

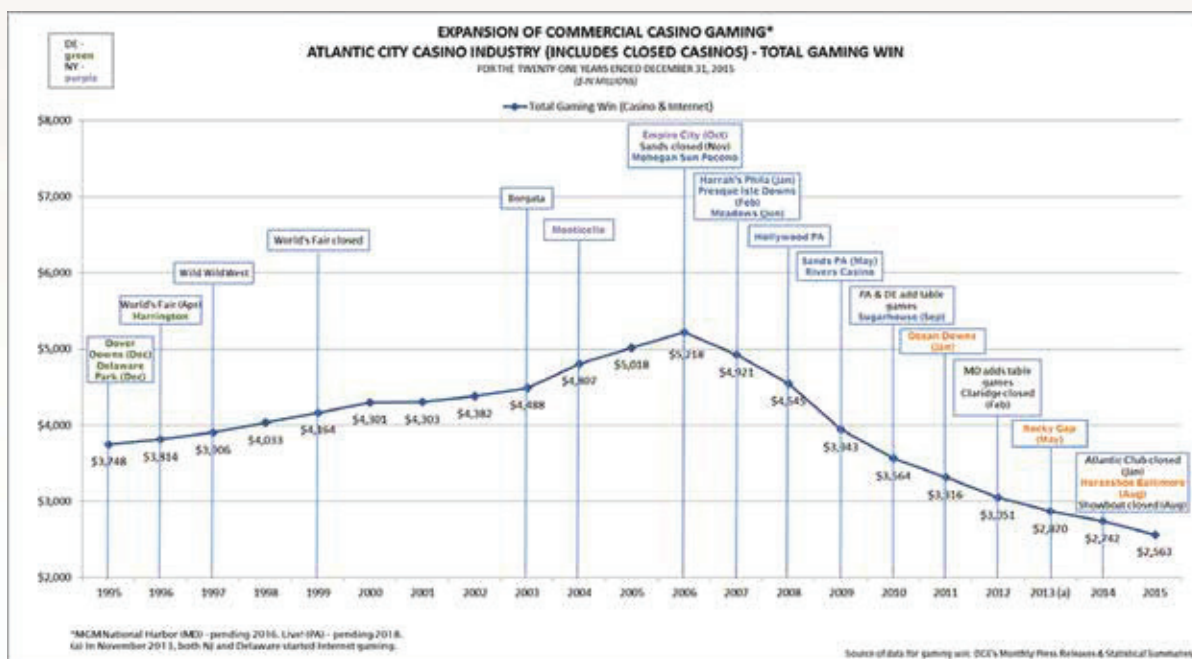
# Atlantic City: Gaming vs. Non-Gaming Revenue

By: Rummy Pandit, LPD, MBA, CHA

Executive Director, The Lloyd D. Levenson Institute of Gaming, Hospitality & Tourism (LIGHT) at Stockton University

For the first time in ten years, Atlantic City casinos have seen a year-over-year increase in total gaming win. This break in the city's decade long losing streak, attributed to the rapidly growing internet gaming market, is encouraging but not necessarily the answer to the city's long-term success.

From 1978 through the early 1990's New Jersey had a virtual monopoly on East Coast casino gaming. However, as the casino gaming market expanded (Connecticut (1992), Delaware (1992), New York (2004), Pennsylvania (2006), Maryland (2010) and Rhode Island (2010)), and competition increased, Atlantic City found itself sharing more and more of the East Coast gaming market. As a result, gaming revenue has been reduced to less than half of what it was at its height in 2006 (\$5.2B), reaching its lowest point in 2015 (\$2.5B). Figure 1 below (NJ-CCC) graphically depicts the infusion of casinos into the Northeast since 1995 and the impact on total gaming win for Atlantic City casinos.



Annual double digit percentage gains in internet gaming win seem to have slowed the decline in gambling revenue and contributed significantly to the modest year over year increase in total gaming win (1.55%) in 2016. However, just as Atlantic City's monopoly on East Coast casino gaming came to an end, so too its monopoly on internet gaming is coming to a close. At present only Delaware, Nevada and New Jersey have legalized internet gaming, however, California, New York, Pennsylvania and an increasing number of states are all poised to enter that market. The impact of new competition may not be felt immediately as internet gaming continues to experience its initial growth but, as the industry matures, Atlantic City may again be sharing only a piece of the market.

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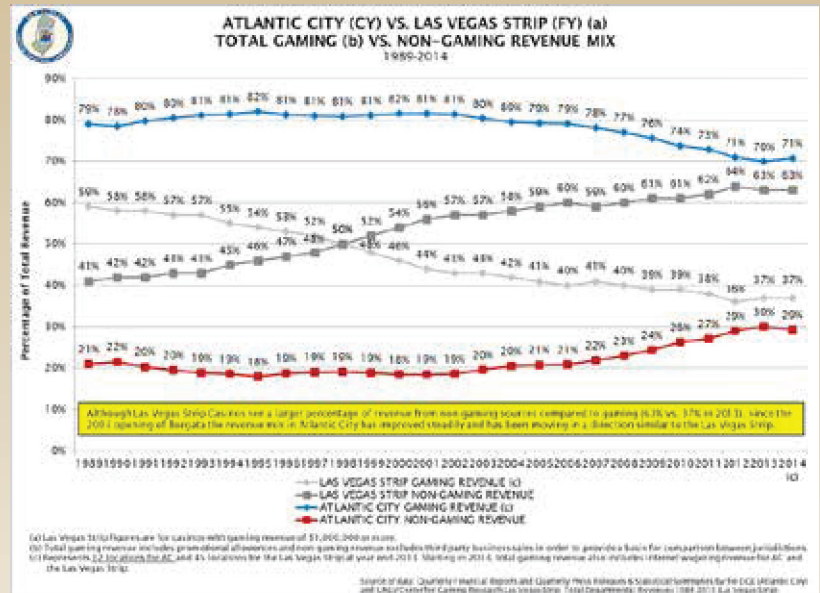
## Atlantic City: Gaming vs. Non-Gaming Revenue (continued from page 5)

In this environment, the role of non-gaming revenue in Atlantic City has become increasingly important. Changes in revenue share between gaming and non-gaming revenue, signal a shift in focus for Atlantic City Casinos. In 1989 non-gaming revenue represented 21% of total casino revenue, as of 2015 it represents 29%. For Casino Industry leader, Las Vegas, the shift is even more distinct from a 60/40 split gaming vs. non-gaming in 1989 to a 35/65 split in 2015. Figure 2 (NJ-CCC) depicts the shifting relationship between gaming and non-gaming revenues for both Atlantic City and Las Vegas.

The shift in focus toward non-gaming revenue has manifested in a number of ways, among them investments in convention venues and night clubs to serve both the expanding meetings and conventions business and the growing audience of millennial consumers.

Recent investments in the conventions business, Borgata (\$11M), Harrah's (Waterfront Conference Center-\$125.8M) and Resorts (\$9.4M), have already seen a return on investment. According to the Atlantic City Tourism Sales Barometer, prepared by Atlantic City Convention and Visitors Authority, hotels (including casino owned properties) saw a 23.2% increase in the number of conventions, trade shows, and meetings held at their venues in 2016. The total number of shows offered in the city increased by 10.1% in 2016, drawing 9% more meeting attendees/delegates who used 21.5% more rooms.

In addition to these gains in the meeting and convention business, casino properties have pursued opportunities for growth in attractions targeting millennial consumers. Investments in renovations to The Pool at Harrah's (\$3M), the Premier Nightclub (\$14M) at the Borgata and Ivan Kane's Kiss Kiss Nightclub (part of a \$40M renovation) at the Tropicana are all examples of this.



Interestingly, as Atlantic City celebrates a streak of good news including the announcement of Hard Rock International's plan to reopen the shuttered Taj Mahal as a casino hotel, most discussion has focused on what the reopening will mean in non-gaming rather than in gaming revenue terms. When discussing the new Hard Rock Atlantic City, the number of rooms, meeting and parking space, as well as the number of local jobs which are being created, are all major topics of interest. Whereas the new casino's impact on gaming revenue has received comparatively little attention. In fact, Colin Mansfield, Director of U.S. Corporates at Fitch Ratings, told the Press of Atlantic City that he didn't expect the opening of the Hard Rock Casino to have any significant impact on gaming. "With or without it, A.C. is still a \$2.4 billion market."

The way forward for Atlantic City will likely come through embracing what the city has to offer in terms of non-gaming amenities. The gaming market may be fixed (for now) at \$2.4 Billion but growth in non-gaming revenue is potentially limitless.





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Tourist "trails" have been developed and marketed in conjunction with Destination Marketing Organizations (DMO) to promote multiple destinations for increased visitation experiences and higher exposure to the beverage tourism products. The tours combine history, food, drink and connect the local community to the visitors. <https://www.newjerseywines.com/wine-trails/>

The Garden State Wine Growers Association, a coalition of over 50 New Jersey wineries, vineyards, grape growers and industry related businesses, promotes regional trails (among many other initiatives) to experience multiple wineries (and breweries) in the state. Breweries and Distilleries in New Jersey are formally organized as well, with Guilds that provide a voice for their businesses and affiliated groups to support growth, success and appreciation for their products.

As the South Jersey tourism industry finds its voice, recognition, funding, and a strong value proposition message, the Beverage Tourism Industry continues to grow and thrive providing both an excellent visitor experience and product to sip and savor long after the visit is over.

