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## Las Vegas Strip braces for CityCenter impact

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By Deena Beasley - Analysis

LAS VEGAS (Reuters) - CityCenter's glittering high rises have forever altered the Las Vegas skyline, but there is concern about the project's impact on already-discounted hotel room rates along the world's most famous gambling corridor.

The nearly 6,000-room, \$8.5 billion signature project for MGM Mirage (MGM.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) opens in December with rates up and down the Strip slashed during a recession that has forced consumers and businesses to cut spending and hold out for bargains.

A night at one of CityCenter's luxury towers can be had for as little as \$129 in mid-December. The average daily room rate in Las Vegas had fallen 25 percent through August.

"People are coming to Vegas, but they're just smarter and a little bit more finicky about what they spend money on," admitted Phil Shalala, marketing chief at the Hard Rock Hotel & Casino.

CityCenter partners MGM Mirage and Dubai World DBWLD.UL are betting on customers being picky enough to choose top-notch venues like the Mandarin Oriental in an environmentally conscious setting designed by world-renowned architects.

Mapped out like a mini-metropolis, CityCenter encompasses slanting condominium towers and a windows-laden shopping center. An entrance the width of New York's Park Avenue allows an upward gaze at the surrounding skyscrapers.

Other features include colorful sculptures from cutting-edge artists like Claes Oldenburg and Nancy Rubins.

Rivals are hoping CityCenter will draw new visitors and spur growth, benefiting all and averting a price war.

"We hope it grows the market," said Steve Wynn, chief executive at Wynn Resorts Ltd (WYNN.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)). "But so far, the talk has been about its problems, instead of about what an incredible, unusual place it will be."

### FROM EDGE OF BANKRUPTCY

MGM hopes the ambitious project -- whose entire future was once in doubt because of financing issues -- will help revive its fortunes as an economic recovery gets underway.

Dubai World, the development arm of Dubai, last year sued MGM as credit dried up and CityCenter teetered near bankruptcy. Construction problems, including a number of worker deaths, have also plagued the project.

But funding eventually came through and towers from noted architects like Cesar Pelli and Rafael Vinoly now look to be opening on schedule in December.

Rival Las Vegas Sands Corp (LVS.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) is also rooting for MGM. "It think it will succeed," said Sands CEO Sheldon Adelson. "If it doesn't, they will lower the room rates and that will affect everyone."

Wynn said he is unable to predict 2010 hotel rates "with any degree of confidence," given the wide number of market variables related to CityCenter and the general economy.

He said a 3 percent increase in travel into Las Vegas would absorb the new capacity. But in the first eight months of this year, visitation fell about 6 percent from 2008.

"We have the ability to lower (room) rates," said MGM CEO Jim Murren. "The trick next year will be to increase yield."

But rising gasoline prices and airline flight cutbacks raise questions about the outlook for Sin City travel demand.

Janney Montgomery Scott estimates that Las Vegas will see a daily average of around 65,000 arriving airline seats next year, down from the March 2007 peak of 85,000 seats per day.

CityCenter's 6,000 luxury rooms will add to the Strip's already ample 141,000 -room tally.

Meanwhile, tighter credit card standards, the demise of home equity financing and the availability of cheaper, closer-to-home gambling are giving pause to Vegas watchers.

"Even if the economy recovers, it doesn't mean that visitors will have the same disposable income," said Barry Shier, managing principal at Las Vegas advisory firm The Partner House. "In Vegas, everything is discretionary."

He said CityCenter will benefit from its location next door to the Bellagio and its crowd-attracting fountains; but the emphasis is on luxury and "a lot of people walking on that side of the street won't be able to afford those offerings."

Continued economic headwinds have led other Las Vegas operators to shelve expansion plans -- Boyd Gaming Corp's (BYD.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) Echelon remains a partially built skeleton, while the nearby unfinished Fontainebleau resort is stalled in bankruptcy.

The 2,400-room Stratosphere resort, acquired last year by an affiliate of Goldman Sachs Group Inc (GS.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), has placed plans for a major overhaul on hold, opting instead to focus on things like room updates and a "skyjump" ride that will open next April.

"Some of our customers may have the ability to go to another property, but because of the price of food and amenities they want to stay at the Stratosphere," said Stratosphere Chief Executive Frank Riolo.

The storied Sahara casino-resort, purchased in 2007 by a group led by nightclub owner Sam Nazarian, is also biding its time before embarking on a hipper redesign.

For now, the property is content to host moneymakers like a Harley Davidson "Bikefest" and \$1-a-hand blackjack tables.

"We are looking forward to CityCenter," said marketing head Bill Tremper. "It's like Disneyland when there's a new attraction. People want to see it, but maybe not stay there."

(Editing by Edwin Chan and Gerald E. McCormick)

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