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FINANCE

# Betting The Ranch On Casinos

Can U.S. gamblers' appetites keep up with the current wave of expansion sweeping the industry?



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Is there a limit to Americans' hunger for gambling? Casino executives are putting their money squarely on "No." With expansion plans on the table from Biloxi to Las Vegas, \$25 billion to \$30 billion could be poured into new casinos and the surrounding shops, hotels, and condominiums by the end of the decade.

Behind the boom: strong revenue gains and a wave of mergers, which have players like MGM Mirage ([MGM](#)) and Harrah's Entertainment ([HET](#)) sprucing up older properties and adding new ones. Fresh markets are opening up, too: Pennsylvania could soon award 14 casino licenses, while Atlantic City and Biloxi, Miss., are adding fancier retailers, glitzier entertainment, and trendy restaurants in a bid to become Vegas-like destinations in their own rights. And that's not even counting the \$22 billion Indian gaming industry, which has more than doubled since 2000.

But will demand increase fast enough to keep all those hotels, restaurants, and slot machines humming? Vegas is showing signs of strain. Even though gambling revenues in 2005 jumped 11.5%, to \$7.6 billion, growth is slowing, and the key hotel business is stalling. Shares of MGM Mirage are down 23% since May, while No. 1 Harrah's Entertainment has fallen 25%.

Casinos say the industry is steadier and more recession-proof than most. "Compared with housing or other areas that are now slowing, gaming remains an attractive place to put capital," says James J. Murren, president and chief financial officer of industry No. 2 MGM Mirage.

They're backing up the talk with huge investments. MGM is planning a \$7 billion CityCenter complex in Las Vegas that will include 6,800 hotel rooms and condominiums, along with a casino and loads of retailers, spas, and other goodies. Las Vegas Sands Corp. and Wynn Resorts ([WYNN](#)) will each drop \$1.6 billion on top-of-the-line resorts. All together, \$20 billion could be invested in Vegas in coming years, says Standard & Poor's ([MHP](#)), boosting the supply of hotel rooms alone by 30%.

Other cities are applying the Vegas model. Atlantic City had long been little more than a run-down market for day-tripping slots players, with few of the goodies that have made Vegas a mecca even for nongamblers. But the surprising success of the Vegas-style Borgata Hotel Casino & Spa, opened in 2003, has encouraged operators to spend billions for more pizzazz. MGM is designing a smaller version of its CityCenter, and Harrah's and Trump Taj Mahal Hotel & Casino are investing in shops, hotel towers, and expanded casinos. Several all-new projects are also in the works. Says David Berman of Credit Suisse ([CSR](#)): "The Borgata proved that if you put a compelling site there, people will come."

But investors are worried that slowing consumer spending will hit hard. Steven Kent of Goldman Sachs & Co. ([GS](#)) points out that growth in revenues per room at casino hotels fell during the second quarter. If casinos are forced to spend more on splashy marketing to get customers in the door, things will get worse. And then there's the prospect of overbuilding. "Could they be stuck with a glut? That's the risk," says Joseph Fath of T. Rowe Price Associates ([TROW](#)). "If the economy is weak,

they could all suck wind."

Perhaps nowhere are those questions more in play than in Biloxi. Hurricane Katrina destroyed 2 of Biloxi's 10 casinos and damaged others. So far, the sector has proved resilient: In the first six months of 2006, with just three casinos reopened, gamblers bet \$375 million -- nearly 60% of what they had spent the year before.

Operators have ambitious plans to transform Biloxi into an upscale resort to compete with Las Vegas and Orlando. Before the storm, Biloxi was a mature market; revenue growth at the casinos, limited to riverboats and barges, chugged along at slightly more than inflation. But a post-Katrina law change allowed casinos to move onto dry land. And the destruction of buildings created big tracts for new casinos.

All that has set off a boom. When two local construction magnates, Roy Anderson III and W.C. "Cotton" Fore, bought the run-down President Casino Broadwater Resort at a bankruptcy auction in early 2005 for \$82 million, rivals scoffed that they had overpaid. Now, brokers say the land is worth twice that. The pair have been approached by four casinos to join in their expansion plans for the site.

#### **OFF THE BARGE**

At the nearby Harrah's Grand Biloxi, which reopened in mid-August, rebuilding was just the first stage. The company also bought the site next door and will spend up to \$1 billion on an elaborate new resort. "There's a lot more you can do to build an appealing facility when you're not forced to do it on a barge over water," says Anthony Sanfilippo, president of the central division of Harrah's Entertainment Inc. That will put Harrah's more directly in competition with MGM Mirage's Beau Rivage Hotel & Casino, Biloxi's most luxurious property before the storm. MGM has spent \$500 million on an upgrade of the place, which reopened on Aug. 29, that includes renovated rooms, high-end restaurants, and additional casino space.

Both will have to fend off new players. Indian-owned Foxwoods Resort Casino, which runs North America's largest site, in Connecticut, entered talks in March with Fore and Anderson to invest \$400 million to add a second casino and resort on the Broadwater site. Landry's Restaurants Inc. ([LNY](#)) recently bought a beachfront site where it wants to build a Golden Nugget, while Trump Entertainment Resorts Inc. ([TRMP](#)) announced a joint venture with an operator in nearby Diamondhead, Miss.

All together, developers say \$3 billion to \$5 billion could flow into new projects over the next few years. Biloxi Mayor A.J. Holloway predicts the number of casinos could double, to 20. A huge bump up in hotels and condos is coming, too: From around 17,000 rooms today, local officials aim to hit 30,000 by 2010.

The question is whether the buildup will be more than Biloxi -- and the rest of the industry -- can handle. The Gulf Coast has historically drawn a regional crowd; gambling revenues for Biloxi plus three other Coast casinos for the 12 months before Katrina were \$1.2 billion. To boost that number, Biloxi will have to bite off a bigger share of the national market. That's no sure thing; there's some image-polishing to be done before people will hop on a plane to Biloxi for a leisure junket.

Investors are starting to worry. Matt Sodl, managing director of Innovation Capital, an investment bank that specializes in gambling, says some clients looking at deals aren't sure the market's size will earn sufficient returns. Rising costs are a concern as well: Along with land prices, building costs and insurance rates have spiked dramatically. "People are starting to scratch their heads," says Sodl. "They're not sure they can make the numbers work."

But executives in Biloxi and elsewhere are quick to point out that the same has often been said about Las Vegas even as that market has continued to grow. Gambling, they say, is a market where extravagant new resorts can create their own demand. With all the construction coming down the pike, that had better remain true.

By Jane Sasseen

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