

7 THE ATLANTIC CITY MARKET

7.1 Market Overview

In 2003, the Atlantic City market generated \$4.49 billion in gross casino gaming revenue, generating \$414.5 million in gaming tax revenue.

New Jersey has a self-exclusion law that lets gamblers ban themselves from Atlantic City casinos for a period of one or five years, or for a lifetime.

7.2 Market Assessment

Much of this information is available in the Chapter 5, Section 30 (5.30).

More than 33.1 million people visit Atlantic City annually. More than 750,000 passengers traveled through Atlantic City International Airport in 2001. There are approximately 40,500 residents in Atlantic City. Total employment in the Atlantic City casino industry is approximately 50,000. Atlantic City offers approximately five miles of world-famous Boardwalk lined with shops, casinos, restaurants and amusements.

7.3 More Casinos, Competition and Technology in Atlantic City's Future

Joe Weinert (Gaming Observer, May 26, 2003) provided the following look at Atlantic City over the next 25 years:

In 2028, gamblers could be playing slots with a debit card or wagering at a casino's blackjack table via the Internet. Casinos will be relying more on nongaming sales and facing competition in every nearby state. Regulators will be more concerned with compliance than licensing. Experts believe these possibilities, predictions and warnings will be a part of Atlantic City's second quarter-century of casino gambling, which began June 1, 2003.

Most of the city's future hinges on how it responds to the inevitable expansion of casino-style gambling in the Northeast and Mid-Atlantic states. There are now casinos or racetrack slots in Delaware, New York, Connecticut and Rhode Island, with Pennsylvania on the cusp and Maryland maybe a year behind. (Note: Pennsylvania signed legislation in July 2004.)

Full-blown casino resorts in the Catskills are perhaps three years away, and more Indian casinos are possible in Connecticut and Rhode Island. Atlantic City must differentiate itself from those gaming markets by tempting visitors with a wider variety of resort attractions, experts say.

According to Wallace Barr, CEO of Park Place Entertainment, this means more casino units than the 12 in existence; probably more gaming space; but primarily more hotel rooms, more theaters, more entertainment venues, more retail, more inclusive use of the beach and more inclusive use of the area around Atlantic City, such as the waterways, golf courses and other entertainment amenities.

Michael Pollock, author of a book on the first decade of casinos here, believes Atlantic City should position itself as the "East Coast capital of gaming" by following Las Vegas' lead. In 1989, the Mirage opened and ignited a revolution that turned an aging gambling town into one offering many mega-resorts. Today, Strip casinos get half of their revenue from entertainment, hotel, food, drink, retail and convention sales. In

2002, Atlantic City casinos derived only 19% of their business from nongaming sources, and most of that from in-house accounting for complimentary.

According to Richard Perniciaro, who directs the Center for Regional Business Research at Atlantic Cape Community College, in 25 the casino industry might be totally online.

Barr and Pollock believe three or four more casinos could be built over the next quarter-century as Atlantic City continues its pattern of slow growth. McDonald Investments analyst Dennis Forst is not as positive, noting that Atlantic City has been flat with 12 casinos since 1987. Any new casinos could be offset by "casualties" of competition in Atlantic City and in other states.

According to Forst, just using history as a guide, very little has been accomplished in 25 years. Once competitors open in other jurisdictions, other companies may not invest in Atlantic City.

Pollock believes conventions will be a key for the casinos' growth. As businesses look for places to hold conventions, Atlantic City's chief advantage is the ability to do other things while they are in the city. The more it can offer in that regard, the more successful it will be. The city will need to shed its reputation as dirty, cramped and unsafe in certain spots. The Boardwalk needs to become an attraction unto itself rather than a walkway lined with tacky shops.

Atlantic County Executive Dennis Levinson believes any image makeover starts with the people. A good first start would be "a courtesy campaign here and making sure when people want visit Atlanta City to gamble and vacation, extraordinarily well. It goes right down to the guy on the street who's asked for directions."

Regional and industry leaders must get commitments from major airlines, which would expand the city's tourism base beyond the three-hour drive-in market. At the same time, the state can encourage the complimentary private investment only by keeping gaming taxes low.

The casino floor could be entirely coinless, and perhaps cashless. Technology will allow gamblers to wager with a bank card. If Internet gambling becomes legal in the United States, expect Atlantic City casinos to participate. According to gaming lawyer Nicholas Casiello, cashless wagering technology for gaming on slot machines can provide more security, better accounting and less chance of theft. However, the use of technology also presents risks. This is evident from the use of personal computers that they are not perfect, crash, can be attacked by viruses and hacked.

Casino companies, with so much at stake with state gaming boards and federal securities regulators, are making license investigations easier. As a result, gaming regulators will shift their focus to underage gambling, alcohol control and other compliance matters. Many gaming boards now use a common personal license application form. The next step would be reciprocity; that is, one jurisdiction accepts licensing from another. Reciprocity is a much more difficult thing. It does exist to a certain extent, especially among the Australian regulatory authorities. In the U.S., some Native American jurisdictions are accepting licensing from state authorities. This trend will and should continue.

7.4 Annual Visit-Trips to Atlantic City

According the Atlantic City Convention and Visitors Bureau, annual visit-trips to Atlantic City (in thousands) have been as follows:

• Automobile	• Franchise Bus	• Rail
2003: 24,553,000	2003: 504,000	2003: 142,000
2002: 24,646,000	2002: 514,000	2002: 143,000
• Casino Bus	• Air	• Total
2003: 6,764,000	2003: 261,000	2003: 32,223,000
2002: 7,586,000	2002: 268,000	2002: 33,188,000

7.5 New Developments

Atlantic City opened its first new casino in ten years in 2003, the Borgata in the Marina District. The \$1 billion hotel-casino resort and joint venture between Boyd Gaming Corporation and MGM Mirage opened July 3, 2003. The facility includes 2,002 guest rooms and suites, 10 specialty restaurants, 11 designer retail shops and boutiques, a European-style spa, a special events center, and meeting and banquet facilities. Classic Italian designs with a contemporary flair are showcased throughout the resort's 40-story hotel tower and casino. The property is on three times the acreage of most Atlantic City casinos; the 30-acre Borgata also features a landscaped grand entrance, a 6,500-space parking garage and an underground valet facility.

Tropicana Casino & Resort's \$225 million expansion project included a 502-room hotel tower and an elaborately decorated 200,000 square-foot, Old Havana-themed retail, dining and entertainment complex called The Quarter. The complex, between Brighton and Iowa Avenues opened Spring 2004. Other elements of the project will include an Imax theater and a 25-room conference center. Tropicana has also completed a Boardwalk facade renovation called The Marketplace at the Boardwalk. The 21,000-square-foot area offers a variety of restaurants and kiosks, including Atlantic City's first beer garden, plus "street performer" entertainment to add to the fun.

Shops between Indiana Avenue and Martin Luther King Boulevard on the Boardwalk have a whole new look due to a \$2 million project completed in May 2003. The block is now known as Siganos Plaza at 1700 Boardwalk. The all-new stores include the flagship two-story Opa Bar and Grille, at the corner of Indiana Avenue. Other stores include Wacky Bear Factory, Tiki Liki, Aqua Massage, Sports Collection, Toon in, Kandyland, Lady of Leisure, Magnetism, and food outlets including China One, Original Philly Steaks, Double Rainbow Ice Cream and Coffee Café and Lo Presti Pizza.

In June 2003, Showboat – The Mardi Gras Casino completed a 19-story tower to house 545 additional hotel rooms. This complements Showboat's recently completed \$5.3 million high-roller lounge and \$17 million restaurant complex.

Resorts Atlantic City, the city's first casino hotel, is in the process of replacing an older hotel tower with a new 27-story luxury tower. The \$125 million construction project is expected to conclude in Summer 2004 and feature 408 rooms and 51 suites, bringing Resorts' total number of guest rooms to 938. A porte-cochere entrance leads to an elegant lobby area that connects both towers. Changes also included a lounge overlooking the casino and an art deco facade. Additional 13,700 square feet of gaming space was also planned.

The Quality Inn closed in late August 2004 and was scheduled to reopen in Spring 2005 as the Courtyard by Marriott. The \$8.5 million renovation will result in the city's first premium-branded, non-gaming hotel, featuring 203 rooms, each with dual phones, high-speed Internet access, in-room movies and sitting areas; a full-service breakfast restaurant; a bar; a workout area; onsite parking; two meeting rooms and a boardroom.

Fairfield Resorts, Inc. is investing \$75 million to transform Tannen Towers, at North Carolina and Pacific Avenues, into a 32-story, 296-unit condominium complex designed for timeshare occupancy. The targeted completion date for Fairfield Atlantic City at Skyline Tower is early 2005.

Helping the city to meet an increased demand for additional parking is a new 11-story, 3,189-space parking garage adjacent Caesars Atlantic City. The \$75 million project is funded by Park Place Entertainment, and will be conveniently located near the center of the historic Boardwalk, on the block bordered by Pacific and Atlantic and Arkansas and Michigan avenues. Construction began in January 2004 and ended in mid-2005.

At the foot of the expressway, the Casino Reinvestment Development Authority and the

Cordish Company of Baltimore built Atlantic City Outlets: The Walk, a \$76 million, 320,000-square-foot, upscale retail outlet, entertainment and dining district. Among its many brand name stores are stores such as Polo, Coach, Tommy Hilfiger, Nautica, Mikasa, Bath & Body Works, Guess, Liz Claiborne, Candies, Carter 's and OshKosh B'Gosh.

Park Place Entertainment announced plans to completely redesign Ocean One, the Boardwalk shopping mall, into The Pier at Caesars, making an exciting new, high-end retail, dining and entertainment complex to be developed by The Gordon Group on the site of the former Million Dollar Pier across the Boardwalk from Caesars Atlantic City. The opening is scheduled for 2005.

Rainforest Café, featuring an indoor rain forest, waterfalls and giant aquariums and a menu influenced by the cuisines of Mexico, Asia and the Caribbean, opened at Trump Plaza in April 2004. In early 2004, Johnny Rockets, a popular diner consistently ranked in the top ten best hamburger restaurants in the U.S., opened at Bally's Atlantic City, in the site formerly occupied by Sbarro's. The restaurant features All-American fare, with hamburgers, hand-dipped shakes and malts, and freshly baked apple pie.

7.6 Atlantic City Comps to Players

Atlantic City's 12 casinos gave away 1.9 million rooms, or 65.6% of their total, during the first nine months of 2001. The casinos valued those rooms at \$155.7 million. The casinos also gave away 13.7 million meals valued at \$171.5 million.

In 2000, Atlantic City's 12 casinos reported spending \$565 million in promotional allowances, including rooms and meals, according to the state Casino Control Commission.

The casinos pay 8% of their gross revenues to the state, with the money financing the state Casino Revenue Fund, which underwrites prescription drugs for seniors and other programs.

7.7 Casino Operations in Atlantic City

Atlantic City has 12 casinos/hotels, all of which offer a variety of dining choices and live entertainment ranging from lounge acts to revues and head liners and, of course, gaming. More information on the casinos can be found in Chapter 5, Section 30 in this report. They are as follows:

- Atlantic City Hilton Casino & Resort, www.hiltonac.com
- Sands Hotel & Casino, www.acsands.com
- Bally's Atlantic City and the North Tower at Bally's, www.ballysac.com
- Showboat -The Mardi Gras Casino, www.harrahs.com
- The Borgata Hotel Casino & Spa, www.theborgata.com
- Tropicana Casino & Resort, www.tropicana.net
- Caesars Atlantic City, www.caesars.com
- Trump Marina Hotel & Casino, www.trumpmarina.com
- Harrah's Atlantic City, www.harrahs.com
- Trump Plaza Hotel & Casino, www.trumpplaza.com
- Resorts Atlantic City, www.resortssac.com
- Trump Taj Mahal Casino & Resort, www.trumptaj.com

7.8 Analysis of Revenues Per Active Player

According to Michael Pollock, editor and publisher of *Michael Pollock's Gaming Observer* (www.gamingobserver.com), the gaming industry's net revenues are approximately 0.34% of personal income. If Atlantic City were to match the national estimate in the Mid-Atlantic market, its top-line revenues would increase \$1.1 billion. The sum total of active players in databases throughout Atlantic City adds up to fewer than eight million individuals, or one out of every six adults in Atlantic City's primary geographic markets are regular visitors. One out of every six adults in the region accounts for more than \$4 billion in annual revenues.

This represents an annual loss of approximately \$500 per active player. A more reasonable estimate would be \$375 per active player, since approximately 25% of Atlantic City's gaming revenue is nonrated (i.e., it is from players not listed in any of the existing databases).

7.9 Atlantic City's History

Miss America, salt water taffy, a seaside boardwalk and a beach made Atlantic City one of America's top vacation spots long before gambling was introduced.

Originally named Absegami (Big Water) by the Lenni-Lenape Indians, the ten-mile long island, occupied by Atlantic City, Ventnor, Margate and Longport, was renamed Absecon Island by Englishman Thomas Budd in 1678.

Until the mid-19th century, only shanties dotted Absecon Island. In 1854, a doctor and a civil engineer teamed up to promote the island as a healthful seaside resort and Atlantic City was born.

Two railroads were built to service the seashore town and in 1870 the boardwalk was built to keep sand out of visitors' shoes and the lobbies of newly-constructed hotels. In 1921, the city hosted a beauty contest that evolved into the Miss America pageant by 1940.

Casino gambling was legalized in 1977. Baccarat is the most popular game in Atlantic City, with craps, big six and roulette following.