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Land and Buildings Comments on Formation of REIT by MGM Resorts

- Commends Board of MGM Resorts for Taking Important First Steps Towards Unlocking the Company's Material Undervaluation -

- Accelerating Recovery in Las Vegas Combined with MGM's Profit Growth Plan Should Result in 2016 Domestic EBITDA That is Well Ahead of Current Wall Street Estimates –

- MGM's Newly Formed REIT Has the Potential to Trade at a Premium Valuation, but Needs to be Structured for Success – Key Issues Highlighted Below -

- MGM Resorts Must Stay the Course to Successfully Execute Initiatives to Unlock Underlying Value, Which Land and Buildings Now Estimates to be $35 Per Share, or Nearly 50% Upside From Current Levels –

- Land and Buildings Will Host a Conference Call at 2:00PM EST Today -

Stamford, CT (November 3, 2015) – Land and Buildings Investment Management, LLC ("Land and Buildings") today issued the following letter to the shareholders of MGM Resorts International (NYSE: MGM) ("MGM" or the "Company"):

Dear Fellow MGM Shareholders:

We commend MGM's Board of Directors and senior management for taking important first steps towards unlocking the material undervaluation of the Company's operating business and real estate properties.

The accelerating recovery in Las Vegas combined with MGM's Profit Growth Plan will likely result in 2016 domestic EBITDA that is well ahead of Wall Street estimates, potentially by 15% or more. The higher assumed EBITDA and the steps the Company is taking to monetize real estate by our estimate will result in a 2016 net asset value (NAV) of $35 per share, or nearly 50% upside from current levels.

MGM Growth Properties ("MGM REIT") has the potential to trade at a premium valuation with leading growth given its exposure to the strong Las Vegas market and its opportunity to be a consolidator of integrated casino resorts and other hospitality properties.

To achieve a premium valuation on the MGM REIT, the REIT needs to be structured for success. While the MGM REIT Form S-11 has not yet been made public, we are hopeful the REIT structure will contain many of the characteristics we have seen in other highly successful REITs since the dawn of the modern REIT era in the early 1990s. Below we outline some of the characteristics we will be looking for in MGM's public disclosure.

MGM REIT will likely be an UPREIT, first pioneered by Taubman Centers in 1992, and a structure now used by many publicly traded REITs. An UPREIT is a partnership which owns the assets so as to defer capital gains tax. The REIT owns an interest in the UPREIT. In this case, the public shareholders of MGM REIT would own 30% of the UPREIT and MGM Resorts would own 70% of the UPREIT. The UPREIT structure should provide MGM REIT with a superior currency to consolidate as the REIT can buy assets using the partnership units which will allow the seller to defer capital gains taxes.

Over the years REITs have successfully navigated thorny conflict of interest issues created as a result of UPREIT structures and REITs with close ties to the founder or parent company. Below we outline the issues that we anticipate may arise and proven solutions to those issues:

PropCo and OpCo Own Assets in the Same Market

When the operating company owns 100% of a property in the same market where it owns a smaller stake through its ownership of the UPREIT, the REIT investors may be justifiably concerned about several conflicts, including OpCo and PropCo competing on acquisitions and developments as well as directing customers to the 100% owned asset. In this case, think of the "high-roller" being directed to MGM Grand instead of Mandalay Bay.

Despite MGM's 70% stake in the UPREIT at the IPO, that stake may well fall materially over time as the REIT issues equity and grows, so ownership alone does not mitigate the issue. One solution to this potential conflict is granting the REIT an evergreen right of first refusal option to buy MGM Resort's retained real estate (e.g. Bellagio, MGM Grand, etc.) on advantageous terms (say a 10-15% discount to the fair market value), as well as certain exclusive rights on all future MGM Resorts external growth opportunities.

Optioned Development Properties (Non-Arm's Length Transaction)

MGM REIT will have an option to purchase from MGM Resorts the Springfield and Maryland developments upon completion/stabilization. Had the REIT already been public, the development would most likely have been undertaken by the REIT and the profit from the development would then inure to the benefit of the REIT shareholders.

In this case, as the projects are already under construction, it makes sense for MGM Resorts to complete the developments. In these situations we typically see the option for the REIT to purchase the properties at some modest premium to cost, typically 105% of cost.

REIT Governance Issues

To achieve valuations that reflect the true value of the underlying real estate or better, the REIT must have a strong corporate governance structure.

Marriott Corporation in 1993 separated its real estate into what is today Host Hotels and Resorts (NYSE:HST; $17 billion total enterprise value) and Vencor (now Kindred Healthcare) in 1998 separated its real estate into what is today Ventas (NYSE:VTR; $30 billion total enterprise value). The OpCos and PropCos of both of these companies have no overlapping directors today. Simon Property Group (NYSE: SPG) Chairman and CEO David Simon was initially a board member of WP Glimcher (NYSE: WPG) following the spin-off of WPG from SPG in 2014, but Mr. Simon resigned from the board of WPG following shareholder pressure to do so given the apparent conflicts of interest between SPG and WPG. MGM REIT and MGM Resorts should have no overlapping directors.

Presumably the REIT will be incorporated in Maryland, a state which is well known for shareholder-unfriendly provisions. As a show of good faith, MGM REIT should permanently opt out of the Maryland Unsolicited Takeover Act (MUTA), which allows a company to re-stagger its board without shareholder approval. Further, the MGM REIT board should be annually elected at the IPO and going forward.

Lease Structure to Protect REIT Shareholders

Given the substantial growth expected in the EBITDA of the underlying REIT properties in 2016, the first step-up in rent should occur in 2017 and should capture a fair share of that growth. MGM management on their conference call indicated the rent will be adjusted similar to market precedent, which would be every 2 or 5 years. MGM should structure the lease so that the rent is adjusted to fair market value and thus capturing more of growth than appears to be contemplated.

UPREIT Structure Mitigating Conflicts

Given the low tax basis of parties who contribute properties to the UPREIT, some tax protections are typically provided. Prohibiting sales for a period of time, such as 5 years, is likely appropriate. Thereafter MGM REIT should make a best effort to effect a 1031 exchange to defer taxes in the event of a taxable asset sale. UPREIT unitholders should have no voting rights at the REIT level unless they convert units into common shares.

Lower Leverage Equals Higher Valuation

MGM REIT should be born with low leverage to best position it to succeed and grow. MGM REIT will apparently have a 40-50% debt to total enterprise value at its IPO. Successful REIT IPOs typically occur with lower debt ratios. Asset sales at the parent company MGM Resorts on a tax efficient basis should be used to ensure lower leverage at the REIT. A sale of MGM's 50% interest in CityCenter would likely raise billions of dollars and have minimal taxes given the steep losses taken relative to the development costs.

Increasing MGM REIT's Float

MGM REIT's IPO will likely be around $1-1.5 billion. To increase the float of MGM REIT, MGM Resorts could undertake a 1031 exchange by converting their OP Units at the UPREIT into REIT shares and selling those shares in a secondary offering and acquiring the joint venture interests the Company does not already own in other properties such as MGM's 50% interest in Borgata.

MGM REIT M&A Opportunities

We have been asked if Gaming and Leisure Properties (Nasdaq:GLPI) could acquire MGM REIT prior to the IPO similar to what they did when Pinnacle Entertainment (NYSE:PNK) announced it would convert into a REIT.

In our view, given the premium valuation at which GLPI trades, its nearly $10 billion size following the Pinnacle acquisition, and the near elimination of the governance and conflict issues outlined above, a combination of GLPI with MGM REIT would make a very compelling investment opportunity for shareholders. Further, it would reduce the tenant concentration issues for both companies.

Land and Buildings Hosting Conference Call Today at 2:00PM EST

Please join us for a conference call on Tuesday November 3, 2015, today, at 2:00PM EST to discuss the above in greater detail. To ask a question, please email MGM-REIT@landandbuildings.com in advance of the call. Information for accessing the call is as follows:

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Sincerely,

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Land and Buildings is a registered investment manager specializing in publicly traded real estate and real estate related securities. Land and Buildings seeks to deliver attractive risk adjusted returns by opportunistically investing in securities of global real estate and real estate related companies, leveraging its investment professionals' deep experience, research expertise and industry relationships.

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