GAMING AND REAL ESTATE

Overview of US Gaming Industry

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"Under all is the land"

That essential and core statement is a primary fact taught in every Real Estate 101 course. All facets of real estate economics flows from that one truth; highest and best use, and all land use economics flow from the truth that land, considering all its features and complexities, is a primary driver to all uses that are located upon the land.

While the gaming business is viewed by most analysts as business enterprise, and in many ways is, the fact is that understanding the economics of gaming is essential to understanding anything relating to the economics of real estate as the necessary precursor and supporter of the gaming function.

This multi part series will discuss all aspects of real estate's driving role in supporting gaming as a use that has gained enormous traction with the world's (and US) adult population.

In this first part, we offer a summary of the gaming industry today in the United States.

Today, gaming is a $90+ billion industry in the U.S. **This total gross win figure equates to about $400 for every adult in the country.** Total gaming revenue is generated from five main gaming activities that include: Charitable Gaming, Lotteries, Racing/Sports Wagering, Casino/Card Rooms, and Tribal Gaming.

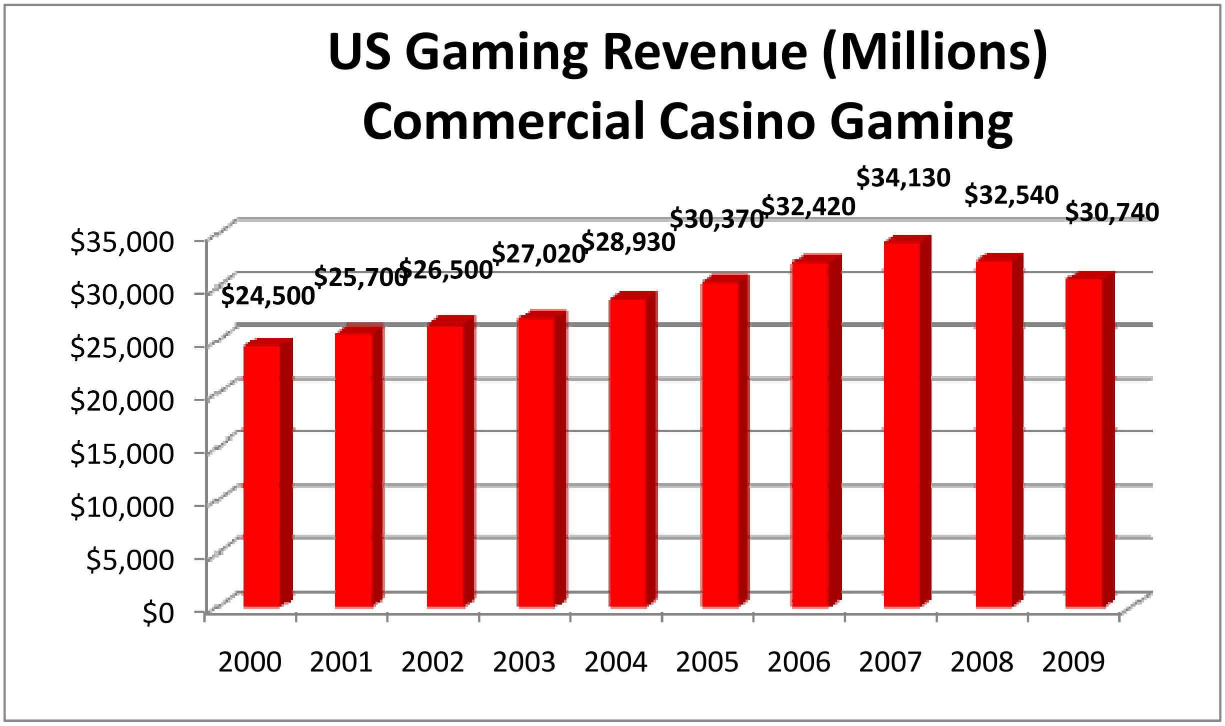
Market Share of US Gaming

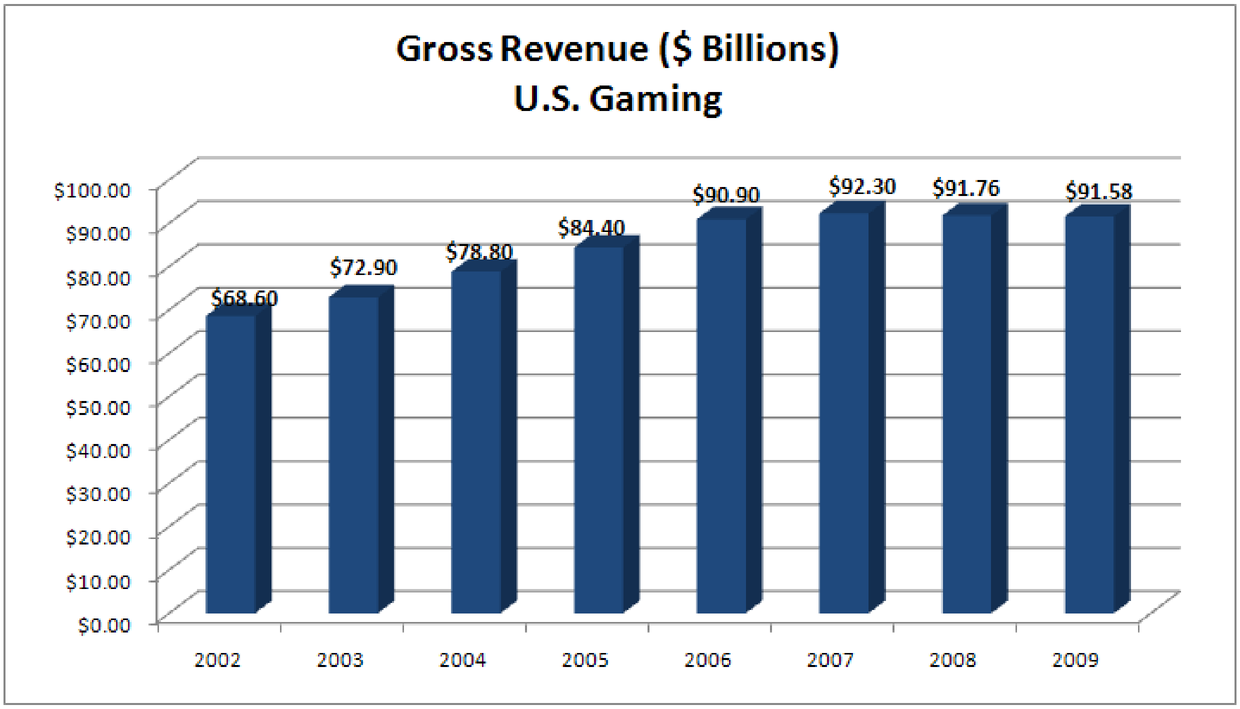
Commercial casinos and card rooms make up the majority of U.S. gaming revenues. Casino City reports show that commercial casinos and card rooms accounted for about 39% of nationwide gaming revenues, followed by Lotteries with 27%, and Tribal Gaming at 27%. The remaining revenue comes from Charitable gaming and Racing/sports betting.

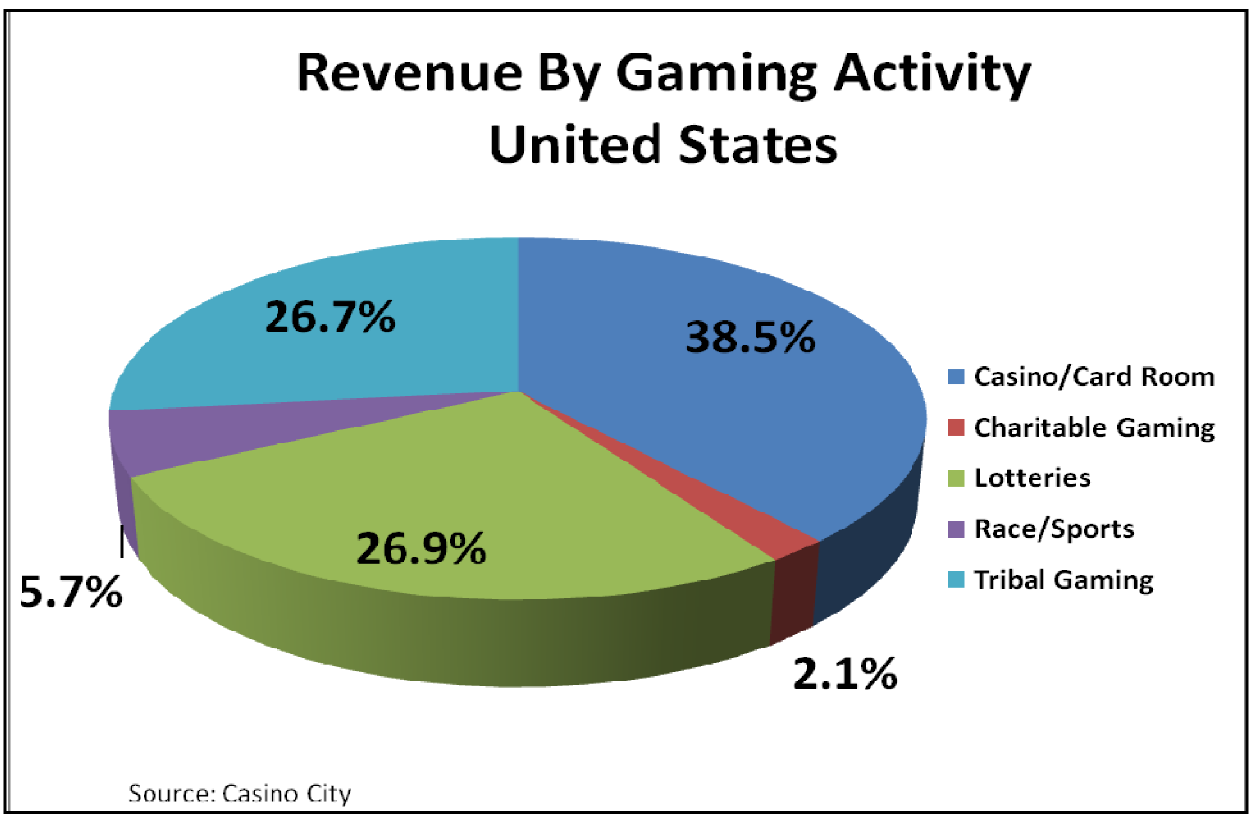
Commercial Casinos and Card Room Gaming

There are currently a total of 13 states that allow commercial casinos, with Kansas being added last year and Ohio set to be added in the next few years. There are also 5 states that have card rooms (poker). These states that have commercial casinos include: Colorado, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Mississippi, Missouri, Nevada, New Jersey, Pennsylvania, and South Dakota. The states that have card rooms include: California, Florida, Minnesota, Montana, and Washington. Commercial casinos are a big source of a State's revenue and contribute many other benefits throughout each community, such as tax contributions, increase in tourism and job creation. In 2009, commercial casinos in all 13 states generated nearly $5.6 billion in state and local government tax revenue and employed over 328,375 people.

Commercial casino and card room gaming is represented mostly by commercial casinos and riverboats. This includes mostly large traditional casinos which offer both slots and table games. In 2009, commercial casinos generated a total of roughly $30.7 billion in revenue, which is down slightly from $32.5 billion in 2008.




Gross Revenue ($ Billions)
U.S. Gaming
$100.00
$90.00
$80.00
$70.00
$60.00
$50.00
$40.00
$30.00
$20.00
$10.00
$0.00
$68.60
$72.90
$78.80
$84.40
$90.90
$92.30
$91.76
$91.58
2002
2003
2004
2005
2006
2007
2008
2009

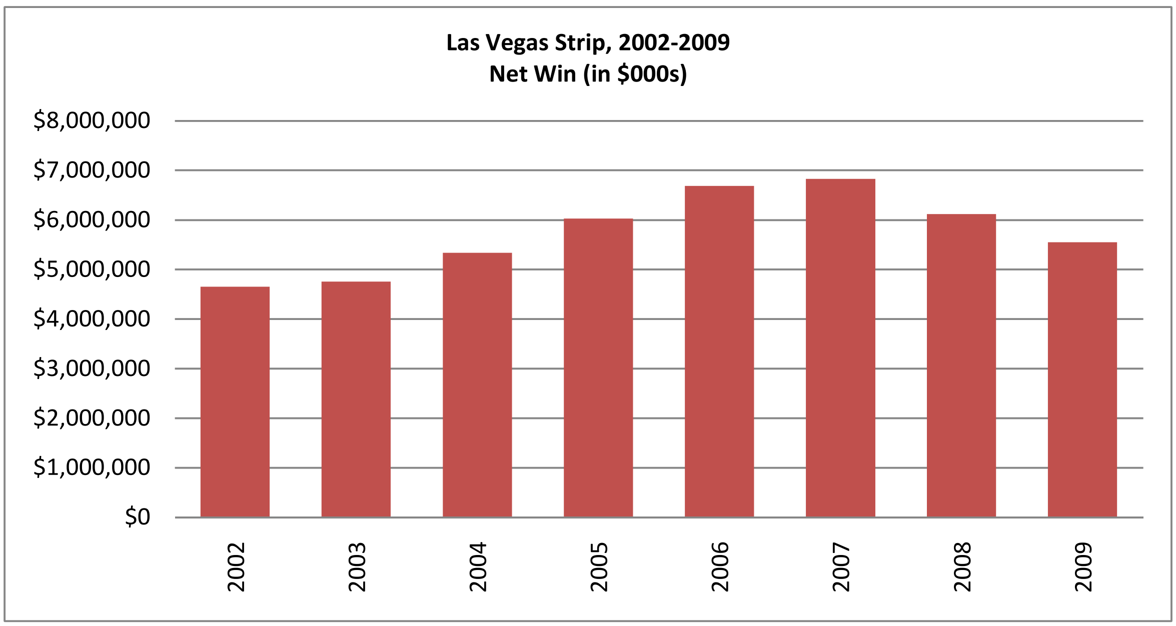

Revenue By Gaming Activity
United States
26.7%
38.5%
26.9%
5.7%
2.1%
Casino/Card Room
Charitable Gaming
Lotteries
Race/Sports
Tribal Gaming
Source: Casino City

Las Vegas vs. Atlantic City

The two most well know commercial gaming markets in the United States are Las Vegas, NV and Atlantic City, NJ. As the recession hit the nation in 2008, the gaming industry was probably one of the hardest hit industries as a result. The charts below show historical net win from 2002 through 2009 for the Las Vegas Strip, Downtown Las Vegas, and Atlantic City.

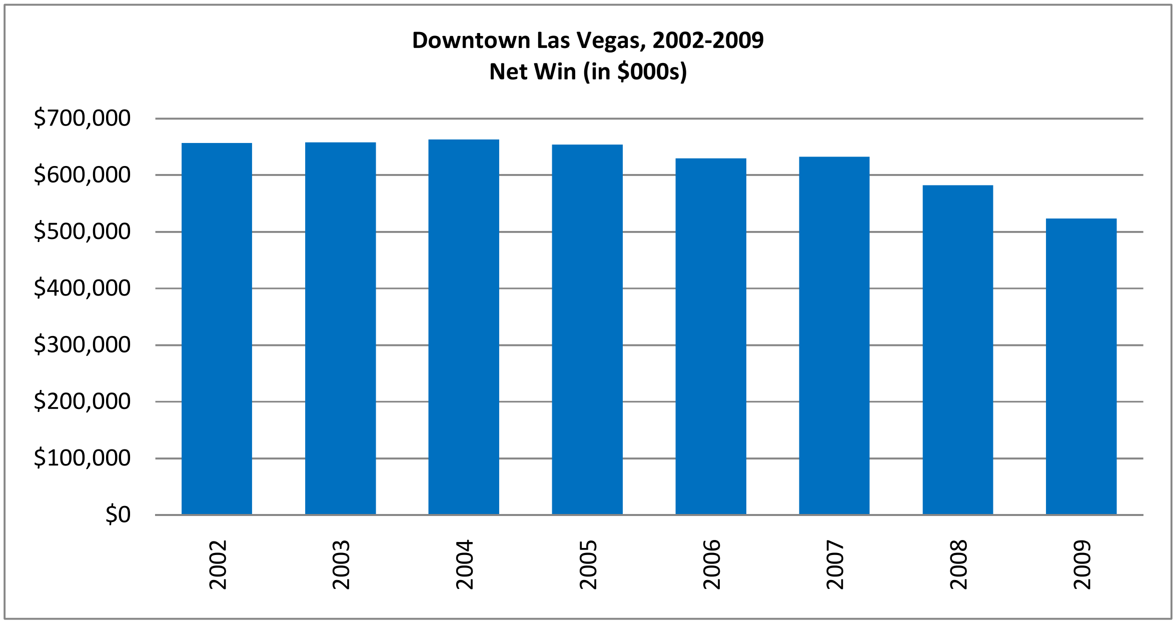
Las Vegas

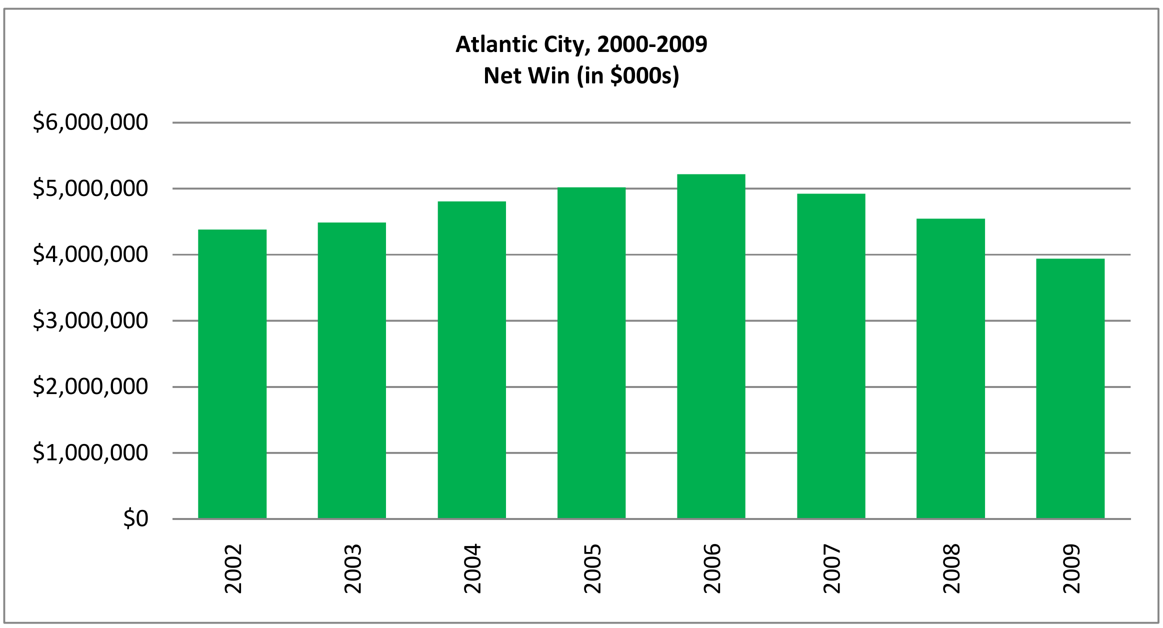
The Las Vegas Strip casinos finished 2009 with just over $5.55 billion in net win (or gaming revenue after player winnings). The Strip had shown an increase in net win in each year from 2002 through 2007, but then dropped -10.4% in 2008, and another -9.3% by 2009. Downtown Las Vegas finished 2009 with net win of just about $524 million, which is down -10.1% from 2008 and the lowest it has been this decade.



Atlantic City

Atlantic City has also been hit pretty hard as a result of the recession, finishing 2009 with just over $3.94 billion in net win, which is down from about $4.55 billion in 2008, a decline of 13.2%. This is also the lowest generated net win for Atlantic City in this decade. Atlantic City has been fluctuating throughout this decade, showing an increase in net win from 2002 through 2006, but then a decline in each of the last three years. The chart below shows historical net win for Atlantic City.





Tribal Gaming

Tribal Gaming is comprised of gambling businesses operated on Indian reservations or Tribal land. They have limited sovereignty and therefore are able to exist outside direct state regulation. Tribal gaming recently has been the fastest growing gaming activity in the U.S. There are now 425 Indian casinos located in 28 states.

Class I, II, and III Gaming

The Indian Gaming Regulatory Act (IGRA) defines three formal classes of gaming in Tribal gaming: Class I, Class II, and Class III. A brief description of each follows.

> ***Class I –*** *This type of gaming includes social games for prizes of minimal value and traditional forms of Indian gaming as part of, or in connection with, tribal ceremonies or celebrations. Class I gaming is regulated solely by tribes*
>
> ***Class II*** *– This type of gaming includes bingo, pull tabs, lotteries, punchboards, tip jars, instant bingo, other games similar to bingo, and certain non-house banked card games such as poker. The use of technological aids in conducting such games is permitted. Class II gaming is regulated by tribes if certain conditions set forth in the Indian Gaming Regulatory Act are met.*
>
> ***Class III*** *– This type of gaming includes all other types of gaming not considered to be Class I or Class II, including slot machines, other video and electronic games of chance, craps, roulette, pari-mutuel wagering, and house-banked card games like blackjack. Class III gaming is governed by tribal-state compacts.*

According to the Indian Gaming Analysis Report – 2008/2009 Edition published by Casino City Press, the rate of growth in Indian gaming continues to outpace the growth in commercial gaming. In 2008, Indian gaming revenues increased to **$26.8 billion**, up from $26.5 billion in 2007 and $25.3 billion in 2006. However, more recent statistics published by the NIGC indicate that 2009 revenues slipped to **$26.5 billion**.

The 2009 decline of -1.1% was the first reported decline in the history of Indian gaming, reflecting the onset of a serious U.S. economic recession in 2008/2009. However, this decline is relatively modest, given the challenges of the U.S. economy and the more serious declines experienced in some markets, particularly major commercial gaming markets such as Las Vegas and Atlantic City. According to the NIGC, 58% of U.S. Indian casinos reported revenue declines in 2009, with more than half of those casinos seeing declines of 10% or less. Still, in 2009 a full 39% of Indian casinos reported revenue gains compared to 2008. In many cases these were new casinos or casinos which expanded during late 2008 or 2009. Oklahoma and California now account for more than 38% of Tribal gaming revenues nationwide.

Growth in Tribal gaming is a result of the addition of more gambling facilities in better locations, paired with an increase in the popularity and social acceptability of gambling as a form of entertainment. A recent survey conducted by the American Gaming Association found that 85 percent of adults in this country believe casino gambling is an acceptable form of entertainment. The aging of the U.S. population is also a contributing factor to growth in the Tribal gaming industry, since older adults and retirees comprise a key market segment for casinos.

Sources: Indian Gaming Industry Report 2008-2009 Edition – *The Analysis Group, The National Indian Gaming Commission (NIGC)*

Lotteries

According to a report by the Rockefeller Institute, in FY 2009, lotteries generated roughly $14.8 billion in revenue (includes video lottery terminals). This is down slightly from $15.1 billion in 2008 (-2.3%). Lotteries are currently being operated in 42 states, including the District of Columbia. Note: figures were not available for the States of Massachusetts and Tennessee.

Charitable Gaming

Charitable gaming is used as a way to raise revenues for a variety of causes. Charitable gaming includes: Bingo, casino nights, raffles, pull tabs, and other charitable gaming operations. Charitable gaming revenues reached $2.22 billion in 2007, down slightly from $2.237 billion in 2006.

Racing/Sports Betting

Race tracks and racinos, include horse tracks, dog tracks, and simulcasting facilities. Racinos include electronic gaming devices such as slot machines, table games, and VLT's (Video Lottery Terminals). Sports wagering are bets made based on the outcome of different types of sports (mostly college and professional). Federal law limits sports betting to only four states (Nevada, Oregon, Delaware, and Montana.) Racinos are currently operating in 12 states. In 2009, Racinos generated roughly $2.86 billion in revenue, up from $2.68 billion in 2008. The majority of sports wagering occurs in Nevada, specifically in Las Vegas. According to the American Gaming Association, in 2009, a total of $2.57 billion was legally wagered on sports in Nevada.

It is estimated that illegal wagering can account for as much as $380 billion annually. Gross revenue for Nevada sports book in 2009 was $136.4 million.

Summary

The gaming industry is a multi-faceted business that has established itself as a major entertainment business in the US. It has its own features that drive financial performance, and thus, represent a unique highest and best use of land. Arguably, without the advent of gaming as a land use, Las Vegas and Atlantic City would exist only in modest form; and Tribes would not enjoy the prosperity they have experienced the last 10-15 years. All this because of land use permittings combined with licensed activities that have changed the entertainment business throughout North America.

GVA Marquette Advisors is the premier real estate consultant in the United States specializing in advising individual owners, institutional investors, and public companies on all aspects of development, acquisition, disposition, and value enhancement of gaming properties throughout North America