

# PUGET SOUND BUSINESS JOURNAL

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## CB Commercial 1992 Real Estate Forecast 1A - 20A

## A whole new ball game for RE appraisers

By JAMES EPES

Ken Barnes and Phil Steffen, commercial appraisers in Seattle, remember the way some developers obtained real estate loans in the roaring '80s.

First, the developer hired an appraiser who might lack expertise but was quick, cheap and willing to please.

"It used to be the old-boy network, where developers would call their favorite appraisers," says Barnes, manager of appraisals for Cushman & Wakefield.

Then the developer gently pressured the appraiser to value the project as high as possible, to guarantee a bigger loan.

"It was irritating to keep getting calls from developers who would tell you they were trying to put two kids through school and so on," says Steffen, managing partner of the Seattle office of Palmer, Groth & Pietka.

Finally the appraiser submitted the inflated value to a bank or S&L loan officer, whose fee depended on pushing the loan through.

The rest, as the savings and loan scandal would prove, was predictable. The appraisal was rubber-stamped and tossed in a file, the loan was approved, the project built, and everybody was happy — until rents failed to cover debt service and the lender was saddled with a failing project worth far less than its appraisal.

"That practice grew to borderline criminal levels in places like Texas," says Keith Riely, a principal at Shorett & Riely appraisers.

And since banks and S&Ls are federally insured, the taxpayer often paid the price.

To be sure, sloppy and fraudulent appraisals are just one cause of the current real estate crisis. And the local market hasn't seen nearly the levels of troubled real estate common elsewhere.

But the general potential for appraiser fraud and incompetence worried Congress enough that it passed legislation in 1989 to stiffen licensing requirements for appraisers and segregate their work from the influence of loan officers and developers.

Now, 2½ years later, the appraisal regulations in the Financial Institutions Reform, Recovery and Enforcement Act, or FIRREA, are being felt throughout the local appraisal industry.

And industry observers give mixed reviews to the reforms' effectiveness.

Quality controls on lenders, most

Continued on page 10

## A \$20 million shot for Starbucks

Coffee merchant gains major European partner as it readies East Coast expansion

By DEBRA PRINZING  
and RAMI GRUNBAUM

Starbucks' lattes will soon fill the cups of East Coast gourmet coffee fanatics, thanks to a \$20 million private financing completed by the company late last month.

President Howard Schultz says the money will help Starbucks Corp. to continue opening at least one new store every week and to enter markets in the Northeast by 1993.

The deal, which includes a \$5 million infusion from European retailing giant Carrefour Nederland B.V., values the coffee roaster and retailer at more than \$100 million.



SCHULTZ

Given Starbucks' average new store opening costs of \$100,000, the money could bankroll as many as 200 locations. "The whole idea for the use of these proceeds is for Starbucks to accelerate its expansion beginning in 1992," says Schultz.

So far, the gourmet coffee chain has sustained the kind of frenzied pace that would even give caffeine addicts a powerful buzz.

Starbucks now figures it serves 500,000 people each week in its 125 stores, of

which 20 have opened since Oct. 1. In August 1987, it had only nine stores.

Schultz won't disclose Starbucks' revenues, but says the chain has experienced 79 percent compound growth in the past three years. During each of the past two years, Starbucks' same-store sales have grown almost 20 percent, he says.

"We have overachieved both top- and bottom-line performance," Schultz maintains. Starbucks is now the largest retailer of specialty coffee in the country, he adds.

Starbucks' urge to take on the East Coast makes sense now that the concept has been proven in markets from Chicago to Los Angeles, says one investor.

"It's well-executed and well-received."

Continued on page 18

## Health care 'foes' near agreement on plan

By PETER NEURATH

An employer-based health insurance system or a state-run system?

That question divides Gov. Booth Gardner, who favors an employer-based system, and Rep. Dennis Braddock, the Bellingham Democrat who has introduced Canadian-style health bills in the last two legislative sessions.

But next week the two may announce they've reached agreement on basic principles of health-care reform — while waiting until next year to reconcile their main disagreement.

Braddock, who chairs the House Health Care Committee, says he and Gardner could agree on a bill that creates a commission that would propose to the Legislature the final details on universal health care — and how it would be funded — no later than 1993.

Either employers would pay for covering the working uninsured, as Gardner proposes in his "play or pay" system, or, as Braddock proposes, a state agency would pay for everyone's health care with money drawn from businesses, employees, other individuals and the government.

In an interview with the *Business Jour-*

nal, Braddock cautioned that he and Gardner had not yet consummated an agreement — "I don't want to mislead anyone."

Still, he and the governor had reached "strong agreement on some principles" acceptable to both. And these could serve as "a substitute or amendments" to the governor's bill.

"I'm not certain that in the final analysis he will be supportive, but I'm pretty confident we can come to an agreement on a bill," Braddock says.

The two already agree on this:

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## All that gas can lift your spirits

By STEVE WILHELM

For Dan Byrne, business is a gas.

Five years after he founded Byrne Specialty Gases Inc., the firm is growing at 15 percent yearly, with no sign of plateauing despite the recession. The company specializes in selling rare and high-quality gases, primarily to Washington laboratories that use the gases for research.

Compared to most gas firms, which sell high volumes of a few industrial gases for welding and refrigeration, his is a boutique operation filling small orders for up to 80 different gases. The firm now employs 11 and operates three delivery trucks.

For Dan Byrne, deciding to enter the gas business was simply a case of capitalizing on experience.

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By Steve Wilhelm

ALL GASED UP: Dan Byrne immersed in his growing stock of gas tanks.

# Life can be a real gas . . .

Continued from page 1

In 1984, when he moved to Seattle with his wife Martha Wycoff (for whom the move was a return home), he arrived with no job. What he did have was a degree in mechanical engineering and several years' experience working as an applications engineer for one of the nation's major gas producers.

"The one thing I knew was the gas business; I decided to go after labs," he says.

Since then his business has flourished. To propel its growth, he has developed untapped marketing and team-building skills, he says.

For instance, confronted with the fact that gas is essentially a commodity item and that no high-quality firm's product is

*'Our business is based on a lot of repeat-order type selling. It takes a lot of time to build up that confidence.'*

much different from another's, Byrne turned to clever marketing and service packages to win customers.

One of his creations is Express Gas. The service, designed for the gas user on a deadline, guarantees overnight air delivery of small canisters of gas anywhere in the continental U.S., or the gas is free. The canisters, decorated with black and yellow stripes, even look urgent.

Then there's Gastatus, a copyrighted name for Byrne's offer to take responsibility for maintaining customer inventories so they will never be caught short.

"A lot of our customers are in quasi-service businesses; they rely on us to make sure they don't shut down," Byrne says, adding that he has about 20 customers in the Gastatus program.

Byrne's gas sales make up half his revenue — he declines to disclose annual volume or sales figures — and are equally divided among three markets: biotechnology, environmental remediation, and

## CPA firm . . .

Continued from page 8

When it went into Chapter 11, Laven-thol ran about 40 offices nationally. Bader Martin is one of some 20 that reorganized as local firms in such cities as Portland, Denver, Harrisburg, Pa., and Charlotte, N.C. These were the smaller offices, with revenue ranging between \$3 million and \$8 million.

The other, much larger offices "atomized," Martin says.

If things are so hunky-dory now, does Bader Martin intend to stay small?

No, talented employees need a chance to rise in the organization, so growth is necessary. But not hyper-growth, Martin says.

"Laven-thol had a fixation about growth. Its reward system defied the business-getter, to the detriment of the technician," he says. "Getting business is important, but we're very concerned with technical competency and proficiency.

"We don't want to fall into the trap of becoming the fastest-growing firm," he says. "We'd rather be the most careful, most profitable firm."

research and development, much of the latter in aerospace.

Gases sold include liquid nitrogen to freeze tissues at an ultra-cold minus 325 degrees Fahrenheit; extremely pure gases such as oxygen, carbon dioxide and argon; and about 50 "calibration mixtures." The latter are precise blends of gases used to calibrate test equipment.

The remaining half of the firm's revenue comes from peripheral equipment such as regulators and tanks, as well as from custom-designed gas distribution systems.

"What I like to do is offer our customers a total solution," Byrne says.

Jon Engstrom is one of those customers. Facilities manager for biotechnology firm Zymogenetics Inc., he has nothing but praise for the precision Byrne brings to his company.

"I see him as probably one of the most committed businessmen I've ever dealt with — committed to quality and service," he says. "He's one of my most reliable vendors."

Byrne still does much of the selling personally, a hands-on approach he says is necessary with such a sophisticated market.

"Our business is based on a lot of repeat-order-type selling. It takes a lot of time to build up that confidence," he says. "Part of my philosophy is to build up partnerships with customers."

Another human side of the gas business that Byrne hardly considered in engineering school is his own employees. As his company grows, he's found himself reaching out to his workers in ways he never anticipated, from team-building to writing in-house training materials.

"Working with other people and bringing them along has given me a lot of pride and reward," he says. "I didn't take too many of the 'fuzzy' studies in college."

The only cloud on his horizon is wondering where future growth will be.

Pointing out that nearly all his growth has been from penetrating existing markets rather than creating new ones, Byrne says: "One of the concerns I have is: how big is the market?"

## INSIDER TRADING

### Puget Sound Power & Light Co.

Judith Runstad, director, purchased 500 shares of common at \$25 per share Nov. 7 and now directly holds 500 common.

### Paccar Inc.

David Hovind, vice president, exercised an option for 2,100 shares of common between \$21.50 and \$33.13 per share Nov. 4 and now directly holds 6,731 common.

Michael Tembreull, vice president, exercised an option for 200 shares of common at \$33.13 per share Nov. 4 and now directly holds 2,786 common.

Thornton Wilson, director, purchased 522 shares of common at \$47.25 per share Nov. 6 and now directly holds 5,000 common.

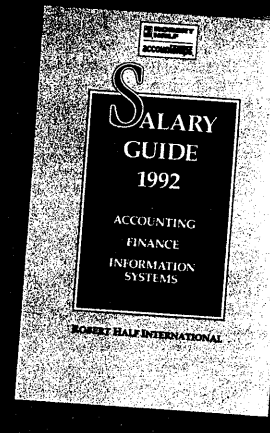
### Penwest Ltd.

Robert Widmaier, vice president, exercised an option for 6,000 shares of common at \$3.38 per share Nov. 8 and now directly and indirectly holds 10,938 common.

James Wiborg, director, sold 8,000 shares of common between \$24.81 and \$24.75 per share Nov. 6 and now directly and indirectly holds 473,300 common.

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