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Trump for the bid

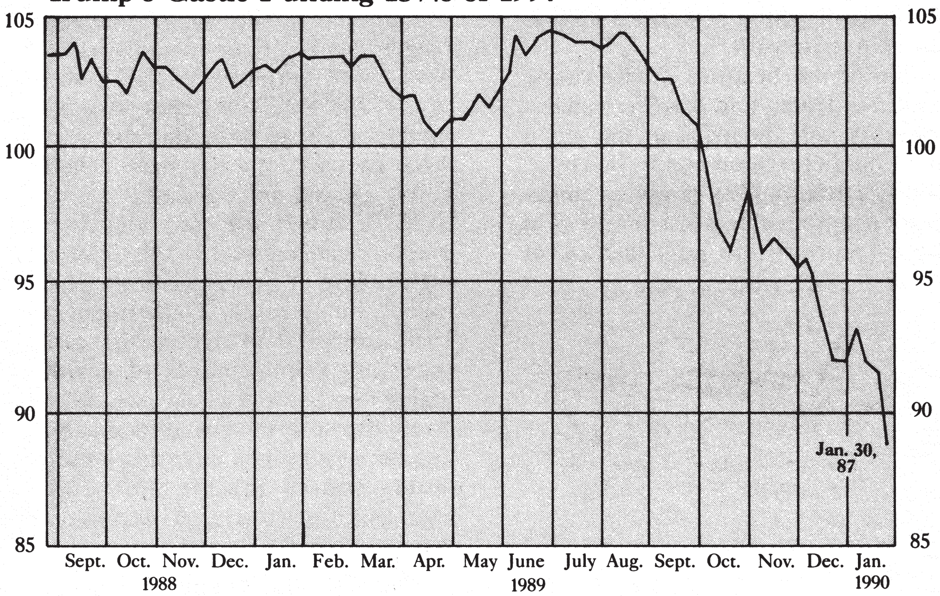
A coincidence in the latest *Playboy*: Donald J. Trump, the subject of the *Playboy* interview, and Miss March, Deborah Driggs, share the same basic philosophy of life. Says Miss March ("from sunny Southern California"): "I'm daring. I'm outgoing, edgy—an explorer. There's not a lot I haven't done, but if you have any ideas, try me." Says Trump: "As long as I enjoy what I'm doing without getting bored or tired . . . the sky's the limit."

So, then, go for it! But Trump's remarks contain an undercurrent of caution. Do you regret having gloated about missing the 1987 stock market panic? *Playboy* asks. Trump replies, "No," but adds, surprisingly: "I think the cash market is the great one right now—cash is king, and that's one of the beauties of the casino business."

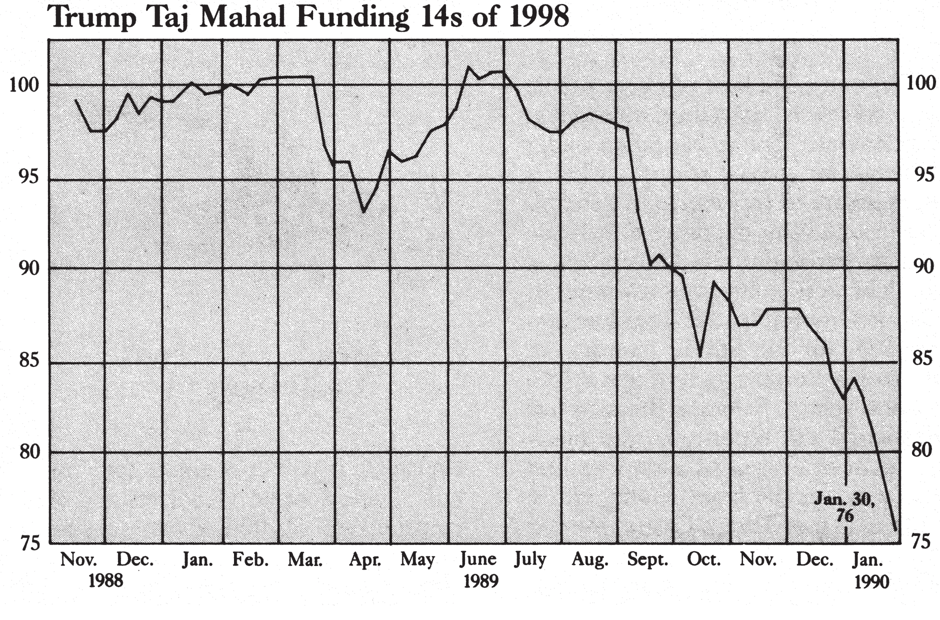
Cash is king? In the principality of real estate, debt has always ruled. True to real-estate custom, Trump says he prefers to use other people's money, and the division of his risk and his lenders' is rarely disclosed. Boston Co., for instance, according to a report in *The Boston Herald*, "was involved" in the 1988 purchase of his famous yacht, the Trump Princess. No innocent, Trump tells *Playboy*, "My attitude is to focus on the downside because the upside will always take care of itself." Also, he intimates that he is holding reserves for some future downturn. He says that he will build his long delayed, often-criticized Trump City, a new Rockefeller Center-type undertaking on the upper West Side, when New York hits a rough patch, and not before—"because every city in every nation has its ups and downs."

Trump bonds break

Trump's Castle Funding 13¾s of 1997



Trump Taj Mahal Funding 14s of 1998



The *Playboy* Trump is thus a calculating operator with a sense of the impermanence of things. He may read his own press, but he doesn't necessarily believe it. Another exchange:

Playboy: Then what does all this—the yacht, the bronze tower, the casinos—really mean to you?

Trump: Props for the show.

Playboy: And what is the show?

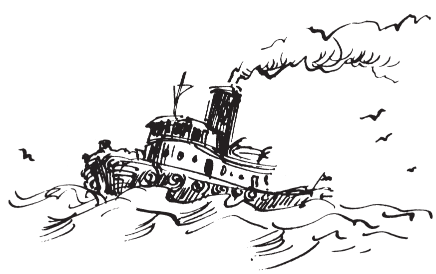
Trump: The show is "Trump" and it is sold-out performances everywhere. I've had fun doing it and will continue to have fun, and I think most people enjoy it.

Trump Princess -282 feet (leveraged)

This is the sequel to a piece of more than two years ago. In "Sell Donald Trump" (*Grant's*, Dec. 14, 1987), we ventured that the builder was making a major personal top. The owner of the Trump Shuttle, the Plaza Hotel (for which he paid the equivalent of $483,000 a room) and the author of "Trump: The Art of the Deal" was then worth $850 million, according to *Forbes*. Trump's net worth today, also according to *Forbes*, is $1.7 billion. Trump himself has derided that number as low and suggested that Malcom Forbes, whose own yacht, comparatively, is a rubber ducky, is jealous of him. In response to a question from *Fortune*, Trump recently produced a letter from Arthur Andersen & Co. warranting that his cash and marketable securities totaled $700 million at the end of 1988. Trump stated that nothing much had changed in the intervening 12 months. To *Time*, which asked about his net worth, Trump replied, disarmingly: "Who the f— knows? I mean, really, who knows how much the Japs will pay for Manhattan property these days?"

The answer to that rhetorical question would seem to be: They will pay less than they used to pay. Credit has begun to contract around the world. In New York City, the locus of Trump's operations; big banks are pulling back from real-estate lending. Interest rates are rising (here and abroad), and bids, in general, are falling. Risk rates of interest are rising faster than government rates. Two years ago, Trump's Atlantic City mortgage bonds were quoted in the neighborhood of 13%-14%. On Tuesday, the Taj Mahal 14s were quoted at 76 bid, to yield almost 20%. The Trump's Castle 13$\frac{3}{4}$s fetched 87, to yield almost 16%. Either Trump has become less secure or his creditors are imagining things.

Let's say that his public creditors are not imagining anything. Something has changed, plainly. In last Friday's *New York Times*, Rita Reif disclosed that a presumptive Japanese moneybags had failed to pay for a pair of paintings for which he bid astounding, record prices. The solution to this embarrassment was that Shigeki Kameyama, the fellow



Tugboat -110 feet (unleveraged)

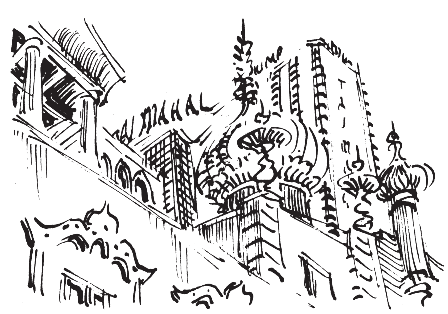
without the money, "consigned a number of pictures, more than 10 of which are valued at more than $1 million each. All are to be auctioned in Sotheby's art sales in April in London and in May in New York." It develops, therefore, that the art market is two-tiered. There is a bid tier and a settlement tier. Owing to a lack of liquidity, the settlement price is sometimes lower than the bid. Because the art market is emblematic of the 1980s in general, and of new wealth in particular, the Kameyama revelation gives pause. It recalls Trump's own aborted $120-a-share bid for AMR last fall. It is hard to pay record prices in a credit contraction, even if you want to, which Trump allegedly did, briefly. ("Donald wants to own the airline," Jack H. Nusbaum, one of his lawyers, said on the eve of the October collapse. "He's a pretty determined guy when he wants something done.")

We approached the Trump problem mainly by deduction, starting with a set of syllogisms: All real-estate operators are leveraged. Trump is a real-estate operator: Therefore, Trump is leveraged.

Then: Trump is leveraged. Leverage magnifies volatility. Therefore, Trump's affairs are volatile.

Finally: Trump's affairs are volatile. In a contraction, the direction of volatile change is down. Therefore, Trump's affairs are likely to worsen.

Just as a credit expansion lifted Trump's net worth, so should a contraction reduce it, sharply. In New York City, residential real estate is making heavy weather of it, and even the Hero of Wollman Rink may not emerge unscathed. The new issue of *Crain's New York Business* contains a skeptical piece about the Plaza (to which Trump did not affix his name). The article pays tribute to the lavish care with which the old landmark was restored—"Suites house such trappings as a 19th century, $40,000 Biedermeier chest and Italian silk table cloths. All rooms now have Frette linens." And on and on. Everything is just right, that is, except for the income statement. The piece speculates that no profit will be turned unless and until the average room rate is bumped to $350 a night, up about $100 from last year's average. In a bear market?



Táj Mahal (leveraged)

According to the Trump Organization, Trump Tower, Trump Parc and Trump Palace are under the ownership of Donald Trump. (There is some confusion as to whether Trump Plaza is also owned by Trump. One spokesperson insisted that it is, but others—a clear majority—told *Grant's* that it isn't.) At Trump Parc, 106 Central Park South, fewer than 10% of the windows are lit of an evening. Perhaps, as the Trump Organization contends, most of the apartments have been sold to foreigners, and the foreigners are in Tokyo or Paris or Ho Chi Minh City. "The building is almost fully sold," says Toni Redford, a Trump Parc sales representative, "so as far as we're concerned, we don't know why it's dark." It's a mystery.

Trump, undaunted, is building the upper East Side's tallest apartment building at Third Avenue and 69th Street. This may well be, as the promotional literature promises, "a palace for the 21st Century, " but the cost of carry until the millennium could become burdensome. (Suggestion: Eliminate electrical connections in apartments designated for sale to absentee foreigners.) Completion is slated for spring 1991, and offering prices range from $350,000 for a studio apartment to $6 million for the 55th floor grand penthouse. (Storage rooms start at $21,200.) The sales material has bull-market heft and gloss, and the prose has an almost antebellum flavor: "As with every palace, your Trump Palace home has its loyal retinue of attendants who, each day, ease the round of your chores and smooth the way of life for you. The Concierge staff, the Doormen, the Hallmen, even the availability of daily maid and housekeeping services and a 24-hour attended garage are all part of the acclaimed Trump lifestyle."

An integral part of the Trump lifestyle is income, and a bear market may deplete even the prospective Trump resident's. So when word got out that Trump's ultrafabulous, world-wowing motor yacht, the 282-foot Trump Princess, is up for sale, we thought we smelled a liquidation. *USA Today* gave the story the bull-market, gee-whiz treatment: "Real-estate super magnate Donald Trump finds his 282-foot motor yacht somewhat limiting. He's trading up to a $200 million, 420-foot flagship that will feature a Roman bath, an amphitheater and a crew of 46 . . . The old yacht is cruising the South Pacific in search of a buyer. Price tag: $115 million. Trump bought it for what he called 'a song'—$30 million—from the Sultan of Brunei in 1987, then spent $10 million refitting it." The craft's original owner was the formerly rich, formerly unindicted Saudi arms dealer, Adnan Khashoggi.

There are price tags and then there are checks. As the illiquid Kameyama could attest, it is easier to ask a price than to get one. On the evidence to date, the most sought-after craft of the early 1990s will be lifeboats, not yachts. For us, we will believe the $115 million when we see it.

In his 1987 autobiographical masterwork, "The Art of the Deal, " Trump wrote, " . . . I've never been tempted to take any of my companies public. Making choices is a lot easier when you have to answer only to yourself." In a December 1989 interview with *Fortune*, however, he said (to quote Fortune paraphrasing him) " . . . he might think about taking part of his empire public to raise cash."

Taj Mahal (unleveraged)

One of the beauties of the casino business, Trump told *Playboy*, is that it produces cash. To judge by the action in his publicly traded bonds, however, Trump's Atlantic City gambling emporia are not producing it fast enough. On the evidence of the junk market, of course, every creditor of every public debt issuer is sweating nowadays. Nevertheless, Trump has fallen under suspicion for special reasons. First is his exposure to real estate in general. The second is his exposure to Atlantic City in particular. In December, a month of arctic cold, gross revenues in Atlantic City fell by 7% from December 1988; for the full 12 months, 11 casinos registered a gain of just 2.6%. In a new report, Salomon Brothers has questioned the security of the mortgage debt of Trump's Castle Funding Inc. (which is the bond issuing entity of the casino of Trump Castle, the old Atlantic City Hilton). For one thing, said the report, coverages are falling. As against 1.32 times interest expense in 1988, earnings before interest, taxes, depreciation and amortization will suffice to cover the interest bill by just 1.17 times in 1990. For another thing, the casino this year must begin to set aside large sums of cash to satisfy the first of an annual series of sinking fund payments. Probably, Salomon notes, the Trump partnership will draw down $24 million in an available credit line. Even so, the report projected a 1990 cash deficit of more than $13 million. It cited, last but not least, the competitive menace of the Trump Taj Mahal, slated to open April 2. Trump may eat his own lunch. ("Anyone who bought the [Trump's Castle] bonds is earning an exceptionally good return and the bonds are now selling at a premium." —"Art of the Deal," page 162.)

The Atlantic City Taj is three times bigger than the Indian original. It will have more employes (6,500), more slots (3,000) and—we are guessing—more junk-bond debt than the one in Agra. By itself, it will expand Atlantic City's gaming and cavorting capacity by 20%. But it may not stimulate a proportionate increase in the clientele, high rolling or low. Speaking of high rollers, the Treasury Department, in 1988, proposed to tighten the cash reporting requirements of casinos under the Bank Secrecy Act. If enacted, the new rule would tend to burden the casinos with reporting requirements and to inhibit their free spending customers. A decision is expected shortly.

Including interruptions, the project has been under way for eight years. Finished, it will encompass four million square feet on 17.3 acres and accommodate 50,000 visitors, who, Trump expects, will lose (or otherwise deposit on the premises) at least $1 million a day. Although lacking the fake volcano and live sharks of Golden Nugget's Mirage, the Taj will boast nine seven-foot-tall elephants in sculpture. " . . . The ersatz -Indian architecture has $20 million worth of ornamentation," *Engineering News Record* recently reported. " . . . There are 40 brilliantly colored exterior domes up to 30 feet in diameter, plus minarets, pinnacles and other trimmings with various interior support masts designed by the structural engineer." In a Trumpian touch, more than 100 chandeliers, each weighing four to five tons, have been added at a cost of $20 million. "As such," *ENR* added, "their required support frames, which hang from the structural steel, had to be engineered to avoid ductwork already installed in the space above the hung ceilings." Without exactly understanding, the layman gains the sense of vanishing money.

Atlantic City is bullish on the Taj—John Britton of this staff polled a number of visitors on site. "Anything with Trump is great," said Larry and Alice Precker, of North Babylon, Long Island, N. Y., who identified themselves as frequent visitors to resort hotels. "The Castle and Plaza [each a Trump establishment] are fabulous, and the Taj will be A-1." Britton asked them what they particularly liked about Trump's operations. "Everyone is more courteous, and the whole place is nicer. The drinks are also freer."

Extra-free drinks will not surprise the student of Trump. In the *Playboy* interview, for instance, the master offered his philosophy of building design and management—spare no expense, cut no corners on materials, obtain the best location. The best costs money, of course, and Trump has borrowed lots. In November 1988, Trump Taj Mahal Funding sold $675 million in 14% first mortgage bonds. The 14% is payable in cash, not paper, and the security of the third coupon payment, due May 15, was in doubt on the day the bonds were issued. The element of suspense was introduced by two unknowns. First, would the casino open on time, then defined as February 15 and now as April 2? Second, would business boom from the start? "The Taj Mahal," the document said,

> will be the largest casino/hotel complex in Atlantic City, with approximately twice the room capacity and casino space of many of the existing casino/hotels in Atlantic City. Neither the Partnership [i.e., Trump] nor any other casino/hotel operator has had experience operating a complex the size of the Taj Mahal in Atlantic City. Consequently, no assurance can be given that, once opened, the Taj Mahal will be profitable or that it will generate cash flow sufficient to provide for the payment of the debt service on the Note and/or on any future borrowings by the Partnership.
>
> If the Taj Mahal does not generate sufficient cash flow to pay the debt service on the Note or other indebtedness of the Partnership, the Partnership may have to borrow additional moneys to provide for such payment. The ability of the Partnership to obtain additional financing will be restricted by the terms of the Indenture.

Thus, the course for a creditor of the Taj Mahal or of Donald Trump is clear. He should round up all available customers and ship them (by bus, if necessary) to the Taj on opening day in April. He should lobby the Treasury Department against any further tightening of cash-reporting rules for casinos (although it appears that on this question the die is already cast). He should call the attention of the fiscal and monetary authorities to the nascent credit contraction, demanding relief. He should insist on a resumption of the global bull market in equities (the better to furnish the Plaza with guests and the Trump Parc with residents who can afford to pay their electricity bills). He should discreetly arrange for someone of means to buy the Trump Princess—perhaps a Third World country in need of a well-appointed minesweeper.

Trump claims to be a man of the people, and John Britton, touring Atlantic City, found no evidence to the contrary. "All cab drivers love him," said Patrick Gilroy, an Atlantic City hack. "He brings a lot of jobs and class to the city." In that case, the significance of some future cancellation of "Trump," the show, might be more far-reaching than people imagine.

Five full points off the Michigan survey of consumer confidence is our best guess—Trump, we think, would insist on nothing less.

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