



November 16, 2009

Las Vegas crossing fingers for recovery

Glimmerings of hope that worst may be over for suffering Sin City

By William Spain

LAS VEGAS (MarketWatch) -- The hard data points are at best mixed, but as the casino industry gathers for its annual Global Gaming Expo here this week, operators are seeing glimmerings of hope that the worst -- at least for this downturn -- may finally be over for suffering Sin City.

While every single significant industry metric here, from revenue-per-available room to table drop to occupancy rates, continues to drop, the rate of decline seems finally to be slowing. At the same time, any improvement will be from almost ludicrously easy comparisons, as resorts here begin to lap an abysmal year that began even before the financial crisis and market collapse of late 2008.

Third-quarter numbers for the big firms were far from robust. Ambitious but ultimately ill-timed expansion plans weighed most down with debt just as the cash flows needed to service it were pinched by visitors who either stayed away in droves, or spent less when they did come.

But they survived, although just barely in some cases.

In early 2009, two of the titans of the business - MGM Mirage /quotes/comstock/13*!mgm/quotes/nls/mgm ([MGM 11.12](#), +0.37, +3.44%) and Las Vegas Sands /quotes/comstock/13*!lvs/quotes/nls/lvs ([LVS 17.85](#), +0.46, +2.65%) -- were teetering on the edge of insolvency. Their stocks fell to the low single digits from highs of \$100 or more just a year or so before. Some creative financing moves, no small feat at a time when the credit markets were locked up tighter than rigged roulette wheel, pulled them back from the brink. But to really prosper, the visitors have to come back and open their wallets wider when and if they do.

There has been a bit of good news in recent weeks, including reports that Sands could soon restart construction on its new resorts in Macau after it secured \$1.45 billion in bank financing along with the potential for much as \$3.8 billion from an initial public offering in Hong Kong for those operations. In addition, Wynn Resorts /quotes/comstock/15*!wynn/quotes/nls/wynn ([WYNN 70.50](#), +1.50, +2.17%) announced a special cash dividend of \$4 a share and said it intends to make regular payouts starting in the first quarter of 2010.

Further, gambling revenue on the Las Vegas Strip fell just 3.6% in September, following almost a year of double-digit declines.

"While it is too early to say for certain, there are encouraging signs for Las Vegas, including the relatively small year-over-year decline in September gaming revenue and an increase in visitation," said Joe Weinert, vice-president at Spectrum Gaming, a consultancy.

Still, he noted that overcapacity continues to be an issue, especially with the thousands of new rooms about to come on line as MGM Mirage readies the opening of its massive \$8 billion-plus CityCenter development on the Strip next month. The mixed-use development, replete with both hotel rooms and condominiums, nearly broke MGM Mirage's bank this spring before it cut deals with its bankers and joint venture partner Dubai World to see it through to completion.

"I believe the opening of CityCenter is being viewed with a mixture of hope and fear," Weinert said. "If this next-generation product can restimulate demand for Las Vegas without exerting downward pricing pressure elsewhere on the Strip, then it will be hailed as a great success from the start."

Said pressure has been setting the tone for much of the year. Hotel rooms that went for \$300 and up not a year ago are now typically running at half that, squeezing margins in a business that has traditionally had extremely high fixed costs. These once-in-a-decade low rates have been attracting leisure travelers long priced out of the high-end resorts, keeping occupancy levels from falling as far as other key measures.

Dan D'Arrigo, chief financial officer of MGM Mirage, pointed out that the company managed to maintain a roughly 95% occupancy rate in the third quarter, albeit at sharply reduced rates, and said that it is still "a highly profitable part of our business although we would love to see these room rates increase."

He added that the company is expecting revenue-per-available-room declines to ease in the fourth quarter and could even see some gains in 2010.

"Obviously, the comparisons get easier as we go along," he said. "But our convention and meeting business is starting to fill back in. It feels like the worst is behind us."

He also expects CityCenter to drive incremental visitation of by 5% to 10% and sees very little new supply coming into the market.

Several other massive developments, announced and begun in better times, have been postponed or shelved entirely and D'Arrigo sees "no significant projects" coming in for at least five to 10 years.

"Our view on Vegas is that it is not so much the return of [gambling revenue] but a room rate recovery scenario that will drive growth," said Christopher Jones, an analyst with the Telsey Advisory Group. "They have to get the midweek customer, the conference customer, back."

He said that widely-publicized criticism by President Barack Obama in February, when he singled out corporate junkets to the Super Bowl and Las Vegas - some by firms being bailed out by U.S. taxpayers - had taken at least a modest toll on that business. Those words were bitterly criticized by Las Vegas politicians and casino executives, who felt they were being unfairly singled out, but how much they actually hurt is hard to tell.

"It definitely resulted in a couple of high-level [conference] cancellations," Jones said. "We have not been able to quantify the impact, but it didn't help."

General economic malaise has not been helping either, he added, as firms cut back on their conference and trade show participation here and elsewhere, sending fewer people and keeping them for shorter time periods.

"The Consumer Electronics Show was down last year," he said. "And that was an important milestone. Historically, that has been a sell-out week for every single hotel on the Strip but it will probably be down again this year."

William Spain is a MarketWatch staff writer in Chicago.