

Macau: The Atlantic City of China?

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NEW YORK ([TheStreet](#)) -- Macau is called many things, among them the "Sin City of Asia" and the "Monte Carlo of the Orient." But the "Atlantic City of China" is not a phrase usually associated with the supercharged growth of the gambling enclave.

Located an hour away from Hong Kong, the former Portuguese colony has dwarfed Las Vegas to become the largest gaming market in the world. For the first four months of the year, Macau reported gaming revenue of \$13 billion, easily topping the \$10 billion Las Vegas earned for all of 2010.

Clearly, the peninsula is nothing like Atlantic City ... at least right now. The New Jersey gambling hub has reported more than two years of declines in gaming revenue. Still, the "Las Vegas of the East" actually serves as a cautionary tale of sorts when considering the future of Macau.

Macau Casino Map



➕ [VIEW MAP](#)

Atlantic City offered great promise when it legalized gambling in 1976. The dream was grandiose: the resort town, revitalized by an influx of casinos, would become a glitzy jewel of oceanfront luxury.

For nearly two decades, Atlantic City and its infamous Boardwalk grew at break-neck speed. The reason: it was the only real market that offered a destination for legalized gaming on the East Coast.

> [Macau Casino Map: Birds-Eye View](#)

Like Atlantic City, Macau's intrinsic value lies in its monopoly of Chinese gambling, a popular pastime in the country.

"What makes the concessions in Macau so valuable -- and the market so exciting -- has nothing to do with what happens in Macau," says Randall Fine of the Fine Point Group, a casino consulting and management firm. "It's [about] what is *not* happening outside it. Much like Atlantic City in the 1980s and 1990s, Macau is raking in money hand-over-fist because casino gambling is not legal on the Chinese mainland."

But if that were to change (and clearly the Chinese government has more control over that decision than is typically found in a gaming market) it could have a devastating effect on Macau.

"Convenience is the No. 1 driver of gaming location selection, and as casinos have sprouted up in Connecticut, Pennsylvania, Maryland, Delaware and New York, the need to make a visit to Atlantic City has declined," Fine says. "If the Chinese government allowed one or two casinos in each Chinese city of one million residents or more, the same would occur in Macau."

Of course, the odds of that happening are low, with Fine estimating that for now the probability is less than 50-50 that the Chinese government legalizes the vice in other parts of the country.

So while investors may need to take a step back and realize all breathtaking expansion must, at the very least, slow down, in the near-term, Macau still remains a very viable investment opportunity.

The pipeline for growth in the region is robust, most notably in Cotai -- a relatively barren piece of land about 10 minutes from the main peninsula.

Currently, **Las Vegas Sands**([LVS](#)), **MGM Resorts**([MGM](#)) and **Wynn Resorts**([WYNN](#)) all are attempting to develop their market share on the strip, which is being modeled after Las Vegas.

Las Vegas Sands is currently amid construction of what is known as Sites 5 and 6. The process has been delayed due to a shortage of workers, but management foresees the first phase of the site opening in the first quarter of 2012.

Wynn and MGM are both awaiting approval from the Chinese government to start building their planned resorts on the Cotai Strip. Once construction is underway, MGM expects its new resort-casino to open in two to three years, while Wynn says its development will take four to five years.

While most international expansion plans have been centralized in Macau, these major casino operators are also eying markets outside of China in Korea, Vietnam and Japan.

"There are even non-China potential gaming markets that would be closer to some parts of China than Macau is," Fine says.

Still, in light of all this, the history lesson that can be discerned from Atlantic City is that gaming markets will thrive when supply is limited and demand is high, says Alex Calderone of Conway and MacKenzie, which provides turnaround and restructuring consulting to casino firms. But when the saturation point hits and supply begins to exceed demand, gaming markets with intense competition from neighboring jurisdictions will deteriorate rapidly.

"If new gaming markets in other regions in the area begin to emerge, we could see history repeat itself," he warns.

Of course, that all is likely years away. Then again, 10 or 15 years ago, you'd have been hard-pressed to find an Atlantic City gaming executive who would have predicted the spread of gaming along the East Coast -- or the rapid descent of the once-thriving AC casino market.

-- Written by Jeanine Poggi in New York

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