

Destination Macau

When Macau officials decided to end the casino monopoly of Chinese gambling mogul Stanley Ho, they looked to Las Vegas.

They looked not just for Nevada operators to invest in the Chinese enclave and to build competing casinos, but for the model of a vibrant resort city that offers more than gambling.

Two-and-a-half years after the first Las Vegas-owned casino opened in Macau, the government seems well on its way to achieving its goals.

And the market has proved to be a gold mine for the lucky Las Vegas operators who won the right to build there.

Macau, 10 minutes by helicopter or one hour by ferry from Hong Kong, was governed by Portugal for 442 years before it was returned to China in 1999. It enjoys a high level of political and legal autonomy, similar to the arrangement in Hong Kong since Great Britain returned it to Chinese sovereignty in 1997.

„One country, two systems“ is what the Chinese government calls its policy regarding Hong Kong and, separately, Macau.

Visitors need not look beyond downtown to see the juxtaposition of cultures, of old and new China. Up the street from some casinos are the imposing barracks of the People's Liberation Army, identified by the iconic red star.

Chinese demand

It is Macau's proximity to Hong Kong and southern China that makes its casinos so lucrative. According to the CIA's World Factbook, China has more than 1.3 billion people and the Chinese economy is the world's second largest, having grown more than tenfold since 1978. China's industrial production grows at an amazing 29.5 percent annual clip, with most of

that growth taking place in southern China, close to Macau.

Hong Kong's 6.9 million people enjoy a standard of living comparable to residents of Germany, France, Italy and Britain, the World Factbook notes.

That economic vitality and the Chinese lust for gambling drove U.S. gaming companies to apply to operate casinos in Macau, the only place in China with legal casino gambling.

In 2002 Macau selected Ho and two other operators for casino licenses, known as concessions.

One was a partnership between Macau-based Galaxy and Venetian owner Las Vegas Sands; the other was Wynn Resorts.

The Chinese government has loosened travel rules for its citizens over the past few years. Combined with the increasing strength of the Chinese economy, more Chinese – with more money to gamble – are visiting Macau.

According to the most recent statistics compiled by Deutsche Bank AG in Hong Kong, 53 percent of Macau's visitors in July were from mainland China, 33 percent were Hong Kong residents and 7 percent were Taiwanese.

Macau generated about USD 5.3 billion in gaming winnings in 2005. That same year in Las Vegas, Strip casinos generated USD 6 billion.

Sands Macau

The three concession holders became six when the Galaxy-Sands combination split with Galaxy getting the concession and the Macau government granting Sands its own right to build a casino. Ho and Wynn were each granted the right to sell a casino-operating license, called a „subconcession.“

Ho sold his for about USD 250 million to a partnership owned by his daughter, Pansy Ho, and Las Vegas Strip kingpin MGM

Mirage, while Steve Wynn this year sold his subconcession for about USD 900 million to a partnership owned by Ho's son, Lawrence Ho, and a company controlled by Australian publishing tycoon James Packer.

In May 2004, Las Vegas Sands became the first Nevada-based operator to open a Macau casino. The Sands Macau was phenomenally successful, paying for its construction in the first year.

The Sands, the first casino visitors see when they arrive by ferry from Hong Kong, was the most luxurious property in Macau at the time. Packed with hundreds of table games and a few gourmet restaurants, the casino was expanded two weeks ago and a couple of restaurants were closed to accommodate a staggering number of table games – 740, or about as many as the combined total of Bellagio, MGM Grand, Mirage, Mandalay Bay and Luxor.

The expansion created the world's largest casino, ranked by number of table games, Sands Macau President Mark Brown said. Since opening, the casino has welcomed 20 million visitors.

In the second quarter of this year the Sands Macau generated USD 307.1 million in casino revenue, more than four times the USD 71.3 million generated by its big sister, the Venetian in Las Vegas.

UBS Securities Asia estimates that Sands has captured a 21 percent share of the Macau gaming market; Ho's SJM has 66 percent and Galaxy the remaining 13 percent.

Las Vegas Sands initially targeted the low and middle end of the Macau gaming market with its huge capacity and easy accessibility, but has recently started to encroach on Ho's traditional high-end, big-bet-booking dominance.

Sands' high-end success has irritated Ho, who has been quoted in the Macau press as warning that aggressive competition from

the Sands has threatened the viability of some of the independent casino operators who run gaming tables in Ho-owned casinos. About 50 of SJM's 150 VIP rooms are now struggling because of Sands competition, Ho told the Macau Daily.

In the same media reports, Las Vegas Sands owner Sheldon Adelson was quoted as saying that those who can't stand the heat should get out of the kitchen.

Wynn Macau

This week, Wynn opened the second Las Vegas-owned Macau casino, Wynn Macau.

A USD 1.2 billion version of the USD 2.7 billion Wynn Las Vegas, the Macau casino is the first resort-style gambling venue in Macau and the first to emphasize design and nongaming amenities that would be at home at the nicest properties on the Strip.

In front of the resort is Macau's first Strip-style marquee and a lake with a modernized version of the dancing fountains Wynn built at the Bellagio.

The resort's lobby and high-end stores separate the doors from the casino, which is much more spacious and luxurious – thick carpeting, expensive wall and ceiling adornments – than other Macau casinos.

The casino is much smaller than the Sands, with only 210 tables, but Wynn hopes that, like in Las Vegas, he will attract the wealthiest bettors.

And, like Las Vegas Sands, no one doubts Wynn's Macau venture will be a financial windfall. The subconcession he sold for USD 900 million almost covers the cost of Wynn Macau.

To skeptics who wonder whether his smaller property can experience the kind of success his bigger competitors have enjoyed, Wynn cited his performance on the Strip.

„We are a high-end operator,“ Wynn said before his property opened Tuesday . „We get higher room rates and we get a higher yield on slots and tables.“

Wynn said his resort is the next step in the evolution of Macau casinos, and predicted that future properties will focus even more on amenities and less on gaming capacity.

„Hotels that are not wonderful will struggle, and hotels that are wonderful will not struggle,“ Wynn said. „The Sands was an interim step. It has done very well financially but in no way does it represent the future of the city.“

Venetian Macau

Adelson and his team know where the future of Macau lies: the Cotai Strip. That is where he plans to open the biggest gambling resort in the city next year, the Venetian Macau.

Adelson’s investment is likely to top the USD 7 billion MGM Mirage is spending on the Strip’s biggest development, Project CityCenter.

Adelson is hoping that his formula for success in Las Vegas – providing places for meetings, conventions and exhibitions and offering a destination for employers to reward their best workers – will also work in Macau. Such a strategy is a giant departure from the gambling-centered business plan of almost all Macau casinos.

Las Vegas Sands already has signed 26 trade shows for the Venetian Macau next year and is poised to follow its Las Vegas strategy: Bring the gambling tourists to town on weekends and the conventioners there during the week.

The Venetian Macau’s casino will have more than 700 table games and about 6,000 slot machines in 546,000 square feet, about twice the square footage of the Sands Macau casino, and with the largest number of slots in Asia, by far.

Adelson plans a Macau version of his Grand Canal Shoppes, and the company has lined up deals with major international hoteliers to operate their own high-end brands as part of the Venetian's sprawling complex.

Construction already has begun on the 1,000-room Four Seasons Hotel. The impressive lineup of big-name brands that are soon to follow include a 500-room Shangri-la Hotel, a 1,000-room Traders, a 1,200-room Sheraton, a 300-room St. Regis, a 1,200-room Hilton, a 300-room Conrad and 1,500 rooms at the Fairmont Hotel and Raffles Hotel.

Las Vegas Sands is leasing the land and will operate all casino concessions at its Cotai site.

The Grand Canal Shoppes will be unlike anything Macau has seen: more than 350 retail outlets and three 390-foot canals, featuring not just gondolas but sampans.

Neither the Sands nor Wynn has made big moves on the entertainment front, because Chinese gamblers so far don't seem to have the patience to sit out the action to take in a 90-minute show.

But the Venetian hopes a 15,000-seat events center for staging big concerts and sporting events will fill up.

And if there's entertainment in a gambling town, can Cirque du Soleil be far behind? Las Vegas Sands has signed Cirque du Soleil to perform at an 1,800-seat showroom.

Adelson is counting on his huge investment in Macau to keep paying impressive dividends. He told Reuters last week that he expected to control 60 percent of Macau's gaming revenue by 2010, which he predicted would be USD 14 billion, almost triple its current win.

Macau growth

MGM Mirage is partnering with Pansy Ho to build the MGM Grand

casino project, next door to Wynn Macau. The MGM Grand is scheduled to open in the fourth quarter of 2007.

New Jersey and Nevada gaming regulators are investigating Pansy Ho's suitability to partner with MGM Mirage, which is Nevada's biggest operator and is the co-owner of New Jersey's newest and most successful resort, the Borgata.

Wynn recently bought a 54-acre site on Cotai, becoming a neighbor to competitor Adelson. Wynn has indicated he hopes to partner with one or two other operators to build two or three resorts with a top-flight retail center.

Stanley Ho is not standing still, but is busily expanding his Lisboa casino. Galaxy is building a tall twin-towered project near Wynn and MGM, and the Packer-Lawrence Ho partnership plans major projects as well.

Not all of the construction on Macau is casinos, but much of it is funded by the 39 percent tax on casino winnings levied by the government.

Three bridges connect Macau to Taipa, the island where the Cotai Strip begins, and the government also is building an underwater tunnel.

A ferry terminal on Taipa is also under construction, so visitors from Hong Kong can go directly to the Venetian's convention site.

Macau's international airport, situated on Taipa, handles flights from China, Japan, Taiwan and the Philippines. It doesn't have a runway capable of accommodating jumbo jets, but has room for expansion. And that is likely. The government Web site promotes Macau as a destination for tourists from around the world.

Four years after breaking up Stanley Ho's monopoly, Macau's decision seems to be a success. Foreign operators have

invested billions in the Chinese enclave, with the likely prospect of tens of billions more to come .

Macau residents are more fully employed and have better roads and transportation systems, and new and planned resorts are transforming the city's business model, with resort-style accommodations and convention-centered resorts adding to the traditional gambling-focused casinos.

For the Las Vegas operators who won concessions to open casinos in Macau, the government's decision has been a coup, resulting in vault-bursting profits and even richer prospects.

The Macau casino boom isn't expected to hurt Las Vegas casino profits, casino bosses say. In fact, it's expected to whet Chinese appetites for the Vegas experience, just as U.S. gamblers continue to flock to Las Vegas even with riverboat and Indian casino operations closer to home.

And, perhaps most important, Macau operators with casinos in Las Vegas have a big incentive to bring their best customers to the Strip. When a Macau casino wins USD 1 million from a gambler, USD 310,000 of the win is paid to the Macau government in gaming taxes. Nevada's 6.75 percent tax rate would allow the casino to keep USD 932,500 of the million.