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CityCenter could make - or break - Las Vegas

Largest privately-funded construction project in U.S. history nears opening

By William Spain

LAS VEGAS (MarketWatch) -- Well, they built it.

CityCenter -- also known as, "The Thing That (Almost) Ate MGM Mirage" -- is getting ready to open its first phase in just a few weeks. A big concern is whether it will mark another successful expansion of the Las Vegas Strip or merely dump lots of new capacity onto a city where hotels have been begging for guests in the economic downturn.

Jim Murren, the chief executive of MGM Mirage (NYSE:MGM) and the driving force behind the massive \$8 billion-plus mixed-use project, is calmly confident that not only will CityCenter boost his company's vacillating fortunes but it will also give the whole area a lift.

"Wall Street is talking about cannibalization [but] we will know soon enough whether we're correct in our premise that City Center is the most unprecedented marketing tool that a gaming company has ever had to increase business activity at resorts we already own," he said in an interview an employee cafeteria deep within the gleaming towers of glass.

"This is the counterpoint to the concern that CityCenter may grow the market but at the expense of properties which are already here," he said.

He projects that CityCenter alone could increase visitation to Las Vegas by 5% to 10% next year, all without taking away from the company's other properties. Business for the convention center is brisk, Murren said, adding that "we have booked every single of one" of the dozens of meeting planners who have come to see the facility.

CityCenter is a joint venture between MGM Mirage and Dubai World.

"It's simplistic to think that we are going to take customers that are already loyal to us at businesses we already own and shift them over to a resort that we own half of," Murren said. "We've been working on a solution to this for five years -- how to maximize the business activity within the properties we own."

He maintained that even if CityCenter didn't exist, "visitation to Las Vegas would still increase next year and I expect close to 38 million people will visit year. And you cannot go to Las Vegas next year and not visit City Center -- I don't think it is possible."

Good and bad ink

Some other observers, including the head of the industry's trade association are optimistic -- but very guardedly so.

"Openings like this have usually been great for Las Vegas," said Frank Fahrenkopf, president and CEO of the American Gaming Association. "But there are approximately 141,000 hotel rooms in this town and two years ago they were running at 97% occupancy -- that has all changed now."

Indeed, while MGM Mirage maintained a 95% average occupancy rate in the third quarter, it did so only via deep discounting, cutting daily rates by half or more. Competitors including Wynn Resorts (NASDAQ:WYNN) and Las Vegas Sands (NYSE:LVS) posted far lower occupancy rates for the same period, and many of the smaller operators are typically half-empty at best.

"What the impact of these new rooms -- presumably upscale ones -- will be is the big question," Fahrenkopf continued. "Anything that will try to jumpstart that situation is good, but when you've got 10.2% unemployment in the country it's going to be difficult."

If guests don't come, it won't be because they don't know about it. The project has gotten a lot of ink -- both good and bad -- over the years on everything from its stunning design to state-of-the-art environmentally-friendly systems, to a spate of worker deaths to the crash in condominium sales. It was also in the news earlier this year when the venture nearly ran out of money to finish the project and pushed MGM Mirage to the very brink of insolvency.

"There are going to be some challenges with all the incremental capacity coming online, said Christopher Jones, an analyst with the Telsey Advisory Group. "But they are spending an absolutely significant amount of money marketing it. It is going to make a lot of noise, get a lot of awareness. And that will help."

Conspicuous consumption

There is no doubt CityCenter is like nothing yet seen here, or probably anywhere. The largest privately-funded construction project in U.S. history, it is a complex, interconnected web of hotels, condominiums, pools, spas, high-end restaurants and retail outlets, a casino, convention space, "pocket parks," public artwork and pedestrian walkways, each component with its own distinct architectural style.

And it is all squeezed into a relatively tiny amount of space -- for Las Vegas, at least. The 67-acre site contains 18.5 million square feet of built space. Compare that to the Bellagio next door, which is on 76 acres but has just 5 million square feet of built space.

Making it so compact was deliberate in order to build a sense of community and to keep it pedestrian-focused, Murren said, explaining, "We built up instead of out."

While conspicuous consumption will be very much a part of CityCenter, with its multimillion dollar condos, lavish suites, high-end restaurants and retailers like Gucci and Cartier, the project has also won awards for its environmental engineering. For instance, instead of grassy lawns or lush tropical foliage, the gardens are laid out with native, drought-resistant desert plants and the irrigation system uses 60% less water than usual.

The grand opening of Aria, the first of three hotels on the property, is set for Dec. 16, with a two-day party that will feature guests including the Sultan of Dubai and the reclusive majority shareholder and legendary investor Kirk Kerkorian.

Building it nearly broke MGM Mirage's bank as the cash flows needed to service the company's massive debts dried up with the drop-off in visitor arrivals and spending -- at the same time the credit markets collapsed, making further borrowing almost impossible.

Murren described the \$1.8 billion they finally managed to raise to finish CityCenter as a "miracle" under the circumstances.

Still, said Murren, even when things were at their lowest, "There was never a point when we despaired, when we were going to walk away."

Asked if he would do it again knowing what he does now, he said that "had I known things would turn out as well as this, I think I would have enjoyed the intellectual exercise."

"But I didn't at the time," he added.