

When Vegas hotels upgrade

When Peter Morton opened the Hard Rock Hotel in 1995, he created a sex-and-rock-'n'-roll atmosphere that helped transform Las Vegas from a town of dated lounge acts and fanny-packed tourists to a celebrity hangout for the hip and beautiful.

The iconic property was a marketing milestone but only marginally profitable – breaking even on expensive rock acts and cashing in as much on top-shelf alcohol as on slot machines. Strip casinos with bigger pockets adopted the strategy for themselves and are now spending millions on swank nightclubs and other late-night venues to capture an audience the Hard Rock previously had to itself.

And now, the one-time vanguard property is at a crossroads: Should it be maintained as a gracefully aging brand, or be dramatically upgraded?

The decision won't be made by Morton. He's in the midst of selling the Hard Rock to Morgans Hotel Group, a boutique hotelier out of New York that is embarking on its first casino venture.

Known for expensive, clubby brands such as the Miami's Delano, Los Angeles' Mondrian and New York City's Royalton, Morgans thinks it's high time the Hard Rock got a face lift becoming of its off-Strip legacy.

„With new entrants in the market, while the Hard Rock has continued to do very well, it has not really changed a lot in the last five years,“ Morgans Chief Executive Ed Scheetz told the Sun. „We see significant opportunities there.“

By improving the property and folding it into a larger, more efficient chain of small hotels, „we think we can create a lot of operating profitability,“ he said.

Morgans hopes to close on its USD 770 million purchase of the Hard Rock by early next year. The deal includes 23 acres behind the Hard Rock and rights to build other Hard Rock-brand hotels and casinos in several Western states.

Wall Street is concerned with how Morgans, a small, New York company with a strained balance sheet and disappointing stock price can afford the purchase. Small by Las Vegas standards, the 650-room Hard Rock, sitting on 17 acres, would be the company's largest and most expensive project to date.

Morgans is only too happy to take the plunge.

The company had been scoping out properties Las Vegas for several years to round out its high-end portfolio. The company's hotel customers already travel here for work and pleasure.

„We've obviously known about the property and Peter for a long period of time," Scheetz said. „It's an iconic property. It's the original boutique hotel in that market. Peter Morton is attempting to target a similar type of market that our company is trying to attract.“

Resort land in Las Vegas is akin to a highbrow buffet – unique and too rich for the faint of heart. Morgans, which buys and builds properties in some of the world's most expensive ZIP codes, isn't afraid to pony up.

„It's very difficult to acquire major properties in Vegas these days," Scheetz said. „The market is tight and land prices are high. It was an unusual opportunity to acquire any sizable property in the market, (let alone) one with the recognition and history and longevity and style.“

Scheetz says the company has worked hard to keep hip brands relevant.

„The Delano was the first boutique hotel in South Beach and

continues to outperform the market. It's still the place to go. We are competing with hotels that were built a year ago and cost a lot to build."

Morgans is not delusional about what it's trying to do, Scheetz said.

"We don't underestimate the competition in Vegas or anywhere else," he said. "It's intense and fierce. The playing field is different than it was 10 years ago. We're new to the market, and we respect the fact that we have things to learn."

The Hard Rock has managed to do well in spite of few major upgrades over the years, Scheetz said.

Compared with the company's densely built hotels in New York and London, the Hard Rock site, with surface parking in front, has space for more hotel rooms, high-rise parking and other attractions.

Morton was on the cusp of building more than USD 1 billion in luxury condos behind the property when he put everything up for sale this year.

Morgans has appointed a veteran hotel executive of the New York-based chain Starwood Hotels and Resorts Worldwide, which owns the Sheraton, Westin, W and St. Regis brands, to run the company's Las Vegas operations.

Randy Kwasniewski, who briefly worked at the Hard Rock, will oversee the Hard Rock as well as the development of Morgan's Delano and Mondrian hotels at Echelon Place, Boyd Gaming Corp.'s USD 4 billion-plus resort complex that will begin construction at the Stardust site next year.

Scheetz wouldn't disclose specifics about the company's plans for the Hard Rock, though experts say upgrades could include more rooms and entertainment offerings.

Key to the Hard Rock's future is the rear acreage, which the

company will either expand onto, sell, or develop with investment partners.

The Hard Rock, which attracts a younger and less affluent customer than the company's other properties, hardly registers in the blue-blood world of high-society hotels.

Even so, Morgans wants to keep the brand name – the first time one of its acquisitions has had its name preserved.

„Our growth efforts have focused on the Mondrian and Delano,“ Scheetz said. „But we have a lot of other brands that we created as we entered new markets.“

That's why Morgans' purchase says a lot about where Las Vegas – a growing playground for the rich and famous – is headed.

„We think Las Vegas is one of the key markets – like New York or L.A. or London – for a company like ours,“ he said. „We think it's critical. It's clearly a place where everyone wants to be .“

It's also a place where the profit and expansion potential – unlike other land-constrained areas like New York and London – is huge.

„The scale of things that can get done in Vegas is larger,“ he said. „With the evolution of the market and the development of higher-end properties, it's a place where you can make lots of money.“

„We're going to be a pretty small player in a very large market. I think this will have a big impact on the company.“