

# Casino developers in Macau turn to retail sector for additional growth

Neil Gough

It may seem like a statement of the obvious to say that casino developers in Macau mainly build casinos – if only it were true.

For the first time, the balance of the mega-resorts being built in the territory will devote more floor space to shopping centres than to casinos.

To date, four companies – Galaxy Entertainment, Las Vegas Sands Corp, Melco PBL Entertainment and the consortium behind Macao Studio City – have announced plans for Cotai Strip projects totalling 33 branded hotels that represent almost 30,000 rooms.

The plans call for casino space equal to 3.24 million square feet of gross floor area. But larger by far is the 5.51 million sq ft of retail space attached to these resorts – about eight times the size of Pacific Place.

In short, the world's largest gaming companies plan to flood the world's largest gaming market with more new shops than new casino space. All this for a city that, despite a 33 per cent surge, booked only 14.19 billion patacas in retail sales last year, compared with HK\$247.69 billion in Hong Kong.

Success will require a dramatic shift in spending patterns. Excluding gambling, visitors to Macau spent 1,714 patacas per capita in the three months to December last year. Only 37 per cent of that spending went towards shopping, where local food products accounted for 32 per cent of purchases by value.

Compare that with Hong Kong, where overnight visitors spent HK\$4,799 and same-day visitors spent HK\$1,015 on a per-capita basis in 2006, the latest period for which figures are available. Shopping accounted for 53.2 per cent of spending by overnight visitors and 85.5 per cent of purchases by day-trippers.

Will Macau be a tough sell? Not according to developers. "We keep coming back to the fundamental synergy that exists between gaming and shopping," said Morgan Parker, president of Taubman Asia, a unit of New York-listed shopping centre developer Taubman Centers.

"When we travel, we are actually more inclined to spend and more inclined to behave in an atypical way. That is really at its zenith when you talk about a gaming environment. Not only are they tourists, but they're gaming tourists."

Taubman earlier this month paid HK\$376.8 million for a 25 per cent stake in the Mall at Studio City. It was the biggest retail deal in Macau since Stanley Ho Hung-sun bought New Yaohan, still the city's only department store, in 1997.

Taubman's purchase valued the 904,000 sq ft themed shopping arcade at HK\$1.5 billion, or HK\$1,667 per square foot of gross floor area. The deal sees Taubman shouldering a portion of construction costs and debt, and its total investment rising to about US\$200 million if post-opening sales targets are met.

Still, the initial price looks like a

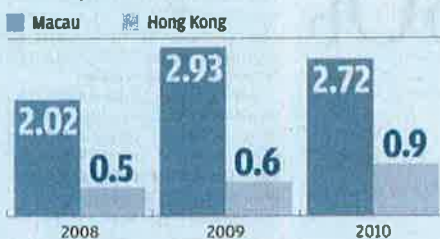
## Sales pitch



We keep coming back to the fundamental synergy that exists between gaming and shopping

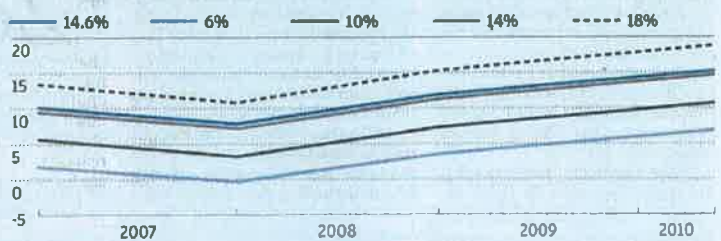
Morgan Parker, president, Taubman Asia

Prime shopping mall supply (Million sq ft)



SCMP GRAPHIC

Sensitivity of tourist shopping spending growth on Hong Kong's tourism retail productivity



PHOTOS: DAVID WONG, JONATHAN WONG

SOURCE: JONES LANG LASALLE

bargain compared with recent retail deals in Hong Kong. Last year, Alpha Partners Investment, a property fund controlled by Singapore's Keppel Land, paid HK\$28,846 per square foot (HK\$750 million) for Mong Kok Computer Centre while a unit of Merrill Lynch paid HK\$11,557 per square foot (HK\$530 million) for Golden Plaza, also in Mong Kok, according to CB Richard Ellis.

Of course, it is only a good deal for Taubman, which is pre-leasing and will manage the Studio City centre, if shop sales hit their targets in the first two to five years after opening in 2010. Most leases charge a base rent and a percentage of shop turnover.

Mr Parker said most space at the shopping centre had been committed. He would not comment on rents but said Studio City was expected to be one of the best-performing developments in the Taubman retail portfolio, which averages US\$540 in sales per square foot in total and exceeds US\$1,000 per square foot in gaming centres.

Still, with so many retail developments set to hit the market within one to two years of each other, analysts said oversupply was inevitable.

"In the near term, we are definitely going to see oversupply in Macau," Morgan Stanley analyst Rob Hart said. "It's just a question of how long things will take to improve."

An equally pressing question is what impact the rise of Macau as a shopping destination will have on Hong Kong. Tourist shopping in Hong Kong stood at HK\$48.52 billion in 2006 and accounted for 22 per cent of local retail sales.

"Everybody jumps up and down about how important the mainland retail consumer is to Hong Kong, but domestic sales are still 80 per cent of the total," Mr Hart said. Macau by contrast will be almost totally reliant on tourist expenditure.

"In Macau, your local market is 500,000 people, as opposed to seven million, so you've got 1/14 of the domestic consumption going on," he said.

Hong Kong has about 37 million sq ft of shopping centres in prime retail districts, according to a report published earlier this month by Jones Lang LaSalle. Macau has only 2.1 million sq ft, and half of that is inside the six-month-old Venetian Macao casino resort on Cotai. But Macau has much more in the pipeline for the next two years – about 7.7 million sq ft of new retail space, against about two million sq ft in Hong Kong.

Few doubt that some of Macau's future sales will be made at the expense of Hong Kong retailers. But analysts expect a growing overall pie to see ever-bigger retail volumes in both territories.

Hong Kong's retail productivity, or tourist sales per square foot of prime retail space, stood at HK\$1,289.70 in 2006, according to the Jones Lang LaSalle study.

Assuming average visitor spending growth of 14.6 per cent can be maintained until 2010 – but shared with Macau – total retail productivity will still grow at a 13 per cent annual

## New emphasis The gaming companies plan more new shops than new casino space

Mega-resorts under construction will feature retail space of, in square feet

# 5.5m

rate, according to the report. That would be a welcome development for both cities, assuming each gets a good slice of the pie.

At present, the only key barometer for Macau's big bet on retail is the Venetian.

As of this month, about 250 shops occupying 647,000 sq ft of the resort's

total 1.01 million sq ft of retail space have opened. The remainder will launch by the end of the year.

"The constraint is on fit-out contractors," said Stephen Weaver, Asia president at the Venetian's owner Las Vegas Sands. "There are simply not enough of them in Macau."

The resort had drawn more than 10 million visitors in its first six months of business and 85 per cent of the total also visited the shopping areas, he said.

Based on about 1,000 random exit surveys the company has conducted so far, a surprising 20 per cent of visitors were local residents, while mainlanders accounted for about 40 per cent and Hongkongers another 31 per cent.

While luxury shops have proven highly successful in existing locations at the Wynn Macau and the Mandarin Oriental, Mr Weaver said the Venetian's broader offering of retailers was also tapping a younger market.

The results are especially encouraging in light of the additional two million sq ft of shopping space the company will open on Cotai over the next three years.

Asked whether the plan was to draw tourists' shopping dollars away from Hong Kong, Mr Weaver replied: "If 27 million people come to Macau, do they come at the expense of Hong Kong?"



# Business Digest

## Gaming

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