

# Las Vegas Casino and Hotel Market Outlook

Shannon Okada\*

**The author of this article analyzes the current state of the Las Vegas casino and hotel market and provides an outlook for investors.**

After a time of rapid economic expansion mid-decade, Las Vegas entered into a period of decline as the local economy experienced challenges felt across the nation. Although the Las Vegas market has historically weathered periods of economic decline and downturns in visitation well, and the market is beginning to show signs of improvement, the rate and extent of a future recovery are uncertain at this time.

The development cycle that began with the Mirage in November 1989 effectively ended with the opening of the Cosmopolitan of Las Vegas in December 2010. Development of “must-see” properties, attractions, and amenities, including the Luxor, the Treasure Island, and the MGM Grand Hotel in 1993, and the Bellagio, the Mandalay Bay, the Paris Las Vegas, the Venetian, and the Planet Hollywood (previously known as the Aladdin) in the late 1990s, contributed to significant increases in visitation and gaming demand. The market’s overall revenue mixture evolved from primarily gaming to a more balanced distribution between gaming, hotel, dining, retail, and entertainment with the development of these properties, making it more susceptible to periods of economic decline.

Since 2004, several quality properties have opened in Clark County, including the Wynn Las Vegas and South Point (previously known as South Coast) in 2005, the Red Rock Station in April 2006, the Palazzo in December 2007, and the Encore in December 2008. CityCenter, which opened in late 2009, and the Cosmopolitan are the last casino-resorts expected to be completed for the next several years.

## Major Developments

In 2010, the dynamics of the Las Vegas market area were impacted by the openings of CityCenter and the Cosmopolitan, which increased the supply of gaming inventory, transient lodging, and function space available, and contributed to the evolution of Las Vegas. Several projects that have been postponed/cancelled as a result of tightening credit requirements, softening interest in residential properties, and declining gaming and hotel demand—most notably Echelon and Fontainebleau Las Vegas—remain dormant.

## CityCenter

The \$8.5 billion CityCenter complex consists of hotels, casinos, retail malls, meeting

\*Shannon Okada is a Vice President with HVS Consulting & Valuation and Associate Director of the HVS Gaming Services Division. Mr. Okada can be contacted at [sokada@hvs.com](mailto:sokada@hvs.com).

rooms, auditoriums, and spas spread across 76 acres with 16 million square feet of floor space including:

- the 4,000-room Aria;
- the 400-room Mandarin Oriental Las Vegas;
- Vdara, a 1,495-room luxury condominium-hotel;
- roughly 150,000 square feet of gaming space; and
- Crystals, a roughly 425,000-square-foot retail district.

In addition, CityCenter features residential units in the Residences at Mandarin Oriental (approximately 225 units) and Veer (approximately 670 units). The Aria, Vdara, Mandarin Oriental, and Crystals all opened in December 2009 and the residential units within CityCenter began the closing process in early 2010. The opening of Harmon Hotel & Spa, a 400-room non-gaming boutique hotel at CityCenter, has been delayed until such time as MGM-Mirage and Infinity World mutually agree to proceed with its completion.

Additionally, top-end hotel supply from CityCenter and Cosmopolitan resulted in more competition between higher-end properties, resulting in reduced average daily room rates and/or very attractive promotions—e.g., free play, discounted show tickets, etc.—in order to maintain occupancy. This causes second-tier properties to lower rates, all the way down the food chain. It is difficult for non-gaming transient lodging properties, especially at the lower end, to compete because they are unable to generate profit from sources other than rooms and cannot offer the same promotions at cost that casino-hotels are able to.

## Cosmopolitan of Las Vegas

The \$3.9 billion Cosmopolitan opened in December 2010. It is expected to be the last major development on the Las Vegas Strip until market conditions generate the next wave of development, which may be several years or more, depending upon one's outlook. The Cosmopolitan's original developer, 3700 Associates, led by Ian Bruce Eichner, broke ground in October 2005 with an initial expected cost of \$1.8 billion. The company defaulted on a \$760 million construction loan in January 2008, and Deutsche Bank eventually foreclosed in August 2008. The Cosmopolitan was initially designed as a condominium-hotel. Reportedly, when Deutsche Bank took over, 1,821 units were under contract with buyers paying deposits of 20% to secure one of the planned high-six-figure to low-seven-figure condominiums. In early 2010, plans for condominium-hotel units were cancelled. Approximately 200 potential residents could still end up owning a Cosmopolitan condo unit with sales possibly closing in early 2011.

The 2,995-room Cosmopolitan features more than 150,000 square feet of gaming area, roughly 275,000 square feet of retail, food and beverage, a 150,000-square-foot convention center, a theater, a 43,000-square-foot spa, including three pools, and a nightclub/dayclub. Two thousand rooms opened in December 2010 and 995 rooms will open in the summer of 2011. About 2,220 of the Cosmopolitan's 2,995 rooms have six-foot-deep terraces that span the length of the room, a unique feature for a modern Las Vegas Strip hotel. The original condo plan of the Cosmopolitan has translated into a residential feel in its hotel rooms with kitchenettes and large bathrooms with soaking tubs overlooking the Strip.

The Cosmopolitan participates in Marriott's Rewards guest loyalty program and is listed on Marriott's Ritz-Carlton Web site as a partner hotel. The Cosmopolitan is the largest property in Marriott International's "Autograph Collection," a new brand that includes independently owned and operated hotels seeking to gain from Marriott's database of approximately 32 million customers. An integrated operation is important to any individual property's success and a synergistic relationship will contribute to the property's success. Overall, the integration of hotel brands with gaming operations is favorable for the market. It allows opportunities to use existing databases to expand patronage. The best-case scenario for the Las Vegas market is that the Marriott branding will help to induce additional visitors, rather than cannibalize visitors that would already be coming to the market anyway.

Deutsche Bank likely does not have an interest in remaining a casino operator and is expected to begin to consider offers from gaming operators such as Pinnacle Entertainment, Isle of Capri Casinos, or Penn National Gaming, as national gaming companies without a major presence in Las Vegas currently may benefit from exposure on the Strip.

### **Echelon**

Echelon, Boyd Gaming's proposed multi-faceted 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. Boyd Gaming reportedly

had expended over \$600 million, not including land, on the Echelon project. In its Form 10-Q filed with the Securities and Exchange Commission for the third quarter of 2010, Boyd confirms that at the time the project was first delayed, it did not anticipate "the long-term effects of the current economic downturn, evidenced by lower occupancy rates, declining room rates and reduced consumer spending across the country, but particularly in the Las Vegas geographical area;" nor did the company predict that "the incremental supply becoming available on the Las Vegas Strip would face such depressed demand levels, thereby elongating the time for absorption of this additional supply into the market." As of the third quarter of 2010, the company did not believe that a significant level of economic recovery had occurred along the Las Vegas Strip and did not expect to resume construction for three to five years. Boyd Gaming also indicated its belief that financing for a development project like Echelon continues to be unavailable. The company cannot provide any assurances as to when, or if, construction will resume on the project, or if it will be able to obtain alternative sources of financing for the project.

### **Fontainebleau Las Vegas**

The Fontainebleau Las Vegas is a partially constructed, approximately 3,800-room hotel/condo casino development located on South Las Vegas Boulevard. The project's tower 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. Estimates to complete the project on the 24.5-acre site are \$1–2 billion. Reportedly, certain furniture, fixtures, and equipment that had been purchased for the Fontainebleau have been liquidated by the current ownership, indicating that there are no immediate plans to complete construction of the project. The new ownership group could wait until the market growth returns to a level that it deems appropriate and the project completion is determined feasible, or try to market the property to other entities that might have a different view on what to do with the project.

### **M Resort**

Opened in March 2009, the M Resort, located on South Las Vegas Boulevard in Henderson, Nevada, is situated on over 90 acres on the southeast corner of Las Vegas Boulevard and St. Rose Parkway. 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. Construction of the M Resort was funded through an equity investment by the Marnell family, loans from the Bank of Scotland, and \$160 million investment by MGM Resorts International. 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.

On October 8, 2010, Penn National Gaming, Inc. announced that it had purchased the outstanding bank debt from Bank of Scotland of The M Resort LLC, together with \$160 million of subordinated debt formerly held by

MGM Resorts International, which collectively represents all of the outstanding debt of the M Resort, for \$230.5 million. Penn National intends to convert this debt into ownership of the M Resort and is currently evaluating its options to ensure that such conversion is accomplished pursuant to an optimal structure. Any conversion transaction will be subject to, among other things, the review and approval of the Nevada Gaming Commission and the Nevada Gaming Control Board. This is an indication that gaming companies that are potential entrants to the Las Vegas market see purchasing of existing assets, rather than construction/development, as the better strategy for corporate growth in the current environment.

### **Economic and Demographic Overview**

The severity of the recession in Las Vegas has been well recognized through the housing market crash, foreclosure crisis, massive job losses, and slowdown in tourism and gaming. Southern Nevada's economy has more or less stabilized, though evidence of a robust turnaround remains elusive. Las Vegas ranked second to last among the nation's 100 largest metropolitan areas in making progress toward economic recovery through third quarter 2010, as Brookings Mountain West reported in its December *Mountain Monitor*. The unemployment rate in Clark County and Nevada in October 2010 were among the highest in the nation; unemployment in November 2010 was 14.3% and 14.0% in the county and state, respectively, significantly higher than in November 2009. It should be noted that Clark County unemployment in November 2010 was down from 15.0% in September 2010. However, businesses are conserving capital and doing more with less staff. Overall, the Las Vegas office market continues to be impacted by

high unemployment levels and the uncertain economy. The continuing softness of the Las Vegas area office market is reflected in the increase in overall vacancy rates from 23.0% to 24.0% between the fourth quarter of 2009 and the fourth quarter of 2010, while asking lease rates declined from \$1.95 to \$1.75 per

square foot during this period. The 24.0% vacancy rate in the fourth quarter of 2010 was a very slight improvement from the 24.1% vacancy rate in third quarter 2010 and lower than the 25.4% in second quarter 2010, indicating that the downturn in the local office market may have reached its nadir.

**Table 1 – Las Vegas Visitors—1990 to November 2010**

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)
2009	36,351,469	(3.0)
Year-to-date November:		
2009	33,570,821	---
2010	34,450,600	2.6 %
Average Annual Compounded Change, 1990-2009:		
		2.9 %
Average Annual Compounded Change, 2001-2009:		
		0.5 %

Source: Las Vegas Convention & Visitors Authority

**Visitation**

Las Vegas' streak of year-over-year increases in visitation that began in 2002 ended in 2007. Annual visitation declined year-over-year in both 2008 and 2009 but year-to-date data through November 2010

indicate that visitation increased in 2010 compared to 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 the year-to-date period through November 2010 (data subsequent to November 2010 were not available) based on data from the Las Vegas Convention and Visitors Authority (“LVCVA”).

As evidenced in 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. The declining trend in visitation slowed to 3.0% in 2009 and would have been significantly worse but for operators reducing hotel room rates and offering value-added strategies and other enticements such as discount show tickets, and food and beverage comps. However, year-to-date data through November 2010 indicate that the year-over-year decline in total annual visitation to Las Vegas exhibited in 2008 and

2009 will likely reverse in 2010, which bodes well for recovery over the mid- to long term.

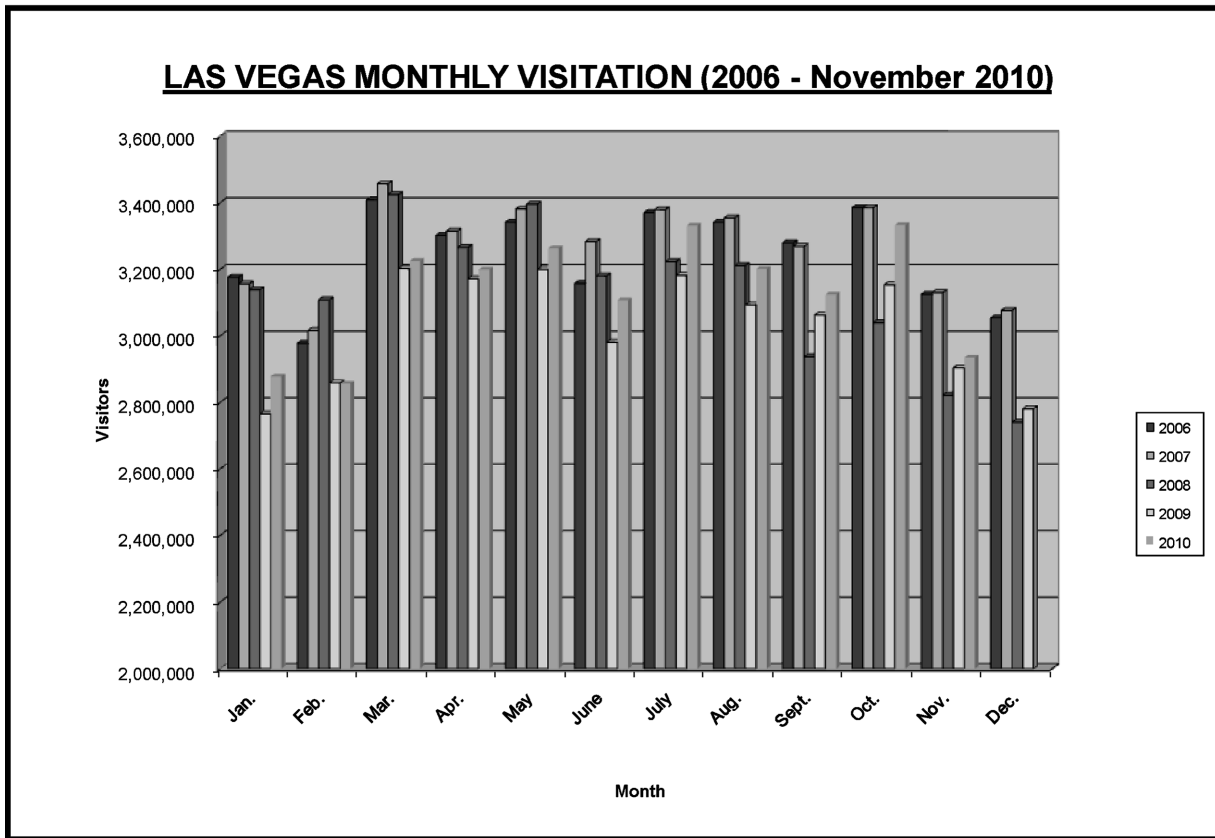
A review of monthly visitation data indicates that the number of visitors year-over-year began to grow again during the last four months of 2009, as exhibited in Table 2 and Chart 1. However, comparisons of the market’s 2009 year-over-year visitation to the market’s performance in 2008, which indicate 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 the last four months of 2009 was even below the levels attained during those same months in 2006. Visitation in the year-to-date period through November 2010 has grown over the same period in 2009, by 2.6%. It should be noted that the data indicate that month-over-month growth in the number of Las Vegas visitors has been exhibited since March 2010.

**Table 2 – Las Vegas Visitors by Month—2006 to November 2010**

Month	2006 Visitors	2007 Visitors	Percent Change	2008 Visitors	Percent Change	2009 Visitors	Percent Change	2010 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 %
February	2,977,418	3,015,850	1.3	3,107,997	3.1	2,858,545	(8.0)	2,856,456	(0.1)
March	3,408,421	3,456,738	1.4	3,423,765	(1.0)	3,202,344	(6.5)	3,224,697	0.7
April	3,301,734	3,314,448	0.4	3,265,251	(1.5)	3,171,043	(2.9)	3,199,541	0.9
May	3,341,156	3,380,791	1.2	3,395,991	0.4	3,199,719	(5.8)	3,262,831	2.0
June	3,157,228	3,282,315	4.0	3,179,472	(3.1)	2,980,122	(6.3)	3,106,965	4.3
July	3,369,877	3,378,193	0.2	3,222,456	(4.6)	3,181,139	(1.3)	3,330,658	4.7
August	3,341,005	3,353,997	0.4	3,211,209	(4.3)	3,092,403	(3.7)	3,201,662	3.5
September	3,278,884	3,268,125	(0.3)	2,936,499	(10.1)	3,062,340	4.3	3,123,549	2.0
October	3,384,978	3,384,546	(0.0)	3,039,272	(10.2)	3,153,159	3.7	3,332,628	5.7
November	3,124,369	3,129,508	0.2	2,821,629	(9.8)	2,904,091	2.9	2,933,897	1.0
December	3,054,291	3,075,831	0.7	2,739,699	(10.9)	2,780,648	1.5		
<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>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>

Source: Las Vegas Convention & Visitors Authority

Chart 1 – Las Vegas Monthly Visitation—2006 to November 2010



Source: HVS

The opening of the CityCenter complex in late 2009 certainly induced additional visitation to Las Vegas, as new gaming and hotel supply, entertainment, attractions, and other amenities have historically provided an impetus for increased visitation. However, the fanfare and increased visitation upon the opening of this property were noticeably insignificant relative to that experienced when properties opened in 1994 and 2000.

### McCarran International Airport

The decline in visitation to Las Vegas has contributed to the reduction in the number of passengers using McCarran International Airport. Statistics for the airport from 1996 through November 2010 are set forth in Table 3.

**Table 3 – 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	47,729,414	3.1	4.2
2008	44,074,707	(7.7)	3.1
2009	40,469,012	(8.2)	2.2
Year-to-Date through November:			
2009	37,371,630	—	—
2010	36,673,683	(1.9) %	—
* Average annual compounded change from the previous year			
** Average annual compounded change from 1996			

Source: Las Vegas Convention & Visitors Authority

The cutbacks by airlines serving McCarran International Airport because of declining consumer demand resulted in a reduced number of incoming and outgoing seats per day, thus contributing to the declining passenger totals. The reduction in airline capacity is a critical issue for Las Vegas, as the majority of its visitors arrive by air. The airlines will not add additional flights into Las Vegas until there is an increased demand from consumers and current flights sell out on a regular basis. Passenger traffic continued to contract in 2010 thru September. However, the number of passengers at McCarran International Airport in October 2010 was 2.0% higher than in October 2009, the

first month-over-month increase exhibited since November 2009. The number of passengers at McCarran International Airport by month for 2006 through November 2010 is set forth in Table 4.

As indicated, the increase in month-over-month passenger traffic in October 2010 compared to October 2009 (2.0%) was the first since November 2009. The market's recovery will depend to a significant degree upon the resurgence of flights to serve prospective visitors. Early indications are that the number of flights through McCarran International Airport will be increasing in 2011.

## Las Vegas Casino and Hotel Market Outlook

**Table 4 – McCarran International Airport Passengers by Month—2006 to November 2010**

Month	2006 Passengers	2007 Passengers	Percent Change	2008 Passengers	Percent Change	2009 Passengers	Percent Change	2010 Passengers	Percent Change
January	3,465,017	3,678,835	6.2 %	3,577,097	(2.8) %	3,021,067	(15.5) %	3,015,368	(0.2) %
February	3,363,985	3,461,946	2.9	3,579,425	3.4	3,036,715	(15.2)	2,848,833	(6.2)
March	4,040,167	4,189,828	3.7	4,120,581	(1.7)	3,633,269	(11.8)	3,487,552	(4.0)
April	3,884,824	3,996,072	2.9	3,788,603	(5.2)	3,563,918	(5.9)	3,385,504	(5.0)
May	3,904,912	4,187,046	7.2	3,992,104	(4.7)	3,532,182	(11.5)	3,476,021	(1.6)
June	3,889,068	4,171,645	7.3	3,881,337	(7.0)	3,436,939	(11.4)	3,400,550	(1.1)
July	4,086,437	4,293,467	5.1	3,923,469	(8.6)	3,557,509	(9.3)	3,518,217	(1.1)
August	4,042,218	4,301,058	6.4	3,877,058	(9.9)	3,505,650	(9.6)	3,493,158	(0.4)
September	3,778,118	3,891,436	3.0	3,377,238	(13.2)	3,336,013	(1.2)	3,268,931	(2.0)
October	4,054,868	4,080,910	0.6	3,560,497	(12.8)	3,513,663	(1.3)	3,584,819	2.0
November	3,882,310	3,793,482	(2.3)	3,232,985	(14.8)	3,234,705	0.1	3,194,730	(1.2)
December	3,801,405	3,682,689	(3.1)	3,164,313	(14.1)	3,097,382	(2.1)		
<b>Total</b>	<b>46,193,329</b>	<b>47,728,414</b>	<b>3.3 %</b>	<b>44,074,707</b>	<b>(7.7) %</b>	<b>40,469,012</b>	<b>(8.2) %</b>		
<b>YTD November Total:</b>	<b>42,391,924</b>	<b>44,045,725</b>	<b>3.9 %</b>	<b>40,910,394</b>	<b>(7.1) %</b>	<b>37,371,630</b>	<b>(8.7) %</b>	<b>36,673,683</b>	<b>(1.9) %</b>

Source: Las Vegas Convention & Visitors Authority

### Convention Activity

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 2010.

**Table 5 – Las Vegas Convention Attendance—2006 to November 2010**

Month	2006 Attendance	2007 Attendance	Percent Change	2008 Attendance	Percent Change	2009 Attendance	Percent Change	2010 Attendance	Percent Change
January	733,289	780,542	6.4 %	677,978	(13.1) %	538,415	(20.6) %	449,917	(16.4) %
February	809,658	771,985	(4.7)	893,982	15.8	583,168	(34.8)	518,394	(11.1)
March	653,502	682,824	4.5	637,755	(6.6)	446,588	(30.0)	470,005	5.2
April	545,856	518,065	(5.1)	538,316	3.9	414,764	(23.0)	426,697	2.9
May	424,922	506,165	19.1	509,482	0.7	341,846	(32.9)	352,357	3.1
June	497,902	429,804	(13.7)	438,044	1.9	355,436	(18.9)	351,731	(1.0)
July	392,338	262,560	(33.1)	264,197	0.6	249,692	(5.5)	320,724	28.4
August	606,595	739,215	21.9	574,184	(22.3)	235,841	(58.9)	345,095	46.3
September	398,836	397,349	(0.4)	357,525	(10.0)	401,319	12.2	291,248	(27.4)
October	493,207	388,475	(21.2)	381,129	(1.9)	349,383	(8.3)	419,076	19.9
November	585,047	602,605	3.0	503,545	(16.4)	437,864	(13.0)	372,480	(14.9)
December	161,809	129,664	(19.9)	123,588	(4.7)	137,959	11.6		
<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>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>

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 meet-

ings 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. 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 significant increase in the number of convention attendees year-over-year during the months of July, August, and October 2010, although mitigated by the decline in attendees in September and November 2010, is a positive indication that the downturn in the meeting and group business may be reversing. In the year-to-date period through November 2010, convention attendance is down 0.8% compared to the same period in 2009. Operators are expecting an upswing in 2011.

### Land Transactions

The market for vacant developable land has contracted notably since the end of 2007, as evidenced by the slowdown in transactions and the lagging of listings on the market. A lack of financing and project feasibility for new deals and the slowdown in travel have effectively halted Las Vegas Strip development at this time. As a result, the market for sites on and around the Las Vegas Strip for immediate development has slowed considerably and sellers are still reducing asking prices. In light of economic indicators, including, but not limited to, declines in airline traffic and gaming revenue due to the softening of the national economy, the slowed visitation to Las Vegas, and the lack of readily available financing for high-impact casino resort projects, construction of several casino-hotel projects in Las Vegas, including Echelon, Fontainebleau, the St. Regis Residences, and the Harmon Hotel & Spa, is not expected to resume for several years. No new gaming projects are expected to be proposed in Las Vegas over at least

the next few years. The dearth of transactions of Las Vegas Strip properties since 2008 is evidence of the continuation of this trend. The reduced discretionary income of the U.S. population will extend the time required for a full recovery of the Las Vegas market. The market has a considerable amount of excess residential and lodging inventory that must be absorbed before any new development can take place. Despite these challenges, Las Vegas is still a young and vibrant metropolitan area with a low cost of living and conducting business, factors that will stimulate a recovery and continued economic growth over the long term.

MGM-Mirage's experience with CityCenter supports the conclusion that future development along the Las Vegas Strip in the near term is unlikely. The cost to develop CityCenter, not including the cost to complete construction of the Harmon Hotel & Spa, was approximately \$8.5 billion. The book value of MGM-Mirage's investment in 50% of CityCenter decreased from roundly \$2.5 billion at the end of 2009 to \$1.5 billion at the end of the second quarter of 2010 due to a \$1.1 billion impairment charge, the company's share of impairment related to residential inventory at CityCenter and the company's share of CityCenter's operating losses. Based on current and forecasted market conditions, CityCenter's results of operations through June 30, 2010 (which were below previous forecasts), and the revised operating forecasts available at the time (which were also lower than previous forecasts), MGM-Mirage management concluded it should review the carrying value of its investment. Ultimately, the company determined that the carrying value of its investment exceeded its fair value and therefore impairment was indicated.

**Lodging Demand**

The Las Vegas lodging market 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 6 presents Las Vegas lodging market statistics from 1990 through 2009 and the year-to-date periods through November 2009 and 2010.

**Table 6 – Las Vegas Lodging Statistics—1990 to November 2010**

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)
2009	148,941	6.0	41,986,134	(2.3)	81.5	92.93	(22.0)
<b>Year-to-Date Through November:</b>							
2009	141,989	---	38,807,621	---	82.4 %	\$93.11	---
2010	145,694	2.6 %	40,036,098	3.2 %	81.1	95.16	2.2 %
<b>Average Annual Comp. Change,</b>							
2004 - 2009:							
		2.5 %		(0.3) %			0.7 %

Source: Las Vegas Convention and Visitors Authority

As presented in Table 6, 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 ac-

companied 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 in 2008 and in 2009. High-end operators, including Wynn Resorts and Las Vegas Sands Corp., dramatically

reduced effective room rates, thereby forcing lower-quality properties to lower rates in order to compete. The market does not appear to have fully absorbed the new CityCenter hotel room supply, as total occupancy is lower in the year-to-date period through November 2010 compared to the same period in 2009, despite a 3.2% increase in occupied rooms. However, the 2.2% increase in

average rate in the November 2010 year-to-date period compared to the same period in 2009 bodes well for the market.

Review of the historical occupancy by segment set forth in Table 7 clearly indicates that hotels have historically had higher occupancies than motels, as they have been in the mid-80%/low-90% range since 2002.

**Table 7 – Las Vegas Occupancy by Segment—2002 to November 2010**

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)
2009	81.5	85.3	50.1	88.8	78.2	92.93	(22.0)
Year-to-Date November:							
2009	82.4 %	86.2 %	50.6 %	89.9 %	79.0 %	\$93.11	---
2010	81.1	84.2	52.5	89.1	77.5	95.16	2.2 %

Source: Las Vegas Convention & Visitors Authority

The economic downturn is reflected in the data beginning in 2008. With the addition of new hotel supply during 2008 and 2009 (most notably Palazzo, Encore at Wynn Las Vegas, and CityCenter), combined with the decline in occupied room nights, market-wide occupancy dropped from 90.4% in 2007 to 81.5% in 2009. Average daily rate (“ADR”) decreased over \$39 between 2007 and 2009, from \$132.09 to \$92.93. The year-to-date performance of the Las Vegas lodging market through November 2010 does exhibit

positive trends over the same period in the prior year, including the 3.2% increase in the number of occupied room nights and the 2.2% increase in the overall average daily rate. As indicated in Table 8, 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 indicating the beginning of a turnaround in market conditions.

## Las Vegas Casino and Hotel Market Outlook

**Table 8 – Las Vegas Occupied Rooms By Month—2006 to November 2010**

Month	2006 Occupied Rooms	2007 Occupied Rooms	Percent Change	2008 Occupied Rooms	Percent Change	2009 Occupied Rooms	Percent Change	2010 Occupied Rooms	Percent 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 %
February	3,332,418	3,372,023	1.2	3,579,425	6.2	3,306,564	(7.6)	3,306,585	0.0
March	3,843,043	3,877,125	0.9	4,120,581	6.3	3,757,148	(8.8)	3,788,249	0.8
April	3,717,795	3,742,668	0.7	3,788,603	1.2	3,720,202	(1.8)	3,734,052	0.4
May	3,762,270	3,801,554	1.0	3,992,104	5.0	3,679,140	(7.8)	3,788,006	3.0
June	3,546,048	3,670,940	3.5	3,881,337	5.7	3,476,544	(10.4)	3,642,610	4.8
July	3,766,221	3,815,703	1.3	3,923,469	2.8	3,680,512	(6.2)	3,854,527	4.7
August	3,748,100	3,770,525	0.6	3,877,058	2.8	3,568,121	(8.0)	3,760,211	5.4
September	3,626,733	3,652,990	0.7	3,377,238	(7.5)	3,531,195	4.6	3,640,023	3.1
October	3,796,838	3,822,366	0.7	3,560,497	(6.9)	3,620,033	1.7	3,880,100	7.2
November	3,470,121	3,484,710	0.4	3,232,985	(7.2)	3,331,317	3.0	3,391,809	1.8
December	3,340,332	3,428,624	2.6	3,164,313	(7.7)	3,178,513	0.4		
<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>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>

Source: Las Vegas Convention & Visitors Authority

Despite these positive trends, the market has not yet absorbed the new CityCenter hotel room supply, as total occupancy is lower in the year-to-date period through November 2010 compared to the same pe-

riod in 2009. However, it should be noted that occupancy in August 2010 and that in October 2010 were both higher than in August 2009 and October 2009, respectively, as set forth in Table 9.

**Table 9 – Las Vegas Occupancy by Month—2006 to November 2010**

Month	2006 Occ.	2007 Occ.	2008 Occ.	2009 Occ.	2010 Occ.
January	86.1 %	85.4 %	84.9 %	71.9 %	71.1 %
February	90.2	90.3	89.4	83.9	79.7
March	94.1	93.9	92.2	85.9	82.4
April	93.9	93.8	90.0	88.0	84.0
May	90.1	92.1	89.7	84.4	82.6
June	88.6	91.9	89.4	82.2	82.1
July	91.1	92.0	87.2	84.2	84.0
August	90.7	91.2	88.3	81.4	82.0
September	90.6	91.3	84.3	83.2	82.1
October	91.7	92.3	83.8	82.6	84.9
November	87.8	86.9	79.2	78.4	77.1
December	81.3	83.2	73.3	71.3	
<b>Total</b>	<b>89.7 %</b>	<b>90.4 %</b>	<b>86.0 %</b>	<b>81.5 %</b>	
<b>YTD October Total:</b>	<b>90.0 %</b>	<b>91.4 %</b>	<b>87.9 %</b>	<b>82.8 %</b>	<b>81.5 %</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 rate that was exhibited in 2008 and 2009. Average daily rate has been higher month-over-month since March 2010 as indicated in Table 10, though well below prior peak levels.

While these results are potentially reflective of an improving economy, the recent additions to gaming and lodging inventory will need to be absorbed.

**Table 10 – Las Vegas Average Daily Rate by Month—2006 to November 2010**

Month	2006 ADR	2007 ADR	Percent Change	2008 ADR	Percent Change	2009 ADR	Percent Change	2010 ADR	Percent Change
January	\$120.32	\$134.37	11.7 %	\$130.96	(2.5) %	\$104.89	(19.9) %	\$99.75	(4.9) %
February	120.28	135.67	12.8	128.80	(5.1)	99.25	(22.9)	97.21	(2.1)
March	125.25	136.15	8.7	135.11	(0.8)	92.46	(31.6)	93.23	0.8
April	127.53	146.53	14.9	135.67	(7.4)	94.08	(30.7)	96.87	3.0
May	121.12	143.01	18.1	135.17	(5.5)	96.96	(28.3)	98.87	2.0
June	116.66	135.12	15.8	113.48	(16.0)	84.50	(25.5)	89.54	6.0
July	104.00	117.76	13.2	105.97	(10.0)	86.23	(18.6)	90.38	4.8
August	104.19	126.38	21.3	107.01	(15.3)	84.02	(21.5)	87.40	4.0
September	116.57	142.47	22.2	112.58	(21.0)	91.18	(19.0)	97.25	6.7
October	117.14	135.00	15.2	115.68	(14.3)	99.59	(13.9)	102.19	2.6
November	134.78	118.45	(12.1)	108.80	(8.1)	92.61	(14.9)	94.73	2.3
December	107.58	112.36	4.4	96.39	(14.2)	90.80	(5.8)		
<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>YTD November Total:</b>	<b>N/A</b>	<b>\$135.20</b>	<b>N/A</b>	<b>\$122.11</b>	<b>(9.7) %</b>	<b>\$93.15</b>	<b>(23.7) %</b>	<b>\$95.20</b>	<b>2.2 %</b>

Source: Las Vegas Convention & Visitors Authority

**Gaming Demand**

In addition to reducing the number of people who come to Las Vegas, the recession has prompted the ones who do gamble to spend less. Data from the Nevada Gaming Control Board and the Las Vegas Convention and Visitors Authority indicates that the total gaming win for Clark County per visitor has declined since 2007. Gaming win per visitor declined 5.7% in 2008 compared to 2007, from \$277 per visitor in 2007 to \$261 per visitor in 2008, and 7.0% in 2009 compared

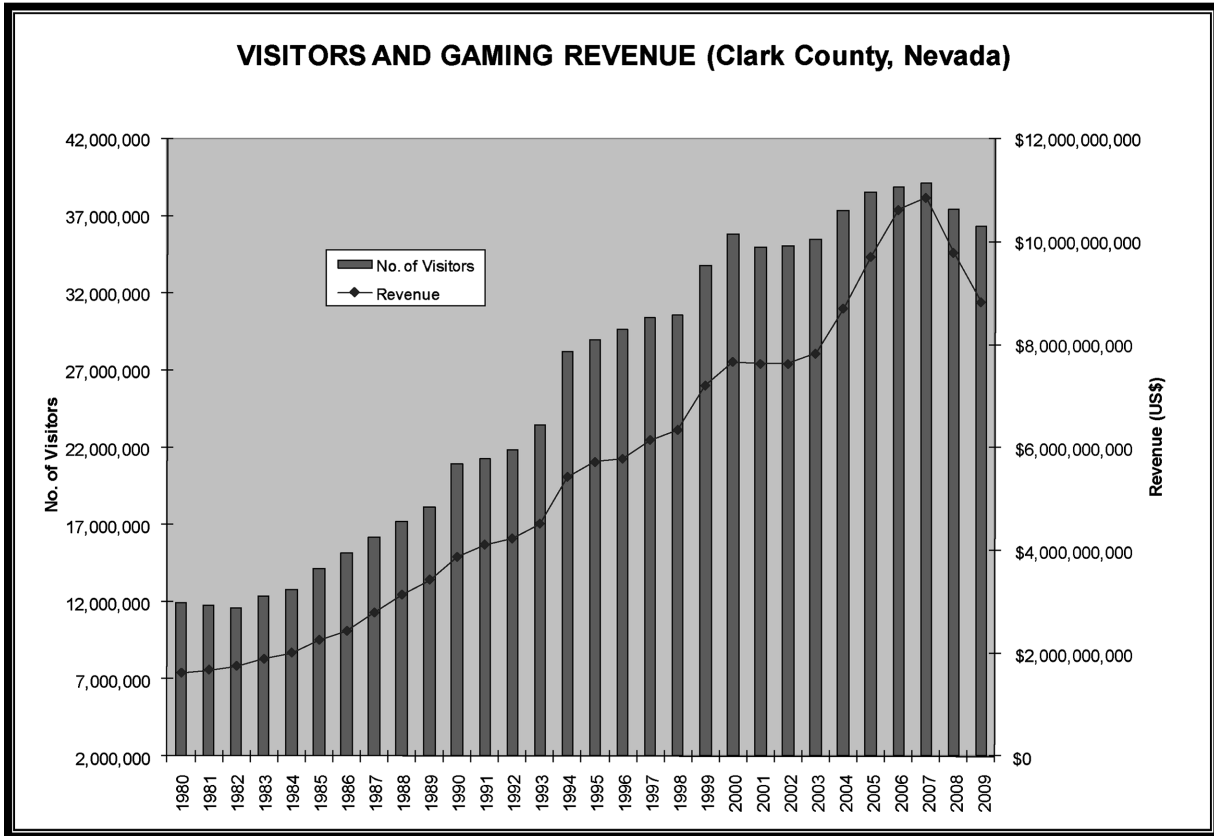
to 2008; from \$261 per visitor in 2008 to \$243 per visitor in 2009. This downward trend has continued through year-to-date November 2010, but at a slower rate of decline. The 1.4% decline in Clark County gaming win per visitors in the year-to-date period through November 2010 is indicative that the bottom of the downturn has potentially been reached. The historical gaming win, number of visitors, and gaming win per visitor for Clark County for 1980 to November 2010 are shown in Table 11 and Chart 2.

**Table 11 – Total Visitors, Revenue, and Win Per Visitor: Clark County, Nevada—1980 to November 2010**

Year	Total Visitors		Total Revenue (Win)		Total Revenue (Win) per Visitor	
		% 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)
2009	36,351,469	(3.0)	8,833,902,000	(9.8)	243	(7.0)
Average Annual Compounded						
Change - 1980 to 2009:		3.9 %		6.0 %		2.0 %
Average Annual Compounded						
Change - 1980 to 2009:		2.9		4.4		1.5
Year-to-date (November):						
2009	33,570,821	---	8,080,732,000	---	241	---
2010	34,450,600	2.6 %	8,174,921,000	1.2 %	237	(1.4) %

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

Chart 2 – Visitors and Gaming Revenue: Clark County, Nevada—1980 to 2009



Source: HVS

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. Gaming revenues for the Clark County market in 2007 were more than twice that 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 com-

pared 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 average annual compounded rates of change in gaming revenue, visitors, and revenue per visitors all increased at higher levels between 1980 and 2009 versus the 1990 to 2009 period, likely due to the maturity of the market, as well as competitive forces.

Local gaming demand plays an important, albeit secondary, role in the Las Vegas 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

## Las Vegas Casino and Hotel Market Outlook

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.

In 2010, February, August, September, and October all exhibited growth over the respec-

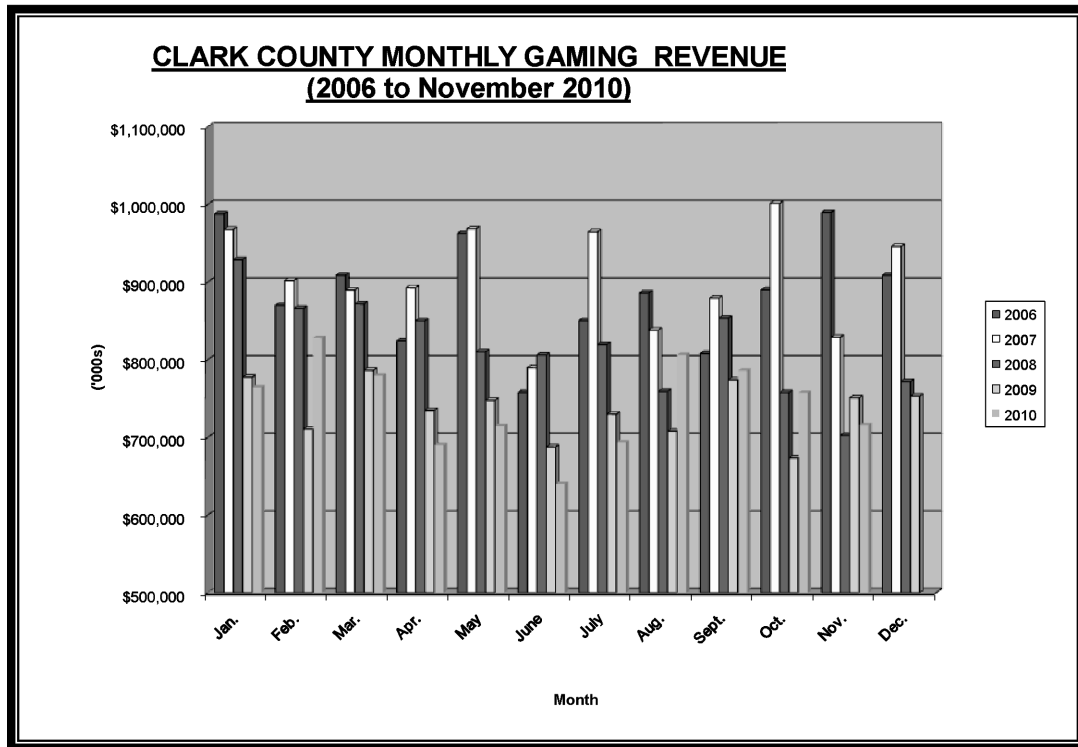
tive month in 2009; with a net 1.2% growth for the year-to-date period ending November 2010 compared to the same period in 2009, which does bode well for potential future growth in gaming revenue. Gaming revenue by month for Clark County for 2006 to November 2010 is set forth in Table 12 and Chart 3.

**Table 12 – Clark County Gaming Revenue by Month—2006 to November 2010**

Month	2006 Clark County Gaming Revenue ('000s)	2007 Clark County Gaming Revenue ('000s)	Percent Change	2008 Clark County Gaming Revenue ('000s)	Percent Change	2009 Clark County Gaming Revenue ('000s)	Percent Change	2010 Clark County Gaming Revenue ('000s)	Percent Change
January	\$987,699	\$967,777	(2.0) %	\$928,651	(4.0) %	\$777,531	(16.3) %	\$764,364	(1.7) %
February	869,984	901,821	3.7	865,968	(4.0)	710,601	(17.9)	827,798	16.5
March	908,666	889,674	(2.1)	871,896	(2.0)	786,458	(9.8)	779,494	(0.9)
April	824,199	892,760	8.3	849,974	(4.8)	734,712	(13.6)	689,978	(6.1)
May	962,616	968,442	0.6	810,059	(16.4)	747,607	(7.7)	714,657	(4.4)
June	757,741	789,656	4.2	806,097	2.1	687,546	(14.7)	640,096	(6.9)
July	850,255	964,725	13.5	819,683	(15.0)	729,889	(11.0)	693,391	(5.0)
August	886,019	838,033	(5.4)	759,258	(9.4)	708,130	(6.7)	806,107	13.8
September	807,848	879,142	8.8	853,511	(2.9)	774,056	(9.3)	785,718	1.5
October	889,908	1,001,318	12.5	757,510	(24.3)	673,404	(11.1)	757,487	12.5
November	989,645	828,725	(16.3)	702,587	(15.2)	750,798	6.9	715,831	(4.7)
December	908,626	945,956	4.1	771,776	(18.4)	753,170	(2.4)		
<b>Total</b>	<b>\$10,643,206</b>	<b>\$10,868,029</b>	<b>2.1 %</b>	<b>\$9,796,970</b>	<b>(9.9) %</b>	<b>\$8,833,902</b>	<b>(9.8) %</b>	<b>\$8,174,921</b>	
<b>YTD November Total:</b>	<b>\$9,734,580</b>	<b>\$9,922,073</b>	<b>1.9 %</b>	<b>\$9,025,194</b>	<b>(9.0) %</b>	<b>\$8,080,732</b>	<b>(10.5) %</b>	<b>\$8,174,921</b>	<b>1.2 %</b>

Source: Las Vegas Convention & Visitors Authority

Chart 3 – Clark County Monthly Gaming Revenue—2006 to November 2010



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” submarket)—gaming revenue continues to be generated almost equally be-

tween 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 13.

Table 13 – Segmented Gaming Revenues for Las Vegas Strip \$72 Million and Over Market

Year	Total Casinos at End of Period	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	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)
2009	23	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)
Year to Date (November):												
2009	23	2,280,716	—	49.2	2,199,849	—	47.4	156,521	—	3.4	4,637,086	—
2010	23	2,265,096	(0.7) %	46.6	2,438,223	10.8 %	50.1	160,371	2.5 %	3.3	4,863,690	4.9 %

Source: Nevada Gaming Control Board

## Las Vegas Casino and Hotel Market Outlook

Year-to-date data through November 2010 for the Las Vegas Strip \$72 Million and Over submarket indicate that the percentage of gaming revenue from table games may exceed gaming revenue from slots in 2010 for the first time over the period examined. Further analysis of the revenues for the Las Vegas Strip \$72 Million and Over submarket table games segment reveals that Baccarat is a major factor in this shift in revenue from slots to tables and is increasing in importance for the properties in this submarket. 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. As indicated in Table 14, Baccarat revenue increased from 22.6% of table games revenue in 2004 to 38.3% of table games revenue in 2009 for the Las Vegas Strip \$72 Million and Over submarket, indicating that the Las Vegas recovery to date is being driven by the high roller as opposed to the mass market.

**Table 14 – Segmentation of Table Games Revenue for Las Vegas Strip \$72 Million and over Market—2004 to 2009**

Game Type	2004	% of Total	2005	% of Total	2006	% of Total	2007	% of Total	2008	% of Total	2009	% of Total
Black Jack	\$735,265	33.9 %	\$769,938	30.7 %	\$912,839	31.9 %	\$971,654	32.8 %	\$847,895	32.7 %	\$671,958	27.9 %
Craps	269,480	12.4	301,186	12.0	294,260	10.3	308,787	10.4	294,030	11.3	219,448	9.1
Roulette	202,669	9.3	237,171	9.5	258,659	9.0	283,615	9.6	259,229	10.0	234,983	9.8
Three-card Poker	93,170	4.3	106,695	4.3	112,110	3.9	108,571	3.7	96,357	3.7	84,437	3.5
Baccarat	491,433	22.6	661,064	26.4	831,909	29.1	896,996	30.3	764,198	29.4	921,604	38.3
Mini Baccarat	169,318	7.8	198,756	7.9	214,060	7.5	134,180	4.5	97,062	3.7	70,108	2.9
Caribbean Stud	31,857	1.5	26,589	1.1	16,409	0.6	12,019	0.4	10,582	0.4	8,231	0.3
Let It Ride	38,445	1.8	36,199	1.4	34,051	1.2	36,142	1.2	35,168	1.4	31,588	1.3
Pai Gow	20,328	0.9	23,141	0.9	27,966	1.0	22,451	0.8	18,790	0.7	13,208	0.5
Pai Gow Poker	73,477	3.4	81,725	3.3	71,989	2.5	85,347	2.9	74,290	2.9	59,448	2.5
Other Games	44,681	2.1	65,755	2.6	86,701	3.0	102,816	3.5	98,598	3.8	93,123	3.9
<b>Total</b>	<b>\$2,170,123</b>	<b>100.0 %</b>	<b>\$2,608,219</b>	<b>100.0 %</b>	<b>\$2,860,963</b>	<b>100.0 %</b>	<b>\$2,964,680</b>	<b>100.0 %</b>	<b>\$2,696,219</b>	<b>100.0 %</b>	<b>\$2,408,136</b>	<b>100.0 %</b>

Sources: Nevada Gaming Control Board

In the year-to-date period through November 2010, Baccarat represented 43.8% of total table games revenue and increased by

31.4% year-over-year as indicated in Table 15.

**Table 15 – Segmentation of Table Games Revenue for Las Vegas Strip \$72 Million and Over Market—Year-to-Date November 2009 and November 2010**

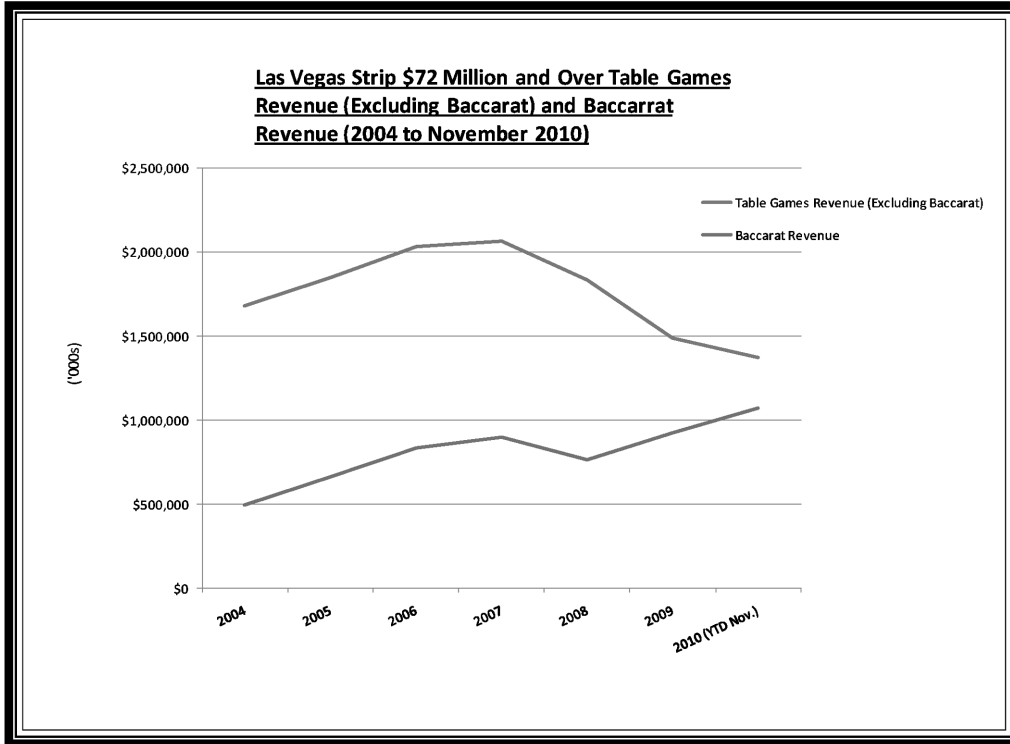
Game Type	Year-to-Date November 2009	% of Total	Year-to-Date November 2010	% of Total	% Change
Black Jack	\$626,474	28.5 %	\$615,253	25.2 %	(1.8) %
Craps	209,212	9.5	208,407	8.5	(0.4)
Roulette	218,411	9.9	224,626	9.2	2.8
Three-card Poker	77,857	3.5	79,994	3.3	2.7
Baccarat	812,358	36.9	1,067,419	43.8	31.4
Mini Baccarat	65,488	3.0	56,211	2.3	(14.2)
Caribbean Stud	7,555	0.3	5,885	0.2	(22.1)
Let it Ride	29,570	1.3	25,926	1.1	(12.3)
Pai Gow	12,278	0.6	16,751	0.7	36.4
Pai Gow Poker	54,679	2.5	51,012	2.1	(6.7)
Other Games	85,963	3.9	86,739	3.6	0.9
<b>Total</b>	<b>\$2,199,845</b>	<b>100.0 %</b>	<b>\$2,438,223</b>	<b>100.0 %</b>	<b>10.8 %</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 submarket exhibited in 2009 would have been much more severe

**Chart 4 – Las Vegas Strip \$72 Million and Over Market Table Games Revenue (Excluding Baccarat) and Baccarat Revenue—2004 to November 2010**



Source: HVS

if not for the growth in gaming revenues from Baccarat. Notably, Baccarat revenue in the year-to-date period ending November 2010 has already exceeded the total for 2009.

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. A lucky 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 Asia (both the Macau SAR market in the People's Republic of China and Singapore) and in Las Vegas (Las Vegas Sands, Wynn Resorts, and

MGM Mirage). VIP Baccarat is much more popular in Asian markets than in 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, Hong Kong, and Singapore 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 compared to Las Vegas, including commissions paid to junket operators (third party coordinators). This segment is anticipated to continue growing as Las Vegas Sands opened the Marina Bay Sands in Singapore in 2010, which is expected to provide the

company with additional cross-marketing opportunities.

The future success of the Las Vegas gaming industry is dependent on factors that include, but are not limited to, the long-term growth in overall visitation to the Las Vegas area, Las Vegas' continued status as an eminent entertainment destination, and the strength of the local economy's rebound. Las Vegas is expected to continue to be a dominant domestic and international gaming destination into the foreseeable future given its critical mass and billions of dollars in invested capital. Accordingly, gaming revenues are expected to continue to grow conservatively over the near to mid-term.

### Conclusion

The Las Vegas market has evolved into a multifaceted gaming and entertainment destination. After a long period of expansion beginning with the opening of the Mirage in 1989, the economic downturn that began in late 2007 resulted in the worst decline in Las Vegas' history in 2008 and 2009. Historically, new supply and "must-see" attractions provided an impetus for new demand. However, this is no longer the case. The openings of CityCenter and the Cosmopolitan did not induce significant demand and will increase the time that it will take for the market to recover as the additional lodging and gaming supply is absorbed. Additionally, the Las Vegas market is more severely impacted by higher levels of supply locally and increasing competition from gaming expansion in neighboring states than in previous years. The economic downturn resulted in gamblers participating more in gaming activities regionally and reducing the number of trips to Las Vegas; there is an underlying concern that this change in patron habits and behavior

may be long term. Significant increases in competition from other gaming markets internationally may also have a negative impact upon the future performance of the Las Vegas market.

The discounting of room rates by casino-hotels in order to fill guestrooms has slowed and average daily rates market-wide began to show improvement month-over-month beginning in March 2010. However, given the major room rate concessions made by operators in 2009, which resulted in the lowest market-wide average daily rate since 2004, it is expected to take years before the RevPAR levels seen in 2006 and 2007 are achieved once again. 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.

While the Las Vegas market historically weathered periods of economic decline and downturns in visitation well, and indications are that the bottom of the current down cycle has been reached, the rate and extent of a future recovery is dependent on growth in visitation from local, national, and international sources, which is expected to increase as a result of cyclical market forces. Overall, the Las Vegas market's rebound is expected in conjunction with improvement in the national and world economies. Las Vegas is a unique, iconic gaming and entertainment destination and is now home to 15 AAA Five Diamond resorts and restaurants, more than any other city in the country. Las Vegas has a great

history of reinventing itself and the amount of existing and potential gaming activity is quite significant. Given its critical mass and billions of dollars in invested capital, Las Vegas is expected to continue to be an eminent domestic and international gaming destination.

The outlook for the market includes a return to stable growth in the near term, with the potential for a period of stronger growth as the economic recovery accelerates. Questions that remain to be considered are how much of an aberration, or bubble, the pre-crash period was, and what level of success will Las Vegas return to with respect to growth and development. Casinos of convenience, many of which are high-quality facilities, are becoming more prevalent and making gaming much more available to patrons not just nationally but worldwide. Habits change and gambling budgets may be redistributed between trips to Las Vegas and trips to the neighborhood/local gaming facility. However, it is beneficial for the market for quality gaming companies that historically participated in jurisdictions other than Nevada—Penn National Gaming, for example—to enter the market. Player participation programs that consolidate regional properties with a Las Vegas property may likely induce visitation. A patron who gambles at a local

casino can earn points that could now be used on a trip to Las Vegas. Similarly, the market will potentially benefit from alliances between casinos and hotel companies, which potentially will induce additional visitors to the market. In addition to the deal between the Cosmopolitan and Marriott International, Las Vegas Sands Corp. entered into an arrangement with IHG in October 2010, which will allow IHG loyalty program participants to earn and redeem points at the Venetian and the Palazzo.

With no major developments in the near term opening the market will have time to absorb all the new, high-quality supply and stabilize. However, it is important the fundamentals for the feasibility of the specific operation be examined. While the severity of the current downturn was unforeseen mid-decade, all opportunities must be evaluated in light of cyclical forces. As evidenced by the preceding data, Las Vegas has a long history of consistent growth and a rebound is expected once the national and world economies recover. The rate and extent of the recovery will likely be slower than in prior downturns due to consumers' diminished discretionary income and the contraction in group meeting demand.