

Largest Private Leaseholder Said to Be in Arrears

Fegen Rent Woes Threaten Tenants

By MICHAEL A. HILTZIK *Times Staff Writer*

Many of the 6,000 lawyers around the country who sublet elaborate office suites from Los Angeles real estate entrepreneur Paul F. Fegen are facing some unwelcome legal business: eviction threats from their landlords.

Fegen's firm, Attorney's Office Management Inc., is seriously in arrears on rent payments owed to the owners of a "substantial number" of the scores of buildings in which the firm is a master tenant, according to one of the firm's lawyers. Fegen, himself a lawyer, is the firm's chairman. He could not be reached for comment Tuesday.

By subletting the space to small law firms for which it provides well-appointed offices, receptionists, telephone operators and law libraries, Attorney's Office Management has grown to the point that it collects an estimated \$2 million monthly from its own customers, including thousands of lawyers in Los Angeles, San Diego, and Orange County.

But as a result of mounting vacancies, a widening cash shortage, and the seizure by Inglewood-based Imperial Bank on Nov. 15 of \$800,-

000 in company funds deposited at the bank, the firm is now considering filing for protection from creditors under Chapter 11 of the bankruptcy code, officials said.

David A. Gill, a bankruptcy lawyer retained by the firm, said the filing would be made within several days if the company fails to find new investors or to solve its problems in some other way.

Among other problems, the firm missed a payroll last week after the seizure of funds by Imperial Bank. Many of its tenants have received "pay rent or quit" notices from building owners, who say Fegen is behind in rent payments. However, many of those landlords appear to be interested in working out interim financial arrangements with the firm or its customers.

Imperial Bank Tuesday confirmed the seizure of funds without specifying the reason. Banks are sometimes permitted to exercise so-called "right of offset" against the funds of a depositor who has an outstanding debt due the bank. A spokesman for Attorney's Office Management said the firm is planning legal action against the bank.

Fegen's firm generally serves young, relatively inexperienced lawyers who operate small firms, many with only one or two attorneys. His firm's attraction has been its ability to place these lawyers in nice offices with a clerical staff, but without the costly overhead of larger quarters.

"The services are terrific and the concept is fantastic," said Michael Fields, a Los Angeles lawyer who was occupied a Fegen suite for more than seven years. He said the arrangement gave him the chance to associate with as many as 50 other lawyers in a collegial environment without the problems of working in a large firm.

Fegen himself is known in the legal community for the elaborate parties he has thrown in his Hollywood Hills home; in 1975, he rented a Century Plaza ballroom to have his long hair and beard shorn in front of 1,400 friends and associates.

According to a press release issued last Aug. 12, Fegen's firm at that time had 6.2 million square feet of office space under lease in 25

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states and Washington, D.C., including the equivalent of 82 floors in Southern California. The firm claimed to be the "largest private leaseholder in the country."

Suites were actually occupied in 16 states and Washington, the firm said, serving 6,000 lawyers.

The statement said 30 additional office sites on which the firm held long-term lease agreements would be completed in 1983 and 1984. In many of the new buildings, the firm is the major or sole leaseholder.

These long-term leases—some are for as long as 30 years—apparently began draining the firm's cash resources over the last year, when the market for professional offices suddenly softened. Tenants in some Fegen suites report that vacancies have mounted, particularly after large rent increases were imposed by the firm.

The company, however, also has tried to improve its cash flow by offering tenants in some buildings discount rates for advance payment of several months' rent.

Fegen signed an agreement to sell his firm last June to Wilshire Glen Financial Resources Inc. That firm's chairman, Wayne Owens, said Tuesday that the deal is scheduled to close on Nov. 30.

Many Fegen tenants appear to have been unaware of the company's growing problems until earlier this month, when many received notices from their landlords to pay

back rent or vacate their suites. In California, the notices are a preliminary step to eviction proceedings.

At one office building at 3250 Ocean Park Blvd. in Santa Monica, Fegen's 50 tenants received "pay rent or quit" notices, giving them three days to vacate, on Nov. 10. Fegen's firm owes the building's owners two months' back rent, or about \$180,000, according to a spokesman for the owners.

Informal Agreement

In that case, Fegen and the landlords have reached an informal agreement allowing the landlords to collect rent directly from the tenants.

A spokesman for another building at 615 S. Flower St. in downtown Los Angeles said the building's owners served a so-called "three-day notice" Monday on Fegen's firm, claiming \$57,000 due, or two months' rent.

Eugene Gratz, a Los Angeles lawyer who has become an ad hoc representative of Fegen tenants, said he has heard from tenants in nine buildings for which rent is due.

Gratz said after speaking with Fegen Tuesday morning that if the firm doesn't file a voluntary petition for protection under Chapter 11, its creditors—the landlords—may force it into involuntary bankruptcy.

"I think everyone realizes that if something wonderful doesn't happen in the next day or two, there will be a filing," he said.