

# ON THE MONEY

STEVEN PEARLSTEIN

## GSA plays Trump card in Old Post Office redevelopment, but it's far from an ace



JAMES M. THRESHER/THE WASHINGTON POST



CHRIS HONDROS/GETTY IMAGES

Ivanka Trump said last week that the Plaza Hotel in New York, above, would be the inspiration for the Old Post Office hotel renovation in Washington.



TRUMP PLAZA HOTEL AND CASINO IN ATLANTIC CITY FIRST FILED FOR BANKRUPTCY PROTECTION IN 2004.



Donald Trump partnered with Colony Capital to win the bid to convert the Old Post Office into a luxury hotel.

### Trump on the block

Like many in the real estate game, Donald Trump has often overpaid for properties and overleveraged them. Here are a few key ventures:

- **Taj Mahal casino in Atlantic City, bankruptcy:** During a real estate downturn in 1991, Trump couldn't make the interest payments on high-yield junk bonds he had issued to build the \$1 billion hotel and casino.
- **Trump Plaza Hotel and Casino, bankruptcy:** When its second bankruptcy proceeding was resolved, Trump stepped down as chief executive while retaining his role as chairman, and the company was renamed Trump Entertainment Resorts.
- **Plaza Hotel, bankruptcy:** a crown jewel of New York real estate. Trump lost his entire stake in it when he restructured his debt in 1992.
- **Trump Shuttle, bankruptcy:** a luxury airline with a high debt load that never turned a profit and was grounded after a few years.
- **The Old Post Office Pavilion:** Trump would lease the land from the federal government and put \$200 million into a luxury hotel renovation. The National Park Service would keep the clock tower open to the public.

Sources: The Washington Post, Bloomberg News

### PEARLSTEIN FROM G1

Hyatt and Hilton in order to choose a lead developer who has spent so much time in U.S. Bankruptcy Court that he qualifies for elite frequent-flier status.

Trump's first trip through bankruptcy reorganization was in 1991, during one of the real estate industry's periodic downturns, when he couldn't make the interest payments on the mountains of high-yield junk bonds he had issued to build the \$1 billion Taj Mahal hotel and casino in Atlantic City. A year later, he was back in court with a prepackaged bankruptcy of the neighboring Trump Plaza Hotel

and Casino, and then another for New York's famed Plaza Hotel. It took several more years before Trump was finally able to restructure all of his debt, forcing him to give up his entire stake in the New York Plaza, along with the Trump Shuttle (remember that?) and a huge swath of land on the West Side of Manhattan that he had proposed for development.

In fall 2004, following yet another real estate downturn, Trump returned to bankruptcy court, this time seeking protection from creditors for his Trump Hotels and Casino Resorts. Although the Trump name survived the restructuring, Trump was forced to give up his

management role and majority ownership stake. Four years later, the same company was back in bankruptcy again, but not before rejecting Trump's offer to buy the company back.

It's not clear how much weight the GSA's review process gives to the "financial reliability" of the lead developer, but apparently it's not much. But the GSA apparently gave great weight to the fact that Trump was willing to invest more money in the renovation of the Old Post Office (\$200 million) and pay a higher rent (around \$3 million a year, according to one industry source) than any other bidder.

In fact, none of the other experienced bidders came

anywhere close to those numbers — and for good reason: They make no economic sense. Industry experts tell me that to justify that level of investment and that rent, Trump would have to fetch average room rates of at least \$750, which is far above the \$500-plus average that even the city's top hotel, the Four Seasons in Georgetown, commands.

Perhaps the GSA was willing to overlook Trump's rocky financial history because he brought in as his partner Colony Capital, a well-known private-equity firm with more than \$30 billion under management that specializes in real estate. Trump and Tom Barrack, Colony's founder, have known each other at least since 1988, when Barrack earned a quick \$50 million for his boss, investor Robert Bass, by selling the Plaza Hotel to Trump for what was then the astronomical sum of \$390 million. Barrack also refinanced one of Trump's troubled Atlantic City hotels back in the 1990s.

These days, however, Barrack has a few hotel problems of his own. The Las Vegas Hilton, which Colony owns with Goldman Sachs, is in receivership and has lost its Hilton franchise. Along with Goldman, Colony was recently forced to forfeit control of the giant Atlantis resort in the Bahamas after failing to refinance the \$2.5 billion in debt it took on to buy Kerzner International, a resort group. Meanwhile, Colony's Atlantic City Hilton recently managed to avoid foreclosure only by allowing creditors to foreclose on two properties in Mississippi and receiving special permission from New Jersey gaming officials to offer 25-cent chips in its casino.

Like many in the real estate game, Colony and Trump are high-risk gamblers who play all the angles and have a habit of overpaying and overleveraging. When projects get into trouble, as this one surely will, they think nothing of handing the keys over to the lenders and moving on to the next deal. They have no roots in Washington and precious little experience with major structural renovation of historic properties.

In short, they are hardly the kind of steady, reliable, long-term partners the government needs for the redevelopment of a problem-plagued property on America's Main Street.

Next week: The Smithsonian Arts and Industries Building.

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For previous columns by Steven Pearlstein, see [postbusiness.com](#).

## What's Facebook worth? Much less than advertised.

Facebook is valued at "plenty" By Wall Street's tech cognoscenti, Take 1 billion friends Times 5 dollars, then Times IPO multiple: 20!  
— Limericks Économiques



Barry Ritholtz

ON INVESTING

Last week, I made a surprising discovery about Facebook: It has far fewer "active" users than it claims. I learned this from a note buried deep in the company's S1 — the IPO

document it filed with the SEC in order to go public. Based on its S1, the social-networking giant's value is probably much less than most investors seem to think.

One advantage of working in finance is that you get to meet lots of very nice, really smart people such as David Wilson, who writes the Chart of the Day column for Bloomberg News. His column is my Sudoku, as I challenge myself to poke holes in the correlations it identifies between various assets. It's good wonky fun.

On Feb. 3, the column used Facebook's SEC data to show how fast the firm was growing. FB was becoming a "daily habit for more users," and the numbers from the IPO filing were extraordinary: 845 million Monthly Active Users and 483 million Daily Active Users.

MAU? DAU? I had never heard of either metric, and novel accounting for public companies is always a red flag. Don't just take my word for it, ask any Groupon investor.

I thought these metrics were suspect. What did someone have to do to be counted as an active Facebook user? If someone did not go to Facebook.com, was it possible the firm counted them as a daily active user?

I told my suspicions to Wilson, that I suspected the DAU/MAU definitions were probably overbroad. We hunted for the specific language of those odd metrics. Wilson found the details buried in the S1:

"Daily Active Users (DAUs). We define a daily active user as a registered Facebook user who logged in and visited Facebook through our Web site or a mobile device, or took an action to share content or activity with his or her Facebook friends or connections via a third-party Web site that is integrated with Facebook, on a given day. We view DAUs, and DAUs as a percentage of MAUs, as measures of user engagement."

Let me translate: If you clicked a "Like" button anywhere on the Internet, then you are a Daily Active User. Even if you never go to Facebook.com.

As huge as those MAU/DAU numbers were, I wondered how this low level of engagement might affect revenue. The Facebook metrics for annual revenue per user were stunningly modest: Facebook picks up only \$5 per user each year. Compare that to Google, which garners more than \$30 per user per year. Netflix takes in closer to \$144. Is this why Facebook's annual revenues are so low compared to its 850 million user base?

This engagement measure of user behavior matters a lot to the valuation of the company. Consider what it means in terms of how "daily users" will generate revenue and profit. If all users do is click a "Like" button, but never make it to Facebook.com, they cannot be "monetized." They cannot be marketed to. They do not see any advertising. They cannot be sold any goods or services. They take advantage of FB's extensive infrastructure to tell their FB friends (who may or may not see what they did) that they liked something online. That's all that happens.

So they not only fail to generate revenue for Facebook that day, but they are actually a cost. It's not cheap to maintain that massive infrastructure of Like buttons everywhere. Someone's got to pay for the server farms that handle the back-end of this.

Consider what happened when MySpace tried to increase profits from users.

With lots of pressure to drive revenue, they doubled the ads on the site. As they tried to monetize users, the site became ad-congested, a real eyecore. Users left in droves.

So how does this play into Facebook's sky-high valuation? The company's worth has been pushed ever higher by a series of private deals, all made before the SEC filing was made public. Microsoft made a well-timed investment of \$240 million in 2008 at a \$15 billion level; Elevation Partners paid \$120 million at a value of \$23 billion in June 2010. Goldman Sachs poured up to \$2 billion into the social network at a \$50 billion valuation in January 2011. All of these private investments were made by sophisticated investors, but without the benefit of the SEC data.

A year ago, I offered five questions for Facebook private investors:

- FB claimed (in January 2011) 500 million subscribers. How many of these are active users — at least once or twice a week? How many of these are dead accounts, with no activity for 30 days, 90 days or more?
- What is the average revenue per subscriber? How are you planning to grow this?
- How much churn does Facebook go through? For every 100 new subscribers, how many subscribers leave?
- What is the life cycle of the typical Facebook subscriber? How active are they for how long; what sort of arc do they cut across their FB life cycle?
- Besides advertising, how will you monetize your user base? Are you selling their data to buyers? What about



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anonymized data — are you selling this also? Last month, I compiled a new list for Facebook IPO investors. Those of you thinking of buying Facebook's IPO at these rich valuations should be comfortable with the answers to these:

- What is the IPO offering price going to be? What market capitalization will FB come public at?
- What are the key pricing metrics? P/E, growth rate, price to book, price to sales?
- What is FB's growth potential? At 800 million users, where do they begin to plateau? Top out?
- What is FB's plan for penetrating China?
- How are the privacy concerns going to be handled? What else might come out of the closer FTC scrutiny of Web firms' use of personal data?
- How long are insiders/VCS going to be locked up? Are they committed to holding onto shares for the long haul, or are they cashing out at the IPO or as soon as possible thereafter?

What we learned from Facebook's filing was that they have 161 million active users who actually go to Facebook.com each month. That's not too shabby — but it's a far cry from the MAU claims of 850 million. That definition of active users is probably overstated by a factor of 500 percent. I suspect that the \$100 billion valuation may be overstated by nearly as much.

As for buying shares in FB at the IPO? I'm sitting this one out.

Ritholtz is chief executive of FusionIQ, a quantitative research firm. He is the author of "Bailout Nation" and runs a finance blog, the Big Picture. Twitter @Ritholtz

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