Cosmo sold in $5.65B deal; MGM to take over resort operations

By Colton Lochhead Las Vegas Review-Journal
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The Blackstone Group is selling The Cosmopolitan of Las Vegas in a $5.65 billion deal that will extend MGM Resorts International's footprint along the Strip.

MGM agreed to purchase the resort's operations for $1.625 billion, while the underlying real estate of The Cosmopolitan will be sold to a group of buyers that includes a Blackstone real estate investment trust.

The sale comes seven years after Blackstone purchased the resort for $1.73 billion and marks a major return on the $500 million the company invested into the property to renovate nearly 3,000 guest rooms, complete several high-end luxury suites and upgrade bar and restaurant offerings.

MGM plans to enter into a long-term lease with the group of buyers, which also includes the Cherng Family Trust, an office investment firm from Panda Express founders Andrew and Peggy

Cherng, and Stonepeak, an investment firm that specializes in infrastructure and real estate assets.

Deal continues trend

The deal is the latest in a spurt of transactions involving resort properties along Las Vegas Boulevard as investment groups look to buy up choice real estate along the Strip at premium prices, while gaming operators like MGM use the freed-up cash to invest further into their operations and into expansion efforts as online gambling and sports betting grow at an exponential rate across the country.

Last month, Vici Properties announced that it would acquire MGM's real estate investment company MGM Growth Properties in a massive $17.2 billion deal, with MGM continuing to operate the properties that Vici is acquiring. MGM expects to receive roughly $4.4 billion in cash from that transaction.

MGM last week got state regulator approval to buy out Dubai World's 50 percent stake in CityCenter for roughly $2.1 billion, giving MGM full ownership of the Aria and Vdara resorts. Once that deal closes, MGM intends to sell both properties to Blackstone for $3.89 billion as part of a lease-back deal, with MGM paying $215 million in rent annually.

And in 2019, Blackstone bought the Bellagio's real estate for $4.2 billion from MGM and leased it back to the company at an initial rent of $245 million in annual rent.

MGM Chief Financial Officer Jonathan Halkyard said in a statement that the deal for The Cosmpolitan offers the company "an incredible opportunity to expand our customer base."

"The Cosmopolitan brand is recognized around the world for its unique customer base and high-quality product and experiences, making it an ideal fit with our portfolio and furthering our vision to be the world's premier gaming entertainment company," MGM CEO and President Bill Hornbuckle added in a statement.

Once the transaction is closed, expected in the first half of 2022, MGM Resorts will enter into a 30-year lease agreement, with three 10-year renewal options. MGM will pay an initial annual rent of $200 million, which will increase by 2 percent annually for the first 15 years and the greater of 2 percent or the Consumer Price Index (up to 3 percent) from then on.

The deal makes sense for MGM given The Cosmopolitan's close location to several of the company's other properties and offers "modest financial accretion," gaming analyst Barry Jonas of Atlanta-based Truist Securities said in a Monday report to investors.

Monday's announcement could also be an indicator of other future plans for MGM.

Fantasy sports giant DraftKings last week indicated it was planning to purchase Great Britain-based sports wagering company Entain — a 50 percent partner of BetMGM — for $20 billion. Analysts believe that plan could spur MGM to reconsider bidding on Entain.

“We also think MGM spending about 15 percent of its dry powder here may suggest they’re less willing to make a run at all of Entain versus our favored approach of just acquiring all of BetMGM,” Jones said.

Separating real estate, operations

Development of the luxury resort started amid the real estate frenzy of the mid-2000s, and the project found itself in financial trouble amid the Great Recession. In March 2008, two years before opening, Deutsche Bank issued a default notice on a loan it made for the development and foreclosed on the partially built project later that year.

Still, The Cosmopolitan opened its doors in late 2010 and quickly staked its mark as a trendy spot. But the financial issues continued, as the resort lost millions in each of its first three years in operations.

Blackstone stepped in and bought the resort in 2014, and has since put $500 million toward upgrades — an investment that clearly paid off in the long run.

“This transaction underscores Blackstone’s ability to acquire and transform large, complex assets,” Tyler Henritze, head of acquisitions, Americas, for Blackstone Real Estate, said in a statement.

“As owners of The Cosmopolitan, we invested strategic capital and brought our expertise and experience in the lodging space to create the most dynamic destination on the Las Vegas Strip. The management team and employees at The Cosmopolitan, led by CEO Bill McBeath, flawlessly executed an ambitious business plan, including navigating a challenging period for the entire industry, to position the property for such a high level of success,” Henritze said.

Brendan Bussmann, director of government affairs for Las Vegas-based Global Market Advisors, said that the deal has been years in the making, with everyone wondering what the next phase of The Cosmopolitan would look like.

Blackstone explored selling the property in 2019, with a price tag at the time of about $4 billion.

With The Cosmopolitan in its portfolio, MGM has an opportunity to “create some true synergies between this side of the Strip from Bellagio south,” Bussmann said.

UNLV hospitality professor Amanda Bellarmino said the deal was a surprise, as many assumed The Cosmopolitan would be sold to someone without an established Strip presence.

But the pieces add up for MGM, she said.

“The benefits of the merger are that it is a well-established Strip company with a proven record of success,” Bellarmino said. “The acquisition could help MGM to target younger travelers by acquiring this successful and attractive property.”

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