

Opportunities, issues, barriers, risks

Is Europe ready for Integrated Resort Casinos?



0

the number of IRCs currently in Europe

40%

the average increase in tourism visits in Singapore post the launch of IRCs

\$600m

EBITDA generated by the average IRC in 2015

About the authors

PwC is a leading provider of consulting and advisory services to the public and private sectors, including strategy, operations, policy, economics, technology, digital, regulation and risk.

We have experience in the gaming sector in most major gaming jurisdictions (UK, France, Germany, Italy, Spain, South Africa, Macau, Greece, Eastern Europe, the US, and the Netherlands, among others) and across many issues. For example in the casino sector our experience spans evaluating the socio-economic impact of casino developments, feasibility assessments for developers, due diligence for investors and lenders, strategic advice for operators and legal and regulatory services, market reviews and numerous types of financial, tax, and pensions advice. We also work with investors, operators, regulators, industry groups and government in online gambling, bingo, gaming machines, horse racing, lottery and betting.

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What is an Integrated Resort Casino (IRC)?

The IRC acronym first surfaced in 2010 to describe Marina Bay Sands and Resorts World Sentosa in Singapore, but the basic theory behind an Integrated Resort Casino goes back at least to the early 90s, to glitzy landmark developments like the MGM Grand in Las Vegas. Despite owing its prototype to Las Vegas, the IRC centre of gravity is now definitely in Asia, where IRCs and future developments are currently focused. There are some notable new developments underway or under investigation outside Asia, in countries like Australia, Brazil, and in US states such as New York and Massachusetts, but thus far there is nothing in Europe that comes close to the IRC model.

But what is an IRC? There are three key features that mark out an IRC from other gaming developments:

- One is the **'integration'** of one or more major casinos and gambling operations with hotels and other leisure and entertainment facilities, from sports, to shopping, to conference facilities, night-life, and even theme parks.
- The second is the broad appeal of IRCs to gamers and non-gamers, locals and **foreign tourists**, and within this to high-spending VIPs.
- And last, but by no means least, the sheer **scale**. IRCs are huge operations in every sense: huge physical sites, huge numbers of gaming tables, huge upfront investment costs, and potentially huge tax revenue and job creation.

So would the rewards be as sizeable in Europe, or could risks and barriers outweigh the advantages? There may be a strong economic case, but there are political and social concerns which can hold development back. And in purely practical terms, developments of this size always require a lengthy and detailed approval process, which demands the careful management of a very wide range of stakeholders. Sometimes this process takes so long, in fact, that the operator concerned pulls out; in other cases initial proposals get so watered down that resulting development are not really IRCs at all. We've seen both outcomes in Europe recently. The question is whether the

time is now right for governments and operators across the continent to make a decisive move into this segment.

In this report we'll look at how IRCs have evolved, and where the market is now. We'll look at the advantages and the challenges, both for host governments, and potential operators and investors, based on the experience in other parts of the world.

Established major IRC jurisdictions

Las Vegas

Gaming has been the heart and soul of Las Vegas since 1931, when gaming was legalised. What we might now think of as “hotel-casinos” began opening in the 1940s, and the highway where they clustered became known as the Strip. These hotel casinos made a deliberate decision to attract big name singers and entertainers to supplement their gaming attractions, and by the mid-50s the city was drawing eight million tourists a year.¹

The first mega-resort was the Mirage, which opened in 1989, and since then we’ve seen a wave of ever bigger and more ostentatious developments. The Strip currently has 3.2m square feet of casino space, c.90,000 hotel rooms and employs 100,450 people across 47 different casino operations, of which 23 generate revenues in excess of \$70m each.² The city’s deliberate diversification into entertainment seems to be paying off: it now bills itself (tellingly) as ‘The Entertainment Capital of the World’, and even in 2008, at the height of the credit crunch, 38 million people went to Vegas, drawn as much to its leisure attractions as gambling alone. In 1984 gaming accounted for 59% of the Strip’s revenues, but by 2015 that had dropped to around 35%.³



Singapore

Singapore has come to the IRC party relatively late, but its two big resort casinos have made a huge impact since they opened in 2010. When the Singaporean government passed the liberalising Casino Control Act in 2006, what they wanted was high-class attractions that would draw people in, encourage them to stay longer, and enhance the country’s prestige as an international tourist destination. And that’s what they’ve achieved.

Marina Bay Sands and Resorts World Sentosa combined cost an estimated \$10-15bn to build, and were planned and developed from the start as diversified entertainment and gaming destinations. Resorts World Sentosa, for example, has a Universal Studios theme park as part of the complex and Marina Bay Sands has a 150 metre infinity swimming pool. The two IRCs are very different, but they are both aiming to be an ‘all-day leisure location’, rather than just a night-time gambling venue. By the end of 2011 the two casinos’ Gross Gaming Revenue (GGR) was equivalent to two thirds of the gross gaming revenues of the whole Las Vegas Strip, and they are amongst the most profitable IRCs globally.⁴



¹ History.com, Las Vegas, 2009

² Nevada Nevada Gaming Control Board, Nevada Gaming Abstract, 2015

³ UNLV, Nevada Casinos: Departmental Revenues, 1984-2015

⁴ DICJ, Nevada Gaming Abstract, Operator Annual Reports



Macau

Macau has a gambling tradition that goes back as far as three hundred years, and its modern history as a gaming destination stemmed initially from the decision of its 119th Governor to focus the territory's economic strategy on gambling and tourism, which led to it being designated as a 'permanent gaming region' in 1961.⁵

Since the beginning of the 21st century, and the 2004 opening of the first mega-casino, the Venetian, the number of casinos has grown to 36 (as at the end of 2015),⁶ as the region has capitalised on its proximity to China. Gambling is hugely popular among wealthy Chinese, who are prevented by law from doing it at home, and two-thirds of Macau's 31 million visitors in 2015 were from the mainland. The wealthiest are brought to Macau by the 'junket' operators, who cater for their clients' every need offering them free accommodation, travel and other perks in Macau, and provide the host casino with a significant source of revenue (accounting for c.54% of casinos Gross Gaming Revenues (GGR) in Q1 2016). And the overall GGR in Macau is big money: growing from around \$6bn in 2005, to \$44bn at the peak of the market in 2013, which at seven times Las Vegas' \$6bn gaming revenues, easily outstripped the Strip.⁷

But since 2013 (the peak for Macau), the market has been suffering. The Chinese economy is slowing, and the government has cracked down on corruption and tightened visa regulations. As a result many fewer Chinese punters, and crucially fewer Chinese VIPs, are coming to Macau. The territory's GGR for 2015 fell by 34% compared to 2014, and the decline has continued into the first quarter of 2016 (which is 13% below the first quarter of 2015). Macau is looking to counter this decline by diversifying into more mainstream gaming (targeting "mass-premium" players) and including more leisure into Macau's casino proposition.

New developments in the Cotai strip are certainly moving in this direction. The \$3.2bn Studio City has a Ferris wheel and a Batman virtual reality ride and only c.5% of the development area is dedicated to gaming.⁸ Likewise the \$3bn MGM Cotai, due to open in 2017, will have a smaller amount of space dedicated to VIPs, devote more space to shopping, restaurants, spas, high-end accommodation and even have a dynamic theatre. Whether this will be enough to hit the Government's stated target for non-gaming of c.9% of total revenue by 2020 (up from an estimated c.7% currently), remains to be seen.⁹

Despite the doom and gloom, we need to put things in perspective. Macau's \$28bn gaming revenue in 2015, is still five times the gaming revenue of Las Vegas. However things pan out Macau is going to remain a major casino jurisdiction for the foreseeable future.

⁵ Gaming Inspection and Coordination Bureau Macao SAR, Macao Gaming History, 2016

⁶ Gaming Inspection and Coordination Bureau Macao SAR, Gaming Statistics, 2016

⁷ UNLV, Nevada Casinos: Departmental Revenues, 1984-2015

⁸ CNN, 'World's first figure-8 ferris wheel opens in Macau', 5th November 2015 and Innovate Gaming, 'Studio City reveals world's first Figure-8 ferris wheel', 9th July 2015

⁹ GGR Asia, 'Macau ops confident in achieving non-gaming rev target', 28th April 2016

The appeal of the IRC approach

The IRC model presents distinct advantages for operators, investors and governments all of which are predicated on its appeal to the consumer.

What's in it for consumers

Mass market

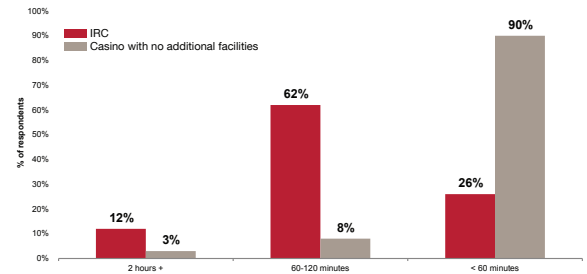
The worldwide tourism and hotel industry is seeing a trend towards high-class all-inclusive resorts,¹⁰ both with and without a casino element. Tourists enjoy the convenience of having all facilities in one place, and are prepared to travel considerable distances to reach IRCs, as the chart on the right demonstrates (see figure 1):

In fact leisure, and not gambling, is the primary reason why people visit Vegas, the home of the first IRCs (see figure 2).

The idea of the IRC as a “leisure destination” in its own right is mirrored in similar trends in retail, where the world’s biggest and most exclusive malls are expanding their entertainment and leisure elements to appeal to consumers who are as interested in experiences as they are in shopping. In Dubai, for example, the added attractions include aquariums and indoor sky diving.

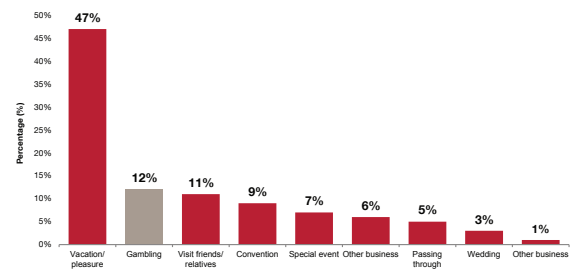
This emphasis on experience is a recognized trend characterizing millennial consumers, which is also having an impact on casino market. Millennials consider leisure activities (e.g. eating-out, shopping) much more important elements of their casino visits, according to surveys by the American Gaming Association.¹¹ Serving them requires a more integrated offering. And hence the interest in – and popularity – of the integrated model, which offers a huge variety of different attractions for different tastes, and times of the day.

Figure 1: Consumers are willing to travel further to visit IRCs



Note: Based on respondents' answer to the question: “when you visited this casino how far did you travel?” (n=3,035). The integrated resort casino is Foxwoods and the convenience casino is Twin Rivers. Based on a University of Massachusetts 2013 survey

Figure 2: Primary reason for visiting Las Vegas



Source: Las Vegas Visitors Authority, Visitor survey 2014

¹⁰ Iowa State University, A review of studies on luxury hotels over the past two decades, 2014

¹¹ American Gaming Association, The State of the States, 2014, p27

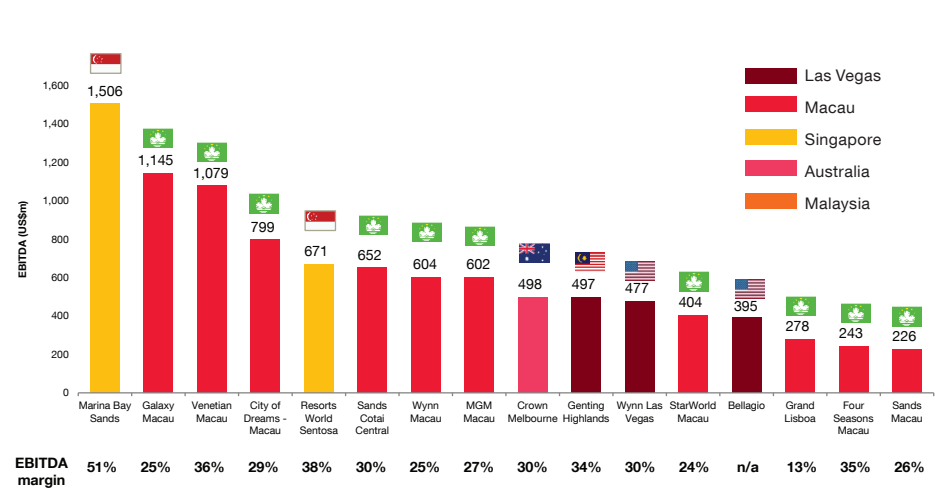
VIPs

Like many other large casinos, IRCs rely on very wealthy VIPs, who can account for up to half of gaming revenues – around 54% in Macau, 50% in Singapore, and 25% in Las Vegas.¹² Ultimately the attractiveness of an IRC to VIPs is a sign of likely success with the mass market as IRC facilities good enough for VIPs will mean that the mass market will follow. But what is good enough for VIPs? VIPs expect ultra-high levels of service and luxury both for themselves and for their entourage. Luxury suites, access to top restaurants, spas, shopping, entertainment, helicopter transfers, private chauffeurs and tour guides as well as permanent support staff speaking the VIP’s language are all part of the package and this richness of experience is harder to provide outside the IRC model. The exception here are destinations like London and Monte-Carlo, where the cities themselves offer the diversity and choice VIPs are looking for.

What’s in it for casino operators?

This can be summed up in two words: profitability and diversification. As the chart below shows, IRCs can be extremely **profitable** operations, with Marina Bay Sands in Singapore generating well in excess of \$1bn in EBITDA and other resorts generating an average of c. \$600m of EBITDA per property (see figure 3).

Figure 3: Adjusted Property EBITDA by IRC, 2015 (selected major IRCs)



Source: Company Annual Reports

The second factor for the operators is **diversification**. And it applies across the business model: diversification of offer, diversification of revenue stream, diversification into new consumer groups, and – as new markets adopt the model – diversification geographically.

¹² DICJ, Nevada Gaming Abstract, Operator Annual Reports



Let's look at these in more detail:

Diversification of the offer

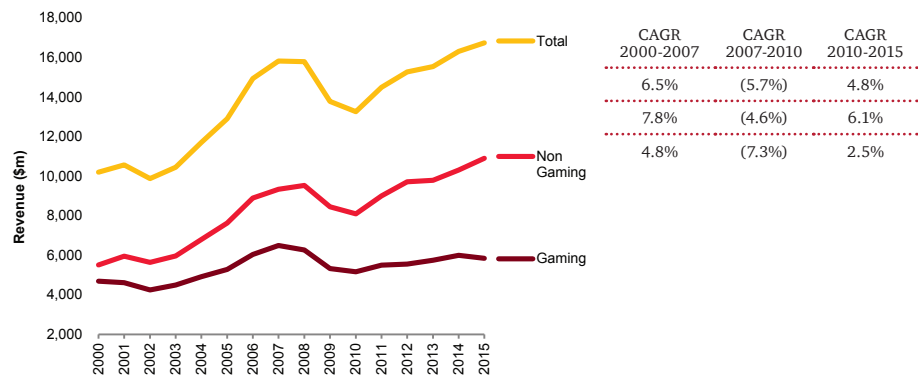
The essence of the integrated model is the range of attractions on offer, which both broadens the venue's appeal and gives the IRC an advantage over other adjacent casinos offering only gaming and nothing else.

Atlantic City is a case in point. Up to 2006, the city's casino industry grew strongly, benefiting from what was, in effect, a monopoly on casino gaming on the East Coast. But as new venues opened in Delaware, Pennsylvania and Maryland, Atlantic City's older casinos struggled to compete, and no longer had a competitive advantage – which a modern integrated model, with a focus on non-gaming might have provided. The city's gaming revenue subsequently fell by 51% between 2006 and 2015, and a number of casinos have gone into administration.¹³ Those that remain are looking at diversifying away from gaming alone, though it's not clear whether it's not too late to make a significant difference.

Diversification of the revenue stream

The integrated model, by its very nature, broadens the operator's revenue stream away from gaming alone. This can provide a hedge across the economic cycle, making the IRC more resilient in downturns. Las Vegas is a good example of this working in practice. The recovery of overall revenues in the Strip was driven by non-gaming that (1) bounced back faster and (2) continued growing faster than gaming (see figure 4).

Figure 4: Las Vegas Strip Revenue evolution, 2000 -2015



Source: Nevada Gaming Control Board, 2015, Las Vegas Strip

Diversification of the customer base

An IRC can cater much more comfortably to a wide range of customers, from VIPs travelling for the sole purpose of gambling at high-stakes private tables, to families looking for an exciting holiday destination with all the different attractions conveniently located together, and the more leisure focused millennials already mentioned. This breadth of attractions makes it much easier to generate higher spending per head, and also makes it easier to attract repeat gaming visits, as well as visitors who aren't interested in gambling.

¹³ UNLV, Atlantic City Gaming Revenue, 2016

What's in it for governments?

Again, the main incentives here are fairly obvious: revenue, jobs, and private investment. And linking all three of them, the benefits to the tourist industry.

New revenue, new jobs

A successful IRC, can make a significant contribution to a country's GDP. It can provide jobs, both in the construction phase and once opened, and provide gaming and other tax revenues. Macau is obviously the most extreme example of this, with casinos accounting for around almost all of GDP growth between 2005 and 2013 (Macau's peak) and supporting employment (employment and median earning in the sector went up by 13% and 9% p.a. respectively during this period, and have in fact been fairly resilient despite the problems facing Macau with employment stable between 2013 and 2015 and average earnings continuing to increase by c.9% p.a. between 2013 and 2015).¹⁴ The taxes paid have allowed Macau to significantly increase expenditure on public services such as education, health care, housing, and social welfare, which increased around 16% p.a. between 2010 and 2015.¹⁵ These advantages can also be delivered by any type of casino, of course, but the multiplier effect of an IRC can be very substantial (both through its direct economic effects, through supporting ancillary industries such as tourism, marketing, and through induced effects such as the spending of IRC employees and other beneficiaries from the economic boost of an IRC).

New investment

The sheer scale of an IRC development can serve to attract other foreign direct investment, as overseas operators either develop sites themselves, or in partnership with local businesses. The spin-offs can be intangible as well as financial, including bringing in new know-how, new technology, and new skills.

IRCs can provide investment in public infrastructure too: operating licences often require funding for airports, roads, sewage, electric substations, or land decontamination as part of the deal. For example, the \$2bn Echo Entertainment Queens Wharf development approved in Brisbane will involve significant regeneration of the local area, including the refurbishment of heritage buildings, upgrading the cycling infrastructure, a new theatre, new green spaces, and a new pedestrian bridge.¹⁶

Support for tourism

Singapore is the poster child here: the two IRCs which opened in 2010 have had a significant impact on the number of people coming to the country and their length of stay. For example the average annual number of international visitors has increased from c.8m pre IRC opening (average 1991-2009) to c.14m (average 2010-2015) and average length of stay has increased from an average of c.3 days to c.4 days per visitor.¹⁷

The authorities in Brisbane have similar objectives in approving an IRC in their area, hoping to attract more international and especially Asian tourists to Brisbane, Cairns, and the Gold Coast.¹⁸

The facilities needed for an IRC can also double as an attractive conference venue, and the Meetings, Incentives, Conferences and Exhibitions - or MICE - market is an increasingly important and profitable segment of international and national tourism. Las Vegas is a case in point. As the city's non-gaming activities started evolving in the early 90s Las Vegas grew as a MICE venue as well as a leisure tourist destination. It is now one of the largest MICE locations in the US, with 6m delegates visiting Las Vegas per year (c.14% of all visitors to Las Vegas).¹⁹ Macau has also seen benefits here. The number of its MICE travellers has steadily increased from around 600,000 in 2009 to 2.5 million in 2015.²⁰

¹⁴ Macau statistical authority DSEC

¹⁵ Macau Financial Services Bureau

¹⁶ The Courier Mail, 'Casino Brisbane: new casino, mega resort by Echo Entertainment at Queens Wharf precinct', 20th July 2015

¹⁷ Singapore Tourism Board. Average length of stay average is the average 1995-2007 vs. 2010-2015, 2008 and 2009 are excluded as the impact of the recession makes average days in this period not comparable

¹⁸ Queensland Government, Department of Infrastructure, Local Government and Planning, Integrated Resort Developments, 2016

¹⁹ Las Vegas Visitors Authority, Historical Visitation statistics, 1970-2015

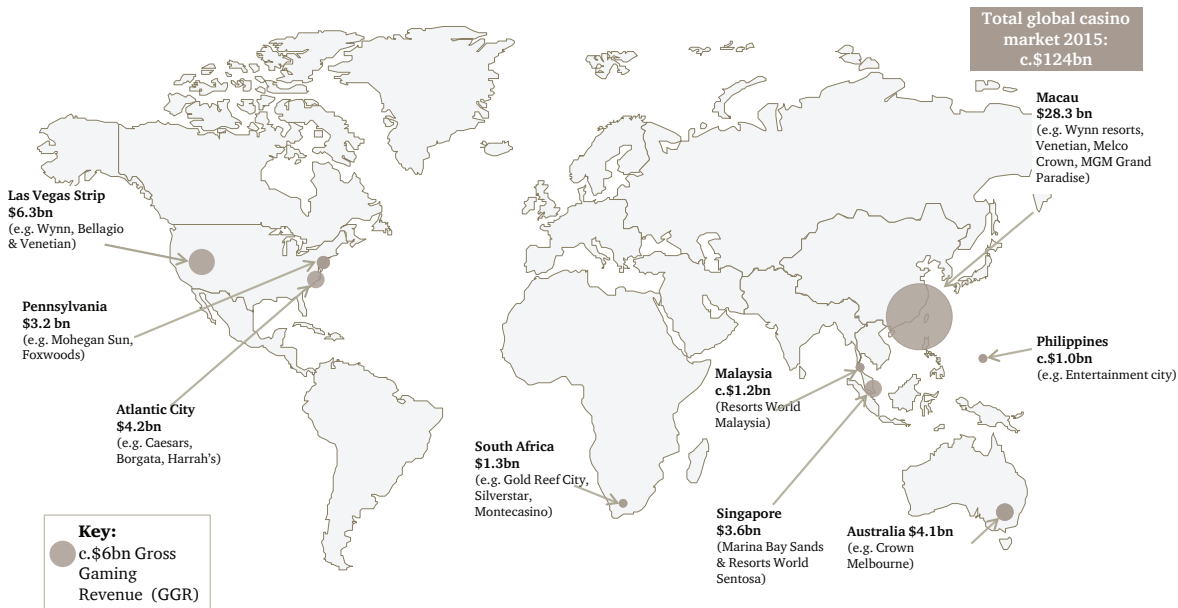
²⁰ Macau statistics authority DSEC, Financial Services Bureau, MICE events and attendees to meeting, conferences and exhibits 2009-2015

Europe: Opportunities, issues, barriers, risks

It's clear that the IRC model could offer European countries significant opportunities in all of the areas we've identified: revenue, jobs, investment, and growth. And yet, as our development maps demonstrates, Europe is absent both from the list of major casino markets globally (see figure 5) and is underrepresented in the current pipeline of new IRCs (see figure 6).

So what's holding the IRC idea back? Is it a lack of consumer demand, operator reluctance, or government resistance? Or perhaps, some combination of all three?

Figure 5: The most significant casino jurisdictions are the IRC jurisdictions of Las Vegas, Macau and Singapore



Note: Total casino GGR for the jurisdiction provided, examples of casino provide samples of casinos broadly in line with the IRC model. Only casino jurisdictions which include IRC with a total GGR over \$1bn shown

Figure 6: selected proposed new IRC developments as at June 2016

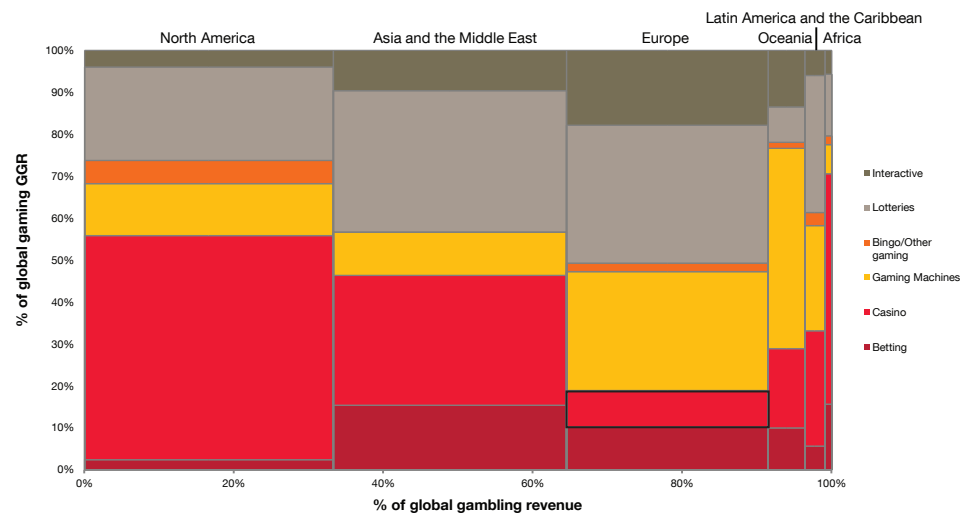


How Europe stacks up for IRC consumers

Even though Europe is the third-largest region for gaming globally (see figure 7), the casino market is tiny, and most casino properties are smaller, less attractive developments, catering to the locals market, where the revenue potential is inevitably constrained. In 2013, European casinos earned an average of \$11.3m per casino, compared to \$1,977m in Singapore, \$1,267m in Macau, \$286m in Australia, and \$151m in the Las Vegas Strip (see figure 8). Nonetheless, Europeans are clearly interested in gaming (see figure 7). And there seems to be no reason why they would not be interested in a more attractive IRC proposition either local to them, or in nearby European countries to which they already extensively travel for either work or leisure.

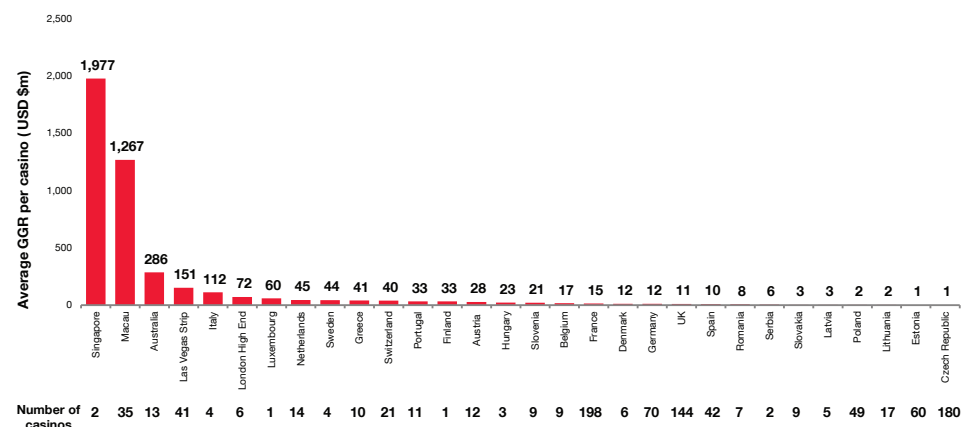
There is also no question that an IRC in Europe would be an attractive travel destination both for Europeans and other travellers from farther afield. It has many tourist and leisure attractions, from heritage to theme parks to beach resorts. In 2015, five of the top ten countries by tourist arrivals were in Europe.²¹ Furthermore Europe is an established conference and meetings destination, with 15 of the world's top 20 cities for this type of travel.²²

Figure 7: Global gaming revenues by type and region, 2015



Source: H2 Gambling Capital

Figure 8: Average gross gaming revenue per casino, 2013



Source: DICJ, UNLV, European Casino Association, Gambling Compliance

²¹ World Bank, 'International tourism, number of arrivals; 2015

²² ICCA top 20 cities by number of MICE meetings, 2014

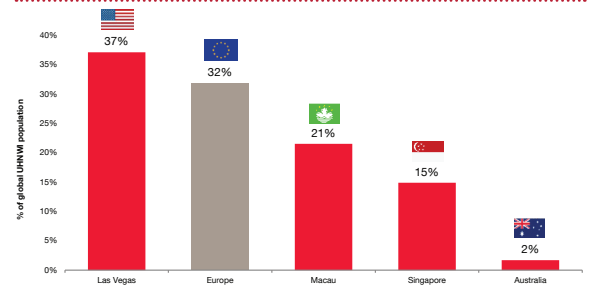
Apart from its many leisure and conference tourism attractions Europe is a relatively politically stable, stress-free place to travel, and benefits from excellent transport links. This is especially important to the crucial and demanding VIP customer, a customer that many European countries are geographically well-positioned to serve. Many sites in Europe would be only a few hours by air from a vast population of both mass-market visitors and High-Net Worth Individuals, in fact more HNWI live nearer to Europe than Macau (see Figure 9).

And the number of these wealthy individuals is growing: the number of people with net assets over \$30m is forecast to grow by almost 60,000 in the next decade, and Europe, which is already the largest region, will see further growth. What is more the Middle East and the former Soviet Union, key VIP regions for Europe, are expected to see the number of these wealthy residents rise by 40% and 32% in the next decade.²³

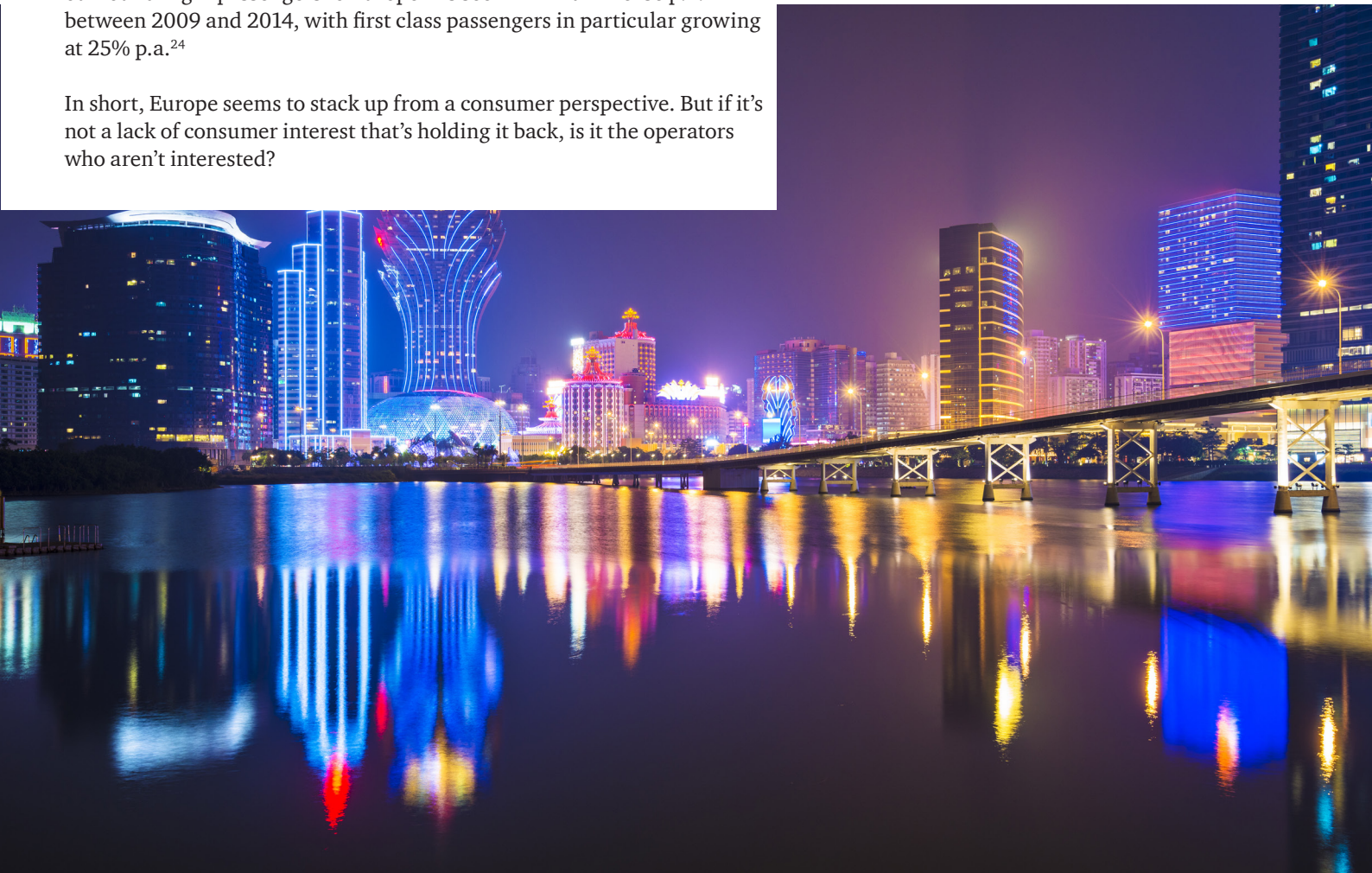
The continent is also seeing a surge in visitor numbers from China, including many wealthy Chinese visitors. The annual number of China outbound flight passengers to Europe has seen an 11% increase p.a. between 2009 and 2014, with first class passengers in particular growing at 25% p.a.²⁴

In short, Europe seems to stack up from a consumer perspective. But if it's not a lack of consumer interest that's holding it back, is it the operators who aren't interested?

Figure 9: Proportion of Ultra High Net Worth Individuals within 4 hours flight time from selected jurisdictions, 2014



Source: UBS, PwC analysis



²³ Knight Frank Wealth Report, 2015

²⁴ Milanamos Planetoptim, PwC analysis

How Europe stacks up for IRC operators

Positive in theory...

The operators can obviously see the potential demand in Europe, and the continent also offers a stable political and tax regime, a new and untapped market, and the possibility of becoming the first established and trusted IRC operator in Europe, a potentially significant first mover advantage.

And despite economic headwinds (e.g. Brexit, the asylum crisis, the slowdown in China) the overall outlook for Europe remains positive with modest real GDP growth of c.2% p.a. (2015 to 2021) and with the total number of HNWI's expected to increase by 25% to 2024.²⁵

What is more, this could be a good time for operators to diversify into Europe, given the relative weakness of the Macau market. But there are other options for operators that Europe would need to compete with.

...but other opportunities feature more prominently...

The most obvious is Japan, which would be operators' destination of choice – it would offer the same diversification advantages as Europe, but pound for pound, the prize would be much higher, with a Japanese IRC attracting not just domestic consumers but other high-value Asian visitors. The possibility of Japan opening up to the IRC model has been tantalising operators for years, but the issue is right there, in that sentence: it's been going on for years, although recent news may be more positive.²⁶ Chief Cabinet Secretary Yoshihide Suga

stated on March 25th 2016 in the House of Representatives Cabinet Committee that IRCs are essential for a tourism-oriented country, and that the Government would be in position to move quickly with preparation after the IRC promotion bill has been passed.

There are other options in Asia, though, besides Japan, and Asia is generally seen as an easier regulatory environment than the EU, which is often viewed as cumbersome and complicated. Asia as a whole is likely to see a number of IRCs in the next five years, with a number of committed projects set to open before 2020 (see figure 6 and Appendix 1). This is not to say that developments in Asia come without challenges.

In 2015, South Korea invited bids to develop two new IRCs, but the level of initial enthusiasm was later tempered by the high level of required investment (around \$850m), recent health scares in the country, the specification of only 9 locations where an IRC would be allowed, the requirement for IRCs to be foreigner only, and the issues in China. In the end, only six of a reported potential 34 bidders submitted proposals,²⁷ and only one IRC has been licensed thus far vs. the two initially planned.²⁸ Vietnam is also an interesting case. The government is currently considering three new licenses for IRCs, but operator interest has been held back by high investment minima, foreigner only gambling, and high tax-rates. As we understand it the Government has gone back to the

drawing board on these and the expectation is that a more “operator-friendly” regime is likely to be introduced.²⁹ Cambodia, the Philippines, the second stage of developments in Macau as well as IRCs in the US, Australia, and potentially Brazil are also in the frame.

What this all proves, if nothing else, is that the operators have plenty of options. The question, therefore, is whether they see enough potential in Europe to divert money there. It's certainly true that until fairly recently, IRC operators haven't seen the degree of enthusiasm for their business that they encounter in many other territories. And even if this is now starting to change there are still some serious practical obstacles in Europe.

...and there are practical difficulties with Europe

The main issue for most operators is navigating the political and regulatory process in Europe. It takes a long time, it involves a large number of different stakeholders, and it's immensely complex to manage, both politically and practically.

The most obvious example is the - now abandoned - Las Vegas Sands project in Spain. It was 2011 when the idea of building a EuroVegas resort casino in Madrid first surfaced, and if it had gone ahead it would have been a \$30bn complex, with twelve hotels, six casinos, golf courses, theatres, shopping, bars and restaurants, as well as a convention centre designed to create a state-of-the-

²⁵ IMF World Economic Outlook Database April 2016, Knight Frank Wealth report, 2015

²⁶ Gambling Compliance, 'As Japan's IR bill stalls, thoughts to turn to Tokyo', 25th February 2016

²⁷ Gambling Compliance, 'Korean IR tender attracts only six bids', 30th November 2015

²⁸ Gambling Compliance, 'Mohegan Sun Consortium wins Korean IR Race', 26th February 2016

²⁹ Ggrasia, 'Location critical for Vietnam's new casinos: analyst' 14th January 2016

art Las Vegas-style hub for meetings and conferences in Madrid. EuroVegas would also have created more than 260,000 jobs, but in December 2013 Las Vegas Sands issued a statement saying that the proposal was “no longer in the best interests of the company’s shareholders”, and they would be focusing on Asia instead, and especially Japan and Korea.³⁰

The stumbling-blocks apparently included the company’s failure to secure gambling tax and other financial concessions, or compensation for the impact of any future legislation that might affect the IRC’s profitability.³¹ Spain’s refusal to exempt the complex from the country’s smoking ban made a lot of headlines, too, but in our view, the smoking issue was probably a smokescreen, and the length and complexity of the regulatory and licensing process was much more likely to have been the deal-breaker.

The long-running saga on the BCN World development is another case in point. The project was announced in 2012,³² but it appears to have stalled due to a lack of consensus among the various stakeholders involved (including different members of the government coalition).³³ The \$6bn development would have included 6 casinos, hotels, a theme park, a water park, a beach club, and shopping centres among its attractions.³⁴



³⁰ Casino City Times, ‘Las Vegas Sands cancels \$30 billion EuroVegas development in Spain’, 16th December 2016

³¹ Wall Street Journal, ‘Las Vegas Sands pulls plug on Spanish hotel plan’, 13th December 2013

³² BCN World, Macrocomplex & Leisure Center in Tarragona, 2016

³³ Spanish Property Insight, Political disagreements force BCN World mega-project rethink, 18th March 2016

³⁴ Catalonia Votes, ‘Hard Rock to invest €2.5billion in BCN World casino, hotel and entertainment resort’, 10th February 2016

How IRCs stack up for Europe's governments

Capturing the opportunities

As we look at the government perspective in more detail, it's worth remembering that most European markets already have standalone casinos, and many have recently opened up to online gaming. It would therefore seem slightly perverse, in a context where gaming regulation is already being revisited, not to reap the rewards of IRC developments, with all the additional advantages of tax revenues, investment, and employment. And with a far greater focus now on the value of the tourist industry, it's a good time for governments to look again at the IRC concept.

Minimising the risks

At the same time Governments also need to balance the obvious benefits against societal concerns often associated with expansions of the gambling supply. This is perhaps the single biggest barrier to IRC expansion in Europe – and in fact globally. For example, this was a big factor in the failure to introduce a super-casino in the UK, which was scrapped in 2008. The super-casino would have been allowed to have an area of 5,000 square meters and up to 1,250 slots.³⁵ The eventual permitted eight large casinos are limited to 1,000 square meters with a maximum 150 slots, and only three large casinos have opened thus far. One of these, the £150m Resorts World complex in Birmingham, has some scaled-down elements of the integrated model (e.g. a hotel, spa, cinema, multiple restaurants and bars), and a smaller gaming

component, restricted to 30 tables and c.100 slots, which is less attractive than an IRC.

One answer here is a more collaborative approach between the operators and the government to ensure a robust regulatory framework, access to support for those who need it, and careful monitoring to spot those at risk. Cyprus' attempt to balance benefits and risks is a case in point.

IRCs in Europe: The Cyprus approach

The Cypriot government made the decision to license a casino in late 2013, citing its objectives as economic growth, job creation, attracting foreign investment, promoting tourism and limiting illegal gaming. It was particularly concerned to diversify Cyprus' tourist appeal to include conference facilities, and making the island a more year-round destination, where people would come more often, stay longer, and spend more.

The government looked at various standalone and multiple options, before settling on one large integrated development. The first round of bids was invited in late 2015, attracting interest from eight companies, including the USA's Hard Rock, Cambodia's NagaCorp, Bloomberry Resorts Corp of the Philippines; a French consortium, and a Russian conglomerate.³⁶ The licence is likely to be awarded sometime in 2017.

The key to Cyprus' success this far - bucking the trend elsewhere - is the measures the government put in place to attract operator and investor interest. The key factors here are clarity, financial incentives, and recognising the commercial realities facing operators. Potentially with the Eurovegas failure in mind, the Cypriot government has offered an exemption to the smoking ban, as well as allowing gaming on credit and permitting 'junkets' (both of which are key for VIPs), and giving bidders maximum flexibility about the location of the site. The gaming tax rate has also been set at 15% of GGR, to be competitive with other international gambling locations.

But it isn't all about incentives; the Cyprus approach also recognises the societal concerns that come with gaming developments: it's tackling the risk of problem and under-age gambling by limiting casino gaming to a small number of highly regulated locations, making robust social responsibility and harm-minimisation policies a criterion for licensee selection, and it's instituting a rigorous regulatory regime, designed to instil investor and stakeholder confidence on the integrity, probity and accountability of the regulatory regime (e.g. setting up an independent casino regulator, drafting laws in line with international standards).

One vs Cluster: An interesting question is whether one big IRC or a cluster of IRCs is better. Approaches have varied thus far. Las Vegas is the archetype of the cluster which certainly creates a hub of activity and excitement, and promotes competition between operators, but a cluster may not be the best approach for smaller jurisdictions like Cyprus (as operators may need guaranteed exclusivity to be interested in smaller jurisdictions such as these). The decision ultimately comes down to balancing five interrelated factors (i) market capacity, (ii) the benefits of competition vs the need to provide operator exclusivity, (iii) regulatory ease of managing a small number of properties (iv) match of a cluster to local ambiance and taste (v) the degree to which a cluster vs fewer development can provide sufficient variety for customers

³⁵ UK Parliament, 'The Gambling Act 2005: A bet worth taking?' – Culture, Media and Sport Committee, 2012

³⁶ Calvin Ayre, 'Eight bidders for Cyprus casino license', 18th December 2015

Conclusion: Considerations for operators, ways forward for governments

There is a strong rationale for IRCs in Europe, but there are a number of things to consider

It's clear that there is a significant opportunity to implement the IRC model in Europe, and do it successfully. The economic conditions are right, the fundamentals are strong, and the consumers are there. So what should operators be considering, and what should governments be doing, to help make this happen?

Considerations for operators

As IRC operators look across Europe, they will need to understand the scale of the opportunity, and how this differs in different countries. There are crucial issues to consider from an economic, practical, and regulatory standpoint, and it will take time to evaluate these fully, but here are some initial points to consider in weighing up the advantages and disadvantages of specific sites:

Risk weighted size of prize

- What is the potential size of the IRC market (e.g. will VIPs come to the country are there barriers to this)?
- What are the risks to market size (e.g. competition, economy, health-scares)?
- What are potential upsides to the IRC market size (e.g. new infrastructure developments in progress, visa-condition changes)
- What is the risk profile of the development (i.e. level of political momentum, public or local opposition, potential of political change)? Can anything be done to affect this?
- What's the proposed approval process – how long will it take, and what level of complexity is involved? What are my chances of success, how long am I able to wait, and what is the impact of delays?

Tax and finance

- What is the base and level of gaming taxes envisaged, and other relevant taxes or levies?
- What are the tax implications of key staff travelling and staying in the jurisdiction?
- What is deductible for tax purposes (e.g. free bets)
- What tax concessions might the host government be prepared to offer?

Conditions of operation

- Which games will be permitted?
- Will there be any restrictions on the number of tables and slots and on the allowable gaming area?
- Will junkets be allowed?
- What will the position be on credit gambling?
- What opening hours will be offered?
- Are locals permitted in the IRC and do they face any additional entry requirements?
- What are the rules on ATMs and smoking in the casino and VIP areas?
- Will advertising/marketing be allowed and what are the associated limitations?
- How best to organise and structure partnerships needed to develop and operate the IRC?

License terms and conditions

- What is the term of the proposed licence and exclusivity conditions?
- Does the license grant a period of certainty around tax rates and fees?
- What are the conditions on commencement of development and operations?
- Is a temporary casino permitted prior to the completion of the IRC?
- What land is available, and are there restrictions or conditions on its use?
- Are there specific employment policies or restrictions attached to the license (e.g. employing a proportion of locals)?
- What level of flexibility could you expect from government after the licence is awarded?

Regulatory environment

- What will the regulatory framework be?
- How similar is the regulatory environment to what I am already used to? (e.g. AML, CFT)
- What is the cost of regulatory compliance envisaged (e.g. time, supervision fees)
- What is the likely impact of participating in the regulatory and social responsibility framework envisaged on my licenses elsewhere (is the jurisdiction likely to affect my reputation negatively or positively?)

Ways forward for governments

Many of the considerations for operators have their equivalent for host governments, as key policy decisions are made affecting the gaming product, licensing, tax and regulation. Below we offer some of the considerations that need to be taken into account in framing these decisions and in considering an IRC licensing process.

What is the USP of the jurisdiction?

- How is the size of the opportunity likely to be assessed?
- What is the competitive advantage of the jurisdiction and how can this be effectively communicated?
- What can you do to enhance this? Do you need to?

What are your objectives? What is non-negotiable? What do you need to change?

- It's important to be clear exactly what are you trying to achieve, in terms of revenue, employment, regeneration and tourism, and how an IRC could - or could not - contribute to these goals. This will help you make some key policy decisions for example on the scale and location of the IRC (e.g. is a single venue or 'cluster' the best approach, what is the optimum length of exclusivity periods, what is the trade-off between tax revenues and employment?).
- How will you address societal concerns? What is the level of public concern about these issues? Will your operator work in partnership with you on this?
- What are the European and international rules and regulations that your regime will need to comply with (e.g. on AML, CFT, smoking)?
- What regulatory regime do you have - does it need to be reviewed or adapted for an IRC? Will it be credible and robust?

Align objectives with the commercial imperatives of operators?

- Is the overall package on offer commercially attractive to operators and will it generate interest? Do you understand what operators will want to know?
- Do you understand the specific demands of the IRC customer base, and can you accommodate them (e.g. quick access through airports for VIPs, smoking)?
- Can you be flexible about the size, format, and location of the proposed IRC?
- Where are your red lines (for example, allowing credit gaming, junkets)?
- What is the envisaged level of gaming tax and fees? Is it competitive compared to other IRC options whilst maximising state revenues?

Optimally design and run the regulatory change and licensing process?

- Are there any European tender rules that need to be followed and which are these?
- What is the best way to align the legal process required for the change with the licensing and regulatory change process?
- How are communications with stakeholders and bidders going to be managed throughout the process?
- How and when can you involve public and local stakeholders to address concerns and maximise the chance of project success?
- What can you do to make the approval process quicker and simpler?
- What is the best way to run the process to extract the best value from the winning bidder?
- How can you ensure that the licensing process is beyond reproach? – Failing to do this can result in delays and legal action that can topple a process over.



We are uniquely positioned to help

This paper has been prepared by PwC's London Gaming Centre of Excellence with contributions from other global jurisdictions. We have a long track record of working in the resort casino and gaming space, supporting both governments and operators. Our experience and scale places us in a unique position to support clients across all they key considerations involved in IRC development and we are excited about the potential for IRCs in Europe. We are available for informal discussions and more formal engagements and look forward to hearing from you.



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Appendix

Table 1: IRC development pipeline, as at June 2016 (not exhaustive)

Region		Country/state	IRC development status	Potential number of new IRCs	Details
Europe		Cyprus	Licensing	1	The tender process for a 30-year IRC licence is ongoing. The licence is expected to be awarded in 2016/2017 and the IRC to open in 2019/2020
		Spain	Delayed/ Aborted	1	The \$5.3bn Barcelona World IRC initially proposed in 2012 appears to have limited momentum. Plans announced in 2015 by ARC Resorts to develop a \$1.1bn IRC in Valencia also appear to have stalled
		Greece	In consideration	1	Plans for IRC and real estate development in the old Athens airport had lost momentum in early 2015 due to the economic and political instability in Greece but there appears to be some recent progress on this front. The political outlook does however remain uncertain
USA		New York	Licensing	4	3 of 4 licences have been awarded for casino development in upstate New York. Among these, Empire Resorts is planning a \$1.3bn resort in the Catskills by the end of 2017. A 4th casino licence is currently under review
		Las Vegas	Advanced	3	\$4bn Resorts World Genting is in development, to open in 2019; Crown Resorts in funding and construction negotiations for the \$2bn Alon project; Wynn Resorts planning for a new \$1.5bn IRC to open in 2020, pending investor approval
		Massachusetts	Advanced/ Some delays	3	Major \$1.7bn development planned by Wynn Resorts in Everett Massachusetts to open end of 2018; Genting-backed Mashpee tribe to open a \$1bn First Light IRC in four phases throughout 2017-2022; MGM expecting to open a \$950m casino in Springfield in late 2018
Latin America & the Caribbean		Jamaica	Advanced	2	\$1.8bn Celebration Jamaica and \$1bn Harmony Cove IRC projects to begin construction in Montego Bay in 2016
		Bermuda	Licensing	3	Bermuda's newly-formed gaming authority is holding a tender process to license up to 3 IRCs
		Brazil	In Consideration	up to 35	Brazil is currently considering the legalisation of casino gaming, with potential for a large number of casinos to be opened in the country, including a number of IRCs
		Bahamas	Delayed	1	\$3.5bn Baha Mar IRC missed multiple opening deadlines due to construction delays and financial difficulties. The project filed for bankruptcy in June 2015. However, the government announced in May 2016 that it had a 'framework agreement' with "China Export-Import Bank" and "China Construction America" to finish the integrated resort. The first round of bids for the acquisition of the property closed with a number of investors interest in the project

Region		Country/state	IRC development status	Potential number of new IRCs	Details
Asia Pacific		Australia	Advanced	4	4 IRCs currently in development, including Crown's \$1bn IRC in Barangaroo, New South Wales and 3 IRCs in Queensland (Tony Fung's \$6bn Aquis Great Barrier Reef in Cairns, ASF Consortium's \$5.5bn Broadwater Marine project on the Gold Coast, and the \$2.2bn Queen's Wharf Brisbane project)
		Cambodia	Advanced	1	Jimei International Entertainment Group's IRC in Sihanoukville currently in early stages of development
		Philippines	Advanced	2	Manila's Entertainment City development to add 3rd and 4th IRCs – Universal Resorts to open in 2016 and Resorts World Bayshore to open end of 2020. Each IRC has a minimum investment requirement of \$1bn.
		South Korea	Advanced	3	2 IRCs in progress in Incheon: Mohegan Sun's \$1.2bn Inspire is due to open in 2020 and Paradise Sega Sammy's \$1.1bn Paradise City to open in 2017. Additionally, Phase 1 of Genting's \$1.8bn Resorts World Jeju is on track to open in 2017, with a full resort opening expected in 2019. Las Vegas Sands has also announced intentions to build an IRC in Busan but this is at an early stage
		Macau	Advanced	4	Second round of casino resort development in Cotai includes 4 major IRCs currently under construction with expected opening dates in 2016-2017
		Saipan	Advanced	1	Best Sunshine International have been licensed and have opened a "temporary casino" while the IRC is being developed. Further financing to complete construction is being sought and the resort opening is targeted for 2017
		Japan	In consideration	10	Japan is currently considering legalising casino gaming and licensing a number of IRCs but progress has been relatively slow. However, the conclusion of a super draft implementation bill in June 2016 may give IRCs more momentum
		Taiwan	In consideration	1	A referendum is expected to be held on permitting an IRC in Penghu island by December 2016. The result expected to be favourable
		Vietnam	Advanced	3	\$4bn Nam Hoi An IRC in progress in Quang Nam province, targeting 2019 completion for the first phase of construction; Banyan Tree and Hard Rock planning Laguna Lang Co IRC joint venture. Vingroup is planning an \$870m IRC in Hai Phong, with an expected completion in 2017
Russia & Middle East		Kazakhstan	Delayed/ Aborted	1	Plans were announced in 2015 for Tengri Resort, a major IRC in Almaty, to include several hotels and casinos. No recent updates have been reported on the development
		Russia	Advanced	3	3 more IRCs are expected in the Primorye Entertainment Zone of Vladivostok with targeted completion dates of 2017-2018. These will be added to Lawrence Ho's existing Tigre de Cristal, which has recently opened