Why can't Selig, Seattle developer, pay his bills?

SELIG

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risks, confronting impossible circumstances and emerging with other, often bigger deals in the air.

The potential for collapse — to have all the expertly juggled balls come crashing to the ground at once — always has been real. Unlike other developers, Selig has no partners and thus no other pockets to dip into when problems arise. He has borrowed heavily and at various times has had difficulty meeting all of his financial commitments. His demise has been predicted so often it has become a cliche within the development community.

Selig has faced dozens of foreclosure suits in the past, most often filed by contractors claiming he has not paid them for work performed.

But the bills eventually get paid, and few of the suits ever come to trial. Typically, Selig pays the bills at the last possible minute and, according to court documents, settles the lawsuits out of court. Still, some contractors refuse to work with Selig. One longtime contractor, Cochran Electric, is in court with him right now seeking to collect more $2.5 million for work performed on 13 different buildings, some of it five years ago.

Lawsuits among developers are not uncommon. Seen in this light, Selig's default on the New York Life mortgages is just one more cash-flow adventure, a temporary disturbance. But Selig's present problems are more acute, according to a variety of bankers, brokers and other real-estate sources. They say he is closer to the edge than ever. Failing to pay your electrician is one thing. Failing to pay your banker is quite another, they say.

"It could come down awfully hard and all at once," said one former Selig employee familiar with the developer's finances.

The former employee said Selig's reach has always been dangerously close to exceeding his financial grasp, leaving him vulnerable to shifts in the market that he can't control. This is especially true now, because the downtown office market has never been more competitive.

"I'm absolutely astounded. You just don't do this with lenders," said Jack Shaffer, a longtime Selig acquaintance and partner with Sonnenblick Goldman of New York, one of the leading real-estate investment brokerages in the country.

Selig himself discounts the seriousness of the problem.

This latest episode "is just one of those problems that come up," Selig said. In any event, he said, the problem has been resolved. He and New York Life have negotiated a solution to the problem, and the lawsuit will be dropped.

Perhaps, said John Gose, an attorney for New York Life, but no settlement has been signed yet. And late last week, Gose filed a motion asking the court to appoint a receiver to collect rents in Selig's buildings, taking the money out of Selig's hands and giving it to the lender.

It is unlikely that Selig will actually go broke, associates said.

"If he cashed it all in, he has to be worth three hundred, maybe four hundred million," Shaffer said. "He could get well in 30 seconds" by selling properties.

"Basically what the lenders are saying is: 'Sell something,'" another knowledgeable source said. "The one thing that would sell fast is Columbia Center. But that is the thing that he would not want to sell. That would in one fell swoop solve all his problems."

In an interview last month, Selig likened building Columbia Center to "an Olympian feat." Last week, he refused to even discuss the possibility of selling the tallest building in town and one of the tallest in the world.

He said he has been trying to sell some properties but has been confounded by a variety of factors, the main one being a dispute with a major tenant that halted the sale this spring of Key Tower for more than $100 million.

How could a man who owns more than half a billion dollars' worth of property put himself in such a predicament?

The short answer is he has classic cash-flow problems.

Commercial real-estate development is a business of relatively simple numbers. A developer has expenses and income.

His expenses are of two kinds: debt service and building operations. Debt service is by far the biggest of these. Operating costs — heat, light, elevators, cleaning, taxes, etc. — for Seattle office buildings average about $5.50 a square foot per year. Debt service, depending on interest rates, can be four times that much.

Say, for example, a developer has borrowed $200 million to build a 1 million-square-foot office tower. If his interest rate is 10 percent, his interest costs would be $20 million a year, or $20 per square foot of office space. Vastly simplified, his total costs to operate the building and pay off his mortgage would be a minimum of $25 a square foot.

The developer has essentially one source of income — rent — from which to meet these costs.

An oversupply of office space in town has caused building owners to offer lower and lower rents. Rents in so-called Class A office space in Seattle now average less than $20 a square foot, according to a variety of brokers.

The problem is apparent: $25 costs, $20 income. A developer stuck in this market of high interest rates and low rents is likely losing money on every building he owns.

Selig owns more buildings than anyone else in town and presumably because of it is losing more money.

What kind of business is that? Why bet on a losing proposition? Obviously, few if any developers seek to lose money, and not all do. But Seattle's situation of deeply discounted rents is somewhat unusual. One veteran appraiser said potential investors from elsewhere regard Seattle as perverse.

"They don't see anything like it anywhere else," he said.

The situation presumably is temporary. The recently enacted Citizens Alternative Plan regulating land use in downtown Seattle has put a limit on the amount of new office space that can be built. The supply of vacant office space should diminish as tenants require more space. As the supply diminishes, rents should increase, and owners will begin making money.

All the while, the value of the buildings, which is mainly a function of their ability to produce rent, will also increase.

In sum, Selig's problem is to carry his debt until rents catch up with costs. In the meantime, he can do two things: reduce his debt or reduce his costs.

He says he is trying to do both simultaneously, seeking to cut his debt by selling at least one and perhaps as many as three buildings, and renegotiating his loans on others at lower interest rates. He implies he has done just that with New York Life, that the failure to pay his mortgage occurred in the midst of negotiating new mortgages.

"We really are not in a jam. We had a disagreement. It was amicably resolved. The problem is over with," Selig said.

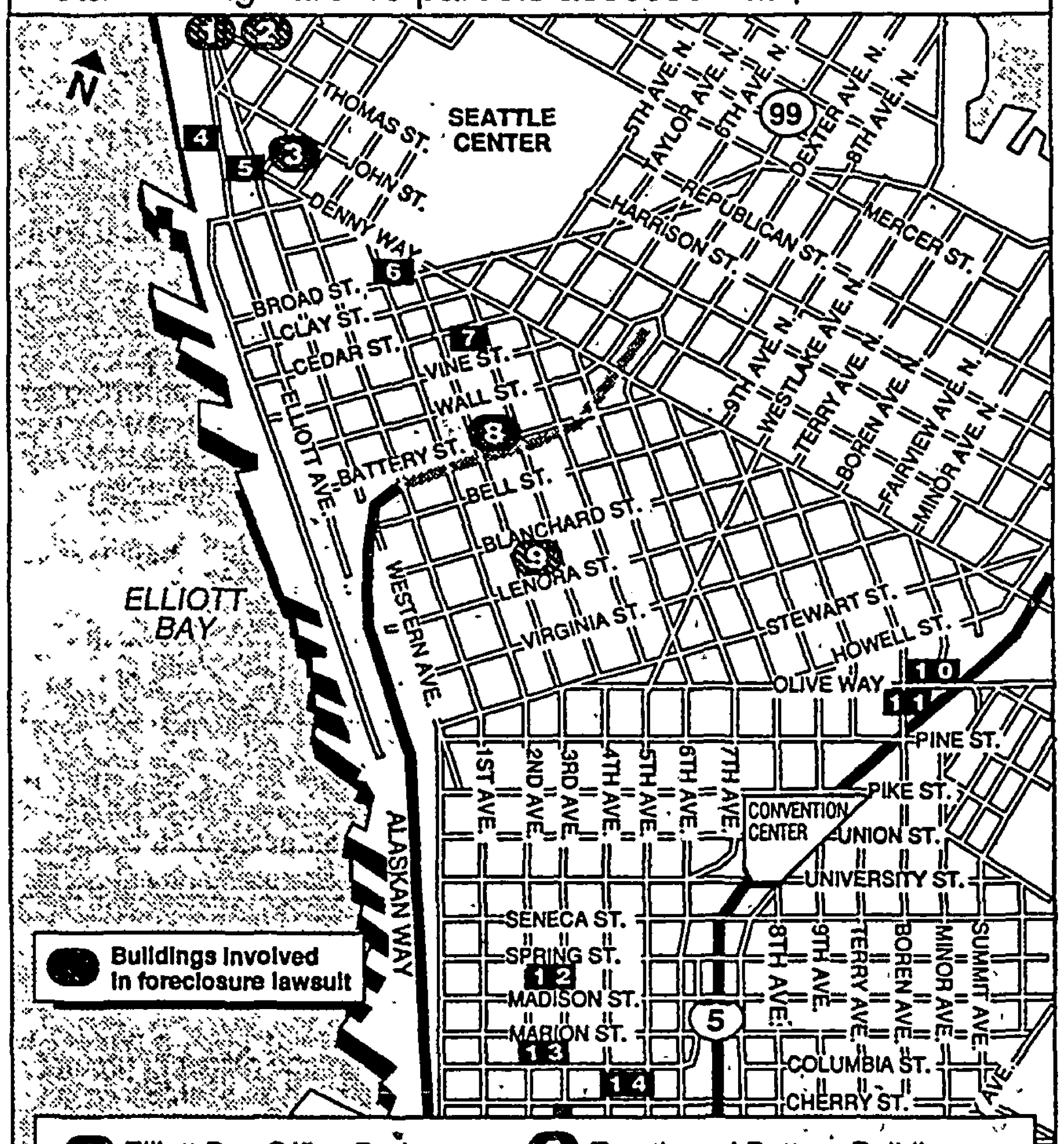
Other sources said Selig is proceeding with business as usual. Even while seeking to sell buildings to solve his problems, three sources said he has made bids to buy others, most notably the 62-story Gateway Tower, still under construction across the street from Columbia Center.

"In the business I'm in," he said in an interview last month, "your money will always run out before your deals do."

■ *Times staff reporter Joni Balter contributed to this report.*

Selig's downtown holdings

Total holdings are 48 parcels assessed at $524 million



1. Elliott Bay Office Park — $19,338,000
2. 200 West Thomas Building — $4,079,500
3. 190 Queen Anne Building — $5,217,900
4. 3131 Elliott Avenue Building — $19,770,400
5. Airborne Freight Building — $16,048,700
6. Third and Broad Building — $23,000,000
7. Fourth and Vine Building — $9,845,100
8. Fourth and Battery Building — $17,850,000
9. Fourth and Blanchard Building — $39,500,000
10. Metropolitan Park - II — $32,566,600
11. Metropolitan Park - I — $25,724,100
12. Key Tower — $56,080,000
13. Seattle Trust Court (proposed) — $9,814,000
14. Columbia Seafirst Center — $195,912,000

All figures are King County assessed values. Market values are substantially more.

Randee S. Fox / Seattle Times