MGM Growth CEO fields questions about possible Sands leaseback deal

By Bailey Schulz Las Vegas Review-Journal
November 2, 2020 - 9:29 am

MGM Growth Properties executives were questioned on a possible leaseback deal with Las Vegas Sands Corp. on Monday.

Sands confirmed last week that it was in "early discussions" to sell its Las Vegas assets. Company spokesman Ron Reese declined to comment Monday on whether the company is considering a leaseback deal or in discussions with MGM Growth, a real estate investment trust affiliated with MGM Resorts International.

CEO James Stewart said the REIT, which acts as landlord to a number of casinos, is looking to expand its portfolio, especially with larger, U.S.-based gaming properties that "move the needle."

"Fifty percent of our portfolio exists on the Las Vegas Strip," Stewart said. "We think a deal could get done on the Strip."

He declined to comment on whether MGM Growth was having conversations with Sands during a Monday third quarter earnings call.

MGP looking to expand

Even though Las Vegas' convention industry has bottomed out amid the pandemic, Stewart said the city is still better positioned than many others in the long run, and MGM Growth remains interested in expanding in Las Vegas.

"I think that the city, particularly those (Strip) properties, are going to be set up for some very significant growth once we get to the other side of COVID," he said. "We would definitely be interested (in a Strip asset)."

Stewart said any deals would likely need to include a tenant that could continue rent payments through the uncertain economic times, along with assets that are comparable to the other high-value properties in MGM Growth's portfolio.

MGM Growth's Las Vegas properties includes Mandalay Bay, The Mirage, Park MGM, New York-New York, Luxor and Excalibur.

The company's sole tenant is MGM Resorts, which owns a nearly 57 percent stake in MGM Growth, but Josh Swissman, founding partner of Las Vegas gaming and hospitality consulting firm The Strategy Organization, believes a deal with Sands would make sense for the REIT.

Partnering with a casino operator outside of MGM Resorts would help MGM Growth diversify its management portfolio, he said, and the deal could pay off well in the long-term, once Las Vegas' convention industry rebounds.

"The majority of the Las Vegas Sands Corporation's Vegas revenue stream is coming from the group and convention business, and that's going to be the last piece of the Vegas puzzle to return," Swissman said. "(But) in the long run, which is what REITs are all about … (The Venetian, Palazzo and Sands Expo Center) are great long-term investments for MGM Growth and other potential REITs.”

Brendan Bussmann, director of government affairs for Las Vegas-based Global Market Advisors, agreed, saying he’d “still put money on Vegas in the long term.”

With 1.2 million square feet of exhibit and meeting space and roughly 7,100 rooms, he said Sands’ Strip assets are “hard to pass up on.”

Bussmann expects other REITs will face similar lines of questioning concerning any discussions with Sands.

“I think there’s lots of options on the table for Las Vegas Sands,” he said. “Whether that’s an existing gaming company, another conglomerate or a REIT, I think all options are on the table.”

Union Gaming analyst John DeCree wasn’t sold on the idea of MGM Growth forming a deal with Sands, saying other properties are more viable.

“I think MGM Growth was simply suggesting they would be willing to consider purchasing Las Vegas real estate, even in this climate, if the deal fit within their criteria,” DeCree said.

Incentives for Sands

Selling off the real estate under a property would be out-of-character for Sands, but Swissman didn’t discredit the idea.

“If there’s one thing we learn in the last 7 or 8 months, it’s that all bets are off the table in terms of ways to make your business sustainable in the future,” he said. “As any smart business owners and operators do, you evaluate all sorts of ideas like this one to generate additional income for the company.”

Reevaluating sale-leaseback deals with REITs seems to be a trend among casino operators amid the pandemic, according to MGM Growth Chief Financial Officer Andy Chien.

“The conversations … have certainly increased in number,” Chien said during Monday’s call. “(The pandemic has) really raised our profile as a truly viable and interesting new way to finance some of those companies that had not looked at it previously.”

Stewart added that he expects the entire gaming industry will eventually move toward an owner-operator lease structure.

“Other industries that have faced similar pressures have ultimately found that’s the most efficient structure for them, and I think this one will too,” he said. “There’s just too much money left on the table by not utilizing (these deals).”

Bussmann said there’s “probably a handful of people” who would be able to make a Sands deal work from a monetary standpoint, but fewer who can manage operations. A REIT deal could leave Sands at the helm of its flagship properties, or it could provide an opportunity to transfer operations to a separate company.

“It’ll take a special group to make sure it continues to run the way it does and understand the meeting and convention business,” Bussmann said.

MGM Growth reported a net income of $97.4 million for the quarter. Shares closed up 2.6 percent Monday at $27.13 on the New York Stock Exchange.

The Review-Journal is owned by the family of Las Vegas Sands Corp. Chairman and CEO Sheldon Adelson.

Contact Bailey Schulz at bschulz@reviewjournal.com.
Follow @bailey_schulz on Twitter.