

For Macao, gambling is no guarantee for the future

Las Vegas's days as the epitome of excess may be numbered.

The USD 2.4 billion Venetian Macao Resort, scheduled to open here Tuesday, can easily give Vegas a run for its money. It has more floor space than four Empire State Buildings. The slot machines, baccarat tables and other games of chance sprawl across a casino more than three times the size of the largest in Las Vegas, making it easily the world's biggest. The 15,000-seat sports arena nearly rivals Madison Square Garden, the convention center has a 6,000-seat banquet hall and the luxury shopping mall has three indoor canals with singing gondoliers; the Venetian in Vegas has just one.

But what is most surprising about the 3,000-suite project is that it is just the first of 14 interconnected hotels being built here by Las Vegas Sands. When completed, the complex will include a St. Regis, a Shangri-La, a Raffles, a Conrad, an InterContinental and a Sheraton, each with its own casino, bars and restaurants. And the project, which will cost from USD 10 billion to USD 12 billion, is just the largest of a series of giant gambling complexes being constructed here in Macao, on the southwestern lip of the mouth of the Pearl River.

China has already surpassed the United States in the manufacture of everything from steel and cement to DVD players and microwave ovens. Now, China is on its way to establishing itself as the global leader in a service industry: gambling.

Why? Money, naturally. Thanks to a national passion for gambling in mainland China, where it is illegal, Macao surged ahead of Las Vegas last year in money gambled. The Sands Macao, the first American-operated casino here, opened its

doors three years ago, and in its first year profits exceeded the total cost of building the project, according to the company and industry analysts.

But some of the same experts predict that while the gambling industry here will continue to grow briskly, it may not expand as quickly as new casinos are slated to open, resulting in narrower profit margins for the big American operators coming to China and for local companies as well.

„The trend for Macao is the margin will have to come down,“ particularly for operators of older casinos, said Gavin Ho, an analyst of the gambling industry at CLSA, an Asian investment bank. „I think some of the worse players will be driven out of business.“

The big question is how quickly Macao can expand beyond its traditional customer base of day-trippers from Hong Kong and nearby mainland Chinese cities in the Pearl River delta. These visitors are so frugal that they often bring their own food and do not rent hotel rooms. The average visitor to Macao spends just 1.26 days in the territory.

Many of those who visit during the day spend hour after hour staring glumly at gambling tables – baccarat is particularly popular because the odds favor the house less than most casino games.

„If you look at Macao, there are no or virtually no nongaming revenues,“ said William Weidner, the president and chief operating officer of Las Vegas Sands. He said that the Venetian would be successful, but said that the sheer size of the investment made it unlikely to recover its entire investment in a year the way the Sands did.

To prosper, the new casinos will have to do more than just bring in more gamblers – they will have to bring in customers who want to do more than just gamble, and stay a few nights to do so. Macao currently has 4,800 rooms in five-star hotels and

another 4,000 in four-star hotels. The new project will add 2,500 five-star rooms and 17,500 rooms in four-star hotels, including the four-star Venetian.

Wynn Resorts opened a casino and hotel here late last year and MGM Mirage will open a 600-room, five-star hotel later this year. The main loser so far has been Sociedade de Jogos de Macau, the former gambling monopoly controlled by Stanley Ho, a Hong Kong billionaire who also owns extensive real estate and other investments in Macao.

After Portugal returned Macao to Chinese rule in 1999, Beijing officials decided to break the monopoly Ho held so as to introduce more competition and to improve the reputation of a city known for prostitution and pawn shops.

The Venetian is offering an initial rate of USD 140 a night for a 650-square-foot, or 60-square-meter, suite and advertising heavily in an attempt to persuade residents of nearby Hong Kong that Macao is changing. „They still perceive Macao as a pure gaming place and as a sin city,“ said Billy Ng, an analyst of the Asian gambling industry for JPMorgan.

On Wednesday afternoon, the aging Hotel Lisboa, owned by Ho, and the nearby Wynn and Sands casinos were all attracting sizable crowds – though each seemed to have its niche. Younger Chinese men and women seemed to be gravitating to the Sands. At the Wynn, middle-aged Chinese men and women occupied most of the tables, along with a handful of Westerners. At the Hotel Lisboa, older men seemed to predominate, with a sprinkling of gaunt young women in extremely short miniskirts and very high heels.

Ho, of CSLA, said that while Sociedade de Jogos de Macau might have to close a few of its oldest casinos, the Hotel Lisboa would probably survive because it is well known. He said SJM is also building new casinos. SJM officials did not return calls for comment.

MGM Mirage raised more than USD 5 billion last week by selling a 9.5 percent stake in the company to Dubai World along with half a Las Vegas project, in a transaction widely viewed as an attempt to strengthen its balance sheet at a time of turmoil in financial markets. Weidner said that Las Vegas Sands had ample credit available and had not been affected by problems in credit markets.

While Macao resembles Atlantic City, New Jersey, in attracting mostly residents of nearby cities, who appear less than jet-set glamorous, the Venetian Macao Resort represents the biggest attempt by Macao by far to transform itself into a Vegas-like attraction with customers from all over Asia and across the world who gamble and spend money on alcohol and entertainment, too.

There have been some successes. An upcoming exhibition tennis match at the Venetian arena between Pete Sampras and Roger Federer sold out in less than a day; tickets will soon go on sale for two exhibition games featuring National Basketball Association teams.

Attracting non-Chinese could also become more important because officials in Beijing periodically tighten the rules for issuing exit visas to residents of nearby Chinese cities. A recent tightening of the rules for adjacent Guangdong Province slowed annual growth in visitors from that province to 11 percent in July, although overall growth in visitors to Macao is still over 20 percent because of strong interest from Hong Kong and Southeast Asia.

But the longer-term success of the gambling industry may depend on whether the Macao city government can improve a sometimes disorderly environment.

Las Vegas Sands has been working closely with the police in hopes of avoiding a repeat of the fiasco at the opening of the Sands Macao. Then, drawn partly by false newspaper reports of

free USD 25 chips for the first betters, a mob that the police estimated at 20,000 trampled barriers and ripped doors off their hinges in a rush to get inside, although no one was seriously injured.

The police in Macao have had trouble controlling crowds since then. Faced with pushing and shoving demonstrators four months ago, a police officer whipped out his pistol and fired five shots into the air to get the attention of the crowd. He missed spectators who happened to be watching from a pedestrian bridge above, but a bullet of the same caliber as the weapon of the officer seriously injured a man in his 50s who was riding a motorcycle several blocks away.

Koc Soi Leng, a senior inspector at the Macao police department, said that the police had been working closely with the Venetian to prepare for its opening.

„The situation on that day will be closely monitored and backup police resources will be called upon if necessary,“ she said.

Ron Reese, a spokesman for the Venetian, said that the sheer size of the hotel and its huge entrances and exits should prevent problems.