

# Problem Loan

Trouble for Donald Trump: The money for a condo project didn't come through | By David K. Randall

**W**HEN INVESTORS GATHERED AT A downtown San Diego sales event in 2006, the Trump Ocean Resort was sold as a can't-miss opportunity: three 26-story towers on the Pacific Ocean only 30 minutes south of San Diego in Baja California, with condos priced from the mid-\$200,000s to more than \$1 million. Steep, but a bargain compared with comparable oceanfront real estate in the States.

Investing in Mexico sounded risky, given its crime rate, drug wars and weak property laws. But if Donald Trump was willing to put his name on a project, some figured, it meant that it was legit. "I've invested with him lots of other places and made millions doing so," says Michael Mikelic, who runs King Penguin Properties, a property management company with \$30 million in assets. Mikelic bought a two-bedroom condo for \$750,000.



Model pretty: unbuilt Trump Ocean Resort in Baja California, Mexico.



ILLUSTRATIONS BY JAMES F. KRAUS FOR FORBES; TRUMP: BRAD BARKET / GETTY IMAGES; DENIS POROY / AP

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## Outfront

The project sold 70% of the units in the first tower in one day, worth \$122 million, bringing in \$25 million in deposits. The second tower sold a third of its units the first day it was on the market.

There's only one thing missing: buildings. There are only holes in the ground. Adam Fisher, a former principal of Irongate who led the project, says a \$150 million construction loan from German bank WestLB fell through this year, not long after the state-owned bank had to receive a \$6.4 billion bailout from the government to cover its losses on tanking subprime mortgages in the U.S. "We weren't speculating with other people's money," he says. "If you went to a construction lender last year and said that you had a project that was 70% sold and had 30% nonrefundable deposits like ours, 99.9% of the time you would get a loan."

The folks who laid down their deposits, however, are now planning on taking Trump's company and its partner, Irongate, a Los Angeles developer, to court in a breach-of-contract action. They say that they were promised that their building would be completed by last spring. They say they haven't heard from the Trump Organization or Irongate in months. Mikelic says that he wants his \$225,000 deposit back, now sitting in a non-interest-bearing escrow account.

The Trump Organization referred questions to Irongate. Irongate won't say whether Trump put money into the project or just licensed his name. In October 2007 Trump was scoffing at the notion that the real estate slowdown could affect him. "Though it may be true that some of Baja's developments could see a slowdown, these market conditions simply do not apply to Trump Ocean Resort," daughter Ivanka Trump wrote in a newsletter sent to investors.

Trump has seen other early investors try to get out of their contracts as well, though it's hard to say if they are just running scared of the housing bust. In a suit in Miami, for example, 132 buyers want to cancel \$146 million in contracts because they claim that a condo project, called the Trump Towers, was misrepresented as a Trump investment. The developers say the case is without merit. **F**

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