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RCG ECONOMICS

THE GREAT RESET & THE LAS VEGAS RESORT INDUSTRY

In this issue of our *Economic INsight*, we would like to concentrate on the reinvention of the Southern Nevada Leisure and Hospitality industry. There is no question that there's been a steady improvement in the industry's primary performance metrics during the last several months. The question remains, however, on the sustainability of these improvements, and the rate of upward trajectory as the metrics move back to their pre-recession peaks. But most importantly, are the indicators pointing to a new evolutionary phase for the industry.

While we track a number of Leisure and Hospitality metrics on an ongoing basis, we have addressed four of them below. We believe they are some of the most important.

1. Leisure and Hospitality Jobs
2. Visitor Volume
3. Room Rates, Occupancy and RevPAR
4. Gaming Revenue, excluding Baccarat

Leisure and Hospitality Jobs: Clark County's "export industry"—Leisure & and Hospitality—continues to post year-over-year gains in terms of job growth. Since October 2010, leisure and hospitality employers added 14,400 jobs, a 5.7 percent increase. So it appears that the long, slow climb out of recessionary hole continues. The challenge is that many of these jobs are low wage, which indicates that we will not see a spike in consumer spending in the overall economy. At least, however, these folks are not on the unemployment roles.

Visitor Volume: October marked the 20th month of consecutive year-over-year growth in visitor volume with over 3.4 million visitors to the Las Vegas Valley. This is an increase of 2.7% over October 2010. On a year-to-date 2011 basis (January through October), the 32,944,700 visitors to the Las Vegas Valley is comparable to the same period in 2007 (32,991,400 visitors). Overall, visitation has rebounded and 20 months of improvements is really good news. However, we should also consider whether this translates into more spending and sustained room rate increases.

Room Occupancy, Room Rates and RevPAR: Valley-wide, room occupancy was up 1.9 percentage points from 84.9% in October 2010 to 86.8% in October 2011. Over the same period, the average daily room rate rose 12.2%, to $114.68 per night from $102.19 last year.

Room occupancy remains down from 2007: on a YTD basis, 2011's 85.4% falls short of YTD 2007's 90.9% occupancy rate. Considering the fact that we now had over 16,700 more rooms in October 2011 than in October 2007, we now have the same number of visitors with significantly more rooms to fill. These additional rooms impact room rates since the average rate is down 22% (2007 YTD's average nightly rate of $135 versus 2011 YTD's $105).

Year-over-year hotel revenue per available room ("RevPAR")—calculated by multiplying the average daily room rate by the occupancy rate—in October rose by 14.7% to over $99. October's RevPAR continues its gradual, upward trend that began in the middle of 2010. This trajectory was largely due to increases in average daily room rates. This is welcome news, because this metric reflects the industry's operating environment and as a result, has helped improve profit levels.

Gaming Revenue, excluding Baccarat (removed because of its volatility): Strong play in October drove gaming revenue up 10.4% over October 2010. On a year-to-date basis (through October), 2011 gaming revenues are ahead of last year's pace by 3.3%. Excluding Baccarat, high-end baccarat play win, gross gaming revenue for October was $823.9 million, 23% over October 2010.

If you look at some of the other popular indicators like convention visitors, traffic at McCarran airport, etc., they show similar upward trends over last year. So, the traditional Leisure and Hospitality metrics continue to get better each month. Some may say that comparing metrics today with 2007 peak levels may be unreasonable, because Southern Nevada may never reach the same levels. But, returning to the pre-recession peak can't be ignored as one possible future.

But, the bigger question is: Has the Great Recession permanently changed the Las Vegas Leisure and Hospitality industry? More specifically, how can the industry evolve while remaining attractive so visitors will choose to come to Las Vegas over other US and global gaming-resort markets? As to the first question, the answer is undoubtedly, yes, the Great Recession has transformed the Las Vegas' resort and hospitality industry and for that matter the economy. Moreover, the success of Macau and Singapore, along with the growing interest by the industry into other Asian (e.g., Japan, South Korea and Vietnam) and US markets (e.g., Massachusetts and Florida), indicate to us that for Las Vegas to remain a major player, its Leisure and Hospitality industry must evolve into a vibrant multi-faceted "economic cluster."

What does this mean?

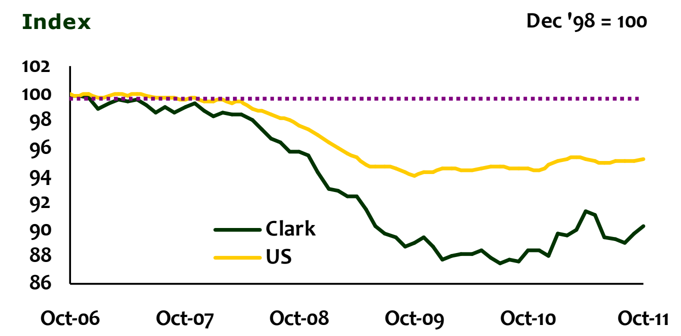
It means a deliberate and focused move toward intra-industry diversification in the form of research, design and development in specialties like security systems, medical tourism, Internet gaming, gaming devises and casino games applications, to name a few areas. In essence the Las Vegas Leisure and Hospitality industry must become an intellectual property "command center" for the global gaming industry. Many of these concepts are covered in the Brookings Institution's recent *Unify, Regionalize, Diversify* report for Nevada. The UNLV International Gaming Institute has presciently said this in a recent white paper titled "*Las Vegas & Houston: Global Command Centers in the Sunbelt*." The Institute's report can be found at http://igi.unlv.edu/research.htm.

As outlined in the Institute's report, the similarities between Houston and Las Vegas are striking. Having family in Houston and New Orleans, and having worked in the "oil patch" states of Louisiana, Texas and Oklahoma for a number of years before moving to Las Vegas in 1988, it's very clear to me that Las Vegas is where Houston was in the mid to late-1988s. At that the time, the domestic oil and gas industry was dealing with increased competition from cheap foreign oil flooding the US, along the savings and loan crisis and a recession that was severely impacting the Texas economy. What Texas leaders did at the time was to focus seriously on "evolving" the oil and gas industry along with the health care industry, turning both into major global research/intellectual clusters. It wasn't easy; it took a lot of time, talent and treasure, including, God-forbid, requiring a significant amount public sector investment to make it happen.

In our opinion, this the challenge facing our region and our driver industry. It will no longer be sufficient to just claim we are THE leisure and hospitality Mecca of the world. There are now other Meccas that are here to stay, and that remain very competitive with Las Vegas. And to believe these other Meccas, especially those in Asia, will never be able to replicate the Las Vegas experience is as hubristic as when the US car companies said in the early-1960s that foreign competitors, like the Japanese, could never replicate the experience of driving an American car. So the evolution of the Las Vegas Leisure and Hospitality industry into an intellectual command center is not just an option, it's a must.■

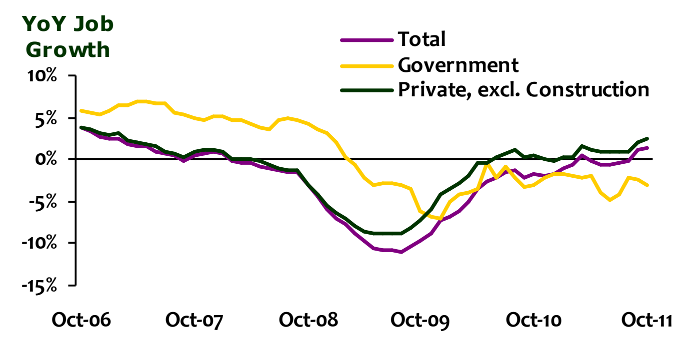
Indicator	Region	Date	Value
RCG Employment Index	Clark County United States	10/2011 10/2011	90.3 95.1

Comment: Clark County's labor market saw a modest improvement in October, reinforcing recent trends that show signs of stability since the beginning of this year. Our Job Index, based on the total employment-to-workforce ratio (December 1998 = 100), indicates that the local job market may have found a floor, but it's more of a function of a declining labor force participation than a ramp up of jobs.



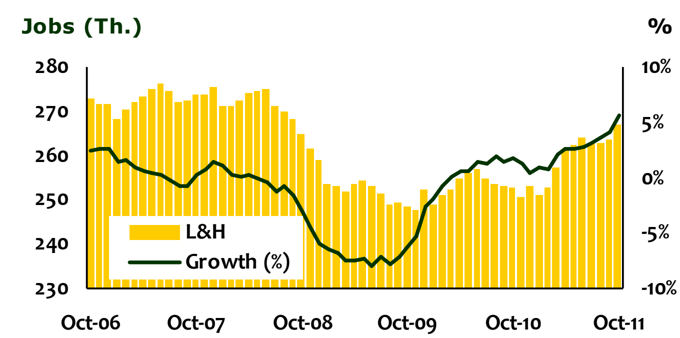
Indicator	Region	Date	Value
Total & Private Sector Jobs	Clark County	10/2011	811.2K +1.3%

Comment: Total jobs rose in 4 of the 11 industries on a Y-O-Y basis (Prof. & Business, Educ. & Health and Leis. & Hosp.), Mining was unchanged, and the remainder saw losses. Private sector jobs grew modestly, adding 13,500 jobs in the last 12 months. This was offset by a loss of 3,000 public sector jobs, resulting in a net growth of 10,500 jobs (1.3%). Construction declined 3.1% though most were seasonal in nature. Excluding Construction from total private jobs, employment was up 2.5% (+16,600 jobs) over 10/2010.



Indicator	Region	Date	Value
Leisure/Hospitality Jobs	Clark County	10/2011	267.1K +5.7%

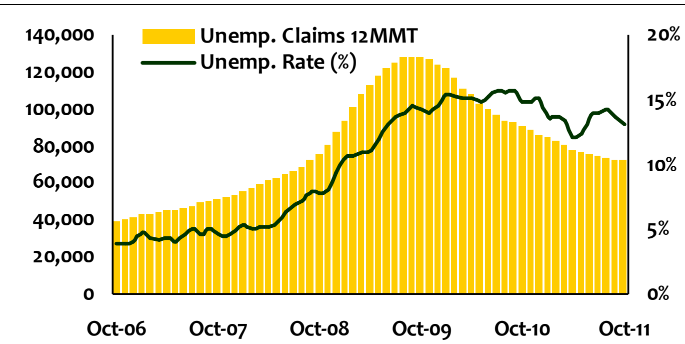
Comment: Clark County's "export industry"—Leisure & Hospitality—continues to post year-over-year gains in terms of job growth. Since October 2010, leisure and hospitality employers added 14,400 jobs, a 5.7% increase. So it appears that the long, slow climb out of recessionary hole continues.



Indicator	Region	Date	Value
Unemployment Rate **Unemployment Claims**	Clark County Clark County	10/2011 10/2011	13.1% 72.1K

Comment: The local unemployment rate in October dipped for the 2nd consecutive month to 13.1%, down from the 13.6% recorded in September and the 14.8% recorded in October 2011.

There were 72,057 total approved unemployment claim filings (first payments) during the 12 months ending in October. It is fair to say the decreasing trend of claims over the past two years indicates that the recovery is taking hold in S. Nevada.



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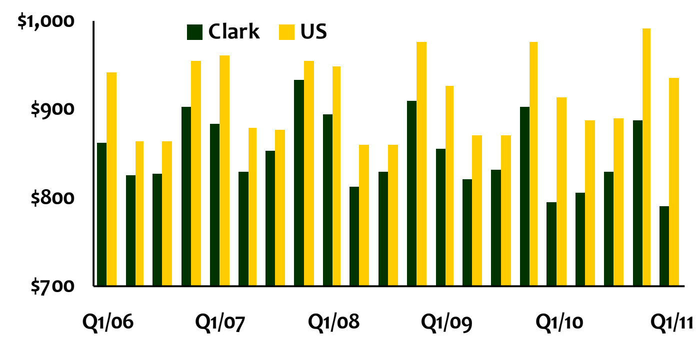
Indicator	Region	Date	Value	Chart
Average Weekly Wages (in 2011 $)	Clark County United States	Q1/11 Q1/11	$790 $935	

Comment: The average weekly wage for the U.S. is improving and will help improve consumer confidence. This will hopefully translate into a rise spending, especially on discretionary products and services, along with a reduction of debt.

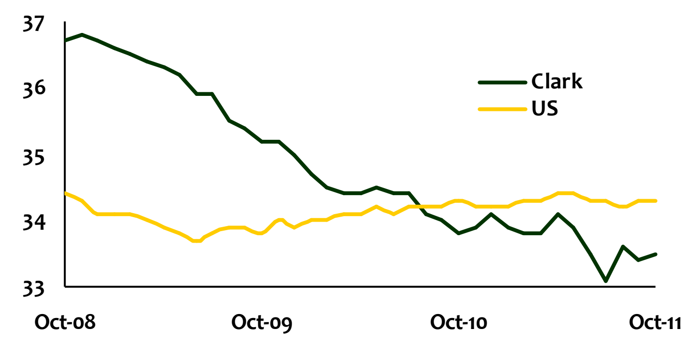
In Southern Nevada, average weekly wages declined slightly from last year's adjusted $796.



Indicator	Region	Date	Value
Average Weekly Hours Worked	Clark County United States	10/2011 10/2011	33.4 hrs. 34.3 hrs.

Comment: The average workweek for all employees on private nonfarm payrolls at the national level appears to have stabilized.

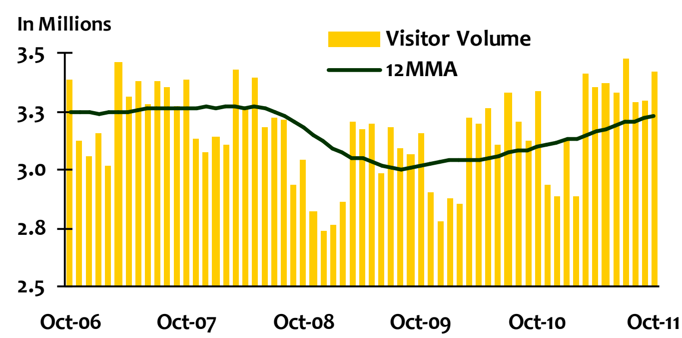
For Clark County, many workers continue to work part time due to getting their hours reduced, or because they are unable to find full-time jobs. Average weekly hours continue to be below the national average, at 33.4 hours in October.



Indicator	Region	Date	Value
Visitor Volume	Las Vegas Valley	10/2011	3.422M

Comment: October marked the 20th month of consecutive Y-O-Y increases in visitor volume with over 3.4 million visitors to the Las Vegas Valley. This is an increase of 2.7% over last October. While visitation has corrected itself, some important considerations are whether more visitors translate into more spending and sustained in room rate increases.

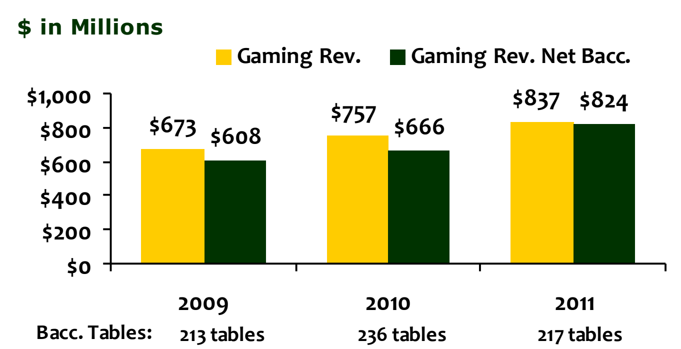
(Note: 12MMA = 12 month moving average).



Indicator	Region	Date	Value
Gaming Revenue **Gam. Rev. Net Baccarat**	Clark County	10/2011 10/2011	$836.5M $823.9M

Comment: Strong play in October drove gaming revenue up 10.4% over October 2010. On a year-to-date basis (through October), 2011 gaming revenues are ahead of last year's pace by 3.3%.

Excluding the often volatile, high-end baccarat play win, gross gaming revenue for October was $823.9 million, 23% over October 2010.



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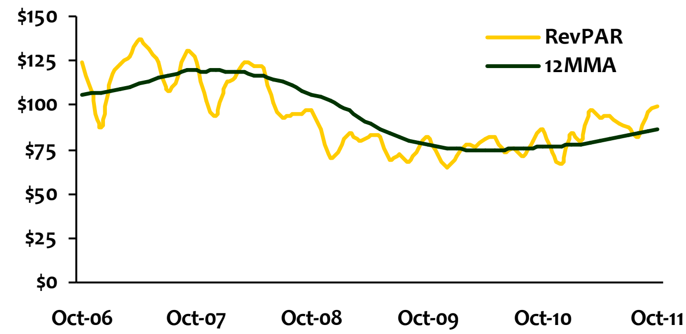
Indicator	Region	Date	Value	Chart
Hotel Revenue Per Available Room	Las Vegas Valley	10/2011 10/2011 (12MMA)	$99.54 $86.71	

Comment: Y-O-Y hotel revenue per available room ("RevPAR")* for October rose by 14.7% to over $99. This month continues the slow, though gradual, upward trend that began mid-last year, mainly due to increases in average daily room rates (which were up +12.2% in October over last year.)

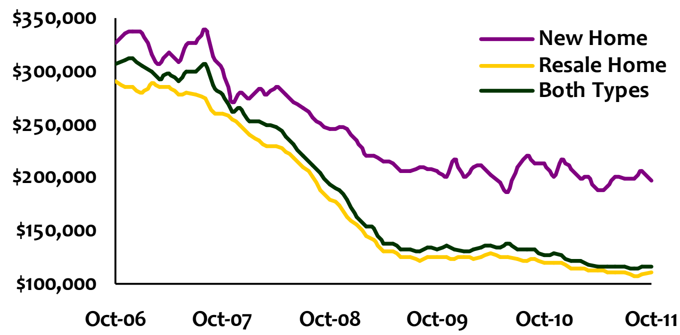
****RevPAR** is a measure of performance in the lodging sector. It is calculated by multiplying a hotel's average daily room rate (ADR) by the occupancy rate.*



Indicator	Region	Date	Value
Median Home Price	Clark County	10/2011 10/2011	New: $196.4K Resale: $110.0K

Comment: According to Home Builders Research, when comparing October 2011 to same period in 2010, the median price for new homes dropped 7.6%, from $212,498 to $196,360. Median resale home price also fell at the same rate, dropping to $110,000 in October, from the $119,000 recorded last October. The weighted median price of new and resales, combined, was $116,932 in October, 8.2% below last year's $127,438 price.

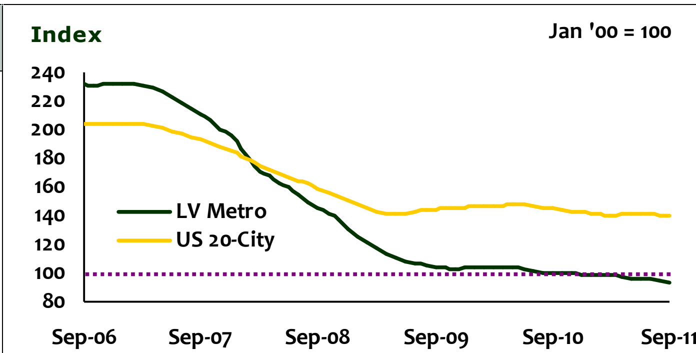
Housing continues be single largest drag to the Southern Nevada recovery.



Indicator	Region	Date	Value
Case-Shiller Housing Price Index	Las Vegas MSA United States	9/2011 9/2011	92.97 139.49

Comment: The latest Case-Shiller Index (January 2000 = 100) data show that, nationally, home prices did not register a significant change in September 2011. The 20-City Composite posted a modest annual rate of decline in September.

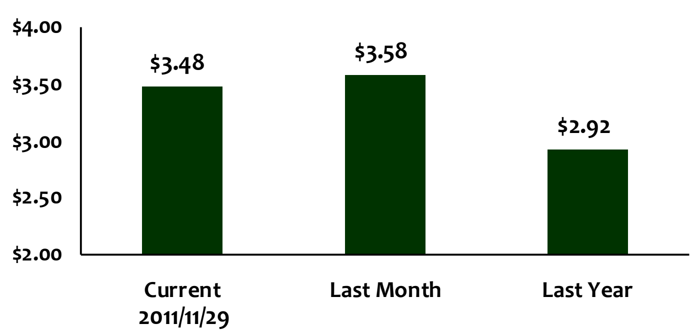
Three of the 20 cities posted new index lows in September, with Las Vegas being among them. Average home prices in the Las Vegas market are lower than they were 11 years ago.



Indicator	Region	Date	Value
Average Gas Price	Las Vegas Valley	11/29/2011 11/29/2010	$3.48/gal. $2.92/gal.

Comment: The average price of a gallon of regular gas was $3.48 at the last week of November, up 19% compared to the $2.92/ gallon recorded on the same date in 2010.

Relatively high gasoline and commodity prices are another recovery drag that we are concerned about. Gas prices are especially worrisome regarding their impact California visitor spending in and trips to Southern Nevada.



Sources

- ***Nevada Department of Employment, Training & Rehabilitation****: Nonfarm Jobs, Leisure & Hospitality Jobs, Employment (indexed by RCG), Unemployment Rate, Unemployment Claims, Average Weekly Wages, & Average Weekly Hours Worked.*
- ***Las Vegas Convention & Visitors Authority****: Visitor Volume, Hotel Occupancy, Average Daily Room Rate.*
- ***Nevada Gaming Control Board****: Gaming Revenue.*
- ***Home Builder's Research****: Median New Home Price.*
- ***Greater Las Vegas Association of Realtors:*** *Median Resale Home Price.*
- ***Standard & Poors (S&P):*** *Case-Shiller Housing Price Index.*
- ***AAA's Daily Fuel Gauge Report:*** *Gas Price.*

RCG Economics LLC

RCG Economics LLC is the most established & prominent Nevada-based urban economics, public policy & real estate consulting firm in the state. John Restrepo, principal of the firm, has been providing socio-economic, real estate market & public policy research services research in Nevada since 1988. RCG advises a variety of public & private organizations. The firm uses its deep expertise in regional economics & demographic modeling, market analysis & database management to assist its clients. RGC has prepared over 500 demographic & economic forecasts, highest & best use studies, market analyses, public policy & regional economic reports.

The firm's other services lines include financial advisory services, strategic planning & hospitality industry consulting. The firm is sought after by many of Nevada's most prominent companies & public agencies. RCG has offices at 3980 Howard Hughes Parkway, Suite 290 89169. We can be reached at 702-967-3188. RCG's website can be accessed at: www.rcg1.com.

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