



THE POTENTIAL SIZE OF THE NEW YORK CITY GAMING MARKET: A PRELIMINARY ESTIMATE

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February 25, 2013

EXECUTIVE SUMMARY

With 50 million visitors annually and the largest metro population in the United States, New York City has the potential to become a significant gaming market, both domestically and internationally. Although a full gaming market study has not been conducted, HR&A Advisors, Inc. (HR&A) has provided a framework for sizing the potential of the New York City area gaming market based on the performance of selected regional casinos and the existing state of the local gaming market. Based on the below findings it is reasonable to assume that the New York City market can support three or more new resort style casinos. Further, those branded destinations should outperform modifications to pre-existing facilities.

- In selected markets, gaming revenue per resident is **\$311 per resident** and there is **one gaming position for every 339 residents**.
- In comparison, the New York City area market, with its **two race track casinos**, generates only **\$1.2 billion** in annual gaming revenue, or **\$66 per resident**, and has **one gaming position for every 1,877 residents**.
- Applying the average resident gaming spend from the selected markets to the New York population suggests a potential gaming market size of **\$5 to \$6 billion from the residential market alone**.
- Factoring in the sizable New York City tourist market, projected gaming revenue could increase substantially.
- New York State residents spend upwards of **\$1 billion on gaming at Connecticut and New Jersey casinos**.
- Assuming average spending estimates for the selected markets hold for New York City area residents, the New York City market area is currently only achieving **20 percent of its potential gaming revenue**.
- Including the resident and tourist market, as well as the and recapture of spending in neighboring states, the current New York City market could **reasonably support 3 or more new casinos**.
- Foxwoods and Mohegan Sun, which are resort style casinos, have generated **40 to 60 percent more revenue** than the two existing New York City race track casinos.

Whether New York State can successfully realize the full potential of the market will depend on a number of factors, including:

- (a) the number of licenses awarded in the New York City market area;
- (b) the gaming tax rate and other related gaming fees;
- (c) the siting of any new facilit(ies); and
- (d) the minimum investment criteria.

When the Governor's Office and the New York State Legislature consider second passage of concurrent resolution, S6734-2011 (the Casino Bill), in the next legislative session, the above policy issues and New York City's ability to support a larger gaming industry than currently exists must be considered.

NEW YORK CITY RESIDENTIAL MARKET

The New York City area residential market, defined as people living within a 50 mile radius of New York City, has 18.7 million residents. The market encompasses New York City and its suburbs in New York, Connecticut and New Jersey. To determine the gaming industry's potential market share, HR&A reviewed industry data from nine mature regional gaming markets that feature multiple facilities offering both slots and table games. Las Vegas, Reno and Atlantic City were excluded as comparable markets due to their status as gaming destinations, with high concentrations of numerous gaming establishments.

An analysis of these markets found the average gaming revenue per resident in 2011 was \$311.29 with one gaming position for every 339 residents. In comparison, as shown in Figure 1 below, the average resident gaming spend in the New York market area is only \$66.31, or roughly 20 percent of the average of the selected markets¹. Similarly, comparing the number of gaming positions² in each of those markets to their population demonstrates that the New York market area, with a ratio of 1,877 residents per gaming position, has only 20 percent of gaming positions per capita resident than the selected markets.

Figure 1: NYC Residential Gaming Market Share Based on Selected Markets

Gaming Market	Total 2011 Gaming Revenue (in \$ mm)	Population 50-Mile Radius	Gaming Revenue Per Capita	Total Gaming Positions	Population in Radius Per Gaming Position
New Orleans	\$585.4	1,510,498	\$387.55	5,596	270
St. Louis	\$1,074.8	2,791,245	\$385.06	12,973	215
Omaha	\$434.8	1,232,756	\$352.71	4,882	253
Kansas City	\$780.5	2,232,493	\$349.61	8,611	259
Pittsburgh	\$970.6	2,824,866	\$343.59	11,660	242
Detroit	\$1,424.4	4,696,795	\$303.27	10,882	432
Cincinnati	\$675.7	2,748,593	\$245.83	7,338	375
Chicago	\$2,113.5	9,227,569	\$229.04	17,511	527
Philadelphia	\$1,685.6	8,224,181	\$204.96	17,027	483
Selected Markets Average	\$1,082.8	3,943,222	\$311.29	10,720	339
New York City	\$1,238.8	18,681,115	\$66.31	9,951	1,877

Source: Various state gaming agencies; ESRI Business Analyst Online

The above analysis is a high-level estimate of the gaming market potential in the New York City area and should be refined by a future detailed market and feasibility analysis specific to siting, number of facilities, scale, and program, as there are variables unique to the New York City area market such as the amount of discretionary income per capita, transportation costs, travel times, smoking restrictions, and alternative entertainment options, that will impact (positively and negatively) the \$5 to \$6 billion estimated market size.

¹ Based on the 2012 twelve month trailing annualized gaming revenue per capita from the two existing race track casinos (The Empire City Casino at Yonkers Raceway and Resorts World Casino.)

² One slot machine or video lottery terminal equals one gaming position and one table games equals six gaming

positions

NEW YORK CITY TOURISM MARKET

In addition to the spending potential represented by residents in the 50-mile radius, an expanded resort-style gaming facility in New York will be able to capture a portion of New York City's already thriving tourism market. According to the most recent visitation rankings published by Forbes, New York City ranks second among U.S. cities in total domestic and international visitation, behind only Orlando, home of Walt Disney World.³ Domestic and international visitation to New York City totaled 50.9 million in 2011, up from 35.2 million visitors a decade earlier (a 45 percent increase). Domestic visitors made up 40.3 million of total visitation, and international visitors totaled 10.6 million. Nearly 54 percent of all visitors are overnight visitors and approximately 67 percent of the overnight visitors stay in a hotel. These visitors accounted for about \$34.2 billion in spending in 2011, a 35 percent increase since 2003. This spending translates to \$671 per visitor trip in 2011. Approximately 20 percent of the \$34.2 billion spent by visitors in 2011 was spent on entertainment.⁴ The continued growth of tourist visitation and spending suggests the potential size of the gaming market could exceed the revenue estimates based on the comparable market analysis.

EXISTING NEW YORK CITY GAMING SUPPLY AND REVENUES

The only gaming facilities serving the New York City area are two slots-only race track casinos: The Empire City Casino at Yonkers Raceway and Resorts World Casino. On October 11, 2006, following enactment of the 2001 Video Lottery Terminal ("VLT") bill, Empire City Casino installed 1,870 video lottery terminals in 2006, and expanded to 4,987 slot and VLT terminals as of August 2012. A second race track casino, Resorts World Casino New York City, was opened by Genting on October 28, 2011 with 2,280 video lottery terminals, and subsequently increased its VLT count to nearly 5,000 as of August 2012.

Figure 2: 2012 New York City Gaming Market

Casino	Number of Slots/VLTs	Number of Table Games	Number of Gaming Positions	2012 Annualized Gaming Revenue (in \$ mm)
Yonkers Casino Raceway	4,964	0	4,964	\$562.4
<u>Resorts World Casino</u>	<u>4,987</u>	<u>0</u>	<u>4,987</u>	<u>\$676.3</u>
TOTAL:	9,951	0	9,951	\$1,238.8

Notes: # of VLTs as of August 2012. 2012 gaming revenue is August 2012 calendar year-to-date annualized
Source: New York Lottery, Video Gaming Financial Reports

³ Valaer Murry, "America's Most Visited Cities," Forbes, Inc. April 28, 2010.

⁴ All data is from NYC & Company. Overnight visitation and entertainment spending data is based on analysis of business and leisure visitation in 2009. The remainder of the data is from the 2011 visitation analysis.

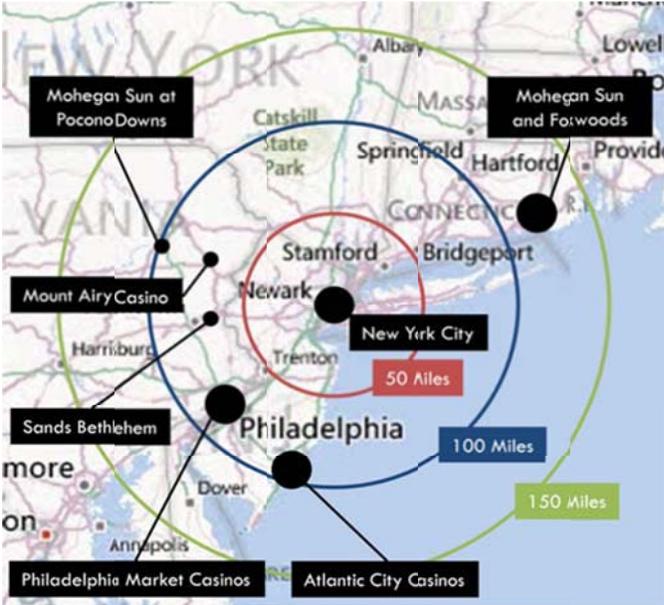
As indicated in Figure 2, Resorts World generated approximately \$676 million in annualized gross gaming revenues.⁵ Resorts World gradually added VLTs during the months following opening so revenue has grown and will likely continue to climb in subsequent months, albeit at rates lower than the rate at which machines are added.

With the introduction of Resorts World, the gaming supply in New York City market area more than doubled and total revenues increased from \$538 million in gaming revenue at Empire City Casino in the 10 months prior to Resorts World's opening (January 1, 2011 to October 27, 2011) to a combined \$996 million between both facilities in the ten months since Resorts World opened, representing an increase of 85 percent. This finding combined with the observation that New York's two existing race track casinos only capture 20 percent of their market potential based upon the performance per resident of other of mature U.S. gaming markets, suggests that there is significant potential for increased gaming revenue in the New York City area market.

LEAKAGE OF NEW YORK STATE RESIDENT SPENDING TO OTHER MARKETS

In addition to the gaming revenue being generated by Resorts World and Empire City, New York State residents are spending substantial gaming dollars in surrounding gaming markets identified in Figure 3, which could potentially be retained if New York City had comparable gaming offerings to those in Atlantic City, Connecticut, and Pennsylvania.

Figure 3: Map of Existing Casinos Outside New York State



Source: HR&A Advisors, Inc

⁵ New York Lottery, Video Gaming Financial Reports

HR&A utilized data on visitation by New York State residents to Atlantic City and the major Connecticut casinos, Foxwoods and Mohegan Sun, from studies that were conducted by the University of Massachusetts Dartmouth Center for Policy Analysis and Spectrum Gaming Group. This data suggests that New York State residents spend upwards of \$1 billion on gaming at Connecticut and New Jersey casinos, including:

- Approximately \$260 million annually at Connecticut casinos, based upon projected 2011 gaming revenues at Foxwoods (\$906 million) and Mohegan Sun (\$1.030 million), and estimated visitor origins from New York State at Foxwoods (11.0 percent) and Mohegan Sun (15.7 percent), respectively.⁶
- Approximately \$765 million annually on gaming in New Jersey, based on Atlantic City casino revenues of \$3.318 billion in 2011,⁷ and an estimated 23 percent of patrons from New York State.⁸
- While patron origination data was not available for the Pennsylvania casinos, it is likely that Sands Bethlehem (\$377.3 million in 2011 gaming revenue) and Mount Airy Casino (\$185.4 million in 2011 gaming revenue) which are each located approximately 75 miles from Manhattan attract a significant number of New York State residents.

Since these estimates include all New York State residents, but do not include residents within 50 miles of New York City who live in New Jersey and Connecticut, and because additional gaming leakage occurs to gaming facilities in Pennsylvania, the leakage of gaming spending from residents in the New York market area may be higher than the \$1 billion estimate. However, even accounting for an additional \$1 billion in gaming spending, the gaming spend per resident is \$120 (compared to \$66 per resident when only considering spending at the two market area race track casinos), significantly lower than the average spending per resident of \$311 in the selected markets referenced earlier.

TABLE GAMING'S IMPACT ON GAMING REVENUE

Despite New York City market area's low per resident gaming revenue, it is worth exploring whether the revenue generated by adding table games at the two existing race track casinos would effectively satiate the market. The experience of casinos in other states that have legalized table games provides guidance on what may occur in the New York City market. HR&A analyzed total gaming revenues in the 12 months before and 12 months after table games were introduced in three states that have legalized table games within the past ten years - Pennsylvania, Delaware, and Iowa. As indicated in the Figure 4 below, the

⁶ *New England Casino Gaming Update 2012*, University of Massachusetts Dartmouth Center for Policy Analysis

⁷ *State of the States 2012*, American Gaming Association

⁸ *Atlantic City Visitor Profile 2008*, Spectrum Gaming Group

increase in revenues at these facilities following the introduction of table games ranged from 4.1 percent to 54.1 percent, with an average increase of 19.6 percent.⁹

Assuming the introduction of table games has a similar effect in New York as in the above-described markets, total revenues at the two existing facilities in New York would increase, on average, from \$1.2 billion to \$1.5 billion.

Figure 4: Impact of Table Gaming on Casino Total Revenue in Comparable Markets

State	Casino	Date Table Games Introduced	Gaming Revenue - 12 Months Before Table Games Introduced (in \$ mm)	Gaming Revenue - 12 Months After Table Games Introduced (in \$ mm)	Change in Casino Revenue
PA	Mohegan Sun - Pocono Downs	July, 2010	\$222.6	\$264.1	18.6%
	Parx	July, 2010	\$381.7	\$470.8	23.3%
	Harrah's Chester	July, 2010	\$306.8	\$351.3	14.5%
	Presque Isle - Erie	July, 2010	\$164.7	\$189.8	15.2%
	The Meadows - Pittsburgh	July, 2010	\$261.1	\$282.5	8.2%
	Mount Airy	July, 2010	\$145.4	\$183.7	26.3%
	Penn National	July, 2010	\$247.0	\$283.8	14.9%
	Sands Bethlehem	July, 2010	\$240.2	\$337.2	40.4%
DE	Delaware Park	June, 2010	\$224.9	\$237.7	5.7%
	Dover Downs	June, 2010	\$204.8	\$213.2	4.1%
	Harrington	June, 2010	\$118.1	\$126.2	6.9%
IA	Prairie Meadow	December, 2004	\$159.6	\$181.6	13.8%
	Bluffs Run / Horseshoe Council Bluffs	March, 2006	\$127.0	\$195.7	54.1%
	Dubuque (Mystique)	March, 2007	\$55.4	\$71.1	28.3%
PA, DE, IA Average			\$204.2	\$242.1	19.6%

Source: Various state gaming agencies

While this data is unadjusted for inflation, economic conditions, and broader industry trends, it suggests that even in the advent of table games at the market's existing race track casinos, potential for additional gaming revenue exists. The ability to achieve these increases in gaming revenue would depend upon the quality of the facilities and the table games within them, and their ability to attract patrons from the local and regional market.

HOW MUCH ADDITIONAL MARKET POTENTIAL MAY EXIST?

Based on this high-level analysis, we estimate that the residential market alone can support between \$5 and \$6 billion in gaming revenue. The existing facilities in the New York City market area generate \$1.2 billion in gaming revenue. Even assuming that 100 percent of the \$1 billion in gaming spending by New York residents on out-of-state facilities is retained by market area casinos, there still remains an additional \$3 to \$4 billion in gaming revenue that could be captured by new facility(ies).

⁹ Delaware is viewed as an outlier as casinos there tended to experience smaller increases than properties elsewhere, perhaps due to the opening of competition in other states during the year in which they added table games

Figure 5: Remaining Market Potential in New York City Metropolitan Area

Market Potential Based on Other Gaming Markets	\$5 – 6 billion
<u>Less Existing NYC Market Area Gaming Revenue</u>	<u>(\$1.2 billion)</u>
Additional Market Potential	\$4 – 5 billion
<u>Less NYC Metro Area Resident Spend in Surrounding States</u>	<u>(\$1.0 billion)</u>
Potential Remaining Market Potential	\$3 - \$4 billion

Source: HR&A Advisors, Inc

FACTORS THAT COULD IMPACT WHETHER THE NEW YORK CITY MARKET AREA CAN ACHIEVE ITS REVENUE POTENTIAL

Several issues related to New York City’s casino expansion framework require further understanding to better gauge if the market can reach the potential size determined by the above comparable analysis. These issues include:

- Level and allocation of tax rates, and their impact on operators’ operational considerations;
- Ability of facilities to attract clientele and spending from out-of-state residents;
 - Higher quality facilities with more amenities will draw greater numbers of visitors from greater distances
- Offerings at gaming facilities, including number and type of gaming positions;
 - The current New York City gaming market supply results in 1,877 people per gaming position while the comparable U.S. market average is 339 people per gaming position
 - Facilities in neighboring states offer slot machines and table games whereas New York gaming facilities only offer slot machines currently
- Gaming facilities are becoming more diversified geographically;
- Locating additional facilities proximate to additional transportation networks will broaden the customer base.