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Development

Why Macau needs to become more like Las Vegas

by *Chris Horton* | Mar 28, 2016 7:57am



Macau's five-star hotels cater mostly to Mainland Chinese tourists.



Business may not be what it once was for five-star hotels in China, but they can at least take heart in that they're not operating in the Chinese territory of Macau. Once seemingly unassailable, hotels in Macau have been weathering a serious downturn that is now more than a year long.

Being the only territory within the borders of the People's Republic of China with legal casino gambling was once Macau's strength. Now with a slower Chinese economy and a fierce anti-corruption campaign deep into its third year, Macau's casinos are its biggest weakness, especially given that those casinos represent 95 percent of the city's economy. Chinese president Xi Jinping has urged Macau to move away from VIPs and baccarat junkets and into a Vegas-inspired fun-for-the-whole-family model, but there is no indication that this will happen anytime soon, or work at all.



Meanwhile, concern is growing among the big Vegas players that low hotel rates are only going to go lower. Wells Fargo recently noted that hotel rates for Sands China properties in Macau have dropped to their lowest point since last August. At that time, Sands China rooms were averaging \$215 per night, now they are averaging just \$155 per night.

Ben Lee, managing partner at Macau-based IGamiX Management & Consulting, says Macau hotels may have quite a bit of wiggle room to make it through difficult times, thanks to some heavy duty backing.

"Macau hotels are generally owned by well-connected individuals who are not necessarily focused on the bottom line nor as subject to leveraged pressures as Western hotels are," Lee told HOTEL MANAGEMENT.

Li, who plans to acquire the Landmark, is one of those well-connected individuals. In many ways, the sale can be considered a transaction between friendly parties and not necessarily the beginning of a trend towards more hotel sales.

"With a huge amount of capacity yet to come online, the operators will have to drop their room rates just to fill their rooms. The rates are currently sub \$100 per night and I can see them going below \$50 before the end of the year," Lee said. "Isn't this the Vegas model that we kept getting preached to us? I remember having stayed at the MGM spa suites with meals and credit vouchers thrown in for \$80 per night."

While Macau is, in fact, turning into a family friendly destination there are a few challenges that remain.

One is developing infrastructure, which "still has not reached the point where it can sustain more than what we are already receiving in terms of numbers of visitors."

"Local residents have, in turn, voiced their concerns and asked for a cap on the number of Chinese visitors to reduce the stresses on the system."

"Admittedly, the downturn has improved the quality of lifestyle in Macau where taxis are once again easily available and buses not crammed to bursting points. Road traffic is manageable once more, although there are still calls for improvements there."

Another challenge, one that other destinations in Asia also have to overcome, is that mainland China visitors tend to crowd out other nationalities.

"This makes it increasingly difficult for us to diversify our market base and I'm not sure if there is any short-term solution to this phenomenon. All our services and products here are currently geared towards the Chinese market," Lee said. "The lack of English, or any other languages for that matter, in our hospitality industry makes it increasingly difficult for visitors other than the Chinese to enjoy getting around and feeling comfortable in Macau. The quality of the service, even in some of the so-called five-star hotels are also geared towards Chinese expectations, and again, non-competitive regionally."

The flood of Chinese visitors has, in some ways, spoiled operators with a "build it and they will come" mindset that has left them with little interest in going after the wider regional and global market.

"There is essentially very little or no international marketing being invested by them. Most of them have also invested very little in non-gaming attractions, despite their public rhetoric, relying instead on the outdated formula of restaurants, retail and gaming, with the exception of one or two," Lee said.

"The government needs to realize that these operators are driven by their bottom lines and will never do more than what they absolutely have to, and that it is up to the government to provide the vision and stipulate the execution, as had happened in Singapore," Lee said.

The upshot is that, to better weather the downturn, the government needs to step in and publicly mandate the types of non-gaming they would like to see and for them to incentivize the operators accordingly."

An example of this could be a new theme park planned by Galaxy Entertainment Group as part of the next two phases of construction of the group's Macau resort.

Chairman Lui Che-Woo has compared the park to the movie Avatar and said earlier this month that it will be "something special".

"Theme parks...could be rewarded with more gaming tables than others. They then should also support these new type of developments by allowing the operators to bring in new labor that will help draw and maintain the service experience needed to attract and retain the family and mass market that they say they want for Macau. Otherwise, it is all just rhetoric with very little real outcome."

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