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The Saipan Saga

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Recent announcements that Imperial Pacific International (IPI), operator of the Imperial Palace Saipan, has had its gaming license suspended and is now at risk of having its license revoked may soon bring to an end a story of one of the world’s most ambitious integrated resort projects. It has also dashed the hopes of many in Saipan who once saw an integrated casino resort as a way to stimulate international tourism and generate needed tax revenue.

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The saga begins

The saga dates back to 2014 when Saipan lawmakers passed a bill authorizing a single casino license to be awarded in a competitive bidding process. Three previous attempts to bring a casino to the island had failed, but the government was strapped for cash and the winning bidder would be required to pay a \$30 million casino license fee and an annual payment of \$15 million in lieu of a gaming tax.

On the fourth try, the legislation passed, and two China-based companies submitted bids. In addition to the payment of upfront fees and annual licensing, the winning bidder was also required to invest a minimum of \$2 billion and build 2,000 hotel rooms. The license was awarded to Best Sunshine International, a company with links to the Hengsheng Group, a successful Macau junket promoter.

The Commonwealth of the Northern Marianas Islands (CNMI) is a commonwealth of the United States, and is comprised of fourteen islands in the northeast Pacific Ocean. The majority of the population resides in Saipan, Rojas and Tinian. Tinian was the only island that had previously offered casino gaming at the Tinian Dynasty Resort, but the property struggled, owed in large part to an airport that lacked a fuel depot and instrument landing capabilities. Tinian Dynasty ultimately closed while another remains under development.

Saipan offered casino developers a unique opportunity. It already had a Pacific resort destination with a well-established tourism industry that was adept at catering to visitors from key feeder markets, including The Peoples Republic of China (PRC), Taiwan, Korea and Japan. Its workforce was multi-lingual and Saipan International Airport already served air routes from those markets. In particular, Saipan offered visa-free travel from markets such as the PRC.

Unlike the Philippines, it did not have a raucous political and regulatory structure. Rather, as a U.S. commonwealth, it operated under the same laws found in the 50 states and its political structure mirrors that found in any U.S. state.

Best Sunshine International soon changed its name to Imperial Pacific International Holdings and was listed on the Hong Kong Stock Exchange. The company had ambitious plans and assembled an impressive team to implement them. It announced a US\$7.1 billion development, consisting of multiple resorts with a total of 4,500 lodging keys concentrated in two locations. The first phase called for a resort in central Garapan, overlooking the Pacific Ocean. It was designed by the renowned architect, Paul Steelman.

To lead the development, IPI hired Mark Brown as its CEO, one of the gaming industry's most experienced and respected executives. Mark Brown had previously served as President of Sands Macau, Venetian Macau and Four Seasons Macau. IPI could not have recruited a more capable executive to lead this endeavor.

Best Sunshine's head-turning performance

IPI subsequently was granted permission to open a temporary casino until construction of its permanent facility was completed. It was to serve as a training facility for its casino staff. Housed in the DFS Shopping Mall in Garapan, the casino consisted of 46 table games, 106 slot machines, a noodle restaurant and a bar. The casino operated within the public space of the mall, where shoppers could walk through the casino to reach the parking garage and a Hard Rock Café at the rear of the building.

Despite this pedestrian gaming environment, the temporary casino generated eye-popping gaming revenues. Relying on VIP customers that the company cultivated in Macau, it averaged \$2 billion a month in rolling chip volume, a staggering amount for a casino of any size, much

less one housed in a shopping mall and without a hotel to house VIP players. In September of 2016, the company announced that its temporary casino generated US\$3.95 billion in turnover, a 153% increase from the previous month.

While much of the success in its initial performance could be credited to the company's longstanding relationship with VIP players that it had developed as a junket promoter, generous credit policies also played an important role. Since gambling debts are unenforceable in the PRC, the company incurred sizable amounts of uncollectable debt when VIP gamblers were slow to settle their markers.

What went wrong?

The new resort opened on July 6, 2017 and all gaming operations moved to the new casino, a few blocks from the mall location. The project's approximately 350-room hotel and 15 luxury villas remained under construction. Mark Brown resigned his position in January of 2018.

Subsequent to the casino's relocation, problems ensued with the hotel's construction. A construction accident in which a worker died prompted an investigation by the FBI and Department of Homeland Security. The investigation led to the arrest of five individuals who were charged with harboring undocumented workers. A subsequent examination of construction practices further slowed development of the remaining non-gaming assets.

In November of 2018, Saipan was struck by Typhoon Yutu, which had a devastating impact on the island's infrastructure. While the casino was able to open shortly after the typhoon passed, the Category 5 typhoon severely damaged Saipan International Airport, flooding portions of the main terminal and damaging the airport's navigation aids. Other portions of the island were completely devastated. While the airport was able to re-open, it did so with only limited operations. The loss of navigation aids prevented flights from landing at night, which in turn severely curtailed tourism onto the island. Through 2019, the island's residents struggled to repair residual damage from the typhoon.

Tourism had yet to fully recover before the pandemic struck. Since March of 2020, there have been virtually no international flights, and as with all international tourist destinations, the casino struggled to remain open. Relationships with regulators foundered as the company was unable to pay its debts along with its annual licensing fee. Current events culminated in July of 2021 with a member of CNMI's House of representatives calling for the complete demolition of the entire property.

The future of casino gaming on Saipan

It is difficult to predict the future of the casino-resort. Cui Li Jie, the Executive Director and Chairman of the Board of Directors, resigned in June of 2021. The casino's license has been suspended indefinitely and may very well be revoked. Should that happen, the value of the company's assets on the island will be further devalued. What is needed is a white knight, willing to purchase the property, with an assurance that it would be granted a gaming license. That company must commit to completing the hotel. That in itself may be a challenge as portions

of the tower have remained exposed to the elements. There are also allegations that the hotel's contractor did not adhere to construction standards, which may require extensive remediation.

Any new operator that takes over the project must accept that the gaming industry has changed since the opening of Best Sunshine. The VIP market is no longer as robust as it was five years ago as the PRC has promised a crackdown on junket promoters operating within its borders. Any business plan for the casino must be predicated solely on mass market tourism – not VIP gamblers.

Saipan remains an attractive tourism destination. It is the only place under the jurisdiction of the United States that waives visa requirements for visitors from China. There will certainly be a considerable amount of pent up demand from other key source markets, such as South Korea, Taiwan and Japan, once the pandemic abates.

There may be a few well-funded Asian hotel-casino operators willing to first negotiate with IPI and purchase the project and simultaneously negotiate with Saipan regulators for the coveted gaming license. There are a number of moving parts that must mesh in order for the transfer of assets to be completed, construction resumed, and the project completed. It remains to be seen if the saga continues.
