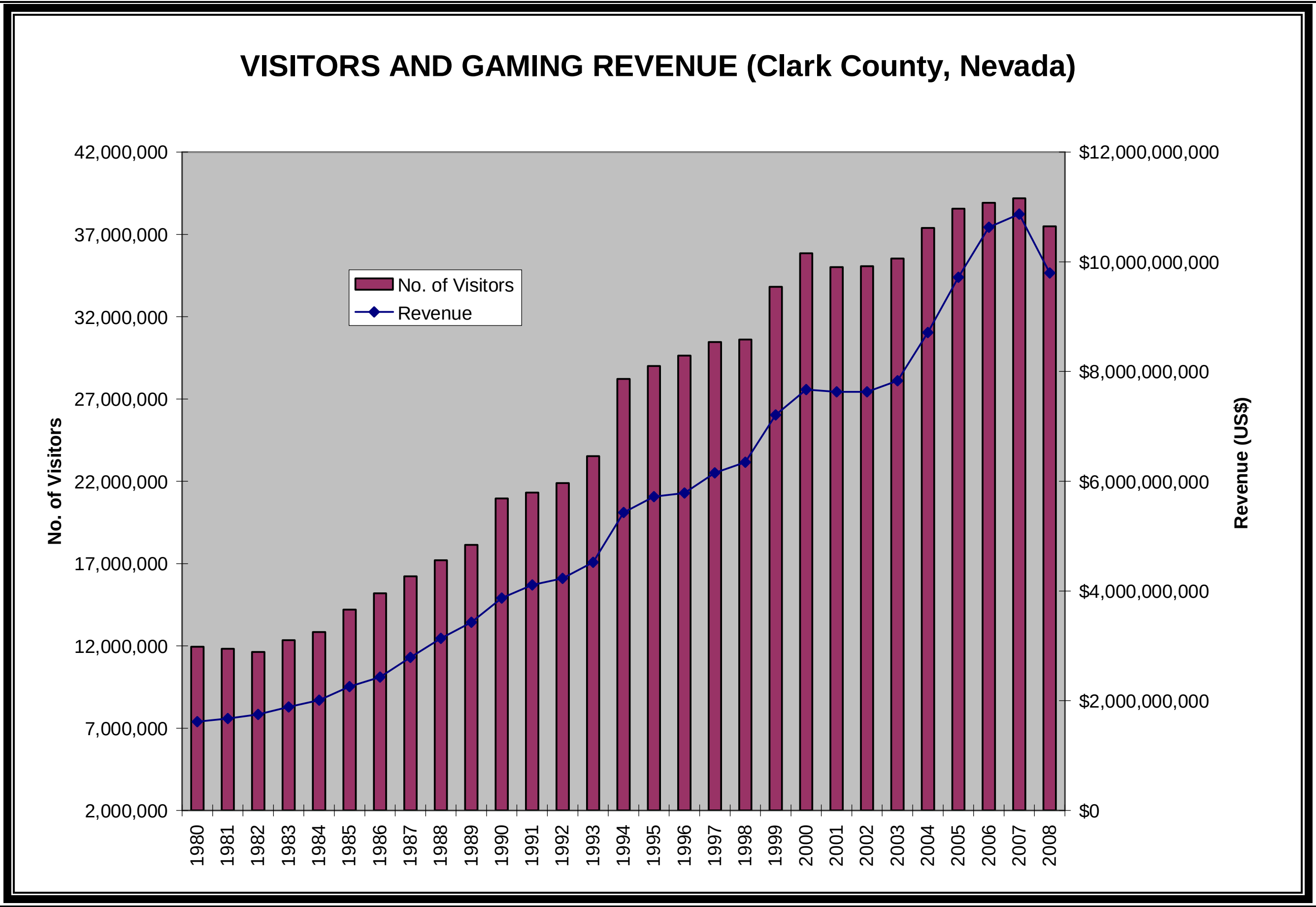
The Las Vegas gaming market reached record highs annually from 2004 through 2007. Prior to 2008, there had been only two years since 1980 that the Las Vegas gaming market has contracted: 2001 and 2002. In 2001 and 2002, the gaming market contracted by 0.5% and 0.02%, respectively, which was attributable to the economic recession and the events of September 11. In 2002, the gaming market contracted by 0.2% as the nation and region recovered from the economic recession. The historical gaming win, number of visitors, and gaming win per visitor for Clark County for 1980 to November 2009 are shown in Table 6 and Chart 2.

Table 6 - Total Visitors, Revenue, and Win per Visitor (Clark County)

	Total Visitors		Total Revenue (Win)		Total Revenue (Win) per Visitor	
Year		% Change		% Change		% Change
1980	11,941,524	---	$1,617,194,799	---	$135	---
1981	11,820,788	(1.0) %	1,676,148,606	3.6 %	142	4.7 %
1982	11,633,728	(1.6)	1,751,421,394	4.5	151	6.2
1983	12,348,270	6.1	1,887,451,717	7.8	153	1.5
1984	12,843,433	4.0	2,008,155,460	6.4	156	2.3
1985	14,194,189	10.5	2,256,762,736	12.4	159	1.7
1986	15,196,284	7.1	2,431,237,168	7.7	160	0.6
1987	16,216,102	6.7	2,789,336,000	14.7	172	7.5
1988	17,199,808	6.1	3,136,901,000	12.5	182	6.0
1989	18,129,684	5.4	3,430,851,000	9.4	189	3.8
1990	20,954,420	15.6	3,871,097,504	12.8	185	(2.4)
1991	21,315,116	1.7	4,110,608,604	6.2	193	4.4
1992	21,886,865	2.7	4,230,751,572	2.9	193	0.2
1993	23,522,593	7.5	4,521,123,158	6.9	192	(0.6)
1994	28,214,362	19.9	5,431,474,872	20.1	193	0.2
1995	29,002,122	2.8	5,720,390,612	5.3	197	2.5
1996	29,636,361	2.2	5,783,610,126	1.1	195	(1.1)
1997	30,464,635	2.8	6,151,904,298	6.4	202	3.5
1998	30,605,128	0.5	6,347,696,977	3.2	207	2.7
1999	33,809,134	10.5	7,210,085,904	13.6	213	2.8
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)
Average Annual Compounded Change, 1980 to 2008:		4.2 %		6.6 %		2.4 %
Average Annual Compounded Change, 1990 to 2008:		3.3		5.3		1.9
Year-to-date November:						
2008	34,741,853	---	$9,025,194,000	---	$260	---
2009	33,570,821	(3.4) %	8,080,732,000	(10.5) %	241	(7.3) %

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

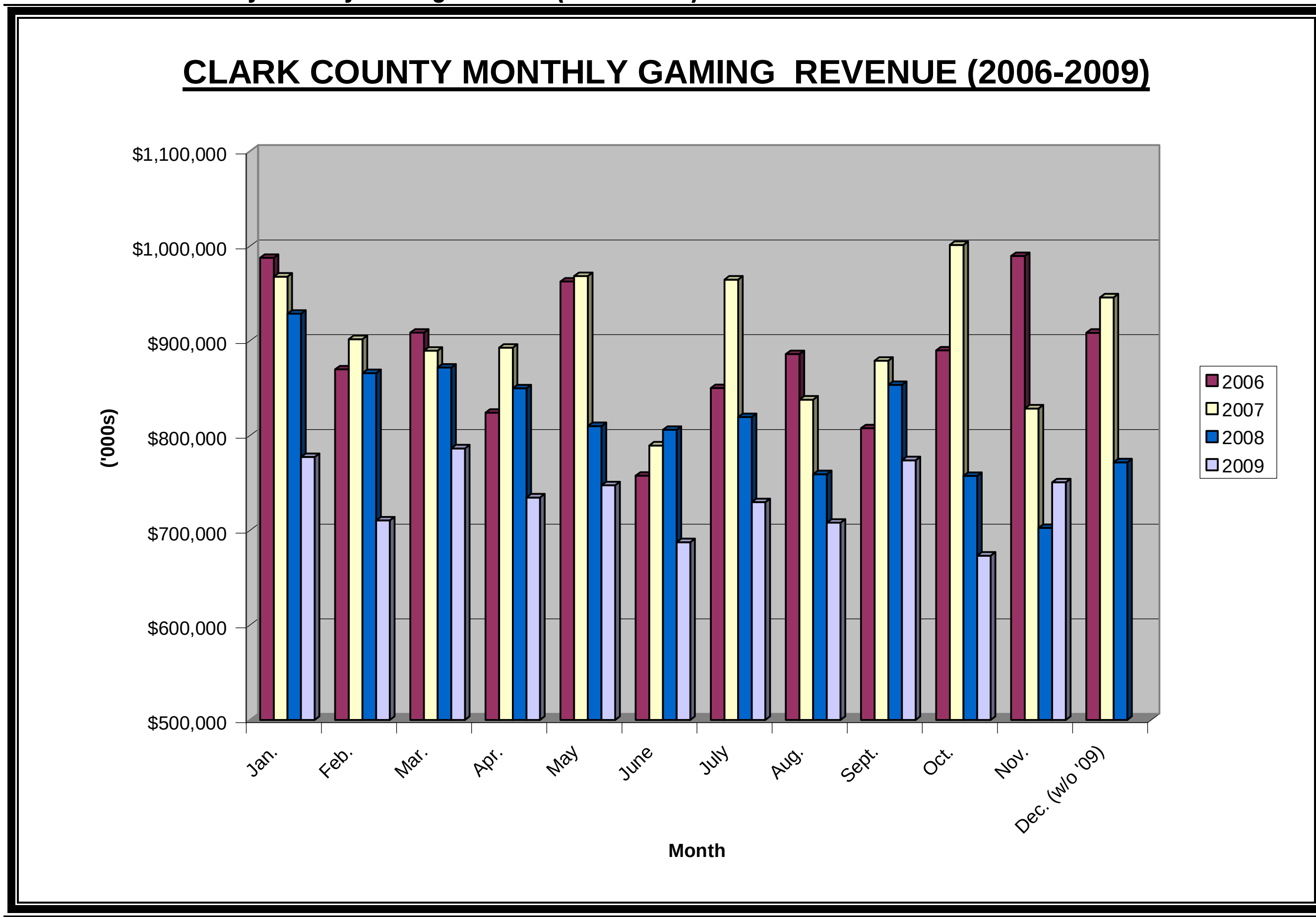
Chart 2 - Visitors and Gaming Revenue (Clark County, Nevada)



Gaming revenues for the Clark County market in 2007 were more than twice those of 14 years ago, increasing from roundly $4.5 billion in 1993 to over $10.8 billion in 2007, but declined in 2008 and has been declining through the November 2009 year-to-date period. The average annual compounded rates of change in gaming revenue, visitors, and revenue per visitors all increased at higher levels between 1980 and 2008 versus the 1990 to 2008 period, likely due to the maturity of the market as well as competitive forces. The decline in gaming revenue for Clark County in 2008 compared to 2007 (9.9%) and in the first 11 months of 2009 compared to 2008 (10.5%) is high due not only to the economic climate but also the recent multiple years of strong growth. The 7.3% decline in Clark County gaming win per visitors in the year-to-date period through November 2009 is indicative that the visitors that are coming are not gambling as much.

In November 2009, monthly gaming revenue increased year-over-year compared to November 2008. However, gaming revenue in November 2008 was below that achieved in November 2004, thus distorting the level of improvement. In fact, gaming revenue in November 2009 was roughly $250,000,000 less than that achieved just three years ago in November 2006, as indicated in Chart 3.

Chart 3 - Clark County Monthly Gaming Revenue (2006-2009)



For the 23 major properties located on the Las Vegas Strip—those with gaming revenues of $72 million and over (hereinafter referred to as 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), as set forth in Table 7.

Table 7 - Segmented Gaming Revenues for Las Vegas Strip $72 Million and Over Market

		Slot Machines			Table Games			Other (Keno, Race Book, Sports Book, Card Games)			Total	
Year	Total Casinos at End of Period	Win Amount ('000s)	% Change	% of Total	Win Amount ('000s)	% Change	% of Total	Win Amount ('000s)	% Change	% of Total	Win Amount ('000s)	% Change
2004	24	$2,535,568	--	52.1 %	$2,170,121	--	44.6 %	$165,264	--	3.4 %	$4,870,953	--
2005	24	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	23	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	23	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	24	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)
Year to Date:												
2008	24	2,680,410	--	52.1	2,369,465	--	46.0	97,621	--	1.9	5,147,496	--
2009	23	2,276,035	(15.1) %	49.9	2,198,935	(7.2) %	48.3	82,046	(16.0) %	1.8	4,557,016	(11.5) %

Source: Nevada Gaming Control Board

Further analysis of the revenues for the Las Vegas Strip $72 Million and Over Market table games segment reveals the extent that Baccarat is increasing in importance for these properties. As indicated in Table 8, Baccarat revenue increased from 22.6% to 30.3% of table games revenue between 2002 and 2007, before declining to 29.4% of table games revenue in 2008. In the year-to-date period through November 2009, Baccarat represented over one-third of the total table games revenue and was the only type of table game to increase revenues year-over-year—a very significant 18.2%, as indicated in Table 9.

Table 8 - Segmentation of Table Games Revenue for Las Vegas Strip $72 Million and Over Market (2004-2008)

Game Type	2004	% of Total	2005	% of Total	2006	% of Total	2007	% of Total	2008	% of Total
Black Jack	$735,265	33.9 %	$769,938	30.7 %	$912,839	31.9 %	$971,654	32.8 %	$847,895	32.7 %
Craps	269,480	12.4	301,186	12.0	294,260	10.3	308,787	10.4	294,030	11.3
Roulette	202,669	9.3	237,171	9.5	258,659	9.0	283,615	9.6	259,229	10.0
Three-card Poker	93,170	4.3	106,695	4.3	112,110	3.9	108,571	3.7	96,357	3.7
Baccarat	491,433	22.6	661,064	26.4	831,909	29.1	898,998	30.3	764,198	29.4
Mini Baccarat	169,318	7.8	198,756	7.9	214,060	7.5	134,180	4.5	97,082	3.7
Carribbean Stud	31,857	1.5	26,589	1.1	16,409	0.6	12,019	0.4	10,582	0.4
Let it Ride	38,445	1.8	36,199	1.4	34,051	1.2	36,142	1.2	35,168	1.4
Pai Gow	20,328	0.9	23,141	0.9	27,966	1.0	22,451	0.8	18,790	0.7
Pai Gow Poker	73,477	3.4	81,725	3.3	71,999	2.5	85,347	2.9	74,290	2.9
Other Games	44,681	2.1	65,755	2.6	86,701	3.0	102,816	3.5	98,598	3.8
Total	**$2,170,123**	**100.0 %**	**$2,508,219**	**100.0 %**	**$2,860,963**	**100.0 %**	**$2,964,580**	**100.0 %**	**$2,596,219**	**100.0 %**

Sources: Nevada Gaming Control Board

Table 9 - Segmentation of Table Games Revenue for Las Vegas Strip $72 Million and Over Market (Year-to-Date November 2008 and November 2009)

Game Type	Nov-08	% of Total	Nov-09	% of Total	% Change
Black Jack	$785,242	33.1 %	$626,049	28.5 %	(20.3) %
Craps	268,424	11.3	209,133	9.5	(22.1)
Roulette	232,153	9.8	218,188	9.9	(6.0)
Three-card Poker	89,235	3.8	77,791	3.5	(12.8)
Baccarat	687,408	29.0	812,359	36.9	18.2
Mini Baccarat	87,920	3.7	65,487	3.0	(25.5)
Carribbean Stud	9,986	0.4	7,554	0.3	(24.4)
Let it Ride	32,820	1.4	29,552	1.3	(10.0)
Pai Gow	17,445	0.7	12,278	0.6	(29.6)
Pai Gow Poker	67,769	2.9	54,597	2.5	(19.4)
Other Games	91,060	3.8	85,944	3.9	(5.6)
Total	**$2,369,462**	**100.0 %**	**$2,198,932**	**100.0 %**	**(7.2) %**

Sources: Nevada Gaming Control Board

It should be noted that Baccarat is mainly found in the high-limit rooms of the Las Vegas Strip casinos that cater to high-rollers, as opposed to gaming properties off the Las Vegas Strip that seldom feature the game. 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. If a player is lucky, a high-rolling Baccarat player can measurably impact a casino's profitability. A likely cause of the strong growth in Baccarat revenues is cross-marketing being done by gaming companies that are operating in both the Macau SAR market in the People's Republic of China as well as in Las Vegas (Las Vegas Sands, Wynn Resorts, and MGM Mirage). VIP Baccarat is much more popular in Asia markets than the U.S. and represents roughly two-thirds of the gaming revenue for the Macau SAR, the largest gaming market in the world. The combination of the Macau connection and the economic health of China and Hong Kong is boosting business at the Las Vegas Strip's Baccarat tables. Additionally, casino operators prefer that high rollers gamble in Las Vegas versus Macau because of the high costs of operating VIP Baccarat in Macau versus Las Vegas, including commissions paid to junket operators (third-party hosts). This segment is expected to continue growing as Las Vegas Sands plans to open the Marina Bay Sands in Singapore in 2010, which will provide the company with additional cross-marketing opportunities for the company.

Major Developments

Major recent developments in the Las Vegas market in 2009 include the opening of M Resort, Hard Rock Hotel and Casino's expansion, and CityCenter, Harrah's taking over of Planet Hollywood's hotel operations, and ongoing construction of the Cosmopolitan, which all represent increases in gaming inventory, transient lodging supply, and function space, as well as factors contributing to the evolution of the Las Vegas area market.

- The 390-room M Resort opened in March 2009 in Henderson at the intersection of Las Vegas Boulevard and St. Rose Parkway. The property features a ±90,000-square-foot casino, nine restaurants, ±60,000 square feet of meeting space, and a 20,000-square-foot spa. The M Resort was funded through an equity investment by the Marnell family, loans from the Bank of Scotland, and a $160 million investment by MGM Mirage.

- A $750 million expansion project at the Hard Rock Hotel and Casino includes a 17-story, 490-room Paradise Tower, which opened in July; a HRH Tower, which is located on the south end of the property and contains 359 "standard" suites, seven penthouses, and eight spa villas with direct access to Hard Rock’s new pool area set to open in mid-2010; a 25,000-square-foot Reliquary Spa; and the Vanity nightclub. Additionally, the property expanded convention facilities, added an additional 30,000 square feet of casino space, a new parking garage with a porte cochere, and a new concert venue. The larger high-limit room includes a secluded area designed to accommodate more Baccarat tables.

- CityCenter, an $8.5 million, 66-acre, mixed-use development project on the Las Vegas Strip between the Bellagio and the Monte Carlo casino-resorts owned equally by MGM-Mirage and by Infinity World Development Corp., a wholly owned subsidiary of Dubai World, opened in stages in December. The 1,495-room Vdara was the first hotel to open at CityCenter and is physically connected to Bellagio. Other components of the facility include Crystals, a 500,000-square-foot retail and entertainment district; a 400-room Mandarin Oriental, Las Vegas; and the ARIA Resort & Casino. ARIA Resort & Casino features a 61-story tower with 4,004 hotel rooms and a 150,000-square-foot casino. CityCenter will also feature a Harmon Hotel & Spa, the opening of which has been postponed until such time as the developers mutually agree to proceed with its completion.

- Harrah's Entertainment has taken over management of hotel operations at the Planet Hollywood casino-resort in Las Vegas from Starwood as it negotiates with lenders to buy the property. Planet Hollywood is located across Las Vegas Boulevard from CityCenter and has 2,500 rooms. The resort defaulted on an $860 million loan in September, according to Securities and Exchange Commission filings. As of the date of this report there is no deal yet for Harrah's to take ownership of the property.

- Construction of the approximately $3.5 billion, 3,000-room Cosmopolitan Resort & Casino has continued despite Deutsche Bank's foreclosure on the project that was begun by developer 3,700 Associates, LLC, headed by Ian Bruce Eichner. The original design called for a 70,000-square-foot casino, over 300,000 square feet of retail, and a 1,800-seat theater. Reports had indicated that Hilton would be involved with the operation of the property. The project is expected to be completed in 2010.

While these developments are expected to induce some additional visitation, it is likely that the market will not absorb new lodging and gaming inventory as rapidly as it has historically. Growth in visitation reached double digits in 1994, 1999, and 2000 due to expansion and construction of Las Vegas Strip properties. However, available gaming alternatives nationwide and throughout the world have become more prevalent since that time. In addition, discretionary income of U.S. citizens has taken a significant hit and it is uncertain how long it will take leisure spending to revive. The impact of the downturn in the economy and resulting decline in visitation and gaming revenues has had significant impact on developments and existing properties. Several examples include the following:

- Construction of the $2.9 billion Fontainebleau casino-resort on a 24.5-acre site north of the Riviera on the Las Vegas Strip was halted in April as funding for the project was reportedly cancelled, resulting in the filing of bankruptcy by the property's developers. The Fontainebleau was expected to feature a 100,000-square-foot casino, 3,889 luxury hotel rooms and condominium-hotel units, food and beverage outlets, nightclubs, and 200,000 square feet of meeting and convention space. The project has cost roundly $2.0 billion to date, is estimated to be approximately 70% completed, and was originally slated to be opened by early 2010. Estimates have indicated that the cost to compete the project would range between $1.0 and $2.0 billion. Billionaire Carl Icahn has reportedly submitted the only qualified bid for the Fontainebleau, according to a report filed by the examiner for the U.S. Bankruptcy Court in Miami. Icahn's bid of $156.6 million for the Fontainebleau, less than 8.0% of what has been spent thus far, was submitted in late November.

- Two towers of the Sahara Hotel will be closed through the holiday seasons due to low lodging demand. Binions has discontinued its hotel operations.

- Privately held Station Casinos owns and operates 18 casinos in Las Vegas and has development/management agreements for Native American gaming facilities in other parts of the U.S. Station Casinos sought bankruptcy protection in July after its owners had trouble servicing the $3.3 billion in debt they assumed when the company was acquired for $8.8 billion in 2007. The casino operator was granted a four-month extension from the U.S. Bankruptcy Court in Reno, Nevada to submit a reorganization plan. It now has until March 25, 2010. In December, Boyd Gaming Corp. offered $2.45 billion in cash and debt to buy Station Casinos Inc. out of Chapter 11 bankruptcy protection, in December.

Conclusion

After a long period of economic expansion, the Las Vegas market area has entered into a period of decline as the local economy experiences challenges felt across the nation. In 2009, the greater Las Vegas area experienced the worst downturn in its history. While the Las Vegas market has historically weathered periods of economic decline and downturns in visitation well, the rate and extent of a future recovery is uncertain at this time. In the near term numerous casino-hotels and gaming companies in the market will face work-outs and/or foreclosures as a result of the severe decline in revenues caused by the economic recovery. The market is expected to recover when tourism demand from local, national, and international sources increases as a result of cyclical market forces.

The question of whether CityCenter will induce or cannibalize demand has not yet been answered. The Las Vegas market is more severely impacted by higher levels of supply in Las Vegas and increasing competition from gaming expansion in neighboring states than in previous years. With the recession reducing visitation to Las Vegas, hurting Las Vegas Strip casino resort operators, and soaring unemployment hurting locals casinos, Nevada gaming revenue has declined. The market was also hurt by a decline in travel — particularly high-end business and convention travel—tied to the recession and the negative connotations associated with holding group meetings and retreats in resort locations. The cancellations of meeting and corporate events in Las Vegas in 2009 due to the image of Las Vegas as a resort destination clearly hurt market occupancy and impacted the ability of convention sales teams to book future business. Casino-hotels have had to discount rooms rates significantly in order to fill guestrooms, resulting in a much lower average rates in 2009. Competition for large conventions and meetings has increased over the last 10 years as more venues were constructed and the current reduction in events makes for fierce competition.

The risk of further decline in local, national, and worldwide economic conditions is greatly concerning operators in the Las Vegas market. Lower visitation to Las Vegas and declines in amount spent per visitor result in deteriorating revenue and net income levels for Las Vegas casino-hotels. While this is perceived as a cyclical downturn, the duration and magnitude of the downturn are uncertain at this time. Significant increases in competition from other gaming markets, both internationally and in the United States, may also have a negative impact upon the future performance of the Las Vegas market.

Overall, the Las Vegas market is expected to continue experiencing slowed economic growth in the short term as a result of the downturn in the national and worldwide economies; a rebound is expected once the national and world economies recover. The fact that Las Vegas is a unique, iconic gaming and entertainment destination, the amount of existing and potential gaming activity is significant. Given its critical mass and billions of dollars in invested capital, Las Vegas will continue to be an eminent domestic and international gaming destination.

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 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.

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 by President and CEO Steve Rushmore, MAI, FRICS, CHA, the company offers a comprehensive scope of services and specialized industry expertise to help you enhance the economic returns and value of your hospitality assets.

Steve began his career in the 1970s as a consultant in the hospitality division of a prominent New York City real estate firm. Through that experience, Rushmore noted the limited body of knowledge available to assess the value of hotels and motels, taking into consideration both the business and real estate components. Rushmore's first book, *The Valuation of Hotels and Motels*, quickly became the definitive work on the subject, and soon after, HVS was born. The HVS method of providing an economic study and appraisal for hotels and motels immediately became, and continues to be, the industry standard.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 400 seasoned industry professionals, gives you access to an unparalleled range of complementary services for the hospitality industry:

Consulting & Valuation
Investment Banking
Asset Management & Advisory
Hotel Management
Hotel Parking Consulting
Executive Search
Food & Beverage Services
Gaming Services
Convention, Sports & Entertainment Facilities
Interior Design
Sales & Marketing Services
Shared Ownership Services
Golf Services
Eco Services
Risk Management

Our clients include prominent hotel owners, lending institutions, international hotel companies, management entities, governmental agencies, and law and accounting firms from North America, Europe, Asia, Latin America, and the Caribbean. Our principals literally 'wrote the book' on hospitality consulting, authoring numerous authoritative texts and hundreds of articles. HVS principals are regarded as the leading professionals in their respective regions of the globe. We are

HVS

client driven, entrepreneurial, and dedicated to providing the best advice and services in a timely and cost-efficient manner. HVS employees continue to be industry leaders, consistently generating a wide variety of articles, studies, and publications on all aspects of the hospitality industry.

HVS is the industry's primary source of hotel ownership data. Our 2,000+ assignments each year keep us at the forefront of trends and knowledge regarding information on financial operating results, management contracts, franchise agreements, compensation programs, financing structures, and transactions. With access to our industry intelligence and data, you will have the most timely information and the best tools available to make critical decisions about your hospitality assets.

For further information regarding our expertise and specifics about our services, please visit www.hvs.com.