

# **Reshaping the Physical and Economic Landscape of Atlantic City**

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*After years of struggle, market conditions for Atlantic City are poised for change. Citywide diversification of revenue streams and the proliferation of non-gaming attractions and amenities reduce the city's reliance on gaming revenues, and support growth in non-gaming revenues from meetings & conventions, leisure travel and sports & Esports tourism. Continued dedication to diversifying revenue streams and cultivating new market segments is essential to increasing the city's economic activity and raising its profile as a destination in years to come.*

## **INTRODUCTION**

After a decade of decline, Atlantic City casinos saw a year-over-year increase in total gaming win for the second consecutive year in 2017. The introduction of internet gaming in November 2013 and a momentary decrease in local competition for land-based casino gaming have been credited for this reversal in the city's fortunes. While the rapidly growing internet gaming market will likely continue to be a significant source of revenue for Atlantic City, market conditions are poised to change. The introduction of internet gaming in Pennsylvania and the opening of two new casinos (Hard Rock and Ocean Resort) in Atlantic City could provide greater competition for Atlantic City's online and land-based casinos alike. If Atlantic City is to grow and thrive in the next 10 years, it may have to look beyond gaming to increase its economic activity and raise its profile as a destination resort.

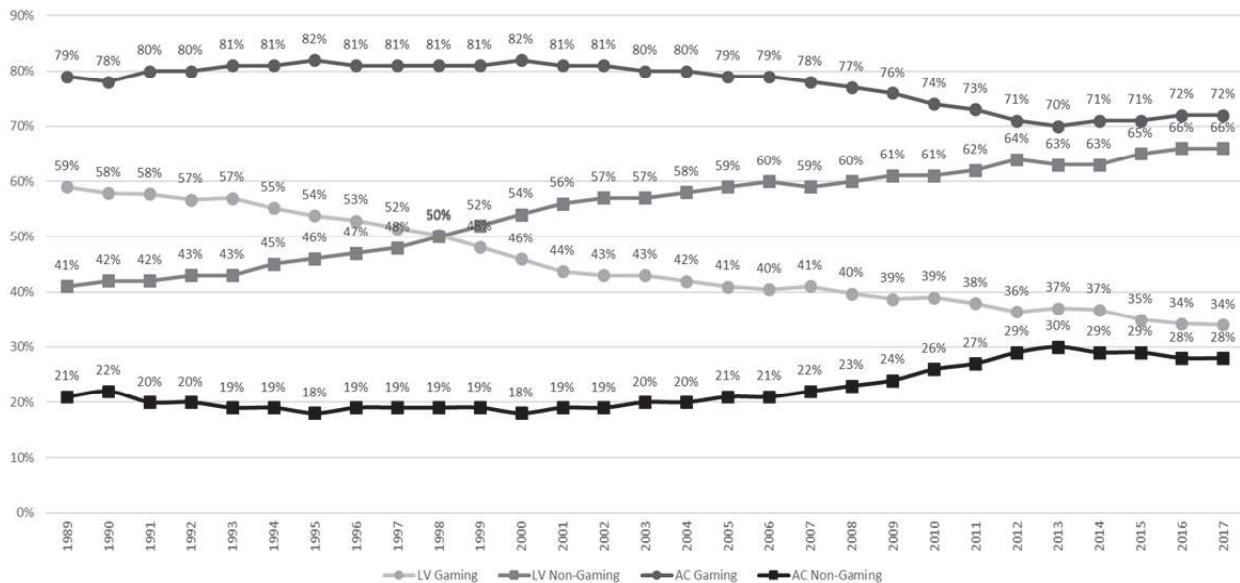
## **SHIFTING REVENUE SHARE**

Atlantic City need look no further than gaming industry leader Las Vegas for a model of success. Las Vegas' current market stability and growth has less to do with gaming win and more to do with wins in the non-gaming sector. In 1989 gaming revenue on the Las Vegas Strip was 59 percent (\$2 billion) of total revenue (\$3.4 billion), in 2017 gaming revenue represented just 34 percent (\$6 billion) of the Strip's total revenue (\$17.7 billion). Non-gaming revenues (rooms, food, beverage, other), which represented 41 percent (\$1.4 billion) of total revenue in 1989; dominated the revenue share – commanding 66 percent (\$11.7 billion) of total revenue in 2017. This shift from reliance on gaming revenue to non-gaming revenue has already begun to occur, to a lesser extent, in Atlantic City. Non-gaming revenue in Atlantic City has gone from a low of 18 percent of total revenue in 1995 and 2000 to a high of 30 percent in

2013. Table One shows the total gaming vs non-gaming revenue share for Las Vegas and Atlantic City 1989 through 2017.

Changes in revenue share have not always been voluntary or intentional for Atlantic City’s casinos. National economic conditions and regional competition for casino gaming suppressed gaming revenues which, after peaking at \$5.2 billion in 2006, fell from 2007 (\$4.9 billion) through 2015 (\$2.5 billion). During this period, non-gaming amenities claimed more revenue share simply through their continued operation at or even slightly below average. In 2006, revenue from non-gaming amenities accounted for 21 percent (\$1.37 billion) of Atlantic City casino’s total revenue, by 2013 non-gaming revenue share had reached 30 percent (\$1.2 billion). Sustained declines in gaming revenue heightened the need for casino operators to focus more resources on diversifying their revenue streams and developing non-gaming amenities. For some casinos, this change in focus came too late to prevent their closure, five of the city’s 12 casinos closed between 2014 and 2016.

**TABLE 1  
ATLANTIC CITY<sup>i</sup> V. LAS VEGAS STRIP<sup>ii</sup> TOTAL GAMING V.  
NON-GAMING REVENUE SHARE**



Source of data: Quarterly financial Reports and Quarterly Press Releases and Statistical Summaries by the DGE (Atlantic City) and UNLV Center for Gaming Research Las Vegas Strip: Total Departmental Revenues 1984-2017 (Las Vegas Strip).

<sup>i</sup>Total gaming revenue for Atlantic City includes promotional allowances and non-gaming revenue excludes third party business sales to provide a basis for comparison between jurisdictions.

<sup>ii</sup>Las Vegas Strip figures are for casinos with gaming revenue of \$1,000,000 or more.

### CASINO CLOSURES AND EMERGING NON-GAMING REVENUE STREAMS

When casinos close, there is more at stake than gaming revenues. The impact of the five casino closures includes the loss of non-gaming revenues from parking, lodging, dining and entertainment. As recorded in the New Jersey Casino Control Commission’s Annual Reports, non-gaming revenue from casino properties declined by 7.4 percent in 2014 and 12.3 percent in 2015. This decline is related to the loss of approximately 6,453 casino hotel rooms as well as similar losses in parking (21,437 spaces lost), dining (approximately 50 establishments closed) and other amenities (entertainment venues, bars, lounges and spas) offered by these properties. The citywide reduction of these amenities had a negative impact on not only the City’s attractiveness to leisure travelers, but also its ability to support the growth of other

market segments, and non-gaming revenue streams. In addition to replacing the supply of non-gaming amenities lost through the casino closures, surviving casinos and new entrants to the market would need to expand these offerings to both create and meet the demand of new market segments.

### **Meetings & Conventions**

Atlantic City's surviving casinos responded to the reduction in non-gaming amenities in a variety of ways. Borgata, Harrah's and Resorts chose to follow in the path of Las Vegas and other emerging resort destinations by appealing to the business travel or bleisure, combined business and leisure, travel segment. Business travel, specifically for meetings and conventions is a significant revenue stream for Las Vegas, contributing to the city's overall shift in gaming vs non-gaming revenue share. In 1984 Las Vegas greeted 12.8 million visitors including little over 1 million conventions delegates. Those numbers increased to a record 42.9 million visitors in 2016 including 6.3 million conventions delegates.

Borgata (\$11M), Harrah's (Waterfront Conference Center-\$125.8M) and Resorts (\$9.4M) are already seeing return on recent capital investments in their meeting venues. According to the Atlantic City Tourism Sales Barometer, prepared by Atlantic City Convention and Visitors Authority, Atlantic City hotels saw a 52.9 percent and 17.7 percent year-over-year increase in the number of conventions, trade shows, and meetings held at their venues in 2015 (130) and 2016 (153) respectively. Hotels also saw a 77.0 percent (\$48,840,983) and 100.6 (\$97,950,643) percent year-over year increase in delegate spending in the same period. Citywide, 523,679 delegates spent \$194,360,052 Atlantic City in 2016 marking a 12.9 percent and 22.3 percent year over year increase respectively. For comparison, in 2012 the city greeted 433,887 delegates who spent \$141,228,942.

Since meetings & conventions are booked often several years in advance, they represent a steady revenue stream for a destination, one that is more resistant to the same factors that might otherwise influence visitation. By cultivating this market segment, Atlantic City venues, gaming and non-gaming alike, are laying the foundation for future sustainability and economic stabilization. Las Vegas' 2017 visitation statistics provide a clear but unfortunate example of economic stabilization through meetings & conventions business. In the months following the shooting, which claimed the lives of 58 people, Las Vegas experienced a decline in the total number of visitors; finishing the year with 42.2 million visitors-700 thousand fewer than the previous year. Despite this, the City's meetings and convention business managed to break records for conventions attendance with 6.6 million delegates in 2017.

### **Destination Specific Attractions and Amenities**

Many of the same elements that make a destination appealing to host conventions, trade shows and meetings also contribute to its appeal as a destination for leisure travelers. Local flavor, live entertainment, retail shopping, celebrity chefs, and fine dining have all been popular additions to the Las Vegas landscape. Atlantic City has the opportunity not only to emulate but to expand on Las Vegas' model. In addition to investment in venues for meetings & conventions, Atlantic City developers have invested in attractions and amenities targeted toward expanding the city's appeal to a variety of leisure consumers- especially millennials.

As revealed by The Lloyd D. Levenson Institute's study of the entertainment preferences of millennials, non-gaming experiences are key to their selection of a destination. When asked what activities were important for them when planning a day or night out, millennials ranked gambling 21st in a list of 28 activities. Casual dining, bars/lounges, beaches, concerts, shopping and night clubs all ranked higher. Millennials who had never visited Atlantic City listed distance from home, expense and lack of diversity in activities as the top three reasons they had not made the trip.

Recognizing the need to better meet the expectations and tastes of millennial consumers, Atlantic City's Casinos have made significant investments into the development and renovation of their nightclubs and social venues. 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. In their redevelopment of the former Taj Mahal and Revel casinos, the operators of the Hard Rock and Ocean

Resort have likewise paid attention to creating distinctive spaces that offer a variety of guest experiences from the Top Golf Swing Suite to daily live music performances.

Recent additions to Atlantic City's non-casino properties include Steel Pier's observation wheel, development at Gardner's Basin and initiatives to redevelop Tennessee Avenue and the "Orange Loop" (St. James Place and South New York Avenue) as a community of unique small business concepts including restaurants, retail and live entertainment. The reconstruction and expansion of Atlantic City's iconic boardwalk to create a pedestrian and bicycle route adds an amenity for active guests and residents both.

### **Sports & Esports Tourism**

The newly completed boardwalk reconstruction, 25 area golf courses and beautiful beaches, make Atlantic city an attractive destination for a variety of sports events from basketball to volley ball and cycling to watercross. The promise of a 6,000 square-foot data center at Atlantic City's Convention Center likewise increases the city's appeal as a destination for Esports events. Not to be overlooked, the early adoption of legalized sports betting in New Jersey has expanded Atlantic City's gaming offerings and begun to significantly impact the state's gambling industry.

The emergence of Sports & Esports Tourism as a distinct market segment is at once a new and rather familiar one for Atlantic City. The city, which hosted 143 boxing matches in a single year (1985), saw that number dwindle to 5 in 2015. Renewed interest in boxing and other sports events have attracted audiences of 6,000 (Boxing -Sergey Kovalev v. Eleider Alvarez, August 4, 2018) to 40,000 (Esports-combined in-person and online Gears of War Pro Circuit March 31 – April 2, 2017). As the city continues to add variety to its offerings and embraces an evolving definition of what it means to be "America's Playground," sports and Esports are set to play a significant role.

Whether participating in a city marathon, wagering on the outcome of a football game or watching a professional Esports tournament, sports and Esports tourists have the potential to generate significant, diversified, revenue for Atlantic City. Sports & Esports enthusiasts will not only contribute to gambling revenues for the city through sports betting, but also contribute to non-gaming revenues through the purchase of goods and services such as lodging, food and alcohol. While it may be several months yet before a clear picture of legalized Sports Betting's local, regional and national impact emerges, there is every reason to believe that it will be a net positive for the city.

### **RESHAPING ATLANTIC CITY**

Significant changes to the city's physical and economic landscape are actively occurring. Even as the Atlantic City Gateway Project, which includes Stockton University's campus, rises at Albany and Atlantic avenues, shuttered casinos and underutilized spaces throughout the city are finding a new life. The redevelopment of properties like the former Taj Mahal (Hard Rock AC) and Revel (Ocean Resort), will not only restore what was lost when those properties closed, but further expand Atlantic City's offerings as a destination resort attractive to both leisure and business travelers. Similarly, a reimagining of other existing spaces and a focus on leveraging some of the city's best assets (the Boardwalk and Beach) can add even more diversity to the guest experience of Atlantic City and attract a new and familiar audience of competitive sports enthusiasts.

Atlantic City is on the road to becoming more than simply a place to gamble, it is becoming a competitive resort destination with a variety of amenities including gambling. The shape of Atlantic City is changing just as it did 40 years ago. The process is painful and slower than many would like, but it is coming. The Atlantic City that emerges will be different because it needs to be different, and we need not fear the changes ahead.

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