



SPECTRUM GAMING GROUP



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Retail feasibility analysis

Pocono Manor Resort & Casino

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Executive Summary

Pocono Manor should establish a unique hybrid of a "Lifestyle Center" as the retail, dining and entertainment (RDE) component of its overall development plan that capitalizes on the unique magnet of its casino anchor and enhances and reinforces the residential elements of the program. Such lifestyle centers typically take up less than half the land of a traditional mall, are more productive economically, and are increasingly desirable by both tenants, and residents and visitors alike. The centers provide customers with a gathering place and offer communities a sense of identity. The hybrid involves elements of a traditional lifestyle center / town center combined with a unique approach to integrating the retail, dining and entertainment uses within the gaming and hotel experiences themselves.

Such a well-conceived RDE component would bolster the entire property, helping to transform the entire development into an entertainment destination that could help anchor tourism in the entire Poconos region.

Our initial recommendation is that the project should comprise approximately 616,000 square feet of RDE, including uses embedded within the core gaming space. Specifically:

- A core gaming-linked RDE component of 53,000 to 108,000 square feet, inclusive of spa, but exclusive of live theater and any entertainment uses integrated within gaming space (e.g. stages, performance areas, etc.)
- Additional GLA (gross leaseable area) of 508,000 square feet, for a combined phase 1 lifestyle / town center full destination program of 561,000 – 616,000 square feet.

A "lifestyle center" RDE would generate approximately:

- \$88 million of dining & entertainment sales.
- \$128 million of retail sales.
- This would result in total sales of approximately \$350 per square foot.

It is becoming increasingly clear that retail, dining and entertainment uses are an important weapon in the arsenal of resorts that are determined to withstand competition from the expansion of gaming. In short, retailing is an

important consideration when resorts seek to become destinations, rather than convenience-driven alternatives.

Quality retail and dining tenants, historically base their expansion decisions largely on the size and strength of an area's existing population and visitor base

The design should be conceived as phased, allowing for future expansion of RDE uses as the first phase proves successful. The driving factor that will convince more quality tenants to gain a presence at Pocono Manor will be the ultimate success of the overall property as an entertainment destination.

As gaming revenues increase, the first phase tenants succeed, and the project becomes an important destination for adults throughout the northeast, the tenants on site will generate higher sales levels. Management would then be armed with more relevant, demonstrable data that could be used to secure more tenants in a second phase of expansion.

And we suggest that the second generation of tenants -- those who follow the pioneers -- will more likely sign lease arrangements more favorable to management. The caliber and nature of the retail expansion also plays an important role in any decision as well as any potential growth in the population. Given the present lack of an immediate population base, the quality of the overall planned development at Pocono Manor makes a compelling case that a quality RDE component can achieve these levels of success. This is reinforced by the uniqueness of the gaming experience and the lack of a true "center point" for the broader Pocono region.

Introduction

A well-planned RDE (retail, dining and entertainment) addition, with attractions such as specialty retailers that would appeal to the target demographics, would work well with gaming and make it easier to achieve our revenue projections.

Indeed, the addition of quality retail and dining increases the possibility of reaching the highest level within our projected range.

Retail combined with gaming serves several distinct goals, and advances various public policies:



As gaming evolves into mainstream entertainment, retail, dining, and entertainment uses are becoming a critical component within a broader mix of attractions. Among the purposes that a critical mix of retail, dining and entertainment serves:

- It can improve the image and ambience of a destination resort.
- It can increase the frequency of visitation, i.e., customers come more frequently than they would in the absence of retail.
- It can increase the penetration rate among adults, by attracting visitors who might not be tempted by a gaming-centric or gaming-only destination.
- It can increase the length of stay, by giving visitors yet another attraction that visitors will want to see.
- It adds another cash register to the floor, creating a new source of revenue.

All of these purposes benefit the owner of the property. However, they also benefit the entire region by creating more total visitor hours. Additionally, RDE benefits the state and region as well by creating employment opportunities, as well as incremental sales and gaming taxes.

We suggest that a well-conceived casino hotel complex at Pocono Manor, with retail and other attractions, would also perform well, generating significant tax revenue and employment for the region and state.

Certain factors must be taken into account when planning a retail, dining and entertainment component to accompany gaming:

- The mix of offerings must be significantly different from, and be relatively distinctive in comparison to other area retail offerings within the region. Consumers will not drive 60 minutes to visit a similar mix of retailers that are offered near their hometown. Certain tenants may be the same, but the project must be distinctive in terms of both overall mix and nature / experience of the project.

- Retailers and other businesses at Pocono Manor would surely compete against other existing and planned area retailers. However, it should be noted that an optimal mix of retailers on site could help transform the image of the entire area into a retail, dining and entertainment Mecca, thus attracting additional visitation from surrounding regions and ultimately boosting retail sales at other outlets in the area.

Relevant Goals

The developer wishes to establish a multi-faceted gaming attraction in the Pocono region of Pennsylvania. The attractive components of the proposed projects would include slots-only gaming, conventions and conferences, a 750-room hotel and a retail, dining and entertainment (RDE) center. The RDE would help diversify the product mix, helping to create an entertainment destination in much the same manner as the Borgata and Tropicana have accomplished in Atlantic City. Today's gaming customer has increasing expectations of the products offered, and fully expects to have a broad range of diversions offered beyond the traditional gaming product.

A thriving RDE component would allow the gaming product to be successfully marketed by accomplishing the following:

- Attract prospective gaming patrons.
- Differentiate the property from competitive offerings.
- Pull deeper from the trade area. (e.g., non-gaming spouses, younger adults and less gaming-centric adults)
- Draw visitors from a larger geographic market.
- Retain guests on site longer.
- Maintain a larger share of "wallet"
- Increase frequency of visitation.

The establishment of a comprehensive RDE at Pocono Manor will allow the venue to establish itself as a regional entertainment hub, where a large variety of customer segments can be occupied with suitable diversions. The RDE be a competitive product when viewed against the singular product of the racino at Pocono Downs and the planned gaming offerings of the Philadelphia area.

Lifestyle Center

We propose that the developer to establish a unique hybrid of a traditional “Lifestyle Center” as the RDE component at Pocono Manor that capitalizes on the unique magnet of its casino anchor and enhances and reinforces the residential elements of the program. Lifestyle centers suggest that the shoppers/consumers of today are really hearkening back to their own childhood experiences and want to seek out the next-generation retail environment as a true community/town center experience. Lifestyle centers typically take up less than half the land of a traditional mall, are more productive economically, and are increasingly desirable by both tenants, and residents and visitors alike. The centers provide customers with a gathering place and offer communities a sense of identity. The hybrid involves elements of a traditional lifestyle center / town center combined with a unique approach to integrating the retail, dining and entertainment uses within the gaming and hotel experiences themselves.

A decline in the traditional mall or strip-mall over the past two decades has been followed by an increase in the popularity of new retail centers called “Lifestyle Retail” centers.

These centers-- with an estimated 58 at present in the United States -- represent a departure from previous retail development that was often focused more on attracting and maintaining the relationship with the retail tenant than with the customer. Unlike previous retail development, a lifestyle retail center is meant to customize its environment to the changing lifestyle of the consumer in order to make it a stimulating and social place to gather.

Lifestyle Centers offer the following features:

- Open air “town centers” that combine national and local tenants.
- Architecture and amenities create “sense of place”.
- Historically around 300,000 square feet, but growing.
- Many serve as a core for a broader mixed-use development.
- Attractive to retailers
- Attractive to patrons

- Typically seek 40,000+ households in the region that have annual incomes of \$75,000 or greater.

Such centers are less expensive for tenants, as common area maintenance (CAM) charges are generally 15 percent less than in more standard malls. Yet these centers generate 20 percent higher sales than traditional malls, while offering patrons a combination of convenience and unique amenities.

According to research by U.S. Bancorp Piper Jaffray, in 2001 the average return on investment in the third year of operation of lifestyle centers was 60 percent, compared with 49 percent for malls. Lifestyle centers are not without risk. Lifestyle centers are about twice as expensive to build as traditional strip centers and even more expensive per square foot than regional malls.

When designing this RDE component at Pocono Manor the following challenges should be addressed to ensure a successful project implementation:

- The development should follow strong “town center” design principles in order to create a compelling and distinctive sense of place.
- Visibility for the RDE elements within the project should be maximized.
- Ease of access from both routes 380 and 940 should be ensured.
- The design must capitalize on casino magnet, and “force” traffic past RDE elements.

The last point of integration with gaming is critical. The RDE element and the gaming element must be in close proximity to each other and integrate as seamlessly as possible to maximize the benefit of the components. The core RDE program also should be uniquely integrated into the casino experience to create a distinctive experience for guests. In addition to physical location, a seamless marketing campaign must be generated extolling the convenience of the multi-faceted offering and meshing facets of any player loyalty program into the RDE element as a reward mechanism. Marketing integration with RDE will allow the generation of greater trip frequency and larger share of the customer’s wallet.

Preliminary Recommendations

Vibrant Development has conducted a preliminary assessment of the market and project elements and has developed a preliminary program for



the retail, dining and entertainment uses for the project. The program assumes that the design and other strategic challenges have been addressed, and that the other program elements are executed in a first rate manner.

- Program 1 includes a range for a core retail, dining and entertainment program related to gaming.
- Program 2 includes additional retail, dining and entertainment uses designed to serve as a first phase of a lifestyle center development.

Phase 1 of the lifestyle center development program is designed to achieve a critical mass of attractions to create an impactful destination program, achieve likely co-tenancy requirements (i.e., tenants require specific other tenants or range of tenants to also locate within the project) while balancing perceived risk associated with significant regional competition and general lack of tenant awareness and targeting of Pocono market region

The phase 1 program includes mini-anchor retail and/or entertainment anchors commonly found in lifestyle centers (Such a program will need to be tested with tenants and prospective mini-anchors based upon a finalized development program, master plan and design concept).

The master plan should be crafted to allow for the overall expansion of RDE uses in subsequent phases to capitalize on success of initial phase and secure more favorable economics associated with these future tenant deals (i.e., higher revenues to developer and less tenant allowance required).

Preliminary RDE Program

We have established a preliminary program for the Pocono Manor project, comprised of a total 616,000 square feet of RDE, which consists of:

- A core gaming-linked RDE component of 53,000 to 108,000 square feet, inclusive of a resort spa, but exclusive of live theater and any entertainment uses integrated within gaming space (e.g. stages, performance areas, etc.)
- Additional GLA (gross leaseable area) of 508,000 square feet, for a combined phase 1 lifestyle / town center full destination program of 616,000 square feet.
- The program includes approximately 232,000 sq. ft. of anchor uses, comprised of both retail (e.g., book store, destination sporting

goods/ski shop, etc.) and entertainment (e.g. multiplex, theater, participatory sports venues, etc.).

**Pocono Manor
Preliminary and Illustrative RDE Program Matrix**

	Base Program		Destination Program
Core Gaming-Linked Program	low	high	destination
Dining			
buffet	8,000	17,000	17,000
coffee shop	6,000	12,000	12,000
fine dining	7,000	9,000	9,000
quickserve	4,000	6,000	6,000
mid price polished	6,000	8,000	8,000
mid price casual		8,000	8,000
Retail			
Sundries	900	2,500	2,500
boutique 1	800	1,200	1,200
boutique 2	800	1,200	1,200
boutique 3	800	1,200	1,200
Entertainment			
lounge / nightspot	5,000	10,000	10,000
bar	4,000	6,000	6,000
bar 2	4,000	6,000	6,000
spa	6,000	20,000	20,000
subtotal GLA (sq. ft.)	53,300	108,100	108,100

Additional Elements for Phase 1 Lifestyle / Town Center

		s.f. / venue	tvl sq. ft.
Dining			
Restaurants	5	7,500	37,500
Quick serve	3	1,200	3,600
Retail			
in line	50	3,500	175,000
mini anchors	6	10,000	60,000
anchors	6	38,667	232,000
Subtotal			508,100
Total GLA (sq. ft.)			616,200



Illustrative tenant mix

The dining element of the lifestyle/town square should be predominantly casual and polished-casual venues, supported by smaller quick-serve offerings, and a limited number of fine dining venues. The primary targets are national brands and regional icons.

The retail should be a mix of smaller, in-line shops (approximately 75 percent) and mini-anchors (approximately 25 percent) such as quality home furnishings, clothing or electronics retailers, plus a number of retail and entertainment anchors.

The following illustrates a potential category of uses for the in-line mix

- Clothing and accessories
- Shoes
- Home furnishings
- Electronics/music
- Sporting goods
- Gifts/specialty
- Personal services
- General merchandise
- Home appliances
- Hobby/special interest
- Gift/specialty
- Jewelry

Sales Projections

We have broken down each program element and provided estimated sales projections. The RDE uses, both embedded within the core gaming venue and located within the lifestyle center should generate between \$192 and \$215 million in gross sales annually. In the larger destination program these sales would be generated as follows:

- Approximately \$88 million of dining & entertainment sales.



■ Approximately \$128 million of retail sales.

■ This would result in sales of approximately \$350 per square foot.

Pocono Manor Preliminary Order of Magnitude Sales Estimates					
			Order of Magnitude Sales		
Core Gaming-Linked Program destination			Dining & Entmt	Retail	Total
Dining			psf		
buffet	17,000		\$350	\$5,950,000	
coffee shop	12,000		\$600	\$7,200,000	
fine dining	9,000		\$700	\$6,300,000	
quickserve	6,000		\$800	\$4,800,000	
mid price polished	8,000		\$450	\$3,600,000	
mid price casual	8,000		\$450	\$3,600,000	
Retail					
Sundries	2,500		\$1,250	\$3,125,000	
boutique 1	1,200		\$700	\$840,000	
boutique 2	1,200		\$700	\$840,000	
boutique 3	1,200		\$700	\$840,000	
Entertainment					
lounge / nightspot	10,000		\$400	\$4,000,000	
bar	6,000		\$450	\$2,700,000	
bar 2	6,000		\$450	\$2,700,000	
spa	20,000		\$225	\$4,500,000	
subtotal GLA (sq. ft.)	108,100			\$40,850,000	\$10,145,000
Additional Elements for Phase 1 Lifestyle / Town Center					
Dining			tlt sq. ft.		
Restaurants	37,500		\$400	\$15,000,000	
Quick serve	3,600		\$800	\$2,880,000	
Retail					
in line	175,000		\$400	\$70,000,000	
mini anchors	60,000		\$375	\$22,500,000	
anchors	232,000		\$235	\$28,900,000	\$25,529,000
Subtotal	508,100			\$46,780,000	\$118,029,000
Total	616,200		\$350	\$87,630,000	\$128,174,000

Note the following assumptions:

- Our projections assume that traditional casino food offerings and spa are owned and operated by property (“O&O”).
- We have preliminarily estimated that approximately \$40 million of tenant allowance payments would be required to secure third-party tenant deals

- We suggest a blend of traditional and incented deals. Traditional deals are at typical levels of tenant allowance, while incented deals assume that certain lead tenants that could set the appropriate tone for the property, have strong brand recognition and add vital energy would receive significantly higher tenant allowance than would normally be the case for a similar use.
- Incented deals are also likely to be given to the first tenants to commit to the project, which are then used to market and help attract subsequent tenants to the project.
- Restaurants and entertainment require higher tenant-allowance support to induce the desired caliber of tenants.
- Leases would be combination of base and percentage rents with key “lead steer” tenants and initial tenants committing to less base rent to mitigate perceived risk.

**Pocono Manor
Preliminary Tenant Allowance Estimates**

		Tenant Allowance		
Core Gaming-Linked Program destination		\$/psf	\$	
Dining				
buffet	17,000	O&O		
coffee shop	12,000	O&O		
fine dining	9,000	O&O		
quickserve	6,000	\$35		\$210,000
mid price polished	8,000	\$100		\$800,000
mid price casual	8,000	\$100		\$800,000
Retail				
Sundries	2,500	\$35		\$87,500
boutique 1	1,200	\$50		\$60,000
boutique 2	1,200	\$50		\$60,000
boutique 3	1,200	\$50		\$60,000
Entertainment				
lounge / nightspot	10,000	\$200		\$2,000,000
bar	6,000	\$140		\$840,000
bar 2	6,000	\$141		\$846,000
spa	20,000	O&O		
subtotal GLA (sq. ft.)	108,100			\$5,763,500
Additional Elements for Phase 1 Lifestyle / Town Center				
Dining		<u>ttl sq. ft.</u>		
Restaurants		37,500	\$150	\$5,625,000
Quick serve		3,600	\$75	\$270,000
Retail				
in line		175,000	\$50	\$8,750,000
mini anchors		60,000	\$75	\$4,500,000
anchors		232,000		\$15,260,000
Subtotal		508,100		\$34,405,000
Total		616,200		\$40,168,500

Dining

Successful RDE centers are commonly anchored with strategically selected restaurants, clustered around a shared environment. The dining component acts as an anchor for both visitors and locals. Tropicana’s Quarter project is a great



example of creating two separate dining and entertainment areas, located at both far ends of the facility. During the summer of 2005, the mix of tenants at the Quarter proved successful as a destination, drawing a diverse patron base and establishing the projects as a center point for the Atlantic City market.

In creating the dining mix, special attention should be paid to identify energetic, signature restaurants, that transition from evening dining venues to nighttime hotspots, as is with the case of Red Square, Ri Ra, Cuba Libre, and The Sounds of Philadelphia in The Quarter.

The following tenant guidelines should be targeted for the dining mix offered:

- Most should be mid-priced and casual.
- They should be actively expanding.
- They should be targeting town center locations
- They should be viewed as fun.
- They should be financially sound.

The national brands should possess a combination of financial strength, strong brand recognition and sound operations. The local brands should offer a distinctive character.

Retail

Retail contributes to a project's distinctiveness through a critical mass of offerings and/or a critical mix of unique stores. The critical mix can be achieved through:

- Offering stores unique-to-region. (although this will be challenge in face of upcoming competition)
- Offering concentration of particular category of retail.
- Integrating number of local shops.
- Attracting regional signatures / icons.
- Providing a mix dominated by lifestyle-oriented retail.
- Attracting national brands that are not presently being accommodated in competitive projects.

- Developing unique-to-the-region stores.
- Attracting relocated local retailers.

Demographics

We examined the demographics from the perspective of traditional retail, dining and entertainment tenants (i.e., focusing on a close in, five mile range), and broadened the perspective to more accurately reflect the potential for the project, to a regional destination (focusing on a broader, 20-mile radius).

The close-in demographics of five miles suffers from a lack of density and income levels required to support traditional retail, dining and entertainment tenants. Significant growth is forecasted in the region --12 percent by 2009 -- but even that level is insufficient to trigger any retail interest.

Pocono Manor: 5-mile demographics	
Population	20,219
Median household income	\$ 47,216
Average household income	\$ 57,925
HHI \$75,000 or more	2,065
% HHI \$75,000 or more	25%
Households	7,409
College educated	1,214

We then compared the typical demographics for small lifestyle projects¹ in secondary markets against the Poconos' close-proximity demographics and found that population counts and income levels were below the standard levels used for other projects.

¹ Stanbery Development



5-mile demographic comparison				
	Pocono Manor	Low	Average	High
Population	20,219	59,749	123,170	184,105
Median household income	\$ 47,216	\$ 42,150	\$ 59,065	\$ 68,197
Average household income	\$ 57,925	\$ 44,376	\$ 81,451	\$ 99,746
Household income, \$75,000 or more	2,065	99	16,517	31,486
% household income \$75,000 or more	25%	18%	38%	58%
Households	7,409	23,431	44,018	56,584
College Educated	1,214	17,437	29,086	54,082

Green Valley Ranch

We then compared the Poconos' close-in demographics to The District at Green Valley Ranch, Henderson, Nevada. The District is part of an 8,400 acre master planned community, which was initiated in 1974. The District is a mixed use lifestyle center and includes the following in phase 1, which opened during the first quarter of 2004:

- 50 lifestyle shops and restaurants
- 88 luxury loft and flat condos over the retail space
- 60,000 square feet of office space

Phase two of the District is currently under construction and will include:

- Additional 105,000 square feet of life style retail
- Additional 51,000 square feet of office over-retail space.

The Pocono comparison to the Green Valley Ranch demographics are:

5-mile demographic comparison			
	Pocono Manor		Green Valley Ranch
Population		20,219	217,772
Median household income	\$	47,216	\$ 63,398
Average household income	\$	57,925	\$ 80,861



5-mile demographic comparison		
	Pocono Manor	Green Valley Ranch
Household income, \$75,000 or more	2,065	87,108
% household income \$75,000 or more	25%	40%
Households	7,409	85,834
College Educated	1,214	138,721

Key statistics of the Green Valley ranch comparison are:

- Its population base is 11 times greater than the Poconos region.
- Its income levels are 40 percent higher than the Poconos Regions.

Clearly, the close-proximity Poconos demographics fall far short of Green Valley Ranch’s demographics. However, when we expand the scope of our population radius and examine the demographics within a 20 mile radius, we see a more compelling metric landscape.

Pocono Manor: 20-mile demographics	
Population	220,925
Median household income	\$ 47,955
Average household income	\$ 60,731
% HHI \$75,000 or more	26%
Households	80,948

We then compared the 20 mile Pocono demographics to Green Valley Ranch’s demographic profile and found a more improved comparison, which is more compelling, but again, alone insufficient to fire on the traditional cylinders for most tenants.

20-mile demographic comparison			
	Pocono Manor		Green Valley Ranch
Population		220,925	1,567,697
Median household income	\$	47,955	\$ 55,515
Average household income	\$	60,731	\$ 71,983
% household income \$75,000 or more		26%	35%
Households		80,948	595,333

The key metric comparisons for this comparative schedule are:

- GVR has seven times the population level.
- GVR has 20 percent higher income levels.

Visitor base consideration

We then studied the demographic Poconos visitor profile and found some very interesting data that dovetails with a Lifestyle Center's demographic needs. The Poconos, as a longstanding tourist destination, enjoys a high degree of visitation, with a substantial number of seasonal overnight trips, which are mostly multi-nights. The following highlights some key points regarding the existing visitor base:

- The Poconos enjoys a moderate and steady level of visitation, with an estimated 3.4 million overnight leisure person trips a year.
- The income levels of visitors is high, averaging in excess of \$80,000 in annual household income.
- Visitors stay an average of three days.
- The purpose of the visits, the composition of parties, and the activities enjoyed are all supportive of a Lifestyle development:
 - Visit friends & family – 42%
 - Getaway weekends – 29%
 - Couples – 46%
 - Families – 26%
 - 16% opted for luxury hotels, the second highest level in state
 - 50% stay in private homes
 - The most popular activities are shopping (28%), sightseeing (28%), entertainment (17%), dining (15%), and nightlife (10%)

The overview data above combined with the statistics below offer a favorable picture of a region whose visitation would be greatly enhanced with the introduction of a first class gaming, RDE resort development.

**Pocono Mountains Region
Travel Overview
Overnight Leisure Travel, 2003**

Visitor Volume of Overnight Leisure Travel: 3.4 million Person-Trips Market Share of Pennsylvania Overnight Leisure Travel: 7%	
Travel Profile	Dominant Segments
Median Age	42 Years of Age
Median Annual Household Income	\$80,900
Main Type of Traveling Party	Couples
Primary Purpose of Stay	VFR
Average Length of Stay	2.9 Days
Accommodation Preference	Private Home
Top Activities	Sightseeing, Shopping, Entertainment
Secondary Activities	Dining, Festival/Craft Fair, Night Life
Average Expenditures: Per Person Per Day	\$95.40
Average Expenditures: Per Travel Party Per Trip	\$597
Average Satisfaction and Value Ratings	Satisfaction: 6.7 Value: 7.3

Counties included: Carbon, Monroe, Pike, and Wayne

Source: State of Pennsylvania, Department of Tourism

Gaming and RDE

With the acreage at Pocono Manor, a substantial opportunity exists to deploy retail shopping and dining attractions that would complement gaming and other attractions. We have looked at other states for some guidance in this.

The phenomenon of marrying gaming with retail, dining and entertainment is more than a regional phenomenon, and is catching on in multiple markets. For example, Pinnacle Entertainment is building a 3,000-slot and 60-table casino hotel in St. Louis, the 18th largest metropolitan area in the United States. The initial phase includes a small hotel and spa. Later, the property will add a 280,000 square foot retail center².

We have gathered data on retail sales in gaming locations in both Atlantic City and Las Vegas.

² Pinnacle Entertainment press release. Nov. 8, 2005



- The Forum Shops in Las Vegas for 2003 generated sales per square foot of \$1,471.21³
- The Grand Canal Shoppes of the Venetian generated sales per square foot of \$1,100⁴ per square foot.
- Borgata in Atlantic City generated retail sales per square foot of \$1,400.⁵
- Tropicana's The Quarter in Atlantic City is generating estimated retail sales per square foot of \$1,000.⁶

Connecticut

In Connecticut, two tribal casinos of Foxwoods and Mohegan Sun have continually expanded since their respective openings in 1992 and 1996. Foxwoods has 19 retail stores, totaling 15,000 square feet.

Among its attractions are:

- **Beads, Bells and Cowrie Shells** - a jewelry store.
- **Carts** - Gifts, boxed candy, and novelty items.
- **Fairways** Golf apparel and equipment.
- **Indian Nations** Native American items. Food products, gifts, pottery, baskets, clothing, accessories.
- **Main Store** Luggage and leather goods.
- **Salon Retail Center at Great Cedar Hotel** products for hair, skin and nail care.
- **Woodland Flower Shop** Fresh and dried flowers, flower pots, and garden accessories.

Foxwoods also offers a variety of dining, along with its retail, including:

- Al Dente

³ "Luxury boutiques become sure bet," *San Diego Tribune*, December 25, 2004

⁴ "Luxury boutiques become sure bet," *San Diego Tribune*, December 25, 2004

⁵ *Gaming Industry Observer*

⁶ Deutsche Bank Securities, March 21, 2005

- Branches
- Cedars Steakhouse
- Fox Harbour
- Golden Dragon
- Han Garden
- Paragon:
- The Bistro

Mohegan Sun offers 29 dining and 32 retail outlets in its 130,000-square-foot “The Shops at Mohegan Sun,” including:

- Michael Jordan’s Steak House
- Todd English’s Tuscany
- Big Bubba’s BBQ
- Jasper White’s Summer Shack
- Rain
- The Longhouse
- Pompeii and Caesar
- Bamboo Forest.

As for retail, Mohegan Sun’s offerings include:

- **Caché:** women’s apparel
- **Fleur De Lys:** This floral boutique
- **Galina’s:** intimate apparel boutique
- **Jaboola:** H handcrafted furniture and accessories from Israel.
- **Nostalgia:** memorabilia dating from the 1940s to 1970s.

Clearly, the two properties have evolved into full-service destinations, adding hotel rooms, dining and retail as they expanded. The result is that visitors spend more at the two properties than they otherwise would.

The following tables illustrates this phenomenon. Foxwoods and Mohegan Sun, both situated within a few miles of each other in Connecticut, draw particularly strongly from Massachusetts, as compared with the more austere, relatively undercapitalized racino properties in Rhode Island, Newport and Lincoln Park:

The first tables show what Rhode Island residents spend per visit at each of the four casino properties:

	Food	Lodging	Retail	Other	Gambling
Foxwoods	\$25.63	\$6.44	\$8.98	\$7.81	\$161.69
Mohegan	\$28.45	\$4.01	\$16.78	\$9.40	\$198.23
Lincoln Park	\$10.13	\$0.00	\$0.14	\$0.40	\$140.23
Newport	\$6.36	\$0.00	\$0.31	\$0.45	\$87.21

Source: University of Massachusetts, Center for Policy Analysis 2004

Note that Rhode Island residents spend significantly more out-of-state at Connecticut properties, largely because these two large casino hotels are well-capitalized with a variety of attractions.

The same phenomenon holds true for Massachusetts residents:

	Food	Lodging	Retail	Other	Gambling
Foxwoods	\$32.83	\$16.03	\$9.67	\$6.02	\$170.00
Mohegan	\$43.66	\$14.78	\$7.57	\$5.32	\$200.00
Lincoln Park	\$19.34	\$0.53	\$0.02	\$0.00	\$168.95
Newport	\$11.17	\$0.78	\$0.13	\$0.79	\$130.56

Source: University of Massachusetts, Center for Policy Analysis 2004

Interestingly, the amount spent on gaming by Massachusetts at these four out-of-state casinos is similar. However, the amount spent on non-gaming, such as lodging and retail is significantly higher in Connecticut, and is almost non-existent at the Rhode Island properties.

Nevada

Nongaming purchases in gaming locations have increased dramatically since the Forum Shops at Caesars Palace were introduced in May 1992. This was a revolutionary concept at the time, combining shopping and dining outlets operated by third-party vendors, along with traditional gaming. There were lingering questions asked by observers: Would people want to shop and dine in Las Vegas instead of gambling? And, would an operator see accretive profitability as a result? The answer to both of those questions was yes.

Twelve years later, the Forum Shops have undergone three expansions. Originally opened with 283,000 square feet, the retail center now encompasses 675,000 square feet and houses 160 shops and 13 restaurants. Like any good idea, it gets copied quickly. Retail square footage in Las Vegas now covers 4,000,000 square feet, which is considerable since the total square footage of gaming in the entire state of Nevada is 7,827,450. Nongaming revenue on the Nevada Strip accounts for 58 percent of total revenue versus 43 percent ten years ago⁷. The major venues for retail in Las Vegas are:

- Forum Shops at Caesars Palace, operated by the Simon Property Group
- The Grand Canal Shoppes at the Venetian, with 500,000 square feet, operated by General Growth Properties Inc
- Fashion Show Mall, 1,900,000 square feet, also operated by General Growth Properties Inc.
- Desert Passage, at the Aladdin, is 475,000 square feet, owned by Boulevard Invest and managed by The Related Companies.

Desert Passage has underperformed its peer group, partly because its parent casino -- which is being transformed into a Planet Hollywood -- has historically underperformed the market as well. Desert Passage generated \$603 per square foot from its 140 stores in 2003⁸.

According to the Daily News Record, a Fairchild publication that tracks retail clothing, the expansion in Las Vegas will continue:

⁷ Nevada Gaming Control Board

⁸ "Desert Storm," *Retail Traffic* magazine, Jul. 1, 2004



“For luxury shoppers on a Vegas vacation, the Wynn Las Vegas's 75,000 square feet of retail, which opened April 28, was serious business; it boasted an in-house Ferrari dealership, million-dollar tiaras and \$ 47,000 fountain pens. But compared with the pace of retail development in the 100-year-old city, it barely registered.

“According to Jeremy Aguero, a principal analyst with Las Vegas-based consulting firm Applied Analysis, which tracks the Las Vegas real-estate market, retail square footage has grown by an average of 1.8 million square feet a year for the last decade and the current tally is 41.1 million. "With the number of projects in the pipeline it'll stay at that pace -- if not accelerate -- for the next 36 months," Aguero told DNR in a recent phone interview⁹.”

Any examination of the retail market in Las Vegas must note that its growth is being driven by a combination of a healthy visitor market, and the nation's fastest growing population.

“With Las Vegas' population expected to reach 1.8 million in 2005, the region is experiencing an unprecedented boon in residential and retail growth, says Steve Stratton senior vice president and district manager for KeyBank Real Estate Capital. The watchword is “build the rooftops and retail will come.” And here's proof: The retail sector delivered 4 million square feet of new retail space in the past two years, following a record year — 25,230 units — for new home sales in 2002. Jeff Pori, managing director for Sperry Van Ness/Transwestern Investment Realty Group in Las Vegas, says national retailers began taking area seriously a decade ago, when the region's population hit 1 million. In the past 18 months a host of new retailers have arrived, including Nordstrom, Kohl's, Whole Foods, CVS, and P.F. Chang's. Others opening this year include Wal-Mart Neighborhood Markets, REI, Cold Water Creek, Anthropologie and Sears Grand.

⁹ “Sin City's Retail Sizzle; Vegas's Current 41.1 Million Square Feet Of Retail Space Is Just Tip Of The Iceberg; Wynn Las Vegas,” *Daily News Record*, August 30, 2005

“But this is a tale of two markets. One caters to tourists and commands rents of \$180 per square foot; the other serves local consumers with rents ranging from \$10 to \$26 per square foot. Much of the newest development is away from the Strip's glitz and glamour¹⁰. ”

Atlantic City

We also note that – from a competitive standpoint – gaming destinations in the Northeast are adding retail attractions, and in some cases, the additional capital investment is being subsidized by the public sector.

Atlantic City, with 33 million annual visitor trips per year, has been historically an under-performer in the retail sales sector. Operators faced with small, constrained sites and potential high business volumes of short trip duration focused on deploying gaming products and not retail. The State of New Jersey – through a series of statutory changes enacted in recent years – is leading the evolution and helping to ensure the success of Atlantic City by establishing incentives to foster the creation of entertainment/retail districts in Atlantic City. Two bills signed into law would establish as many as 11 such districts that would ultimately help Atlantic City withstand competition and grow its visitor base.

The “Casino Reinvestment Development Authority urban revitalization incentive program,” popularly known as the Gormley-James bill,¹¹ was enacted in 2001. The relevant portion of the legislation allows for the creation of six entertainment-retail districts in Atlantic City as well as revitalization of other urban areas in the state. The bill was expanded in August 2004 to include five more entertainment-retail districts, for a total of 11.

The purpose of the legislation is to develop nongaming attractions in Atlantic City and broaden its appeal beyond that of a day-trip gambling market. As stated in the bill summary, the legislation was “to benefit the overall development of Atlantic City and strengthen the state's economy.”

In exchange for building an entertainment-retail district with at least 150,000 square feet of public space, casino licensees are entitled to these benefits:

¹⁰ “A Tale of Two Markets,” *Retail Traffic* magazine, May 1, 2004

¹¹ Its principal sponsors were Sen. William Gormley, R-Atlantic, and Sen. Sharpe James, D-Essex.

- A rebate of sales and use tax on construction materials used in building the district project.
- A rebate of sales tax generated by the retail sales of tangible personal property and services originating from the district, with an annual cap of \$2.5 million, payable annually through 2022, or until the grant equals the approved cost of the district project.
- A rebate of the incremental Luxury Tax – as determined from an approved base amount – from the project to be paid from all casino hotel room fees, payable annually through 2022, or until the grant equals the approved cost of the district project.

The first tranche of the legislation is fully subscribed, although only two of the district projects are now accruing the benefits: The Harrah’s-Showboat-Walk project, which comprises seven square blocks in the heart of Atlantic City and is home to 41 retail tenets, and the Tropicana expansion, The Quarter, which opened in the fourth quarter of 2004 and is 200,000 square feet housing 25 shops, 9 dining venues and 6 entertainment areas.

The other major qualifying retail projects on the horizon are:

- The Pier at Caesars, being developed by the Gordon Group, which will have 320,000 square feet of retail space with 90 middle- to high-end retailers, located on a pier directly opposite Caesars on the boardwalk. The Pier is scheduled to open in 2006¹²
- A two-phased expansion project of the Borgata, which will add 4 restaurants, 2 night clubs and 6 retail shops to the facility. The expansion is expected to open in 2006.
- House of Blues addition to the Showboat, which has a southern-inspired restaurant, a 2,200-seat multi-level music hall, nightclub, beach bar and outdoor lounge. House of Blues opened in July 2005¹³.

¹² Gordon Group press release

¹³ House of Blues press release



The building of a quality entertainment offering has shown to be able to significantly increase nongaming revenue as a percentage of overall revenue, as is the case with the Borgata, which enjoys non-gaming revenues of 34.4 percent¹⁴ of total revenues, more than twice the industry average.

A recent article in Retail Traffic magazine summed up the change in Atlantic City:

“While Las Vegas had transformed itself from a gambling town to an all-purpose entertainment hot spot, Atlantic City seemed stuck in a time warp. At the same time, the seaside resort's core \$4.8 billion annual gaming business has been flat while new East Coast gambling venues, such as Foxwoods and Mohegan Sun in Connecticut, siphoned off gamblers and now rake in \$2.8 billion a year. The next few years could bring additional gambling to resorts in Pennsylvania's Pocono Mountains and New York's Catskills.

“But Atlantic City is fighting back — with hot new casinos like the Borgata Hotel that are drawing a younger, wealthier crowd. And, finally, they have a choice of shops and restaurants where they won't run into their grandparents. In the past 12 months, 500,000 square feet of new retail has opened near the Boardwalk.

“The Walk, which encompasses seven city blocks, contains 320,000 square feet of retail and opened in August. Then Aztar Corp. opened the \$245 million Quarter extension in November, which included 500 additional rooms, a parking garage and 200,000 square feet of retail. And Gordon Group Holdings LLC, which co-developed the Forum Shops at Caesars Palace with the Simon Property Group and helped turned Las Vegas into a retail destination, has come to Atlantic City. This time, it has partnered with Taubman Centers Inc., on The Pier at Caesars, a 320,000-square-foot retail and entertainment center being built over the Atlantic Ocean, which will house a wedding chapel, nine

¹⁴ Borgata press release



restaurants and, retailers like Hugo Boss, Gucci and Louis Vuitton. Also on tap is a \$155 million expansion to the Walk¹⁵.”

The Quarter

“The Quarter” at the Tropicana, a \$285 million expansion that opened in November 2004, includes 502 rooms, plus 200,000 square feet of retail, entertainment space, a 2,400-space parking garage, and 20,000 square feet of meeting and convention space.

The following summarizes the capital investment and the first-year return of that project to its owner, Aztar Corp.:

The opening of The Quarter transformed the Tropicana into the largest hotel in the state, while adding 200,000 square feet of retail, dining and entertainment space. The Tropicana increased its gaming space by 1,379 square feet as a result of the expansion project.

During the first nine months of 2003, one year prior to opening, Tropicana’s gross gaming revenue (GGR) declined 8.9 percent, mainly due to a disastrous garage collapse, which killed four construction workers and blocked one of Tropicana’s main access streets. Its GGR growth rate before the collapse was minus-5.1 percent. The garage collapse contributed slightly less than four percentage points to its declining performance. The industry’s performance less Tropicana’s GGR was 11.1 percent for the same nine-month period.

Tropicana’s GGR growth rate performance for the nine months since the expansion opened was 17.9 percent versus and industry growth of 2.1 percent less Tropicana’s contribution.

Tropicana’s market share of GGR is currently 8.6 percent versus a share of 7.5 percent during the prior nine-month period. Tropicana has clearly shifted share from it weaker competitors with its enhanced product offerings.

While slightly increasing its casino space, Tropicana has markedly increased its square-foot production efficiency by 16.8 percent during the current nine-month period from a win per square foot of \$1,789 during the prior nine-month period to \$2,090 for the proceeding nine-month period.

¹⁵ “Atlantic City Redux,” By David Koch, *Retail Traffic*, May 1, 2005



Tropicana Retail/Hotel Expansion Nov. 2004			
502 Rooms with 200,000 sq. ft Retail			
Tropicana's GGR Growth Rate, 9 Months Prior to Expansion	Tropicana's GGR Growth Rate, 9 Months Following Expansion	Industry, Less Tropicana, Growth Rate 9 Months Prior to Expansion	Industry, Less Tropicana, Growth Rate 9 Months Following Expansion
-8.87%	17.93%	11.05%	2.09%
Tropicana's GGR Market Share 9 Months Prior to Expansion	GGR Market Share 9 Months Following Expansion	Win Per Sq. Foot Prior to Expansion	Win Per Sq. Foot Following Expansion
7.51%	8.58%	\$1,789	\$2,090

In examining The Quarter at the Tropicana, we also focused on the second quarter of 2004 and compared it to 2005, rather than the third quarter to minimize the potentially distorting effect of construction disruptions, which would have been more pronounced in the third quarter.

Tropicana Analysis (\$ in thousands)			
Capacity change	2nd quarter 2004	2nd quarter 2005	Period-to-period change
Total casino square footage, end of quarter	144,779	149,291	3.1%
No. of slots, end of quarter	4,372	4,304	-1.6%
No. of tables end of quarter	171	193	12.9%
No. of hotel rooms	1,624	2,129	31.1%
Changes in key metrics	2nd quarter 2004	2nd quarter 2005	Period-to-period change
Casino revenue	\$ 88,651	\$ 108,617	22.5%
Cash hotel revenue	\$ 6,755	\$ 9,607	42.2%
Gross operating profit	\$ 21,820	\$ 31,843	45.9%
Win per square foot (not in thousands)	\$ 614	\$ 744	21.2%
Daily win per unit (slots)	\$ 162	\$ 194	19.8%
Est. average monthly win per FTE	\$ 7,356	\$ 7,471	1.6%
Net increase in capital investment (thousands)	\$ 285,000	Incremental ROIC	3.5%

Note also that the Tropicana had significant excess gaming capacity prior to its expansion, largely in anticipation of The Quarter, which had been in various stages of planning for years prior to its November 2004 opening.

We also point out that management of the Tropicana is engaged in an ongoing examination of its long-term strategies to help ensure that, as The Quarter promotes trial from more first-time visitors, that the property captures as many of those visitors as possible in its database. The inference here should be that The Quarter’s true value as an investment has not yet been fully realized.

Spending by gaming customers

Our model projects the following levels of gaming revenue:

Based on 3,000 slots, 750 hotel rooms	Worst-case scenario	Moderate-case scenario	Best-case scenario
Expected daily win per unit	\$ 213	\$ 286	\$ 327
Total gaming revenue	\$ 233,758,512	\$ 313,388,310	\$ 358,592,186

The following lists the number of visitor trips that would generate that level of spending:

Based on 3,000 slots, 750 hotel rooms	Worst-case scenario	Moderate-case scenario	Best-case scenario
Number of visitor trips	3,478,750	4,487,001	5,039,181

With a greater variety of offerings, including RDE, the property could support fewer visitor trips, and generate the same gross gaming revenue. To build this model, we are reducing the projected number of visitor trips by 20 percent, resulting in the following:

Based on 3,000 slots, 750 hotel rooms	Worst-case scenario	Moderate-case scenario	Best-case scenario
Reduced number of visitor trips	2,783,000	3,589,601	4,031,345

We then apply the Foxwoods and Mohegan Sun estimates for spending by Rhode Island residents, as a stand-in, to the model, resulting in the following:



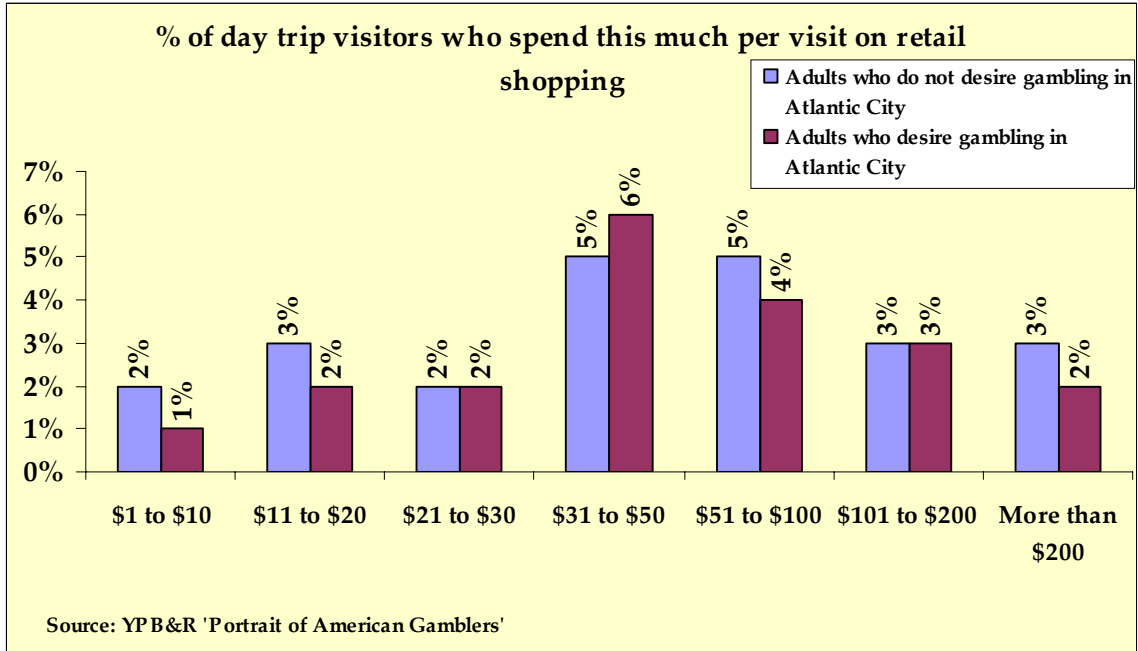
Worst case	Food	Lodging	Retail	Other	Total Dining and Retail
Foxwoods model	\$71,328,294	\$17,922,521	\$24,991,341	\$21,735,231	\$96,319,635
Mohegan Sun model	\$79,176,354	\$11,159,831	\$46,698,742	\$26,160,201	\$125,875,097
Moderate case	Food	Lodging	Retail	Other	Total Dining and Retail
Foxwoods model	\$73,601,173	\$18,493,623	\$25,787,692	\$22,427,825	\$99,388,865
Mohegan Sun model	\$81,699,312	\$11,515,439	\$48,186,800	\$26,993,797	\$129,886,113
Best case	Food	Lodging	Retail	Other	Total Dining and Retail
Foxwoods model	\$82,658,691	\$20,769,488	\$28,961,180	\$25,187,842	\$111,619,871
Mohegan Sun model	\$91,753,405	\$12,932,554	\$54,116,771	\$30,315,712	\$145,870,176

This model suggests that RDE revenue from gaming customers would be between \$118 million and \$176 million (after subtracting lodging revenue, which has no relevance for purposes of this analysis).

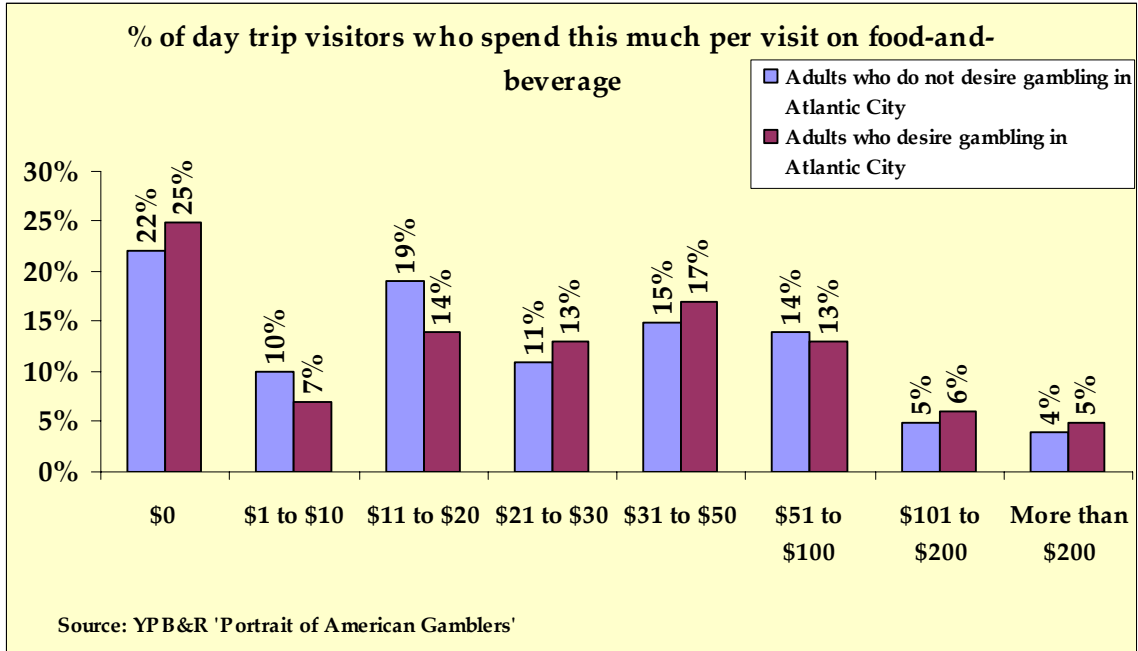
Alternate methodology

The following charts are from the Portrait of American Gamblers, a survey conducted in 2004 by Yesawich Pepperdine Brown & Russell, a marketing firm based in Orlando. The firm surveyed 2,500 “active casino gamblers,” adults who had visited a casino for the primary purpose of gambling at least once during the previous 12 months.

In this model, we looked at Atlantic City as a stand-in for Pocono Manor. We examined a subset, focusing on those who have expressed a desire to visit Atlantic City, contrasting it with those who do not desire visiting Atlantic City.



In the above chart, the two groups are largely similar; except that those who desire gambling in Atlantic City are less likely to do any retail shopping (80 percent of them spend nothing on retail, compared to 77 percent of those who do not favor Atlantic City.) The average retail spend for those who desire gambling in Atlantic City is \$126 per visit, compared to \$118 for the others. The median for both groups is \$50.



Note that, for food-and-beverage spending, the average is \$64 for those who do not desire gambling in Atlantic City and \$70 for those who do, while the median is \$30 and \$40, respectively.

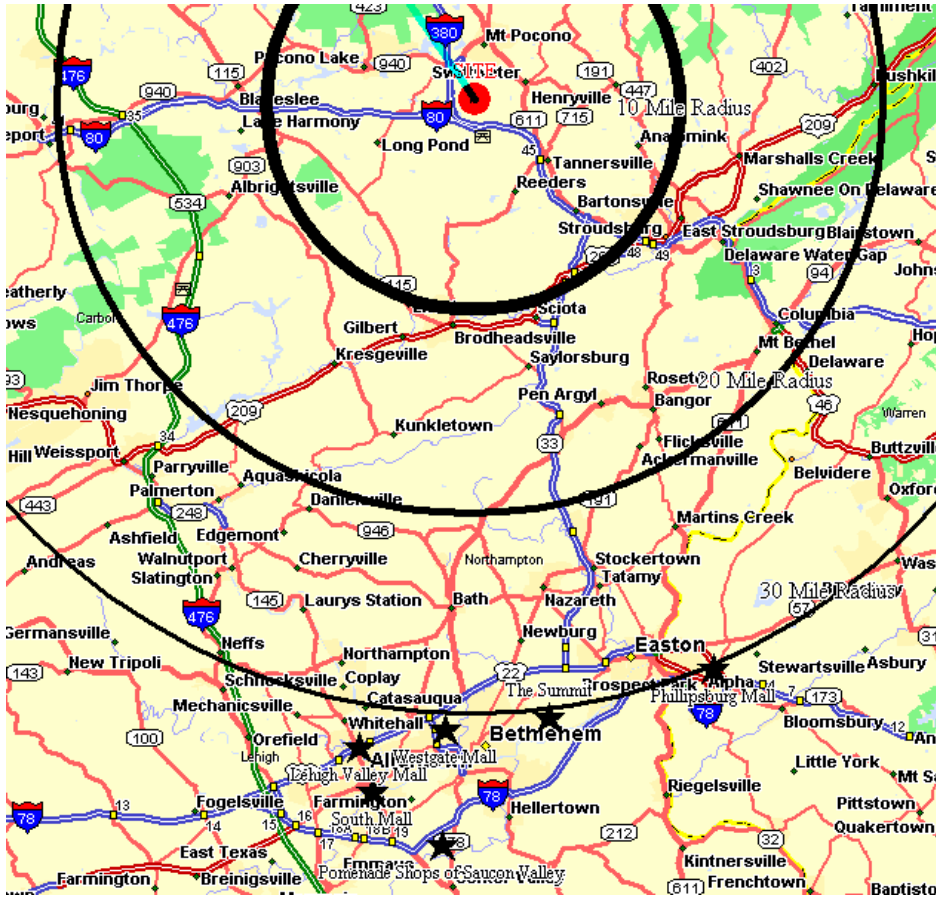
If we apply these averages to our expected number of visitor trips at Pocono Manor -- which we have reduced further to ensure conservatism by eliminating the higher level of repeat visitation by gaming-only customers -- we would get the following:

	Worst-case scenario	Moderate-case scenario	Best-case scenario
Expected spending on retail, food-and-beverage	\$119,067,872	\$153,577,477	\$172,477,051

These estimates are higher than were generated by the first methodology. However, both methodologies conform rather closely to our initial estimates for retail sales (see p. 13). That further validates our estimates.

Competition

The current competitive landscape is limited to traditional regional malls, off price centers and strip centers. Given the demographic profile of the region the regional malls are generally successful.



	Location	Approximate distance in miles from Pocono Manor
The Mall at Steamtown	Scranton	32
Westgate Mall	Bethlehem	29
South Mall	Allentown	36
Phillipsburg Mall	Phillipsburg, NJ	26
Lehigh Valley Mall	Whitehall	31



The competitive landscape does not presently include any lifestyle centers. However, two significant projects by credible developers are proposed.

- Poag & McEwen & Stansbery Associates: The Promenade Shops of Saucon Valley.
- Forest City & Bayer Properties: The Summit

The Promenade Shops at Saucon Valley, located in the heart of the Lehigh Valley, will be a significant new shopping lifestyle experience in the region. It will consist of retail, dining and entertainment of 600,000 square feet, which will be opened in two phases. This project will raise the shopping and entertainment bar considerably in the region. Its developers, Poag & Mc Ewen are one of the nations leading developers of lifestyle centers and have a portfolio of 13 lifestyle centers open or under current development. The partner in this joint venture, Stansbery Associates is an Ohio based lifestyle and “enhanced strip” developer with 11 projects currently under development.

The Summit, an 800,000-square-foot retail complex scheduled to open in 2006, would be developed on 90 acres of farmland in Bethlehem Township. The Summit -- about three-fourths the size of the Lehigh Valley Mall in Whitehall Township -- is expected to include up to 80 specialty shops, multiple restaurants and two anchor stores within it’s 800,000 sq. ft. of space.

The total project being developed includes much more than just RDE, but also includes:

- 800 homes
- 500,000 sq. ft office
- 180 acre St. Luke’s Medical Center
- Two all suite hotels

Combined, both projects will add 1.4 million sq. ft of retail, dining and entertainment to the Lehigh Valley/ Pocono region by 2007. These developments could fuel a highly competitive atmosphere for the region, especially if combined with Las Vegas Sands’ proposed casino/ retail development located in Bethlehem.

In addition, industry leader Simon Property Group’s Lehigh Valley Mall is expanding by 80,000 sq. ft. with an outdoor lifestyle component.



Competitive Advantages

We examined the potential advantages and disadvantages of the project with a competitive view and ascertained the following strengths:

- The economics of having a casino on site would provide flexibility on some otherwise rigid tenant credit requirements (allowing a willingness to take some additional risks.)
- The casino acts as a unique anchor, generating significant year round visitation.
- The planned quality of the overall development and environment, which must both be well-conceived and well-capitalized, will create a unique “sense of place” which is presently lacking in region
- Other project uses for the site, from entertainment to recreation to residential development, provide some level of captive demand

The advantages of gaming are crucial. Traditionally, quality tenants in such a planned RDE center look at the existing demographics and the existing visitor base in determining whether the necessary capital investment and commitment are warranted. For example, tenants at The Quarter at the Tropicana had to understand that the core market for their potential business went well beyond the traditional support provided by the local population, which felt far short of the demographic hurdles required to commit to a location.

Asking prospective tenants to take a leap of faith in the sense that future visitation will come is difficult, but having gaming on site makes such a leap of faith more likely. Obviously, the economics of the tenant deals must be structured to further mitigate perceived risks by tenants.

A casino would be a powerful engine for visitation. By contrast, a successful multiplex theater generates 1.75 million visitor trips per year. The gaming operation at Pocono Manor, by contrast, would generate twice that amount. With potential numbers that strong, the possibility of securing tenant commitments would certainly increase.

Competitive disadvantages and challenges

The following list some of the potential challenges facing such a planned RDE component:

- The residential demographics and existing visitation figure alone would be insufficient to support a typical lifestyle project.
- Lifestyle competitors are coming to the general region, and they are closer to population centers and are more visible.
- The projected residential growth in the Pocono region includes a significant percentage of second homes, which limits the year-round occupancy and makes such homes less attractive to retailers.

It is becoming increasingly clear that retail is an important weapon in the arsenal of resorts that are determined to withstand competition from the expansion of gaming. In short, retailing is an important consideration when resorts seek to become destinations, rather than convenience-driven alternatives.

We must also point out that – as it is in gaming – the tax rate with respect to retail sales is also an important competitive consideration. We examined rates within the region¹⁶:

<i>State</i>	<i>Sales Tax rate</i>
Maryland	5%
New Jersey	6%
New York	4.50%
Pennsylvania	6%
Washington, DC	5.75%
Virginia	5%

We note that Pennsylvania is at the high end of the spectrum and taxes more items than neighboring New Jersey, which does not allow any direct competitive advantage. We also point out that - Pocono Manor as a Category 2 facility will attract over 3 million visitors to their location. A well planned retail facility will have a competitive advantage on nearby competitors.

¹⁶ Note that these are guidelines. Some states might have higher rates through municipal or county sales taxes. Others, such as New Jersey, do not apply sales tax to apparel sales.

On balance, we encourage the development of retail on site because it would help Pocono Manor:

- Take advantage of the location and the adults who are primarily visiting the casino and hotel.
- Serve as an additional core attraction that would bolster overall attendance.

Allocation of space

The following tables provide some guidance and benchmarks as to how space within a lifestyle center would likely be allocated among tenants. The studies cited here examined a variety of centers, and divided the types of tenants into GAFO -- general merchandise, apparel, furniture and home furnishings, and other similar classifications -- and non-GAFO.

The first table examines difference between allocations among lifestyle centers based on geographic areas.

Regional variations in Lifestyle Center Space Allocation				
GAFO categories	Midwest	Northeast	South	West
Apparel and Accessories	%	%	%	%
Women's Ready to Wear	10.9%	11.9%	9.1%	9.3%
Women's Accessories and Specialties	2.2%	2.8%	2.0%	1.5%
Men's Apparel	1.2%	1.1%	1.2%	0.8%
Children's Apparel	1.7%	3.0%	2.1%	1.7%
Family Apparel	10.4%	17.2%	10.3%	13.4%
Women's Shoe Stores	0.2%	0.4%	0.3%	0.2%
Men's Shoe Stores	0.1%	0.0%	0.0%	0.1%
Family Shoe Stores	1.8%	1.2%	1.5%	2.3%
Athletic Shoe Stores	0.0%	0.0%	0.0%	0.0%
Apparel and Accessories - misc.	0.0%	0.0%	0.0%	0.0%
Subtotal	28.4%	37.5%	26.7%	29.3%
Furnishings	%	%	%	%
Home furniture & furnishings	14.8%	19.1%	16.7%	10.0%
Home entertainment & electronics	2.5%	3.9%	2.6%	2.1%

Regional variations in Lifestyle Center Space Allocation				
GAFO categories	Midwest	Northeast	South	West
Subtotal	17.4%	23.0%	19.3%	12.1%
Stationery/cards/gifts/novelty	1.5%	3.0%	3.3%	2.1%
Books	4.4%	3.6%	5.2%	3.2%
Sporting goods/bicycles	13.1%	2.7%	2.4%	1.5%
Toys/educational/hobby	0.1%	1.6%	0.9%	1.2%
Personal care	1.4%	0.2%	1.9%	2.4%
Jewelry	1.2%	1.0%	0.8%	1.0%
Other GAFO-misc.	2.5%	4.7%	2.6%	3.1%
Subtotal	24.3%	18.5%	17.0%	14.6%
Total GAFO	70.1%	79.0%	62.9%	55.9%
Food service	%	%	%	%
Fast food	1.6%	1.5%	1.7%	2.3%
Food court	0.0%	0.0%	0.0%	0.0%
Restaurants	12.4%	7.0%	11.4%	12.5%
Subtotal	14.0%	8.6%	13.0%	14.8%
Specialty food stores	2.0%	1.9%	1.7%	1.7%
Supermarkets	1.5%	0.4%	5.9%	7.0%
Drug/Health/Beauty	0.0%	0.0%	0.7%	0.9%
Personal services	3.2%	3.2%	4.0%	5.1%
Automotive	0.0%	0.0%	0.0%	0.0%
Home improvement	0.3%	0.4%	0.2%	0.2%
Theaters	6.6%	6.4%	8.5%	12.0%
Mall entertainment	1.4%	0.0%	1.0%	1.8%
Misc.	0.8%	0.2%	2.0%	0.7%
Subtotal	15.9%	12.4%	24.0%	29.2%

Source: ICSC Research: National Research Bureau

The next table examines the differences between lifestyle centers and traditional malls, and points out that the GAFO-type stores have much less of a hold among lifestyle centers.



**NON-ANCHOR TENANT SPACE ALLOCATION
(LIFESTYLE CENTER VS. MALLS)**

	Lifestyle centers	Malls
Apparel and Accessories	%	%
Women's Ready to Wear	9.8%	16.6%
Women's Accessories and Specialties	2.0%	3.3%
Men's Apparel	1.1%	1.8%
Children's Apparel	2.0%	3.2%
Family Apparel	11.7%	17.3%
Women's Shoe Stores	0.3%	0.7%
Men's Shoe Stores	0.0%	0.2%
Family Shoe Stores	1.7%	3.8%
Athletic Shoe Stores	0.1%	3.7%
Children's Shoe Stores	0.0%	0.3%
Apparel and Accessories - misc.	0.0%	0.3%
Subtotal	28.8%	51.1%
Furnishings	%	%
Home furniture & furnishings	15.2%	4.2%
Home entertainment & electronics	2.6%	4.7%
Subtotal	17.9%	8.8%
Stationery/cards/gifts/novelty	2.6%	4.6%
Books	4.4%	2.1%
Sporting goods/bicycles	4.9%	2.0%
Toys/educational/hobby	0.8%	1.6%
Personal care	1.9%	1.7%
Jewelry	0.9%	3.8%
Other GAFO-misc.	2.9%	2.8%
Subtotal	18.5%	19.0%
Total GAFO	65.2%	78.9%
Food service	%	%
Fast food	1.8%	1.2%
Food court	0.0%	1.9%



NON-ANCHOR TENANT SPACE ALLOCATION (LIFESTYLE CENTER VS. MALLS)		
	Lifestyle centers	Malls
Restaurants	11.4%	4.8%
Subtotal	13.1%	7.9%
Specialty food stores	1.8%	1.5%
Supermarkets	4.4%	0.0%
Drug/Health/Beauty	0.5%	0.4%
Personal services	3.9%	4.9%
Automotive	0.0%	0.2%
Home improvement	0.2%	0.0%
Theaters	8.4%	5.0%
Mall entertainment	1.1%	0.7%
Misc.	1.3%	0.4%
Subtotal	21.7%	13.1%

Source: ICSC Research: National Research Bureau

Benchmarking

We have examined the performance of several RDE offerings that were developed over the past decade and they all share in some common successful elements:

- They are well located, accessible, and visible, with a sufficient size to support the program and parking requirements.
- They enjoy a substantial, affluent, growing and underserved market.
- They have developed a “place-centered design,” a significant feature defining RDE destinations is a distinctive “sense of place” that supports casual people watching, strolling and gathering.
- They enjoy “critical mass,” a sufficient number and diversity of tenants within a category of retail, dining and/or entertainment to reinforce the perception of the development as destination (relative to competitive offerings).
- They have a critical mix of tenants that establishes and sustains the development as a unique offering.



- The projects are “local institutions,” with venues and features that define the project as a center point for the surrounding community.
- They are “destination draws,” in which the program as whole capable of drawing visitors from significant distance – residents between 20 to 30 miles
- The programming supports a high level of repeat visits by the local and regional population.
- The projects are perceived as key parts of any tourist itinerary, boasting a “must-see/must-do” environment.

The proposed RDE program for Pocono Manor is based on Vibrant’s experience with other lifestyle and town center-style developments and gaming-based RDE programs

In this part of the analysis, modified programs from five separate town center/lifestyle center projects were adjusted to determine the core dining and retail uses in first phase of each project (specifically, major anchors, unique & site specific program elements have been removed). All project data and narrative descriptions are cited from the Urban Land Institutes’ case studies on each of the featured projects.

As shown in the table below, this yielded additional retail space of between 64,000 to 149,000 square feet and dining of 28,000 to 66,000 square feet. Illustrative projects were selected largely based upon the program scale, other similar uses within the mixed use development program and the character/experience created by the design.

- When compared to these adjusted lifestyle/town center programs, Pocono Manor’s initial RDE program falls at the upper range of the retail scale and the mid point of the dining range (due to the significant additional dining in the Pocono Manor program, which is integrated within the core gaming program).

Illustrative Town Center / Lifestyle Center Programs Adjusted

Project	Legacy Village	Birkdale Village	Ave at Whitemarsh	Reston Phase 1	Phillips Place
Dining	65,796	47,786	45,920	49,314	28,224
Retail	149,174	148,268	112,329	91,889	63,691
Total	214,970	196,054	158,249	141,203	91,915



Here is some background information on the benchmarked projects listed above, which will provide additional context for the comparison and adjustments made to removing project-specific anchors (cited from ULI case studies).

- Legacy Village is one of northeast Ohio's first open-air lifestyle shopping centers. The 613,000-square-foot (56,948-square-meter) project includes approximately 550,000 square feet (51,095 square meters) of retail space on the first and second floors of seven separate buildings, as well as almost 20,000 square feet (1,858 square meters) of office space on the third floor of one building. The project owes its success to several factors, including a site design and hardscape features that lessen the impact of Cleveland's cold, snowy winters, and the synergy both among retailers within Legacy Village and between Legacy Village and a nearby regional mall. Seventy percent of the center's retailers are new to the market, and the project has paved the way for other open-air shopping centers in the Cleveland area.
- Phillips Place - A suburban mixed-use development on 35 acres near Charlotte, North Carolina, featuring 130,000 square feet of retail space, 402 residential units, 124 hotel rooms, and a multiplex cinema. The project includes a pedestrian-scaled main street within a traditional low-density suburban area. The three-story buildings on the main street feature retail uses on the ground level and apartments on the second and third floors. The classically influenced architecture and the significant emphasis on high-quality streetscape design and lighting combine to create a pleasant and safe pedestrian experience.
- The Reston Town Center Urban Core in Reston, VA is an 85-acre mixed-use urban center located within a 460-acre Town Center District that was identified in Reston's original 1962 master plan. The first phase of the Urban Core, completed in 1990, includes 530,000 square feet of office space, 240,000 square feet of retail, restaurant and entertainment space, and a 514-room hotel.
- Birkdale Village - Envisioned as a village-style town center serving the northern portion of Mecklenburg County, a rapidly growing suburb of Charlotte, North Carolina, Birkdale Village is a highly efficient, planned, 52-acre (21-hectare), pedestrian-oriented mixed-use

community containing 287,000 square feet (26,662 square meters) of office and retail space and 320 apartments, 81 percent of which are located above retail space. The Main Street project features angled and parallel parking, attractive open spaces, and a traditional street grid system with residential and mixed-use buildings oriented toward the project’s interior and parking decks located behind the buildings. The project’s pedestrian connections and scale add to the center’s urban feel.

- The Avenue at White Marsh is a 300,000-square-foot (27,870-square-meter) “main street” retail center in the heart of a 2,000-acre (809-hectare) planned community in a middle-market demographic area northeast of the city of Baltimore. At the time planning started for The Avenue, the White Marsh community had been in development by Nottingham Properties—a local land developer with large private landholdings—since 1972. It consisted of a market-leading Rouse Company regional shopping mall, residential neighborhoods of for-sale and rental attached and detached housing, a power center, hotels, office parks, and scattered pad sites, almost all on ground leases. The Avenue re-creates a five-block-long main street with angled-in parking, wide tree-lined sidewalks, and one-story retail and restaurants anchored by a 16-screen multiplex cinema. The main street is intersected by four cross-streets, which help distribute parking for almost 2,500 cars among the surface lots that are out of sight from The Avenue’s main street.¹⁷

The following tables list some of the relevant data for these projects:

LEGACY VILLAGE: LAND USE INFORMATION	
Site area (acres/hectares):	67/27
Gross building area (square feet/square meters):	613,000/56,948
Gross leaseable area (square feet/square meters):	590,000/54,811
Floor/area ratio (FAR):	13 percent

¹⁷ Descriptions taken directly from Urban Land Institute case studies.



Number of levels: 3

Total parking spaces: 2,576

Surface spaces: 2,505 (including about 50 metered on-street spaces)

Structured spaces: 71 (located below the three-story retail/office building)

LAND USE PLAN

Use	Acres/Hectares	Percentage of Site
Buildings	9/3.5	\$ 13.40
Paved areas (surface parking/roads)	27/11	40.30
Landscaped areas	38,474.00	7.50
Landscape buffer/conservation easement	26/10.5	38.80
Total	67/27	100.00

RETAIL TENANT INFORMATION

Classification	Number of Stores	Total Gross Leaseable Area
		(Square Feet/Square Meters)
General merchandise	1.00	2,405/223
Food	14.00	60,320/5,604
Food service	3.00	89,139/8,281
Clothing and accessories	18.00	71,734/6,664
Shoes	2.00	2,270/211
Home furnishings	7.00	178,160/16,551
Electronics/music	1.00	3,907/363
Sporting goods	2.00	86,145/8,003
Gifts/specialty	1.00	2,448/227
Bookstore	1.00	26,628/2,474
Personal services	4.00	10,585/983
Offices (other than financial)	5.00	19,000/1,765
Total	59.00	552,741/51,350

MAJOR TENANTS

Tenant Name	Space Occupied (Square Feet/Square Meters)
EXPO Design Center*	90,900/8,445
Dick's Sporting Goods	81,655/7,586
Giant Eagle	83,663/7,772
Crate & Barrel	35,925/3,337
The Cheesecake Factory	12,667/1,177

*Store closed in July 2005.

Average length of lease: 15 to 20 years

Annual rents (per square foot/square meter): \$11-\$25/\$118-\$269

Average annual sales (per square foot/square meter): \$305/\$3,283

DEVELOPMENT COST INFORMATION

Site Acquisition Cost: \$25,080,000

Site Improvement Costs (on and off site)

Excavation/grading: \$34,500,000

Sewer/water/drainage: \$4,900,000

Paving/curbs/sidewalks: \$2,800,000

Landscaping/irrigation: \$1,850,000

Off-site improvements: \$2,050,000

Other: \$600,000

Total: \$46,700,000

Construction Costs: \$60,220,000

Soft Costs: \$13,000,000

Total Development Cost: \$145,000,000

ANNUAL OPERATING EXPENSES (Per Square Foot/Square Meter)

Taxes: \$5.01/\$53.93

Insurance: \$0.32/\$3.45



Maintenance: \$6.75/\$72.66

Miscellaneous: \$0.48/\$5.17

Total: \$12.56/\$135.20

DEVELOPMENT SCHEDULE

Leasing started: September 1999

Negotiations with landowner began: April 2001

Planning started: April 2001

Site purchased: June 2002

Formal design started: July 2002

Construction started: August 2002

Final permit obtained: September 2002

Project opened: October 2003

PHILLIPS PLACE: LAND USE INFORMATION

Use	Existing
Retail	129,394 square feet
Residential	402 units
Hotel	124 rooms (80,000 square feet)
Parking	790 spaces (200,000 square feet)

Site area: 35 acres

RESIDENTIAL INFORMATION

Unit type	Floor area (square feet)	Range of sales/rental prices
One bedroom/one bath	650-1050	\$720-1,260
Two bedrooms/two baths	965-1,335	\$1,170-1,680
Three bedrooms/3.5 baths	1,980	\$2,470
Three bedrooms/3.5 baths	2,200	\$2,920



RETAIL INFORMATION

Tenant classification	Number of stores	Total GLA (square feet)
Food service	4	28,224
Clothing and accessories	6	15,045
Shoes	1	3,200
Home furnishings	4	17,553
Home appliances/music	1	1,500
Hobby/special interest	2	8,507
Gift/specialty	6	9,111
Personal services	3	8,775
Recreation/community	1	30,000
Total	28	121,915

Percent of gross leaseable area (GLA) occupied: 95 percent.

Annual rents: approximately \$26 to \$30 per square foot.

Average annual sales: approximately \$330 per square foot.

Average length of lease: five to ten years.

DEVELOPMENT COST INFORMATION

Site acquisition cost: \$11,950,000

Site improvement costs: \$3,907,842

Parking deck: \$1,700,000

Construction costs



Retail: \$14,254,000
Residential: \$38,000,000
Hotel: \$8,000,000
Total: \$60,254,000
Soft costs
Leasing costs: \$1,600,000
Construction interest/fees: 786,825
Startup costs: 167,000
Legal and accounting costs: 45,000
Total development costs: \$80,410,667

BIRKDALE VILLAGE: LAND USE INFORMATION

Site area (acres/hectares): 52/21
Mixed-use buildings: 18
Apartment buildings: 3
Total dwelling units: 320
Junior anchors: 5
Outparcels: 5
Total parking spaces: 15,500

GROSS BUILDING AREA

Use	Gross Area (Square Feet/Square Meters)
Office	54,000/5,016
Retail	233,000/21,645
Residential	371,030/34,468
Entertainment	53,000/4,923
Total GBA	711,030/66,052



LEASABLE AREA	
Use	Leaseable Area (Square Feet/Square Meters)
Office net rentable area	54,000/5,016
Retail gross leaseable area	233,000/21,645
Theater (16 screens)	53,000/4,923
Residential (320 units)	Data Not Available

RESIDENTIAL INFORMATION			
Unit Type	Floor Area	Percentage	Range of Initial
	(Square Feet/Square Meters)	Leased	Rental Prices
45 different plans ¹⁸	650–2,700/60–250	86	\$650–\$2,000

RETAIL INFORMATION		
Classification	Number of Stores	Gross Leaseable Area
		(Square Feet/Square Meters)
Food service	11	47,786/4,439
Clothing and accessories	15	60,895/5,657
Shoes	3	4,125/383
Home furnishings	5	22,259/2,068

¹⁸ (98 one-bedroom units, 56 units with one bedroom and one loft, 17 units with one bedroom and one den, 28 two-bedroom units, 19 two-bedroom townhouses, 22 three-bedroom townhouses)



Books and music	1	23,000/2,137
Hobby/special interest	5	37,500/3,484
Gifts/specialty	6	10,159/944
Jewelry	2	2,167/201
Personal services	7	11,163/1,037
Drugs	1	15,000/1,393
Entertainment	1	53,270/4,949
Total	57	287,324/26,692

Gross leaseable area occupied: 95 percent

Annual rents (per square foot/square meter): \$21–\$23/\$226–\$248

DEVELOPMENT COST INFORMATION

Site acquisition costs: \$7,000,000

Site improvement costs: \$11,700,000

Construction costs: \$55,000,000

Soft costs: \$8,800,000

Total development cost: \$82,500,000

DEVELOPMENT SCHEDULE

Site purchased: 1997

Planning started: 1997

Sales/leasing started: 1999

Construction started: 2000

Phase I completed: September 2001

Project completed: 2003

Retail trends

As part of our analysis, we have examined retail outlet performance at U.S. shopping malls, and compared it to retail performance in gaming destinations.



The purpose of this section of the report is to put the projected sales forecasts in their proper perspective.

Here is a summary of national sales at malls:

Average Annual Sales per composite average of available major US Shopping Mall data	Average sales per gross square foot
Jewelry	\$ 880
Restaurants - Food courts & Kiosks	\$ 648
Supermarkets	\$ 621
Shoes – Men’s	\$ 514
Pharmacies	\$ 498
Accessories – Women’s	\$ 478
Restaurants - Fast food	\$ 453
Shoes – Children’s	\$ 439
Specialty food stores	\$ 430
Personal Care & Health	\$ 411
Shoes – Women’s	\$ 397
Clothing – Children’s	\$ 393
Restaurants	\$ 369
Electronics	\$ 355
Home Improvements	\$ 333
Shoes – Athletic	\$ 332
Clothing – Family	\$ 328
Clothing – Women’s	\$ 308
Shoes – Family	\$ 299
Clothing – Men’s	\$ 299
Furniture & furnishings	\$ 286
Sporting goods	\$ 246
Stationery & Card Shops	\$ 229
Toys & Hobbies	\$ 221
Automotive parts	\$ 210
Books	\$ 199

Source: Newspaper Association of America

We also looked at sales per square feet, depending on the type of outlet. “Super regional shopping centers” are defined as “Malls that are typically about 1 million square feet with several anchor department stores.” “Regional



shopping centers” are “smaller malls typically 500,000 square feet with two or fewer anchor stores.” “Community shopping centers” are “strip centers ranging from 100,000 to 300,000 square feet,” and “neighborhood shopping centers” are “strip centers less than 100,000 square feet, typically built around a supermarket.¹⁹”

Sales per Square Foot	Super Regional Shopping Centers	Regional Shopping Centers	Community Shopping Centers	Neighborhood Shopping Centers
General Merchandise	\$ 155	\$ 144	\$ 133	\$ 100
Food	\$ 340	\$ 303	\$ 310	\$ 312
Food Service	\$ 406	\$ 289	\$ 229	\$ 183
Clothing and Accessories	\$ 229	\$ 209	\$ 167	\$ 201
Shoes	\$ 291	\$ 241	\$ 168	\$ 145
Home Furnishings	\$ 257	\$ 234	\$ 158	\$ 160
Home Appliances/Music	\$ 312	\$ 282	\$ 189	\$ 175
Building Materials/Hardware	n/a	\$ 178	\$ 131	\$ 111
Automotive	\$ 140	\$ 184	\$ 146	\$ 136
Hobby/Special Interest	\$ 274	\$ 234	\$ 156	\$ 163
Gifts/Specialty	\$ 267	\$ 197	\$ 146	\$ 149
Jewelry	\$ 748	\$ 549	\$ 264	\$ 280
Liquor	n/a	n/a	\$ 250	\$ 217
Drugs	\$ 229	\$ 228	\$ 247	\$ 241
Other Retail	\$ 371	\$ 288	\$ 172	\$ 143

Source: International Council of Shopping Centers

¹⁹ International Council of Shopping Centers



The range of overall sales appears to be within a blend of between \$300 per square foot and \$400 per square foot. This appears to be an acceptable range for most retail, and would still be 20 percent lower than what we project for Pocono Manor.

We also looked at sales from the Simon Property Group, which operates the Forum Shops along with regional malls across America; its overall production is \$421.20 per square foot.

Conclusion

In a traditional analysis, developers look at a region's local population, the competitive landscape, and factor in its present visitor base to determine whether or not an investment in retail and dining would generate an adequate return on investment.

The planned development for Pocono Manor, however, is unique and promising in its breadth and scope that it requires something more than a traditional analysis. Such a project demands an examination of the future possibilities, as well as the present realities.

With that in mind, we respectfully suggest that a well-conceived retail, dining and entertainment component could accomplish several goals:

- It would be profitable in its own right, reaching a very respectable level of annual sales of \$350 per square foot.
- It would increase the likelihood of success for the rest of the development, including the gaming component.

We have concluded, after studying numerous properties in various gaming markets, that retail and dining bolster gaming, and that gaming in turn bolsters retail and dining sales. The combination creates a true destination, with an ability to attract a wide variety of affluent adults from great distances.

This combination would serve some larger public purposes as well. An attractive, relatively exotic mix of retail, dining and entertainment will keep visitors on site longer, and encourage them to visit more frequently.



This will not only generate increased tax revenue for the state -- from gaming, employment, sales and other taxes -- but would create the opportunity for other retailers in the region to improve their offerings, and target some of these visitors. This would generate even more capital investment, and thus create an upward economic spiral for the entire Poconos region.

Retail, dining and entertainment would thus advance several public policies for the Poconos region and the state of Pennsylvania, by attracting visitors from out of state and encouraging them to stay longer. Moreover, it would generate tax revenue and employment, while helping to create a new image for the Poconos region as a retail and entertainment destination.

