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Sell Donald Trump

Crash or no crash, the personal stock of Donald J. Trump, the New York real-estate celebrity, is up. Up is Trump's favorite direction. He proposes to build the world's tallest building. For flying, he owns a Super Puma jet helicopter and a Boeing 727. For weekend cruising, it's the yacht *Nabila*, which belonged to the previously opulent Adnan Khashoggi. On land, he rides in limousines. A new "Trump" line of superstretch limo produced by a Bronx manufacturer was named for—who else?

Donald Trump, 41 years old, by all accounts is nearly perfect. He is "six feet-something tall" (*People*) and photogenic. He is the owner of Trump Tower, which, among real-estate people, is mentioned in the same breath as another one-time family business, Rockefeller Center. Trump himself calls it, "the best piece of real estate in the world, in the most incredible city in the world." He has called the Mayor of New York a "moron"—and lived to tell the tale. When New York City government bungled the job of restoring the Wollman ice-skating rink, Trump stepped in to finish it, on time and within budget. He and his wife Ivana, a former model and skier and a current socialite and business-woman, have three children. If one of the children should happen to call the office, that child is put right through—no questions asked. "In 10 years," says Ivana, "Donald is going to be 51 years old. How many casinos can you own? How many buildings can you build? Eventually, Donald's going to look at some other business. Maybe it's politics. Maybe it's something else. I never say never."

Although the mayor and Trump get on like Iran and Iraq, the developer has managed to ingratiate himself with national political leaders. He has taken out full-page advertisements in *The New York Times* (at about \$35,000 a page) to advance his views on foreign policy. He has flown to Moscow. "I like the people, and the people like me," he says, sounding a little proprietary about the people. He won't be running for President this year, though: "It's so hard to just drop everything to do something like that."

Although Trump contends that he doesn't like "doing press," he is chronically landing on the cover of magazines. *Business Week*, the *New York Times Magazine*

and *People* have done him. *New York* almost canonized him. Trump has done himself, too, in *Trump: The Art of the Deal*, newly published by Random House. "I don't do it for money," Chapter One leads off. "I've got enough, much more than I'll ever need. I do it to do it. Deals are my art form." Elsewhere Trump contends, "The point is that you can't be too greedy." Also he writes, "I like thinking big. I always have." It is an affecting story of an often misunderstood business genius. The book has gone to a 25% discount from the \$19.95 list price at Waldenbooks.

"He is this year's phenomenon," *People* said, "a 41-year-old member of a



"Donald Trump on lines one through six."

Drawing by Ed Arno; © 1986
The New Yorker Magazine, Inc.

species on the verge of extinction: He is a Tycoon."

It is possible that no individual in America is more overbought, personally, than Trump. It is one thing to call Edward Koch a "moron" and get away with it, or to patronize your father in your autobiography ("I had loftier dreams and visions," writes Donald, comparing himself to Fred). It is another to get your face on the cover of *People* and *Business Week* and manage to hold on to your money. "Whom the gods would destroy, they first make merry," a friend quipped. Trump was the roaring 1980s in person. And now that the roaring has subsided, what will become of him? If New York City real estate should happen to sink, what will happen to the man who owns so much of it? Is it possible that publicity, the scourge of fortunes and breaker of luck, will be any kinder to Trump than it was to the investor-turned-literary-celebrity, George Soros?

Our curiosity was reduced to a few basic questions: Is Trump the type of tycoon with money or the type without? Does he personally go in for leverage? To what extent does his net worth depend on the quoted prices of illiquid assets? More broadly still: Will any real-estate fortune be secure in the coming credit difficulties? Seeking the answers, we read the Trump *oeuvre*: press clippings, public financial statements, autobiography, back issues of *W* and "Suzy" columns. We asked around town. Taking nothing for granted, we ordered up a Dun & Bradstreet report on the Trump Organization. The results were inconclusive:

EMPLOYEES: 4,200, including officers; 100 employed here.

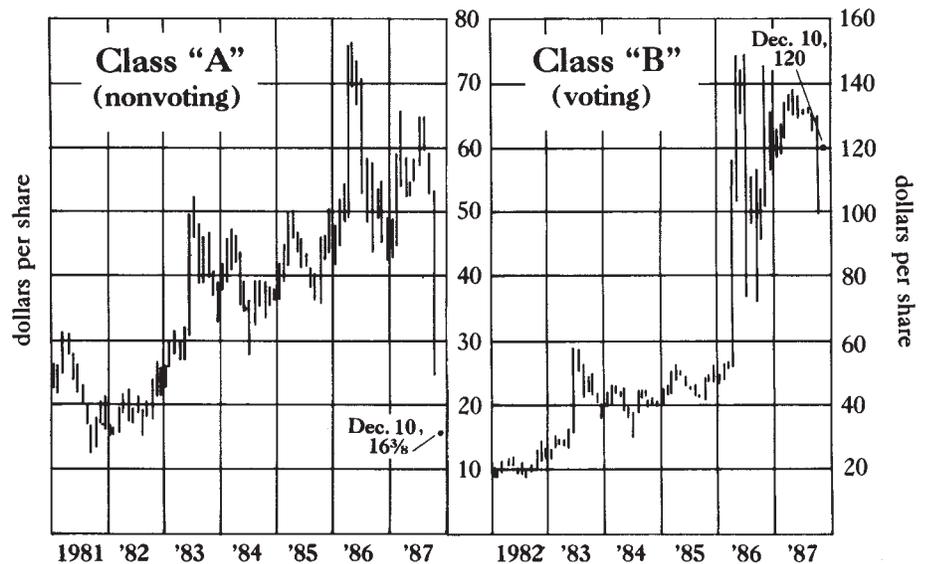
FACILITIES: Rents 5,000 sq. ft. in multistory steel building in good condition. Premises neat [i.e., "the best piece of real estate in the world, in the most incredible city in the world"].

LOCATION: Central business district on a main street [i.e., Fifth Avenue].

BRANCHES: Subject operates a casino [he has two and is building a third] in Atlantic City, N.J.

D&B did not specifically address the question of whether Trump has any money or whether it is all spinach. *Business Week* had ventured \$3 billion, seeing *Forbes* an estimate of \$850 million and raising it a couple of billion, but the

Resorts International rolls the dice



source: M.C. Horsey & Co.

Business Week estimate appeared before the crash and before the tycoon took a controlling position in Resorts International with its vast sinkhole, the unfinished Taj Mahal casino in Atlantic City. Furthermore, the magazine spoke before the publication of *Trump: The Art of the Deal*, and the author's specific guidelines for interpreting Trump, i.e.:

The final key to the way I promote is brava. I play to people's fantasies. People may not always think big themselves, but they can still get excited by those who do. That's why a little hyperbole never hurts. People want to believe that something is the biggest and the greatest and the most spectacular. I call it truthful hyperbole. It's an innocent form of exaggeration—and a very effective form of promotion.

Maybe he was only exaggerating, but Trump divulged that \$320 million seemed like a lot of money to him as recently as 1985. That was the year he purchased Hilton's Atlantic City hotel, which, he says, was the biggest bet of his life. He borrowed the money from Manufacturers Hanover, incidentally—got the president on the phone and got the money "just like that. It goes to show you the value of credibility. In return, I did something I'd never done before. I personally guaranteed the loan."

That's the rub with Trump: not knowing how many chits he has out. The tycoon has raised \$600 million in

junk-grade debt for his two Atlantic City casinos: \$250 million in Trump Plaza Funding mortgage bonds (the 12⁷/₈s of 1998), \$226.8 million in Trump's Castle Funding first mortgage bonds (the 13³/₄s of 1997) and \$125 million in another Trump's Castle Funding first mortgage bond issue (the 7s of 1999). As for Trump himself, our intelligence has it that he is, in fact, loaded. More than that, our informants say, he is probably liquid. "He's big time, he really is," said a real-estate friend who has an appreciation of liquidity. The source likens him to Samuel LeFrak, the New York City developer, though a notch below Trammell Crow, the national developer. Trump has tended to work with money partners—the Equitable Life Assurance Society, for instance, or his anonymous junk-bond buyers—rather than on his own credit. Barring a lurch toward recklessness, our informant contended, Trump is almost a shoe-in to die rich.

Resorts International, the casino and hotel operator, may not reverse that bullish prognosis, but it does not enhance it, either. On the face of things—an impression corroborated by the action of Resorts' common—the company is struggling. Trump paid \$100 million or so for control of the voting "B" stock last summer. Since that purchase, the Resorts story has been Wollman Rink in reverse, with massive overruns and snafus at the gi-

ant Taj Mahal casino/hotel complex. A year ago, the cost of the project was estimated to be \$550 million. In the June 10-Q, it was put at \$800 million. In the brand-new September "Q," it was bumped up to \$930 million. The latest Q discloses plans to issue \$100 million of convertible bonds and up to \$450 million of secured indebtedness, all junk grade. That would push the volume of high-yield issuance by Trump-controlled companies to over \$1.5 billion, or 1% of the entire public junk market, an impressive figure even for a man who has gotten off the line, "I want the best, whatever it takes."

If the money does get raised, the Q also noted, Resorts would show \$1.2 billion of long-term debt. It would show just \$109 million of equity. "The Company's ability to service that amount of debt will depend, to a significant extent, upon the future profitability of the Taj Mahal," Resorts adds, which will be no mean feat. Even if you happen to be the moderately leveraged house, Atlantic City has become a harder place in which to make a buck. In the September quarter, city-wide gaming capacity was up by 12.7%, while

gaming revenues were up by only 9.7%. Trump Plaza, for instance, managed to score an 18.7% gain in gaming revenues in the September period thanks to expanded parking and the opening of some new "super suites." But, as the financials also disclose, competition raised gaming costs by almost \$8 million, or 32%. The document summed up the troubles in one neat sentence: "Market capacity has outstripped market growth."

As might be expected, Trump has not left his flanks entirely unprotected in this campaign. Resorts and Trump's very own Trump Hotel Corp. recently signed a comprehensive services agreement (thank you, *Forbes*). Among its other features, the contract guarantees Trump a fee equal to 3% of the post-July 21 construction costs of the \$930 million (and counting) Taj Mahal. That is, the more it costs, the more Trump stands to earn. We wanted to ask Resorts about that, and we wrote down a question to put to the financial v.p.: "Is there any limit—any cap—to what the Trump Hotel Corp. could earn through cost overruns at Taj Mahal? If not, doesn't Trump, considering

he paid only \$100 million for his stock, have a vested interest in delay? At the very least, aren't his interests and the company's sharply at variance?"

An arbitrageur who used to own Resorts "A" said that he sold out his stock on the hunch that Trump was not so much on the side of Resorts as on the side of Trump. Some fine print in the Resorts September "Q" raises the same point. It notes that Donald Trump, the chairman of Resorts, controls two other Atlantic City casinos in which Resorts has no interest:

Because the Trump Casinos compete directly with other Atlantic City casino/ hotels, including Resorts International Casino Hotel, and will compete with the Taj Mahal. . . potential conflicts of interest may be deemed to exist by reason of access to information, business opportunities or otherwise.

"Never underestimate the man who overestimates himself," Warren Buffett is supposed to have said. Sell Trump short—but with close stops only.

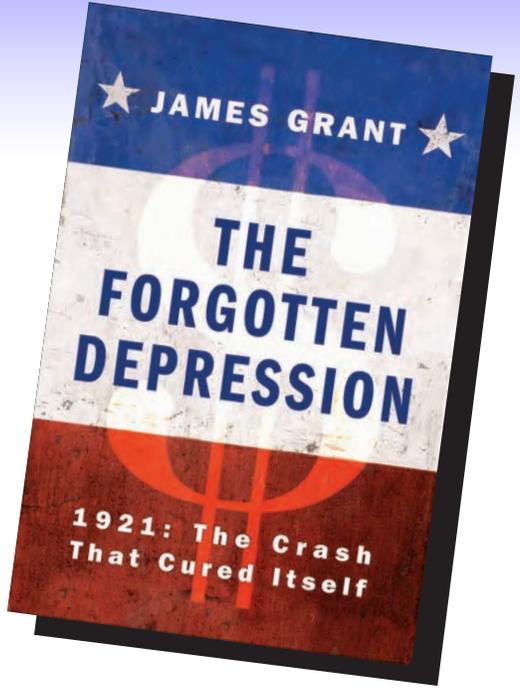
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