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## **Are cheap stays going away?**

### **Closing of properties with lower-priced rooms has observers wondering**

[By ROD SMITH](#)  
[GAMING WIRE](#)

Looking for a cheap stay in Las Vegas? Your chance of finding one may be shrinking.

The declining supply of bargain-priced hotel rooms on the Strip is a quietly simmering problem, Deutsche Bank analyst Andrew Zarnett said.

More than 5,000 lower-cost Strip hotel rooms have recently been taken off -- or could soon be taken off -- the market, he said.

The Bourbon Street (with 166 rooms, closed in October and was imploded earlier this month) and Boardwalk (654 rooms, closed Jan. 9) are gone. The Stardust (1,300 rooms) will go this year; Boyd Gaming Corp. says it will close the hotel-casino around year's end.

Places that may be gone soon include the New Frontier, which owner Phil Ruffin has said he wants to replace with a megaresort, and the Tropicana, which owner Aztar Corp. has long said it plans to redevelop.

That list accounts for about 20 percent of the budget-priced rooms that were on the Strip a year ago.

And plans could be ahead to close another 10,000 bargain-priced rooms.

Harrah's Entertainment has said it likely will implode the Imperial Palace (2,626 rooms) on the Strip's west side when it redevelops its properties north of Flamingo Road.

Meanwhile, prospective buyers claim to be making offers on the Riviera (2,136 rooms) and the Sahara (1,750 rooms), although the hotel-casinos' owners, Riviera Holdings Corp. and Sahara Gaming Corp., have said no deals are in the works.

Add recently closed hotel-casinos to the Strip closures and the bargain-room dearth worsens. Off-Strip

closures include the downtown Lady Luck (734 rooms, closed Feb. 12 for a yearlong renovation) and the Castaways (480 rooms, imploded Jan. 10) on the Boulder Strip.

There are also rampant rumors that MGM Mirage is planning to close and demolish Circus Circus (3,744 rooms) to pave the way for redevelopment. However, spokesman Alan Feldman said there have been no plans or discussions concerning Circus Circus.

If all of the bargain-rate hotel-casinos that could close actually do, an unlikely event, it would suck about 13,000 budget-priced rooms out of the local inventory.

With many bargain rooms gone, Zarnett said room rates and revenue per available room at the market's lower end will increase. The extent of the increases, he added, will hinge on how many rooms are lost.

"There's going to be a supply-demand imbalance," he said, "even though in two to 2 1/2 years the building cycle will pick up the slack."

Brian Gordon, a partner in the Las Vegas-based financial consulting firm Applied Analysis, said the recent closures may mean that properties considered midtier today will be considered lower-tier tomorrow.

"It's all part of the natural evolution of the hotel-casino life cycle," Gordon said. "Those projects that aren't reinvesting capital become obsolete at some point."

CRT Capital Group gaming analyst Steve Ruggerio said the loss of budget-priced rooms packs mixed blessings for gaming companies. On the downside for casino operators, he said, the dearth could hurt convention and meeting business since many attendees stay at lower-priced hotel casinos.

But, in casino operators' favor, he added, the dearth could boost occupancy levels, room rates and revenue per available room at existing hotel-casinos. Likely beneficiaries would include the Flamingo, the Las Vegas Hilton and Excalibur.

Gordon said the supply-demand imbalance may benefit farther-off-the-Strip properties, too.

"Cost-conscious consumers may be willing to travel longer distances for more attractive accommodations such as South Coast and downtown," he said.

David Schwartz, director of the Center for Gaming Research at the University of Nevada, Las Vegas, added: "Downtown, with a monorail in 10 years, may become an extension of the Strip with \$100 to \$50 rooms and an easy ride (to major amenities)."

But fewer bargain rooms could mean fewer bargain travelers, suggested University of Nevada, Las Vegas professor Bill Thompson, as Las Vegas limits itself to upscale, pricier accommodations.

However, Thompson, who specializes in gaming studies, said prices can't climb endlessly.

"You can't start at \$200 a night," he said. "You have to be half New York City hotel room rates for prices to be at a competitive rate and for people who come here to think they have a bargain."

Jim Medick, who owns MRC Group, a market research company, said recent surveys show that the issue for most visitors is how much value they're getting. Most visitors recently have said they get great

value even though room rates are escalating, he said.

"Yes there is leakage -- people coming less often or not at all," Medick said. "But the majority are in the lower income brackets, and their replacements are younger and more affluent. That's not a bad trade."

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