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BULLISH ON VEGAS: Land of plenty

Region still offers much opportunity for gaming entrepreneurs

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The year 2000 gave investors in gaming stocks major heartburn as companies reported gambling revenue dipping for the first time in two years. That sent shudders through gaming stocks as brokerage houses downgraded the sector and several companies in particular, including MGM Mirage, Harrah's Entertainment, Mandalay Resort Group and Park Place Entertainment.

Does this represent the beginning of a flatter, or even worse, a downward trend? Does this give credence to the claim that Las Vegas is overbuilt?

As Bear Stearns gaming analyst Jason Ader noted in a release issued in response to the September gaming figures, the year-to-year comparison in gaming revenue may be more indicative of unique conditions back in September 1999 -- which saw the De La Hoya vs. Trinidad fight and the opening of Paris -- than evidence of overall market weakening.

Other data shows Las Vegas' outlook remains strong with volume increasing as the global economy continued growing. Some 33.8 million visitors arrived here in 1999, a 10 percent increase over 1998. With the Federal Reserve's recent interest rate cut and the stock market's tentative efforts to rebound, the fear of a recession stalling future growth may still be held in check.

At the same time the number of rooms grew only 4.3 percent over the same period to a total of 122,675, according to the Las Vegas Convention and Visitors Authority. Room occupancy remains far above the national average of 63.3 percent with 90.6 percent occupancy in Las Vegas.

This all means that the opportunity remains to add capacity to accommodate continued growth without overbuilding and starting a discounting war in a bid for customers. But what Las Vegas does not need anymore is another themed hotel casino. It needs a radically new vision on the level of what Steve Wynn introduced with the opening of the Mirage in 1989 with 3,039 rooms -- which was quickly followed by Excalibur in 1990 with 4,032 rooms and then Luxor, Treasure Island and MGM Grand in 1993 with another 10,431 rooms.

Visitors responded initially to these new megaresorts, but we have begun to

see the composition of the Las Vegas visitor change as repeat customers slowly increased while first-time visitors declined. In 1996, 68 percent of visitors were repeaters, rising to 74 percent in 1999, while 32 percent were first timers in 1996, falling to 26 percent in 1999. In addition, the number of trips per year also declined from 2.4 visits per year in 1996 to 1.7 in 1999.

Most interestingly, as convention and business trips have taken a larger share of revenues, the percentage of people gambling has remained constant -- around 87 to 89 percent over the past five years -- even though you've seen trips reduce and fewer first timers coming.

Why has the gaming experience remained constant even though the influx of visitors and types of destinations changed rapidly? Simply put, it's all about adrenaline, the unique thrill that only gambling can provide.

The quintessential Las Vegas experience is gaming and taking the risk for a possible reward. Ultimately that is the key differentiator and primary Las Vegas "brand" as sure as we'll need water piped in.

This upside is what is driving investors from abroad, especially Europe, to rethink a future in Las Vegas. In our case, we attracted investors and partners from nontraditional sources who have not participated in Las Vegas efforts before, but who now see the potential. That potential is realized in a still vibrant economy, consumer market seeking ever more expansive experiences, and a market that has substantial room to add hotel rooms, casino floors, convention space and entertainment attractions.

But what it also still requires are the kinds of partnerships between operators and investors with local government and civic officials that have been the hallmark of the current economic expansion Las Vegas has enjoyed since 1995.

What we as operators need to do is not simply steal market share from each other, but build new brand concepts that reverse the downward trend of first-time visitors and broaden our consumer base. The future of the Strip doesn't lie in building more luxurious accommodations or opulent attractions, it lies in capturing the adrenaline rush you get when you simply take a chance.

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