

Atlantic City is wagering on mega-casinos

Atlantic City – Change is in the seaside air here.

The tiny Sands Hotel Casino, which had a loyal following among mostly older clientele, will be imploded Thursday.

After that piece of the past is blown away, a USD 1.5 billion casino run by Pinnacle Entertainment Inc., of Las Vegas, will take its place.

On the northern end of the Boardwalk, the Wall Street firm Morgan Stanley will top that with a USD 2 billion mega-casino with two hotel towers.

Not to be outdone, MGM Mirage, owner of some of the most prestigious casinos on the Las Vegas Strip, announced plans last week for a gleaming gambling palace with three towers and a price tag of up to USD 5 billion.

Despite Atlantic City's loss of USD 57 million in business to Pennsylvania slot parlors so far this year, there seems no slowing the trend toward monster-size casinos boasting luxurious rooms, spas, high-end retail and fine dining.

The idea: Extend Atlantic City's geographic reach and broaden its customer base beyond day-tripping slots players to attract more affluent, overnight customers who seek luxury. The hoped-for new customer will pay for a good meal and a nice room rather than rely on „comps,“ or giveaways, from the casinos.

„It's definitely a smart move by MGM,“ said gambling historian David G. Schwartz, director of the Center for Gaming Research at the University of Nevada in Las Vegas and author of Roll the Bones: The History of Gambling.

„They see there is a big opportunity there,“ Schwartz said.

„Atlantic City operators have to make a decision in the market,” he said. „If they just coast on what they have now, it will be something like Laughlin, Nev. – which is mostly a regional destination in the shadow of Las Vegas and competition from Indian casinos in California and Arizona.

„Or they could become Las Vegas, which draws people from around the world because of the extensive nongaming amenities.”

Operators in Atlantic City are clearly choosing to follow the path of the nation’s No. 1 gambling mecca. Las Vegas took the same steps to reinvent itself after the successful launch of Steve Wynn’s market-changing USD 650 million Mirage Hotel & Casino in 1989.

The Mirage, which featured an erupting volcano at its entrance, was the first Las Vegas supercasino, featuring shopping, dining and other nongambling amenities. It got everyone else in town to follow suit to build bigger and better.

Mark Juliano, a former president at Caesars Palace in Las Vegas, remembers that defining period in the early 1990s well.

„It motivated us to improve the Palace because we wanted to stay competitive,” said Juliano, who in July was named chief executive officer of Trump Entertainment Resorts Inc., Donald Trump’s casino company, which owns and operates three casinos in Atlantic City. „The same thing will happen here. Every time the bar gets raised, you have to follow the bar.”

All three Trump casinos are struggling and undergoing renovations, including revamping their hotel rooms and adding restaurants, but Juliano said competitors were coming in with big money that would put even more pressure on his casinos. He cited Trump Marina, which sits near the 72-acre parcel where MGM will build its mammoth casino.

„The Marina, in its present condition, couldn't compete with a property like that,“ Juliano said as he gave a tour of a high-roller suite at the Taj Mahal, renovated this year at a cost of USD 4 million.

Las Vegas had to kick its makeover into high gear after 2000, when California voters legalized gaming. Indian casinos soon popped up everywhere, and the state now boasts a USD 7 billion industry among customers who used to frequent Nevada.

In Las Vegas, smaller, older casinos that cannot compete with the Bellagios and Venetians on the Strip are regularly imploded.

Pennsylvania is now breathing down Atlantic City's neck in much the same way, and the resort cannot sit still, said gambling historian Schwartz. Two casinos are planned for the Philadelphia waterfront. Foxwoods Development Corp., of Connecticut, has plans for a USD 560 million gambling hall and SugarHouse Gaming of Chicago recently upped its budget to spend USD 650 million for another.

„If there is pressure from competition right now, what you need to do is offer something bigger and better,“ Schwartz said.

„You have to give people a reason to drive past 50,000 slot machines to get to your slot machines. One way is to give them the dining, entertainment or a hotel.“

Linda Kassekert, chairwoman of the New Jersey Casino Control Commission – the state agency that regulates the Atlantic City gambling market – said there had been no lack of investor interest in Atlantic City, because of its low 9.25 percent tax rate on gross gambling revenue, (only Las Vegas is lower at 6.75 percent), an unlimited number of casino licenses, and a concentration of 11 casinos – and counting – in one location.

„It's been nonstop. We just had a group in from Russia not too

long ago," Kassekert said. „They ask about Atlantic City and how we regulate it and where Atlantic City is going.“

Michael Pollock, publisher of Gaming Industry Observer and managing director of Spectrum Gaming Group, a consulting firm in Linwood, N.J., said lower revenue among the casinos this year and billions of dollars in capital investment being poured into Atlantic City „are not incompatible.“

„Quite frankly, it was always foreseen that slots parlors in Pennsylvania, as well as in New York, Delaware and anywhere that comes along in the Northeast, were going to target a segment of the gaming-centric population that has historically gone to Atlantic City," Pollock said. „So Atlantic City's response is to effectively move upscale in the demographic food chain to affluent adults, who are less gaming-centric but have more disposable income.“

They include Karen Hattie of Center City, who celebrated her 47th birthday with an overnight stay in Atlantic City last week.

„Like Vegas, you have to please everybody," Hattie said, after dining with her family at Carmine's at the Quarter inside the Tropicana. The nearly three-year-old entertainment, dining and retail mega-complex is modeled after the Forum Shops at Caesars Palace in Las Vegas. „You have different ages and cultures, so you need the variety.

„Not everybody gambles.“