2 Corporations and the Advent of Megaresorts

The Fifth Phase of Growth: From the 1980s to the Present

Up until the 1970s, the United States economy was a robust growth engine, with cities like Pittsburgh, Detroit, and Buffalo producing manufactured goods of every conceivable kind. In contrast, Las Vegas, with its emphasis on casino gambling, was an anomaly, a "sin city" among an otherwise honest, hardworking nation of industrial cities. Profound changes transformed the American economy during the 1970s, however, as manufacturing activity declined precipitously and millions of factory workers lost their jobs. By 1980, the manufacturing sector employed fewer workers than the service component of the economy. With the onset of deindustrialization (Bluestone and Harrison 1982; Harvey 1989), major consumer durable goods, such as cars, tires, and appliances, were increasingly produced overseas. Unions lost their clout and many workers were forced to switch from factory jobs that provided a relatively comfortable standard of living to lower-wage, service jobs. Pittsburgh was no longer a steel town, Detroit saw its manufacturing base erode, and the industrial towns of the Northeast and Midwest assumed a new collective name, the Rust Belt.

Large American conglomerates divested themselves of manufacturing concerns that were being decimated by foreign competition. US Steel, for example, became USX, and electronics companies like RCA shifted their production facilities outside the US. Many of these same companies also transferred investments from other sectors of the global economy to casino gambling following passage of Nevada's Corporate Gaming Act. Large hotel chains like Hilton and Ramada purchased casino-hotels in Las Vegas and introduced corporate-style management. At the same time, Nevada casino operators began building gaming resorts outside the state and many became publicly held corporations themselves.

The introduction of corporations significantly changed the face of Las Vegas gaming. Loss leader buffets, inexpensive shows, and underpriced room rates were phased out as a corporate mentality, concerned with bottom-line reports to stockholders, replaced the more

personal, informal atmosphere that had characterized Las Vegas' resorts for decades. Suddenly the Las Vegas tradition of "comps" (complimentary tickets) for free rooms, meals and shows were given only to those customers a computer determined would play, or "drop," sufficient dollars at the host casino's machine and table games. One writer summed up this shift as follows:

> Today many of the hotels are owned by squeaky-clean, image obsessed companies like Hilton and Holiday Inn. They are staffed by bean counters and micro-managers who live in the same suburbs and sport the same dress-for-success suits as . . . the stockbroker from Iowa. . . . The hottest ticket in town is no longer a revue of bare-breasted showgirls, but the Siegfried and Roy magic act starring white tigers. (Gabriel 1991: 68)

Legalized gambling thus became popular as a means of making money when the large conglomerates developed "leisure" components and transformed the image of casino gambling into vacation entertainment. Legal gambling, including casinos, lotteries, and video games, grew to become a multi-billion-dollar industry. In 1987 alone, Americans wagered $210 billion (Holmstrom 1993). According to one account:

> Consumer experts and academics who follow gambling say its explosive growth has been sparked by three key factors: cash hungry governments turning to gambling to raise revenue, leisure company promotion of gambling as entertainment, and the appeal of new, high tech video gambling. Decades of church-sponsored gambling has also tended to lend approval to games of chance. (Holmstrom 1993: 8)

Also, as US industry slumped in economic recession, the Reagan Administration de-regulated the banking industry, making it possible for entrepreneurs of all kinds to develop creative investment strategies that previously were prohibited. As the industrial segment of the corporate economy struggled against highly competitive foreign businesses and frantically restructured to deal with the new realities of international investing and manufacturing, finance capitalists made superprofits from speculation. Among the latter were "junk bond" investors such as Michael Milken, who created new financial incentives to attract capital from millions of people shying away from corporate stocks during a period of industrial uncertainty. At the same time, new players entered the Las Vegas scene and established connections with Milken and other junk bond kings.

As the success of casino gambling in Las Vegas contrasted greatly with the declining fortunes of cities based on manufacturing, several areas of the country explored the possibility of legalizing gambling to offset the effects of deindustrialization. In 1976 casino gambling was legalized in Atlantic City, and its first venture, Resorts International, opened in 1978. Also, in 1977, the first year Clark County gaming revenues surpassed the $1-billion mark, the Nevada legislature passed a Foreign Gaming Law, allowing Nevada-based operators to run casinos outside state borders. Several Nevada casino operations, including Caesars, Bally's, the Sands, the Golden Nugget, and Harrah's, rushed to open New Jersey resorts by 1980. This was soon followed by the spread of state lotteries; riverboat gambling was launched, and a decade later, previously isolated Bingo games operated by Native American tribes exploded into a full-fledged gaming industry. For the first time, Las Vegas felt competition from legal gambling sites outside of Nevada.

One Las Vegas casino operator who invested in Atlantic City is notable, not for the scope of his project, but for developing a new form of financing. Perhaps no one better exemplifies the transition from shady Teamsters Union Pension Fund financing of casinos to the world of junk bonds, corporate-stock investments and joint ventures than Mirage Resorts chairman, Steve Wynn. The transition was effected through Wynn's relationship with two financial powerhouses, E. Parry Thomas and Michael Milken. Wynn had inherited part of his father's Bingo operation in Wayson Corner, Maryland, and arrived on the Las Vegas scene in 1967, when he purchased 3 percent of the Frontier Hotel for the deeply discounted price of $45,000. Following that quick and profitable deal, Wynn spent the next few years producing lounge shows and running an unsuccessful liquor distributorship. All the while he benefited from excellent connections provided by his mentor, E. Parry Thomas, through whose Valley Bank had flowed nearly $230 million in Teamsters' Central States Pension Funds, much of it used to finance Las Vegas casinos (J. L. Smith 1995). Thomas brokered Hughes' purchase of the Frontier and used his Hughes connection to help Wynn purchase 1.1 acres of land in a Caesars Palace parking lot for half its value. Like Wynn's Frontier investment, it was financed by borrowed money, a no-interest loan from Thomas, and was quickly sold at a profit, in this case $1 million. In 1973, again aided by Thomas, Wynn became the majority stockholder in the Golden Nugget, a 1940s grind joint with no hotel rooms. With millions in financing provided by Thomas's Valley Bank, an extensive remodeling and expansion of the Golden Nugget was completed in 1977, adding 579 rooms (J. L. Smith 1995).

The Golden Nugget was making money so Wynn wanted to expand to Atlantic City, a move he estimated would cost $120 million. Seeking the necessary financing, Wynn made another fateful contact when he was introduced to Michael Milken, from the Investment Company of Drexel Burnham Lambert, who raised $160 million to build the New Jersey resort. Milken saw casino gaming as a sound business built on mathematical laws: "In the late seventies I'd take money managers and pension fund people into the casinos and show them that it wasn't a gambling business, it was a business that was built on the laws of probability and statistics" (cited in J. L. Smith 1995: 194). While Milken's junk bond house of cards would later lead to the demise of more than fifty savings and loan associations across the nation, it was a major funding factor in the construction of the Golden Nugget in Atlantic City and later the Mirage, Las Vegas' first megaresort.

Thus, when the Golden Nugget opened in Atlantic City in 1980, it represented a major shift in casino financing that also would forever change the face of Las Vegas. The smallest resort in New Jersey, the Nugget made $80 million to $90 million a year and "establishing himself as a presence in Atlantic City with less than $15 million in cash, Wynn was rapidly emerging as the new face of legalized gambling" (J. L. Smith 1995: 114).

In 1986, as Atlantic City casinos were experiencing their first bankruptcies, Wynn sold the profitable Atlantic City casino for $450 million to help finance his dream resort. After transforming the Golden Nugget into the only four-star casino-hotel in downtown Las Vegas, Wynn wanted the brass ring, a luxury resort on the Las Vegas Strip. Although his corporate debt surpassed the billion-dollar mark in the process, Wynn purchased the Strip property for the Mirage from the Hughes Corporation, again turning to Milken to help raise construction financing. Wynn has been quoted as saying, "No Milken, no Mirage," on several occasions, a sentiment shared by a local journalist: "If Jimmy Hoffa's pension fund bankrolled the old Las Vegas, Michael Milken's black magic constructed the new one" (J. L. Smith 1995: 192).

Equally significantly, the nationwide competition for gambling dollars brought on by the proliferation of gaming in Atlantic City, state lotteries, riverboats, and Indian gaming forced Las Vegas' resorts to create more elaborate themed attractions. A Western, Arabian, or Polynesian themed resort was no longer enough. The Mirage, which opened its doors in November 1989, was the first of these new "megaresorts," costing more than $700 million.

As Teamsters Union funds had ceased to be a viable option for casino construction, the Mirage was the first new Strip property to be built in fifteen years, since Kirk Kerkorian's original MGM Grand, now Bally's Las Vegas, opened. The new, junk-bond-financed megaresort was not cheap. The Mirage had to take in $1 million a day just to service its interest payments and cover its operating costs. This was hardly an obstacle, however, as the megaresort reported $50-million monthly revenues, nearly $2 million per day, in its first year of operation. There were no loss leaders at the Mirage or at the other megaresorts that soon followed. Shortly after opening, the resort reported making $25,000 per day in tee-shirt sales alone in its gift shops.

The Mirage's tropical theme was not new in Las Vegas; the Tropicana for years had been called the "Island of Las Vegas," but it lost a lawsuit to prevent the Mirage from copying its motif. The Mirage took the theme to a new level, however. Visitors enter a high-domed lobby and dense tropical rain forest, while the hotel registration desk is backgrounded by a gigantic 53-foot-long tropical fish tank. Featuring more than 3,000 rooms in three 29-story structures, the Mirage charged nightly prices that were higher than most Las Vegas hotels, from $89 to $450, in 1990, although not unprecedented at resorts like Caesars Palace. Outside, the *pièce de résistance* is a 55-foot simulated tropical volcano set amidst a lush forest with waterfalls in a four-acre lagoon. After dusk, every fifteen minutes, the volcano erupts, spewing hot flames and piña-colada-scented gases high into the air. This spectacle of simulation became the first of several such attractions that converted the sidewalks along the Strip casinos into an outdoor sideshow for strolling tourists.

Wynn's flamboyance did not end with the erupting volcano in front of the Mirage. A dolphin enthusiast, he built a $14-million habitat behind the hotel, in the hot Las Vegas desert, to house his "pets." In a move to attract "whales," or high rollers, several cabana suites, each costing $3 million, also were added. The Mirage Villas feature inlaid marble floors, antique furniture, a private pool, and a putting green. Wynn also hired the popular Siegfried and Roy, whose magic show was a long-time Las Vegas institution at the Tropicana, Stardust, and Frontier. The illusionists signed a five-year, $57-million contract to perform in a $20-million showroom specially designed to accommodate their act. Ticket prices more than doubled to $70 per person (now $90), a Las Vegas record at the time. Building upon the popularity of the show, an exotic white tiger habitat was created near the registration desk where hotel visitors and others could observe the big cats sleeping and playing in their customized pool environment when they weren't performing with Siegfried and Roy.

With its 3,094 rooms, 2,251 slot machines, and 119 table games, the Mirage thus provides a spectacular fantasy environment. As Wynn himself pointed out: "What keeps Las Vegas powerful is every few years it becomes more fabulous, more outrageous. . . . I'm more of a Disney person than a casino guy" (Gabriel 1991: 68).

Six months after the Mirage opened, the much larger Circus Circus Enterprises castle project, the Excalibur, became Las Vegas' second megaresort. Opening in June 1990, the more than 4,000-room resort property lowered its medieval castle drawbridge over a moat at the intersection of the Strip and Tropicana Boulevard. For three years it would hold the title of world's largest hotel. Excalibur was the magical sword freed by King Arthur in the legend of Camelot and the Knights of the Round Table. The resort's medieval theme is reflected in restaurants with names such as Lance-a-Lotta Pasta and the Robin Hood Snack Bar. Costumed employees, jesters, serving wenches, and jugglers roam the cobblestone foyer, the Royal Village Shopping area, and the Fantasy Faire booths. The showroom features King Arthur's Tournament, a jousting match with mounted knights battling in full armor. The dinner feast is a medieval equivalent of ye olde boxed lunch – *sans* cutlery. The pageantry includes thundering steeds, bloodless hand-to-hand combat, lasers, fiber optics, Andalusian horses, Merlin, Guineviere and King Arthur, as well as good and evil knights. The 117-acre site also features four massive stone turrets and 265-foot-high castle spires topped by red, gold, and blue cones. With a relatively low construction price tag of $290 million for four 28-story hotel towers and medieval castle decor, the Excalibur is judged wondrously tacky by some. Being tacky, however, never stopped anything from being successful in Las Vegas and the resort attracted 11 million visitors in its first year, with a healthy operating-profit margin of 25 to 30 percent.

The opening of the Excalibur launched a room-rate war in 1990. Other Las Vegas resorts advertised hotel room rates in the *Los Angeles Times* Calendar section for less than $20 per night, including a meal and show-tickets. Within six months, the opening of the Mirage and the Excalibur added more than 7,000 hotel rooms to the Las Vegas Strip inventory, which was supplemented with another 4,000 rooms in the off-Strip Rio Hotel and Casino and expansions at the Flamingo Hilton and Holiday Inn Casino. The latest Las Vegas building boom was on. Over the next decade the Las Vegas hotel room-count would skyrocket from less than 60,000 to more than 100,000. The ten-year building boom made construction cranes a permanent part of the Las Vegas skyline.

A major financing glitch struck Las Vegas' casino expansion plans when Michael Milken pleaded guilty to insider trading in late 1990. Junk bonds had rapidly become crucial to Las Vegas' resort construction, as many companies accumulated junk-bond debts with the intention of refinancing them with more junk bonds when the first ones came due. Several resorts, most notably the Riviera, were threatened with bankruptcy due to the junk bond collapse. The method of financing construction of the Excalibur shifted away from this pattern and capitalized on the profit-making success of megaresorts. Eschewing debt altogether, the publicly traded Circus Circus Enterprises built the Excalibur almost exclusively with cash-on-hand, as it also later did its Egyptian-themed Luxor pyramid.

Even more so than Steve Wynn, financier Kirk Kerkorian brought the grand scale to Las Vegas by dramatically increasing the scale of Las Vegas resorts in three different decades, building the largest hotels in the world in the 1960s, 1970s, and 1990s. In the 1960s, he built the International, which became the Las Vegas Hilton, and in the early 1970s Kerkorian built the first MGM Grand, later renamed Bally's after the new MGM Grand opened in 1993. In 1988, Kerkorian demonstrated his acumen as a wheeler-dealer when he purchased the Desert Inn, its golf course, and the Sands for $167 million, turning around two months later and selling the Sands for $100 million. In the 1990s, he built the MGM Grand Hotel and Theme Park from his own pocket when outside financing prospects were slim. Kerkorian owned 80 percent of the new MGM Grand through his Tracinda Corporation. Tracinda put up the first $140 million, then Kerkorian sold the Desert Inn for $160 million and issued additional shares of common stock. At the time, Kerkorian also owned 10 percent of Chrysler and was making a move on Trans World Airlines. Financing for the world's biggest megaresort, the new MGM Grand, was thus assured at a time when investment dollars were scarce. Due to high profit margins for casino gambling and tourism, self-financing on an unprecedented scale thus added three of the largest hotels in the world to the Strip – the Excalibur and the Luxor, both built by Circus Circus Enterprises, and Kerkorian's MGM Grand.

In 1993 the next phase of Strip casinos was launched. Within a two-week period, the Luxor and Treasure Island resorts opened, followed two months later by the MGM Grand, the world's largest hotel. Thus, in the last three months of 1993, these three resorts added more than ten thousand hotel rooms to the Las Vegas inventory.

The Luxor, a $375-million Egyptian-themed pyramid, welcomed visitors to its 2,526-room resort in October 1993. Luxor is the site of Thebes, the capital of ancient Egypt, but in Las Vegas it is nestled alongside the Excalibur's storybook medieval castle. The simulated 47-acre domain mixes several ancient Middle Eastern themes, including a 10-story-high Sphinx with laser beam eyes aimed towards the obelisk, the hanging gardens of Babylon, and a 30-story dark reflective glass pyramid. Although ancient Babylon is located on a different continent from Egypt, this geographic dyslexia is not uncommon in the

fantasy world of Las Vegas. The pyramid's massive 29-million-cubic-foot atrium, the world's largest, is reportedly large enough to stack nine Boeing 747s. Initially, the lobby also sported a Nile River barge cruise, but it was later replaced by more profitable attractions. Inclining elevators ascend at a 39-degree tilt up each corner of the pyramid; the light-beam projected from its peak has forty times the candlepower of a strong searchlight and is visible from Los Angeles, at airplane cruising altitude, on a clear night.

In 1993, Circus Circus continued its effort to attract the low-roller, family market by adding a five-acre, $90-million, pink-domed, water-themed amusement park, Grand Slam Canyon, to its original casino. The park features roller coasters, dinosaurs, and waterfalls in a climate-controlled environment. The next year Grand Slam Canyon was further upgraded, providing entertainment options for local children as well as tourists, and was later renamed Adventuredome at Circus Circus.

The Circus Circus casino was built in 1968, with the hotel added in 1972. The big-top resort pioneered the "plate-o-plenty" buffet dining style, feeding ten thousand customers a day. When the buffet was remodeled in 1997, it wasn't completely shut down because of customer demand. In regard to the resort, the notorious Hunter Thompson caustically commented that:

> Circus Circus is what the whole hep world would be doing on a Saturday night if the Nazis had won the war. This is the sixth reich. The ground floor is full of gambling tables, like all the other casinos . . . but the place is about four stories high, in the style of a circus tent, and all manner of strange County Fair/Polish Carnival madness is going on up in space. (1971: 88)

Thompson's wisecrack notwithstanding, Circus Circus Enterprises Inc. has been incredibly profitable, repeating its plebeian formula at the Luxor and the Excalibur with equal success.

In October 1993, Steve Wynn opened his second Strip property, the Caribbean-themed Treasure Island, adjacent to the Mirage. With the two properties, Mirage Resorts had more than 6,000 rooms, two casinos, a volcano and a pirate battle on a 100-acre Strip site. With a significantly lower construction cost than the Mirage, the $430-million Treasure Island was referred to disparagingly by some locals as "Motel Six." Slightly smaller than the Mirage, Treasure Island contains 2,900 rooms, 2,169 slots, 83 table games, and its revenues are about half those of the Mirage.

The resort's defining feature is a mock pirate battle, waged several times daily in front of the casino directly on the Strip, with the British

Navy in a voyage of perpetual defeat. The HMS *Britannia* sails around the corner of Spring Mountain Road and Las Vegas Boulevard to engage the pirate ship, *Hispaniola*, in a battle to the death, or more accurately, to a simulated sinking to "Davey Jones' locker." Cannon balls fly, pyrotechnics abound, the sound system blasts in excess of 100 decibels, and wounded combatants tumble from the decks and masts into the waters of Buccaneer Bay. The mock battle brings pedestrian and vehicular traffic on the Strip to a virtual standstill every ninety minutes from late afternoon until midnight. In a phoenix like resurrection, the British frigate after each performance backs up on an underwater track around the corner of Spring Mountain Road to prepare for its next doomed voyage.

According to one observer: "for all its Disneyesque innocence, the battle scene at Treasure Island is actually a hook to bring pedestrians into the casino, a ploy underscored by the blatant commercial issued by the victorious pirate captain at the end of the show. 'It's time to enter our village and share in our victory celebration,' he says. 'So come to Treasure Island'" (Kamin 1994: 10). Does this kind of attraction work? "A security guard who patrols the pier claims that between 4,000 and 8,000 people attend each naval battle outside the hotel-casino. 'Three thousand of them walk away,' the guard says, 'but the rest – it's a steady flow; they go right in'" (Kamin 1994: 10).

Treasure Island also introduced a major marketing change to Las Vegas. Previously, many major resorts lost money on their hotel operations, entertainment, merchandising, and dining. In the late 1980s, revenue from businesses other than gaming on the Strip accounted for only 30 percent of total revenues, according to the *Nevada Gaming Almanac*. By 1994 that number had climbed to 45 percent. The metamorphosis of hotel operations from loss leaders to profit centers was a result of the corporatization of Las Vegas, along with expansion of the number of tourists and growth of the family market. Also, recent Las Vegas tourists are a more diverse lot than their predecessors the single-minded gamblers, wanting attractions, shopping, and entertainment options. Along with this came merchandising that exploited the popular names of the resorts, generating unprecedented sales of tee-shirts, hats, jackets, whiskey tumblers, and other knick-knacks, all emblazoned with a megaresort logo. Mirage officials contend that Treasure Island was the first Las Vegas resort intentionally designed to generate a minority of its revenue (40 percent) from gaming. This shift in the source of profits by playing to a mixed tourist market constitutes a diversification of the Las Vegas casino economy, (see chapter 4) and is part of the normalization process.

In December 1993, Kerkorian's new MGM Grand, the Strip's first

billion-dollar baby, opened across from the Excalibur at the intersection of Tropicana and the Strip. Located on the 133-acre site of the former 18-hole Tropicana golf course and the Marina Hotel, the 5,000-room MGM Grand featured a theme park, health spa, and 9,000-space parking structure. As mentioned earlier, it is also the largest hotel in the world, with four 30-story towers and a 275,000-square-foot exhibition hall that doubles as a 15,200-seat arena for sporting events. The massive lobby boasts numerous large-screen video displays and a casino larger than the playing field at Yankee Stadium, with four separately themed casino areas. The Grand Garden Arena debuted on New Year's Eve, hosting Barbra Streisand's first live concert in more than a decade, with fans paying up to $1,000 for seats. The singer had also opened the International Hotel showroom for Kerkorian in the 1960s. The 33-acre theme park, touted as a cross between Disneyland and the Universal Studios tour, never captured public favor, however. Visitors balked at the $20 admission fee to ride the Grand Canyon Rapids and the MGM Backlot River tour, so pricing and attraction adjustments were made.

Other problems also plagued the giant resort. A cultural *faux pas* was created when Oriental visitors were offended by walking into the massive, 88-foot-high lion's head entrance from the Strip since they considered it "bad luck." In response, the resort underwent a $40-million renovation in 1997, removing the fiberglass lion's head with glowing green eyes to make way for a full-bodied lion statue on a 25-foot-high pedestal surrounded by water fountains and dramatic night-time lighting. In deference to Asian visitors, a Feng Shui blessing ceremony was conducted when the project was completed. At fifty tons, the 45-foot statue is the largest in the United States made of polished gold-bronze.

Although only three years old, the MGM Grand also announced a $700-million interior renovation and expansion to replace its Land of Oz theme and Emerald City motif with a "city of entertainment" and Hollywood-sound stage theme. A Studio 54 nightclub, modeled after the 1970s icon, opened in 1998, officially dedicated with a performance by Elton John. Also, fifteen acres of the unsuccessful theme park were converted to a plush conference center, a pool and spa. Additional attractions were added to the remaining eighteen acres of the theme park, best known for its highly advertised Sky Screamer thrill ride. These changes at the MGM demonstrate that resort owners never hesitate to rework their properties to conform to market demands, or to blow them up, for that matter (see below). In Las Vegas no lasting sentiment is attached to ideas when their realization fails to turn a profit.

The MGM Grand, Luxor, and Excalibur brought the room total near the intersection of the Strip and Tropicana to more than the entire hotel room-count in San Francisco or San Diego. In 1994, four pedestrian elevated walkways were built so that the 100,000 vehicles and even greater number of pedestrians could be more easily and safely moved through the busy intersection each day. More than any other project so far, the opening of the MGM Grand punctuated the megaresort trend now dominating the Strip. In the 1970s a typical new hotel had 500 rooms or less, but since the opening of the Mirage, room-counts at the new Strip resorts average more than 3,000.

Out with the Old

Las Vegas began yet another new trend in 1994. As progress dictated the replacement of smaller 30-year-old properties to make way for the construction of themed megaresorts, highly publicized hotel demolition's were added to the Las Vegas entertainment experience. Famous Strip landmarks were blown up, or "imploded" in the local vernacular, for entertainment – again reflecting the fragile attachment to tradition when profits are involved.

The first spectacular implosion was that of the Dunes on October 27, 1994. A Strip landmark for decades, the Dunes Hotel was demolished as little more than a warm-up act for the opening festivities of Treasure Island. Mirage-owner Steve Wynn stood on the bridge at Treasure Island to signal the implosion and an accompanying $1.5-million fireworks spectacular. The hotel, a block south on Las Vegas Boulevard, was blown to dust to make way for Wynn's next Strip resort, the Bellagio. Most of the crowd cheered while some silently watched as the place where they had worked, or that they had enjoyed as part of the Las Vegas experience, disappeared into a pile of rubble. The implosion was also filmed as part of a made-for-television movie. Three months after Treasure Island opened, an hour-long commercial, thinly disguised as entertainment, was aired on a major network. Mirage Resorts paid NBC $1.7 million to air the program on a Sunday evening, maintaining total control of the $1.5 million infomercial. More than three million dollars was spent to produce and air one of the lowest-rated programs of the week, featuring Wynn in a cameo role. While the brilliant and volatile casino mogul demonstrated that the size of his ego matched that of his empire, his foresight was also evident, as the same night that Wynn opened his second Strip property, land was cleared for a third, the Bellagio.

The next implosion was far less spectacular. The Landmark was

erased from the Las Vegas skyline on November 7, 1995, to make way for additional parking for the Las Vegas Convention and Visitors Authority. The odd-shaped space needle had been once a proud symbol towering above Las Vegas, where locals and tourists dined and danced with a panoramic view of the city. In its decline, however, the earth beneath the property became more valuable for convention parking than as a fading hotel-casino. The Landmark demolition lives on in media history, however, as part of the movie *Mars Attacks*.

The third Las Vegas resort implosion came on November 26, 1996, when the Sands was demolished to make way for construction of a new property, the Venetian. The "great lady of the Strip" had opened in 1952, built by Houston hotelier and prodigious gambler Jake Friedman, along with Copacabana producer Jack Entratter. The Sands' 17-story round tower was the tallest on the Strip when it opened in 1952. The postwar glamor resort had a mystique that attracted high rollers, the infamous "Rat Pack" (Frank Sinatra, Dean Martin, Sammy Davis Jr, Peter Lawford, and Joey Bishop), and even heads of state. In the late 1960s, Howard Hughes bought the resort for $14.6 million and severely curtailed most of the Rat Pack's more outrageous activities.

The seven-second demise of the Sands was a no-frills event, lacking the fiery pyrotechnics of the other casino implosions. The grand dame of the Strip paused like a faded star taking a last bow, then collapsed into a thirty-foot pile of rubble, disappearing in the middle of the night at 2 a.m., to the cheers of the mostly local pre-Thanksgiving holiday crowd. Its image also lives on, however, as a movie set for the film *Con Air*, which held its national premier in Las Vegas.

The eleven-story Hacienda Hotel became the fourth Strip hotel to be imploded. The event, on December 31, 1996, at 9 p.m. local time, was aired live on the East Coast as part of a nationally televised New Year's Eve celebration. The six-lane Las Vegas Strip was turned into a pedestrian mall for eight hours, from 6 p.m. to 2 a.m., as a crowd of 200,000 gathered at the south end of Las Vegas Boulevard, along with another 100,000 revelers down the street at the Mirage block party. A fireworks display lit up the skies both before and after the forty-second implosion. The size of the crowd and the hotel implosion/fireworks served formal notice to New York's Times Square that there was competition for the New Year's Eve party crown – reinforced three days later when the New York-New York resort opened on the Strip. The mayors of Las Vegas and New York City engaged in a friendly argument over which event attracted the largest New Year's Eve crowd in 1996–7. However one measures the competition, Las Vegas did very well, boasting near total occupancy of its 98,000 hotel rooms and taking in $56 million in non-gaming revenues alone.

On April 27, 1998, the 1,100 room Aladdin Hotel and Casino, judged too small by megaresort standards, was demolished in the fifth implosion on the Strip. The venerable casino will be replaced by a new 2,600 room Aladdin that will be part of a projected $1-billion resort complex scheduled to open in early 2000.

Financing Las Vegas' Development

According to the socio-spatial perspective (Gottdiener 1994b), the constant reworking of real estate alters the terrain of any metropolis and is the leading edge of growth. Important to this "second circuit" of capital are the diverse forms of financing that feed the framework of investment in property, often in ways that differ from those of the primary circuit of industrial capital. Individuals or groups assemble money in these diverse ways and often take existing property owners by surprise as they buy them out or build new, competitive projects next door. Venture capital thus finds opportunities, where none were thought to exist, in the second circuit. At other times, major investors in the primary circuit sell lucrative properties, as Howard Hughes did with Trans World Airlines, and use their capital to buy real estate in a big way, thereby altering the existing landscape and creating new competitive forces through novel location decisions.

Nowhere was this process more evident than in the development of Las Vegas. Initiated by Howard Hughes' buying spree, the trend continued into the 1990s megaresort era, changing both the face and the nature of the Las Vegas experience once again. Each of these giant hotels was financed through novel means; Wynn's projects used junk bonds, Circus Circus its own profits, and the large multinationals, such as Hilton and Sheraton, used corporate stock to claim Las Vegas properties.

Joint Ventures

In the late 1990s, however, yet another Las Vegas casino financing trend has emerged in the form of joint ventures, through which competitors combine forces to create new resorts. The first joint venture resort casino on the Las Vegas Strip was the French Riviera-themed Monte Carlo, which opened in June 1996. Mirage Resorts provided the land from the old Dunes property, and Circus Circus Enterprises sup-

plied the capital for the project. The $344-million, 3,014-room resort, designed and operated by Circus Circus, reflects that company's tried and true formula of budget rooms and inexpensive food. The resort includes a 700-seat buffet and a showroom for magician Lance Burton, who has a 13-year contract with the resort to fill a 1,200-seat replica of a Victorian-style vaudeville theater.

Unlike most Circus Circus properties, the Monte Carlo provides credit and "comps" to rated casino customers. Circus Circus had planned to incorporate credit play at the Luxor but lacked the upscale suites, meeting rooms, service elevators, and other amenities needed to cater to the high end of the gambling market. The corporation did, however, add 2,000 rooms with suites and other amenities to the Luxor in an attempt to attract the 10 percent of casino revenues that come from the premium-player niche of $10 thousand to $50 thousand gamblers.

The second joint venture Strip resort was New York-New York, which opened on January 3, 1997, in a ceremony marked by a fireworks display and the piped-in strains of a classic rendition of the song "New York, New York." The $460-million, 2,034-room hotel-casino features scaled-down replicas of the Statue of Liberty and the Brooklyn Bridge, providing the ambiance of Gotham City, including teeming crowds and massive traffic jams, to the Las Vegas Strip. It also features the Manhattan Express roller coaster, that does an inverted flip near the Statue of Liberty, roars past the Harbor and through the New York $lot Exchange casino. The New York Stock Exchange filed a federal court lawsuit against the resort within months of its opening, charging that the columned façade and letters NY$E suggested Wall Street sponsorship. The lawsuit charged that the casino was "bastardizing" NYSE trademarks and diluting their value by "tending to make them generic, the subject of ridicule, [and by] associating gambling, its speculative nature and risks, and its reputation with the [NYSE] and its marks" (J. L. Smith 1997).

A "must see" attraction, New York-New York was a 50–50 joint venture of MGM Grand Inc., noted for catering to the mid- to high-level customer, and Primadonna Resorts, which has a low-end customer orientation. Primadonna started in 1977 with a twelve-room motel and gas station located forty miles south of Las Vegas on Interstate 15 at the California border. In less than two decades, the company has grown into a publicly traded corporation with three hotels at Stateline, which has since been renamed Primm, Nevada.

The opening of New York-New York also finalized the crowning of the intersection of Tropicana Avenue and Las Vegas Boulevard as the hub of the Strip in terms of total room-count, as well as a traffic-count total at more than 100,000 vehicles per day. The intersection of Flamingo Road and Las Vegas Boulevard, which included Caesars Palace, Bally's, the Dunes (now replaced by the Bellagio), and the Barbary Coast, had long held that title.

Corporate Collateral Financing

The most recent multi-billion-dollar wave of Strip casino development was launched in October 1998 with Mirage Resort's $1.6-billion, 3,000-room, 35-story Italian-style resort, the Bellagio, built on the 126-acre former home of the Dunes Hotel and Golf Course. Financing of the Bellagio, as well as other projects presently under construction, suggests that the biggest players in Las Vegas are now leveraging their assets and taking on massive debt in order to continue expanding. Their hope, of course, is that their debts will be paid off quickly by increased profits, but the scale of the new projects and their billion-dollar indebtedness is unprecedented. The Bellagio will be, for a while, the world's most expensive building, even though the land under it was purchased at the bargain price of $70 million (well under 10 percent of its present value). Named for a resort town on the shores of Lake Como in northern Italy, the upscale resort, with room rates topping $500 on busy weekends, is situated on an eight-acre artificial lake. Bellagio, like other Mirage Resort properties, with the volcano at the Mirage and the pirate-ship battle at Treasure Island, features a major public entertainment attraction. A $40-million dancing fountain features 1,200 nozzles, highlighted by 4,500 colored lights choreographed to shoot water as high as 250 feet into the air and orchestrated to match the booming musical accompaniment. The Bellagio also introduced a $92-million *Cirque du Soleil* aquatic production show, "O." The spectacle is the most expensive show ever on the Strip, surpassing Siegfried and Roy (Mirage) and the EFX (MGM Grand) production shows, both of which topped $50 million. A customized, 1,800-seat oval showroom overlooks a 1.5-million-gallon pool and stages rise from the depths with acrobats, synchronized swimmers, and world-class divers in waterproof costumes and make-up. Another record was set as ticket prices broke the $100 barrier.

Shopping and dining are central features at Bellagio. Lakeside restaurants are operated by world-renowned chefs from New York's Le Cirque, San Francisco's Aqua and Boston's Olives. High-end retail shops include Tiffany's, Hermes, Armani, and Chanel. The lobby ceiling features a $10-million, hand blown, multi-colored glass chandelier designed by artist Dale Chilhuly that contains more than 2,000

separate pieces. The 9,000-square-foot conservatory is an aromatic retreat with a 50-foot-high glass ceiling and contains thousands of plants that are replaced monthly and change with the seasons. A $300-million art collection includes paintings by Renoir, Monet, Matisse, and Van Gogh. Following the recent megaresort trend, it is projected that a larger percentage of its income will derive from hotel operations than from the casino. In effect, Bellagio is marketed as a resort with a casino.

Several other megaresort properties, totaling nearly $7 billion and involving debt financing on this immense scale, are nearing completion. Furthest along among these is Las Vegas Sands' Inc.'s massive Venetian. Ground was broken in April 1997 for the first phase of the $2.5-billion resort, with 3,036 suites and a 35-story tower due to open in April 1999. A second phase with another 3,036-room tower is scheduled to open the following year. The two phases together will include one million square feet of shopping space, the size of a large regional mall, on the grounds of the imploded Sands. The resort will also include Venice-style statues and artwork, as well as full-scale canals with gondola rides running through the property. Financing for the $1.2-billion first phase came from bank loans, bonded debt, and the personal wealth of owner Sheldon Adelson, which according to *Forbes Magazine* is approximately $500 million. Unfortunately, portions of the loan interest rate range as high as 14.25%, the same high rate that led the Stratosphere into bankruptcy, and much higher than the debt financing of the Bellagio, as well as of the other projects nearing completion, Hilton's Paris and Circus Circus's Mandalay Bay.

Circus Circus Enterprises Inc., owners of the Luxor, Excalibur, and Circus Circus resorts and co-owners of the Monte Carlo, plan a massive 13,800-room hotel-casino complex at the far south end of Las Vegas Boulevard. The company-owned land covers 121 acres west of the Strip and 15 acres east, from the Luxor south to Russell Road. A pedestrian bridge is planned to span Las Vegas Boulevard connecting the Luxor with the projected Luxor East, a 2,000-room time-share hotel that will also house a quarter-million square-foot shopping mall.

The planned complex includes several resorts, with the first, the $1-billion, 43-story Mandalay Bay, due for completion in March 1999. The 3,700-room resort, being built on the site of the old Hacienda south of the Luxor, features waterfalls, terraced gardens, and mythical statuary reflecting an ancient South Seas odyssey. A ten-acre tropical lagoon includes a sand-and-surfing beach, snorkeling reef, and a swim-up shark exhibit. The $1-billion tropical-themed resort would bring Circus Circus properties to a total of 20,000 hotel rooms by the year 2003, by far the most for any one corporation on the Strip.

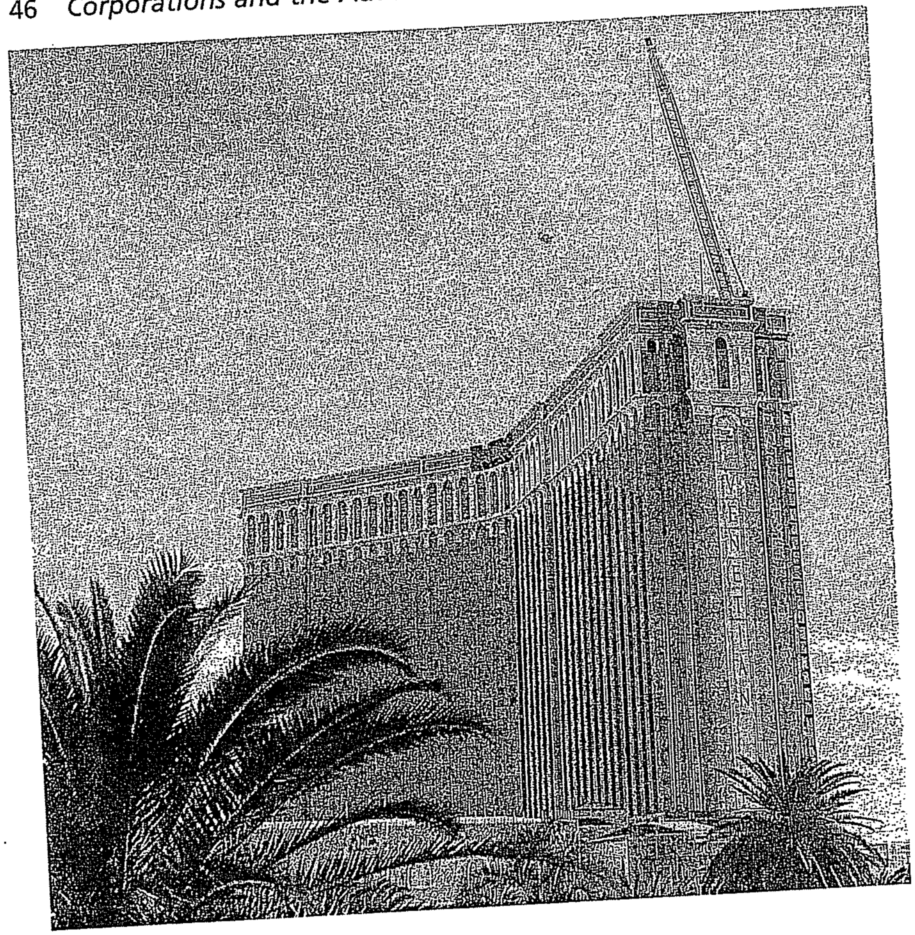

Figure 2.1 The Venetian Hotel Tower

Financing comes from a combination of Circus Circus Enterprises' cash flow and corporate bank lines of credit.

A unique aspect of Mandalay Bay is the combination of two different resort hotels under one roof. A more intimate 417-room Four Seasons Hotel will occupy the 35th to 39th floors of Mandalay Bay. Designed as a five-star luxury resort, the Four Seasons at Mandalay Bay will have its own entrance off the Strip and its own lobby and express elevators. The Circus Circus "miracle mile" of megaresorts, which company officials propose as a self-contained "gateway to Las Vegas," will be designed to serve every segment of the gaming and tourism market. It is projected to be completed with a proposed third resort, tentatively titled Project Z, planned to contain five hotel towers ranging from 31 to 43 stories with a total of 8,000 rooms and 750,000 square feet of casinos, shops, and restaurants.

Plans for the resort complex became less solid in mid-1998, however, when it was discovered nine months before opening that Mandalay Bay was sinking, up to 16 inches, an amount that significantly exceeds the expected settling of 2 to 8 inches for resorts that size (McKinnon 1998g). The foundation of the already constructed resort was subsequently supported by the addition of 500 steel pipes. The resort is on track for its projected opening in early 1999 and will employ 5,000.

Hilton Hotel Corporation also is constructing another Strip megaresort on a 24-acre site adjacent to Bally's. The company broke ground in April 1997 for Paris, a self-financed French-themed resort featuring a 50-story replica of the Eiffel Tower. Due to open in fall 1999, the $760-million, 34-story X-shaped tower will contain 2,900 rooms, including 300 suites. Paris will also feature replicas of the Arc de Triomphe, the Paris Opera House, the Louvre art gallery, a health spa, convention space, and a French-themed retail-shopping complex.

Renovations

For decades the Las Vegas Hilton, built by Kirk Kerkorian, reigned as the world's largest hotel and benefited greatly by its location adjacent to the Convention Center. Since it catered to business conventioneers with expense accounts, the Hilton charged higher prices for rooms and beverages to offset its off-Strip location. Elvis and Liberace once held court in its showroom, which underwent a multi-million-dollar remodeling in a move away from big-name entertainment. The new showroom hosted Andrew Lloyd Webber's *Starlight Express*, a musical with an entire cast on roller blades, though it, too, has since been replaced by a return to headliner entertainment.

In the midst of renovation of the three-year-old MGM Grand, plans were announced for a 1,500-room Marriott Grand Hotel and a 500-room Ritz-Carlton on its property at Tropicana and the Strip. MGM also plans to build thirty luxurious high-roller residences with a Tuscan theme. The Mansion at MGM Grand features private suites and villas ranging in size from 3,000 to 14,000 square feet, eleven of which will have private indoor swimming pools.

Another extensive renovation designed to appeal to upscale travelers took place at the sprawling Desert Inn resort, which was built in the 1950s and was later featured on national television as the home of the TV series *Vega$* (see chapter 3). With the demise of the Dunes and

Tropicana courses, the Desert Inn has the only remaining golf course on the Las Vegas Strip. ITT Corporation bought the property in 1993 from Kerkorian's Tracinda Corporation for $160 million and spent $200 million in 1997 to turn it into the first five-star resort on the Strip.

In sum, following a brief and highly publicized fling at attracting a "family crowd" (more hype than real), the most recent Las Vegas projects are decidedly upscale and now aim for affluent tourists who also like to gamble. The new megaresorts seek to attract these big spenders with five-star resorts featuring simulations of high-status European environments, such as Lake Como, Paris or Venice, or of exotic Mediterranean and South Seas locales.

Real Estate Investment Trusts

Real Estate Investment Trusts (REITs) were created in 1960 to encourage real-estate investment by people of modest means. They avoid corporate income taxes by paying out 95 percent of their taxable income as dividends. In 1997 REITs emerged as yet another potential ownership trend in Las Vegas, further revealing the increasingly corporate nature of gaming, when Hilton Hotels initiated a $10.5-billion hostile takeover bid of ITT. As part of its defense, ITT divested itself of properties worldwide, but retained its Caesars World Casinos and Sheraton Hotels (427 in mid-1997) and reinvested the proceeds in those businesses. ITT also put the Desert Inn, with its expansion well underway, up for sale in the $320 million to $340-million range to obtain cash to battle Hilton's bid. Though the year-long, widely publicized attempt failed, it introduced the new financial players to the Las Vegas scene, as ITT was bought by the Starwood Lodging Trust, a Phoenix-based REIT, for $13.7 billion in a deal that included Caesars Palace and the refurbished Desert Inn.

Also, in January 1998, the pending purchase of Station Casinos for $1.7 billion by another REIT, Crescent Real Estate Equities, headed by billionaire financier Richard Rainwater, was announced. Station Casinos operates four Las Vegas-area casinos geared towards local gamblers, as well as two Missouri casinos. The Station Casino deal was canceled in August 1998, as REITs were losing their luster to investors following recent tax-court rulings. Potential investors also became fearful of the volatility in room and casino revenues that began plaguing Strip operators, despite the fact that Station Casinos, with its appeal to local residents, was largely insulated from such problems.

New Forms of Competition

The Las Vegas gaming mecca surpassed the 100,000-room level in 1997, hosting more than 30 million tourists. However, for the first time in recent memory, both Las Vegas and Nevada gaming revenues flattened in 1996. The relentless march to increase the tourist count and gaming revenues had stumbled only once previously, in 1981. That year Atlantic City added five new casinos, while the negative publicity of the MGM and Hilton fires limited Las Vegas' gaming revenues to a 1 percent increase. No major Strip resorts were built in the 1980s as a result of these and other factors, such as the 1983 recession, devaluation of the Mexican peso, rising airfares, and a 20 percent yearly increase in Atlantic City revenues.

Since 1989, more than 40,000 hotel rooms have been added to the Las Vegas inventory and 20,000 more are nearing completion. While more tourists are coming for longer stays, potential gains in gaming revenues have been offset by the fact that there are so many other entertainment options. Thus, Nevada's leading industry must adjust to the indisputable fact that the increasing numbers of tourists are spending less on gambling. In fiscal year 1997–98, Clark County resorts reported only a modest 4.7 percent gain in gaming revenues (Berns 1998b), a particularly worrisome figure given the 12.5 percent increase in the number of hotel rooms.

Gloomy projections that Las Vegas is overbuilt and over-themed are not new, however. In 1991, the wisdom of building the planned MGM megaresort project was questioned. In 1993, after ITT Sheraton purchased the Desert Inn, former chairman John Kapioltas proclaimed that, "Las Vegas may be themed out" (Berns 1997a). This statement was made before New York-New York, Monte Carlo, the Bellagio, and the Venetian were built. Yet, despite such cautionary warnings, a 1997 poll of Chief Executive Officers by *Fortune Magazine* named Mirage Resorts Inc. the second most respected company in the country.

High-tech spectacles make Las Vegas' attractions larger-than-life events that tourists can't experience anywhere else in the world. The Las Vegas Hilton's "Star Trek: The Experience" beams visitors to the bridge of the *Starship Enterprise* in the 24th century, where they experience an action-packed 23-minute simulation. The $70-million attraction premiered in 1998 as a "must see" event – and will undoubtedly be replaced eventually by a more spectacular attraction. The Mirage volcano drew tourists and locals in droves when it first began its noisy and fiery eruptions. Within a few years, however, the fickle public raced past the exploding volcano, hardly paying attention, in their rush to view the Treasure Island's mock pirate battle. Even new properties are constantly being upgraded, as in 1996, when the three-year-old Treasure Island received a $3.5-million upgrade of its lobby area.

High Rollers

Competition for gaming and entertainment dollars is fierce and is escalating in intensity. In this competition, baccarat, a card game similar to blackjack, plays a particularly prominent role as the *crème de la crème* of casino games, drawing large-stakes gamblers or "high rollers." It even has its own separate space in the casino environment, as high-limit games are held in plush private salons where players are served by tuxedo-clad dealers. Baccarat revenues are so large that severe fluctuations can make or break quarterly earnings at individual resorts. Accordingly, "whales," industry parlance for the world's top one hundred to two hundred players, who are capable of betting $250,000 per hand at baccarat, are aggressively pursued. Whales, who often have credit lines of 5 million to 10 million dollars, mostly came from the Middle East in the early 1970s, and later that decade, from Mexico. When the Mexican economy collapsed in the early 1980s, efforts shifted to attract players from the Far East. One of these high rollers was reported to have lost $70 million over a three-year period, although the house doesn't always win. Resorts sometimes put up whales in million-dollar suites, wine and dine them, only to see them walk away with a million dollars in winnings. Losses of that magnitude at one large resort can negatively impact overall quarterly gaming revenues for the Strip, and ultimately for the entire state. Thus, while volume has become the primary focus in the era of megaresorts, intense competition to attract high rollers also continues.

Conventions

In 1959, the Las Vegas Convention Center (LVCC) opened one block east of the Strip on Paradise Road. The silver-domed rotunda seated 6,300 and the adjoining hall contained 90,000 square feet of exhibit space, but its off-strip location prompted newspaper publisher Hank Greenspun to dismiss it as a "white elephant."

Since that time, however, the Convention Center has undergone repeated expansion and is now one of the nation's premier convention sites as well as its second largest center. It is the largest single-level convention facility in the country, an important asset for moving massive exhibit materials in and out. The Las Vegas Convention and Visitors Authority (LVCVA), operator of the Convention Center, is financed by room taxes and convention-center revenues. Convention and trade-show attendees in the mid-1990s accounted for approximately 10 percent of annual visitor volume.

In 1990, a $50-million modernization and upgrade of the thirty-year-old facility added an additional 200,000 square feet of meeting and exhibit space. In the process, one of Las Vegas' most recognizable landmarks, the center's flying-saucer like rotunda, was demolished along with its Gold Wing, another previously prominent feature of the facility.

In 1997, yet another multi-million-dollar expansion added 280,000 more square feet of exhibit space to North Hall, bringing the overall total to 1.9 million square feet. The Convention Authority plans to have more than 2.5 million square feet of exhibit and meeting space available within fifteen years, with the capacity to expand over the top of Desert Inn Road. In anticipation, eastern access to the major cross-town arterial was lowered below ground level to prevent gridlock between the pedestrian and vehicular traffic generated by conventions, and local traffic.

The number of conventioneers rose from 1.7 million attendees in 1990 to 3.5 million in 1997, when the city hosted 3,700 conventions, generating a non-gaming economic impact estimated at $4.4 billion by the LVCVA. Las Vegas hosted 32 of the top 200 conventions that year, placing it in the top spot for large shows and total trade-show attendance, ahead of Chicago, Atlanta, and New York (H. Smith 1998b). Although convention attendance slowed somewhat in 1998, convention business overall has been so good for Las Vegas that in 1998 the LVCVA declined invitations to bid for both the Republican and Democratic national conventions. An official for a national exhibition company that wants to subsidize the addition of more space commented: "You're a tough ticket to get into. A lot of shows want to come to Las Vegas but can't get dates" (H. Smith 1998b). Unlike most other cities that cater to conventions, Las Vegas has more than double the amount of convention-center space in its resorts, giving the city a total of 4.2 million square feet of meeting and exhibit space, and predicted to surpass 6 million square feet by the year 2000.

Less than a mile southwest of the Las Vegas Convention Center, at Spring Mountain Road and the Strip, sits the privately owned and operated Sands Expo and Convention Center. When the Sands Expo opened in November 1990, it was perceived by the LVCVA as a competitor. Since then, however, the growing number and size of conventions in Las Vegas has allowed both facilities to operate at full capacity.

Sands' owner Sheldon Adelson is the former board chairman and CEO of Interface Group, which annually produced the city's large Comdex computer convention. In 1983, Adelson, on behalf of Comdex, joined with executives of the Consumer Electronics Show (CES) to build the West Hall of the LVCC and then sold it to the LVCVA for one dollar. Occupancy at the Sands Expo Center is demand driven because the rates are higher, nearly double those of the LVCC, as it is not subsidized by tax dollars. Its prices are still competitive by national standards, however. By 1993, the Sands Expo Center had one million square feet of convention space, and a room total of 1,800 before the Sands' implosion. The opening of the first phase of the Venetian in early 1999 on the former site of the Sands Hotel, adjacent to the Expo Center, will replace that with 3,000 rooms.

Many Las Vegas hotels have publicly stated their lack of enthusiasm for conventioneers, who, they claim, don't gamble enough because they are busy in meetings all day and dine on freebies at night. However, room rates triple when the massive Comdex convention, with more than 200,000 attendees, is in town. Also, "girlie shows" on and off the Strip do a resounding business, as it seems that computer enthusiasts would rather stuff dollar bills into G-strings than slot machines.

Conventions originally filled in the gaps during otherwise slow tourism times. The enormous growth of Las Vegas' resorts, however, in terms of both total room-count and convention facilities, has allowed the convention and tourism industries to co-exist year-round. A tourism-related organization, Las Vegas Events, is a private corporation that exists on a \$3-million annual budget of public funds provided by the convention authority. Las Vegas Events produces the National Finals Rodeo that brings big-spending cowboys and rodeo fans to Las Vegas after the Thanksgiving holiday, traditionally a slow time for tourism.

Downtown Fights Back – The Fremont Street Experience

Competition between the Las Vegas Strip resorts and the downtown casinos has been a major factor in the dynamic growth of the region since the 1950s. Before the advent of the megaresorts on the Strip, the downtown properties had several advantages. Their old-style casinos, many of them family-run operations, had a reputation for looser (higher paying) slots and friendlier table games with lower betting minimums. Also, because the casinos were much closer together, they provided an atmosphere where gamblers could easily move among

several establishments. For years, visitors looking for inexpensive steak dinners, loose slots, friendly dealers, and a more forgiving environment felt no need for such frills as sphinxes or tropical forests

However, in the 1990s, the Strip's themed megaresorts gained the upper hand and gaming revenues at downtown resorts declined steadily. In November 1995, downtown casino businesses, in cooperation with city government, responded with a spectacular project of their own, the Fremont Street Experience, in an attempt to boost their revenues.

Fremont Street was the original heart of Las Vegas, being the first street to be paved, in 1925, having the first elevator (in the Apache Hotel in 1932), and the first high-rise building (the Fremont Hotel in 1956). Also, when gambling was re-legalized in 1931, the first Nevada gaming license was issued to the Northern Club at 15 E. Fremont Street, and the Horseshoe was the first casino to install carpeting, while the Golden Nugget was the first structure designed from the ground up to be a casino. In the 1940s the introduction of neon transformed drab Fremont Street, with its wood-planked sidewalks, into Glitter Gulch, and in 1947 the multi-story-high neon cowboy, Vegas Vic, arrived to welcome visitors with a wave and a "Howdy Partner" greeting. In short, Fremont Street *was* Las Vegas until the upstart, county-based Strip began to develop.

A major factor contributing to Glitter Gulch's more recent competitive disadvantage is the stereotypical seediness of its downtown location, which has largely offset its comfortable, old-time feeling. The core of downtown is comprised of some of the oldest casinos in the region; the Pioneer Club (now a souvenir shop), the Fremont, the Four Queens, Fitzgerald's, the Golden Nugget, the Las Vegas Club, Binion's Horseshoe, Sassy Sally's Slots, the Golden Gate (established in 1906), and the (Union) Plaza. For nearly a century these establishments' combined themes of the Wild West and California Gold Rush days dominated the downtown area and the overall Las Vegas image. Intermingled with the older casinos today, however, is a motley array of bail-bonds, storefronts, motels advertising adult movie channels, gun shops, liquor stores, temporary day-labor businesses, blood banks, pawn shops, tacky gift shops, and fast-food outlets. The homeless and the derelict wander the side streets, mixing with the gamblers and other tourists, creating a less than glamorous image of a scruffy, hand-to-mouth Las Vegas, the Vegas of people who are down on their luck, looking for their last big chance.

The Fremont Street Experience was designed to overcome Glitter Gulch's tarnished image and to stem the financial hemorrhaging as tourists and gamblers were lost to the pirate battles, pyramids, and

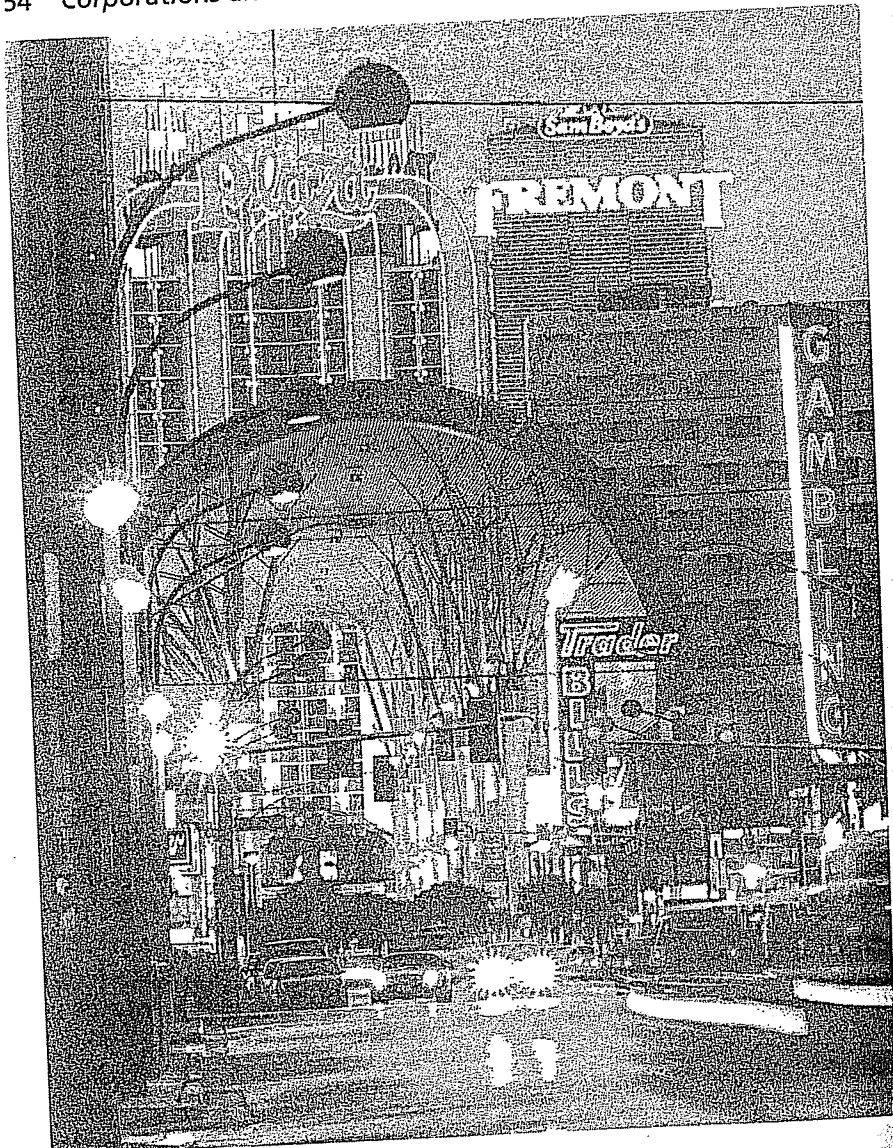

Figure 2.2 Fremont Street Experience at night time

volcanoes on the Strip. The idea for renovation came from Golden Nugget owner Steve Wynn, who originally proposed building canals to be traversed by gondolas delivering patrons to the casinos. In 1991 Wynn brought in renowned architect Jon Jerde, designer of Horton Plaza in San Diego and the City Walk in Universal City, California

Jerde proposed construction of a canopy of light over Glitter Gulch, and the city of Las Vegas, along with a collective of ten casino owners, chipped in to build the attraction.

The $70-million Fremont Street Experience features a pedestrian mall with misting systems to cool the air and a 90-foot-high, four-block-long canopy that boasts a unique computer-generated animated light-and-sound show. Even Vegas Vic found a place under the canopy after part of his hat was lopped off. The animated lighting includes more than 2 million lamps and the 208-speaker sound system boasts 540,000 watts. A 1,400-space parking plaza was built by the city for $23 million, although land for the garage was secured only after controversial eminent-domain (or compulsory purchase) proceedings by the city.

A second phase of the Fremont Street Experience was approved by the city council in 1998. The $100-million "Neonopolis @ Fremont Street Experience" will be a 254,000-square-foot retail and entertainment center. The city will contribute up to $30 million on property acquisition and for construction of a 630-space underground-parking garage. The non-gaming complex will be modeled after Cocowalk, an urban entertainment center in Miami's Coconut Grove district. If the developer, World Entertainment Centers of Atlanta, secures funding, the project will be built at the corner of Las Vegas Boulevard and Fremont Street, directly north of the red Fremont Street Experience parking garage. The Neonopolis project is significant because it represents a departure for the downtown area from casino-oriented enterprises towards a more diversified mix of commercial businesses. Thus, as the Strip has diversified after its own fashion by building upscale resorts that are less dependent on gambling revenues, the downtown is trying to achieve the same goal by attracting commercial businesses and producer services.

Another project designed to boost downtown gaming revenues was built in the netherland between Glitter Gulch and the Strip, within city boundaries. When the press conference announcing the project that would become the Stratosphere Tower was held, owner Bob Stupak only had permission from city officials to build an 800-foot-high, concrete and steel, three-legged base for the structure. However, Stupak, a maverick entrepreneur, soon announced more ambitious plans to build the world's tallest free-standing structure at 1,800 feet. Though it was not at first considered a serious proposal by the Las Vegas city council, Stupak hired a well connected development attorney, son of the then-sheriff, to handle the legal and political details. A coalition of McCarran Airport and FAA officials contended that the tower would constitute a hazard to aviation, yet construction began in February

1992. The project went through several incarnations and a series of setbacks that included battles with contractors, disagreements with the city council and the FAA, a spectacular late-night fire, and a steady stream of financial troubles. One of the mammoth concrete legs was bowed to such a degree that the defect was visible from most of the Las Vegas Valley, causing local residents to speculate that the structure might not be safe. After an electrical fire 500-feet up in August 1993 lit up the night skies and delayed construction, rumors spread locally that the tower, nicknamed Stupak's Stump, was cursed. Construction that was planned for two years, ended up taking more than four.

In April 1996 the $550-million Stratosphere Resort, with its 1,149-foot tower, opened as the tallest building west of Mississippi and with the tallest free-standing observation tower in the nation. The first hotel phase contained 1,500 rooms but cash flow problems, exacerbated by high-interest-rate debt payments, delayed the crucial second phase to add 1,000 additional rooms. While tourists and locals crowded onto elevators to get to the observation decks in the 12-story pod atop the tower, the "Let It Ride" roller coaster was a disappointment, as its record-setting height above ground didn't make up for its slow ride that lacked a spectacular drop. The "Big Shot" attraction, billed as a reverse bungee-jump, launching passengers by pulling 4 Gs, proved to be more successful. A proposed 48-passenger, animatronic-ape ride up the outside of the tower was never built, yet the tower quickly became a defining symbol of the Las Vegas skyline and airline passengers had no trouble picking it out from their window seats.

While people came to see the tower and take the rides, however, few of them stayed to gamble, shop, or dine. Grand Casinos Inc., the Minnesota-based company that owned 44 percent of the property, took operational control of the Stratosphere less than six months after it opened and began an extensive gaming marketing program, advertising that they had loosened the slots to increase payoffs. Additional changes also were made, including closing the "Top of the World" restaurant for lunch to focus on the more popular dinner service. Revenues picked up somewhat and the high-cost debt was refinanced, but the reduced annual rate was still a high 14.25%, making it difficult to cover the payments. The resort thus filed for Chapter 11 Bankruptcy reorganization within its first year, although it has remained open and was purchased by corporate investor Carl Icahn for approximately 50 cents on the dollar. When the Nevada Gaming Commission approved Icahn to take control in August 1998, the financier pledged to invest $100 million to finish the hotel tower and add a swimming pool and spa.

Location was perhaps the biggest obstacle to the Stratosphere's becoming a successful operation. The casino-hotel is situated next to a low-income, drug infested area known as the Naked City. Once a desirable place to live, Naked City received its name from the large number of showgirls who once lounged around the area's apartment-complex pools, *au naturel*, to obtain even tans. The neighborhood has since declined, however, into a hovel of run-down apartments rented by the day or week, populated by low-income residents. Efforts by city leaders to rename the area Meadows Village, and increased police patrols, have only slightly changed its slum-like ambiance and the presence of drug dealers, addicts, and prostitutes.

A World-Class Airport

It can truly be said that without McCarran International Airport and the volume of traffic it handles, the Las Vegas economy would never have attained its current multi-billion-dollar status. However, the story of the airport's success is not a simple case of the landing field keeping in lock step with growth. Vision and innovative entrepreneurship were involved. In this sense, the rise of McCarran Airport was as much a risk-taking adventure as the construction of the more heralded casino environment.

During World War II the federal government constructed Nellis Air Force Base, one of the largest military air bases in the country, eight miles north of Glitter Gulch. In addition to the base, which was originally used as a gunnery range to train bomber and fighter crews, a second, smaller base was created through the lobbying efforts of powerful Nevada Senator Pat McCarran. In 1942, the Civil Aeronautics Administration commissioned the first air traffic control tower at the new joint-use military and civilian McCarran Airfield. Before then, commercial and mail planes landed on the present site of the Sahara Hotel. In 1947 the base was decommissioned and McCarran Airfield became the main commercial airport for Las Vegas. The following year, the airport was moved to a larger site on Las Vegas Boulevard South. The renamed Clark County Public Airport served four airlines: Bonanza, Western, United, and Howard Hughes' Trans World Airlines. In the first year of operation 35,000 passengers passed through its gates and the field averaged twelve flights per day.

Senator McCarran continued to lobby the federal government for support for the fledgling airport, including its re-classification to handle large aircraft, and in recognition of his efforts the field was rededicated as McCarran Airport in 1949. With the building boom on