Acquisition of The Cosmopolitan was shrewd move by MGM Resorts

By Richard N. Velotta Las Vegas Review-Journal
October 2, 2021 - 9:13 pm

Shrewd move, MGM.

Last week, the largest employer on the Strip made the surprise announcement that it's acquiring the operations of The Cosmopolitan of Las Vegas for $1.625 billion.

It's part of a larger $5.65 billion real estate deal for Blackstone with a method in vogue in the gaming industry these days: A group of investors is buying the real estate beneath The Cosmopolitan, and MGM is getting the operations piece.

In turn, under the 30-year contract that has three 10-year options, MGM would pay $200 million annual rent to the investment group, which includes a Blackstone real estate investment trust and the family trust of the founders of Panda Express.

The Blackstone Group picked up The Cosmopolitan seven years ago for $1.73 billion, so it's netting a nice profit. Former MGM

CEO Jim Murren pitched the idea of buying The Cosmopolitan years ago, but nothing came of it until last week.

The deal still has to pass regulatory muster, probably in early 2022, but Brendan Bussmann, director of government affairs for Las Vegas-based Global Market Advisors, thinks it will happen.

"The average visitor saw Cosmo as part of the CityCenter complex," Bussmann said. "Now you will be able to create some true synergies between this side of the Strip from Bellagio south."

MGM gets to maintain its "assets-light" strategy that the company initiated five years ago. The company has to pay annual rent and generate revenue from the casino, the hotel and all of the other assets in the building.

Once The Cosmopolitan deal is done, MGM would have only one property — MGM Springfield in Massachusetts — that the company would own. But in regulatory hearings, company officials have said a real estate company would buy Springfield by the end of the year, which would make MGM the tenant at 100 percent of its resorts.

MGM gets its fair share of customer traffic from the mature, well-established baby boomer. Now, the company can mine a younger generation, as The Cosmopolitan, since it opened in 2010, has become a hipster haven.

While The Cosmopolitan of Las Vegas is considered a luxury hotel, there's no doubt MGM could persuade some of its new younger customers to move up to the likes of Bellagio through loyalty programs.

Check out the geography of the deal.

From north to south, MGM's holdings down Las Vegas Boulevard would include Bellagio, Cosmopolitan, CityCenter — Aria and the nongaming Vdara — Park MGM, New York-New York, Excalibur, Luxor and Mandalay Bay.

Everything is pretty much side by side on the west side of the Strip, except for one isolated property, The Mirage.

The company's lone property on the east side of the boulevard: MGM Grand.

The Caesars lineup

Now look at its biggest competitor, Caesars Entertainment Inc. It's established the same way on the east side of the Strip with Harrah's Las Vegas, The Linq, Flamingo, The Cromwell, Bally's, Paris Las Vegas and Planet Hollywood.

The lone property on the west side of the Strip: Caesars Palace, the company's flagship and best-known asset.

Caesars also has the advantage of easy access to a transit system it didn't have to build, the Las Vegas Convention and Visitors

Authority-owned Las Vegas Monorail. If a major portion of the gaming industry's future is in group sales for conventions and trade shows, Caesars is all set: There's a Monorail stop at the massive Las Vegas Convention Center and the company's not-even-broken-in Caesars Forum.

MGM's acquisition of The Cosmopolitan gives it 3,000 recently renovated rooms right near where MGM had envisioned another hotel tower.

Remember the Harmon Hotel, the 400-room building with an additional 267 condominium residences and a spa?

It was the last planned property at CityCenter, but it was doomed by construction defects and unceremoniously dismantled instead of being imploded like so many classic Vegas resorts. A court case in a civil lawsuit relieved both MGM and its contractor of paying what probably would have been a nine-figure settlement.

One other outcome of MGM's purchase is that it blocked a potential new Strip competitor. It's been well-reported that a potential buyer for a place on the Strip is Hard Rock International, a gaming company owned by Florida's Seminole Indian Tribe.

The Seminoles are looking to make a bid to be the third tribal entity to take up residency in Las Vegas, but they want to be on Las Vegas Boulevard, unlike the off-Strip Virgin Hotels Las Vegas — casino operated by Mohegan Gaming and Entertainment —

and the Palms, being purchased by the San Manuel Band of Mission Indians of California. Incidentally, the San Manuel group made a big move this month, hiring a former MGM executive, Cynthia Kiser Murphey, as its general manager once that transaction closes later this year.

As luck would have it, the CEOs of Hard Rock International, Jim Allen, and MGM, Bill Hornbuckle, will join Wynn Resorts Ltd. CEO Matt Maddox on the same stage Wednesday for a panel discussion on gaming issues at the Global Gaming Expo.

Here's hoping they talk about some of these deals that are transforming the Strip.

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