CASINO GAMING AT LAKE TAHOE: THE REALITIES

March 25, 2010

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UNDERSTANDING THE ECONOMIC REALITIES OF GAMING AT SOUTH LAKE TAHOE

• The South and North Lake Tahoe casino industries by all standard measures declined by about half between 1990 and 2007.

• The effects of the recession, as well as the opening of the Red Hawk Casino, has removed another 30% of the business at South and North Lake Tahoe since 2007.

• These trends will not reverse themselves, regardless of what is built at South Lake Tahoe or North Lake Tahoe.
  – This is widely known by all major gaming companies and financial institutions.
SOUTH LAKE TAHOE GAMING REVENUES
($ thousands) 1990-2009
SOUTH LAKE TAHOE SLOT MACHINES AND TABLE GAME POSITIONS, 1990-2009
EMLOYMENT, SOUTH LAKE TAHOE CASINOS
1990-2009
SOUTH LAKE TAHOE, NET INCOME ADJUSTED FOR INFLATION (& mark-to-market) ($ thousands) 1990-2009*
NORTH LAKE TAHOE REAL GAMING REVENUES
(thousands of 2009 dollars) 1992-2009
NORTH LAKE TAHOE YEAR OVER YEAR GAMING
REVENUE GROWTH RATES
2007-2010
REASONS WHY WE HAVE SEEN THESE TRENDS

• Lack of new casinos, and limited new capital investment in existing casino facilities

• The proliferation of legal casinos in the region, and especially in Northern California since 1990 (esp. Thunder Valley & Red Hawk)

• Mega-casino developments in Las Vegas since 1989; and

• The reduction in airfares and the increase in convenience of flying to Las Vegas
MAJOR LESSONS TO BE LEARNED

• People who came to Lake Tahoe to gamble in the past were not attracted by the beauty or recreational opportunities of Lake Tahoe
  – Too many good alternative choices for those motivated by gambling

• No business or financial institution is going to commit to a gaming-centric tourism strategy in this market ever again

• The alternative strategy of Tourism Accommodation Units has also seen dramatic declines throughout the country
  – Bi-product of the end of the housing bubble
  – Las Vegas in particular has seen the potential of this business model virtually eliminated since 2007
PERSPECTIVES ON SOUTH SHORE V. NORTH SHORE

• South Shore (in the casino core) has considerable tourism infrastructure in place, plus destination resort amenities that will support future resort development
  – Access to Lake Tahoe beaches; to world class golf; to Heavenly Valley
  – Hiking and biking trails are accessible
  – Various restaurants, retail shopping, supermarkets and entertainment outlets within walking distance

• North Shore (in the casino core) does not have any of these amenities
  – No Lake access; miles from ski areas and golf
  – Must drive or be shuttled for all the above activities
  – Roads are too steep and narrow to encourage biking
STRATEGIC PERSPECTIVES ON TOURISM AND LAKE TAHOE

• Traditional visitors:
  – those attracted by Tahoe’s aesthetic characteristics and recreational opportunities
  – those attracted by the casinos

• Future emphasis has to be placed on the former group, not the latter
  – Catering to the higher end of that group is where Lake Tahoe’s greatest potential lies

• Lake Tahoe has constraints due to location and inconvenience that will not disappear relative to alternatives
  – Highway construction and airport development will be marginal contributors at best
OTHER FACTORS

• The national economy will eventually recover and the environment for Alpine leisure and recreation will again strengthen at some future period
  – Will the market for Tourist Accommodation Units ever return?
• Banks will not finance either casinos or Tourist Accommodation Unit projects in the intermediate future => Too badly burned in the past 3 years
• The Tahoe brand is still valuable, though no longer important with respect to gaming
• At South Lake Tahoe, there is strong potential for emulating successful resort areas that are Alpine, pedestrian oriented, and prestigious
  – Aspen, Vail, Whistler, St. Moritz, Davos
• At North Lake Tahoe (with exception of Tahoe City) there is not
RECOMMENDATIONS

• Be realistic in what you support
  – Gaming projects, Tourist Accommodation Unit projects without true Alpine resort amenities are candidates for failure
  – Banks will not finance them

• Avoid approving projects that offer little probability of success
  – Unfinished projects are a blight on other tourism businesses and the general attractiveness of the entire basin