

# Hard Rock's \$1B Vegas Hotel Buy Prompted By Inflation Fears

By **Andrew McIntyre**

Law360 (December 14, 2021, 5:04 PM EST) -- Hard Rock International Inc.'s recent \$1.075 billion purchase of the Mirage Hotel and Casino in Las Vegas is the latest in a growing trend of investing in hotels amid fears of inflation, and experts expect hotel mergers and acquisitions activity to remain strong over the coming months.

Florida-based Hard Rock said late Monday it's buying the operating assets of the 3,044-room hotel and casino from MGM Resorts International and will also enter into a long-term lease deal with VICI Properties Inc. for the Mirage.

Experts say hotels have become more attractive of late amid inflation fears since, unlike office properties, hotel rates can be readjusted daily.

"In the rising inflation rate environment, I would expect an uptick in big-ticket hospitality M&A of this type, as investors flock to a sector where occupancy revenue can be adjusted on a daily basis, versus other real estate sectors where landlords rely on locked-in, long-term rents," said Thomas Henry, co-chair of real estate and a member of the executive committee at Willkie Farr & Gallagher LLP. "This deal again underscores the value of location, especially in a highly competitive hospitality market like Las Vegas."

Experts say several factors are driving an uptick in hotel M&A activity. For one, companies are sitting on the sidelines with massive amounts of cash that needs to be invested, and they are becoming increasingly fearful of holding that money due to inflation.

Data out Tuesday show wholesale prices rose 9.6% in November from a year earlier, the largest jump since the U.S. Bureau of Labor Statistics started tracking monthly changes in 2010.

The previous records had been set in September and October.

"The fear of inflation is fueling acquisitions. Parties do not want to be holding cash," said Guy Maisnik, a partner and vice chair of global hospitality at Jeffer Mangels Butler & Mitchell LLP. "Hotels are ... inflation-hedge assets that produce dividends. One can buy gold, but that doesn't produce dividends."

While inflation is part of the equation, the latest deal also shows that companies will pay top dollar for assets in key markets amid the pandemic.

COVID-19 has created a fissure between hotels in desirable drive-to vacation markets and properties that largely cater to conference and business travelers. The former have seen high occupancy in the second half of 2021 amid the vaccine rollout, while the future of the latter remains in jeopardy given that business travel has not significantly picked up.

Hard Rock said Monday it plans to build a guitar-shaped hotel on the Las Vegas Strip.

"One of the issues that the Hard Rock Casino had for years before it closed before the pandemic was its location off the Strip," said Jason Grinnell, a partner at Glaser Weil LLP. "Now, Hard Rock will get a premier location. ... It also is a promising sign for the recovery of the hospitality and leisure sector, post-pandemic."

While the deal is an important sign of a rebound in the hospitality sector writ large, the transaction also shows that investors have confidence in the return of the Las Vegas market in particular.

"People wondered, 'When will the market come back?' I think it answers that question. ... I think this is an incredible vote of confidence," said Jim Butler, a partner and chairman of global hospitality at Jeffer Mangels, of the Hard Rock deal. "It also shows the returning vibrancy of Las Vegas ... [and is] representative of a breakout year for hotels."

Meanwhile, seller MGM is likely to use proceeds in part for future investments in Japan as that firm seeks to tap into potential for growth in that market, said Robert Ivanhoe, vice chair of Greenberg Traurig LLP and senior chairman of global real estate, as well as co-chair of the REIT practice at the firm.

"If MGM can get a license in Japan in a desirable location, this could be a very advantageous redeployment of capital over the long term as that market has significant growth potential and significant barriers to entry given the very few licenses being granted," Ivanhoe said.

And experts expect continued strong hotel M&A activity given the anticipation of inflation fears as well as more leisure travel in 2022.

On Tuesday, yet another hotel M&A deal was announced, with Aimbridge Hospitality buying Texas-based Prism Hotels & Resorts for an undisclosed sum. Maisnik guided Prism Hotels on that deal.

"There's a lot of hotel M&A right now," Maisnik said. "If you're a legal counsel in the hotel realm, this holiday season may not see much of you."

The Hard Rock deal is expected to wrap up in the latter half of 2022.

Barclays advised Hard Rock on the deal, while BofA Securities and PJT Partners advised MGM Resorts.

Hard Rock is represented by Lorne Cantor, Erin de la Mare, Brian Sedlak, Evan Kanter and Luis Velez of Jones Day and by Fox Rothschild LLP. Hard Rock had special gaming counsel from McDonald Carano LLP.

MGM Resorts is represented by Michael Aiello, Sachin Kohli, Iliana Karaoglan, Ting Liu, Enrico Bueno Da Silveira Leite, W. Michael Bond, Nellie Camerik, Jannelle Seales and Jason Comer of Weil Gotshal & Manges LLP.

VICI Properties is represented by Nathalia Bernardo, Todd Lenson, Tzvi Rokeach and Jordan Rosenbaum of Kramer Levin Naftalis & Frankel LLP.

--Editing by Andrew Cohen.

*Update: This article has been updated to include additional counsel information.*