

Investors Place New Bets on a Las Vegas Rebound

If 18-acre Project Jackpot site draws a high price, it will be one of the strongest signs of optimism yet for the city



By Kate O’Keeffe - Only in Las Vegas would the sale of a plot of land that currently holds a Walgreens and a Travelodge Motel be called Project Jackpot.

But if the 18-acre site on the Las Vegas Strip draws a high price, it will be one of the strongest signs of optimism yet for the city since the financial crisis hammered the U.S. casino industry.

The owners of the site, next door to the MGM Grand, say they are putting it up for sale after receiving expressions of interest in the past few months, said Jeff Schaffer, managing partner of Spectrum Group Management LLC, which took control of the once-bankrupt property in 2010.

The attempt to sell what owners are billing “the last available site of any size located in the heart of the Las Vegas Strip” comes as investors place new bets on a return to Las Vegas’s 2007 heyday.

On Tuesday, Malaysian developer Genting Group broke ground on a \$4 billion Chinese-themed casino-resort expected to open in 2018. The resort, which plans a panda exhibit and a replica of the Great Wall of China, is a reincarnation of a project abandoned in 2008. Another project will be developed next door by Crown Resorts Ltd—the casino company controlled by Australian billionaire James Packer—investment firm Oaktree Capital Management LP and former Wynn Resorts Ltd. executive Andrew Pascal.

This week also saw the end of an era on the Strip when the 60-year-old Riviera casino-hotel shut down. It will be imploded to make way for a \$2.3 billion revamp of Las Vegas’s convention center.

Las Vegas’s recent ups and downs make it difficult to estimate a price for the Project Jackpot site. An appraiser valued the site at \$750 million in 2007. By the next year, the previous owners had written it down to less than \$220 million. Genting in 2013 spent \$4 million an acre to buy the site that it just broke ground on, compared to the \$34.7 million an acre a developer paid in 2007 for empty land on the Strip.

After limping along for years, the Strip last fiscal year surpassed its precrisis peak by all key revenue metrics except for gambling, which these days accounts for less than 40% of total revenue, according to the University of Nevada Las Vegas.

Visitor numbers hit an all-time high too, growing 3.7% to 41.1 million during calendar year 2014,

according to the Las Vegas Visitors and Convention Authority, buoyed by lower gas prices and a drive to increase airline capacity.

Las Vegas is a relative bright spot in the global casino industry. Gambling revenue is down 37% this year in the Chinese city of Macau, which generates seven times the gambling revenue of the Las Vegas Strip. The decline, driven by China's corruption crackdown, has hurt earnings of the big casino operators and raised concerns about the industry's \$20 billion-plus expansion plans in the city.

The long-term optimism of the developers who are investing billions in Las Vegas doesn't match the weak recent performance in the city. Gambling revenue on the Las Vegas Strip was flat in the first quarter compared with the previous year, dragged down by a 9.6% drop in March. Revenue per available room on the Strip fell 12.5% in March and 1.5% during the first quarter, albeit facing a tough comparison.

Steve Wynn, Wynn Resorts Ltd.'s chief executive, offered a bearish outlook during his company's earnings call last week: "What will the second quarter look like in Las Vegas? Weak. Did you hear me? Weak." He added: "This notion of a big recovery is a complete dream."

After confirming with the president of the company's Las Vegas operations, Mr. Wynn went on: "Do you hear that? Now here's two of us saying we would be thrilled if non-casino revenue was flat in the second quarter as it was in the first. My guess is that that's going to be a struggle."

Las Vegas Strip gambling revenue faces more risks in the coming months as revenue from baccarat—the preferred game of the same Asian highrollers who have abandoned Macau—continues to slip, said Todd Jordan, an analyst at Hedgeye Risk Management LLC. Mr. Jordan said the numbers have only gotten worse since he called the recovery a tepid one in a February report "Vegas Baby Yeah? No?"

Las Vegas was also hit by the bankruptcy of the largest unit of Caesars Entertainment Corp., once the world's largest gambling company, in January, though most of its Strip properties were excluded from the filing.

Spectrum's Mr. Schaffer said asset-management firms, real-estate investment trusts, institutions and Chinese investors had expressed interest in the Project Jackpot site, a hodgepodge of shopping, parking lots, chain restaurants and a motel.

The site was originally supposed to be transformed into a multibillion-dollar Elvis-themed casino-resort. Entertainment mogul Robert F.X. Sillerman's company defaulted on the \$475 million mortgage in 2008, and lenders led by Spectrum, a New York-based distressed investor, took control of the site after a bankruptcy court approved their plan in 2010.

Last weekend, Las Vegas reconfirmed its place as a global entertainment destination when the MGM Grand, next door to the Project Jackpot site, oozed with VIPs from Beyoncé to Tom Brady who flocked to the Mayweather-Pacquiao fight, the richest boxing bout in history.

A private jet terminal at Las Vegas's McCarran International Airport had to divert planes to another airport after cramming more than 500 planes into its parking lot—150 more than Super Bowl weekend, said MGM Resorts International chief executive Jim Murren on a Monday earnings conference call.

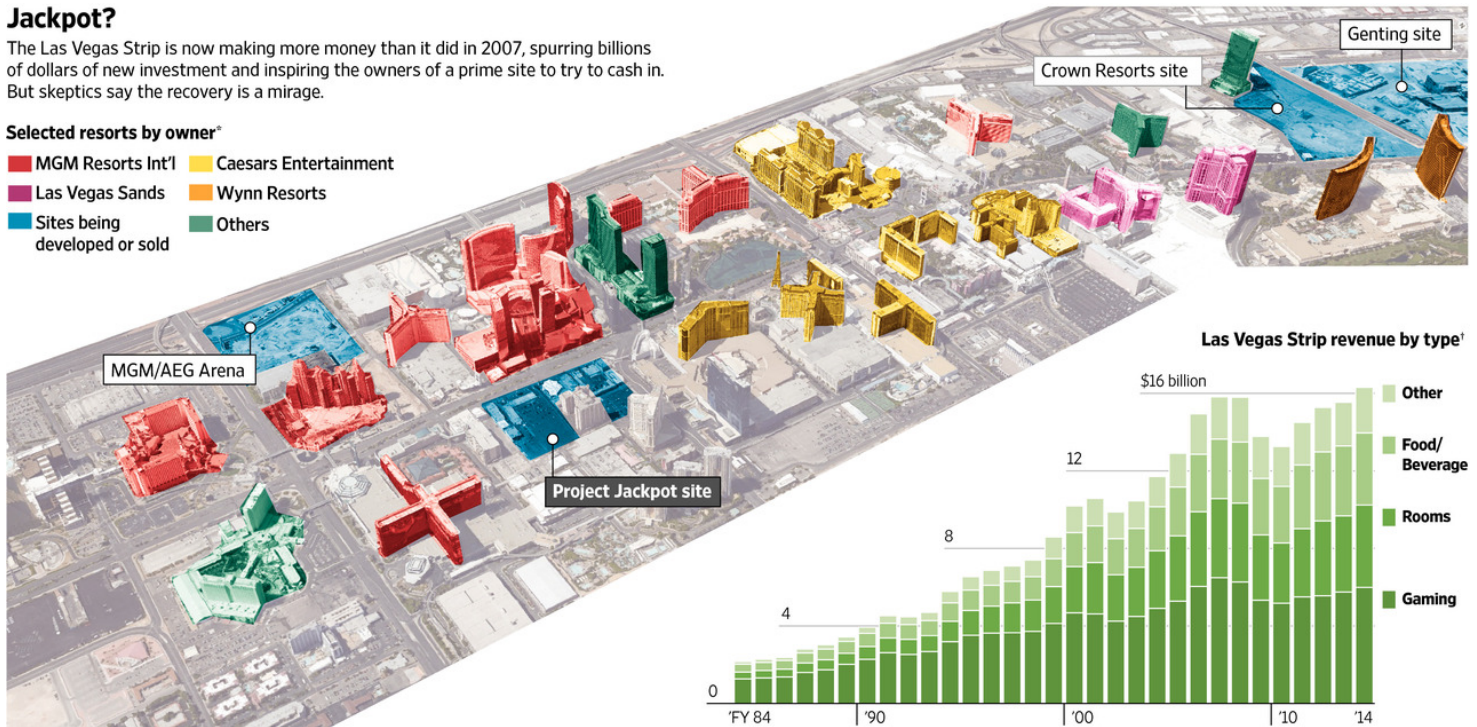
"We're still counting all the money," he said.

Jackpot?

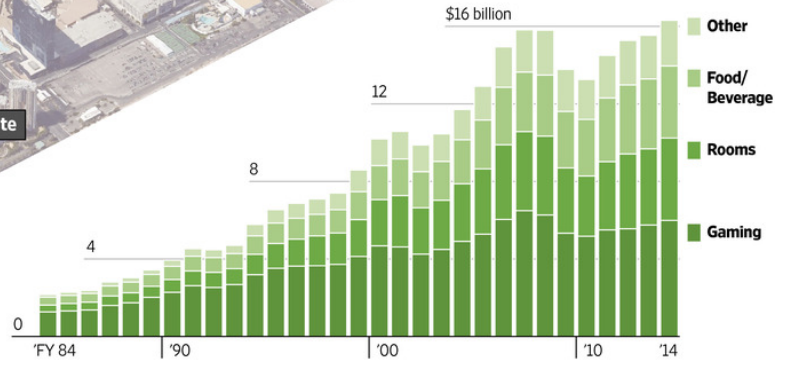
The Las Vegas Strip is now making more money than it did in 2007, spurring billions of dollars of new investment and inspiring the owners of a prime site to try to cash in. But skeptics say the recovery is a mirage.

Selected resorts by owner*

- MGM Resorts Int'l
- Caesars Entertainment
- Las Vegas Sands
- Wynn Resorts
- Sites being developed or sold
- Others



Las Vegas Strip revenue by type[†]



*Not all properties are shown or highlighted †Fiscal year ends June 30

Sources: Eastdil Secured (sites being developed or sold); Nevada State Gaming Control Board (casinos by owner); UNLV Center for Gaming Research (revenue); Google (image)