World's biggest real estate company files for bankruptcy

by Marcia Merry

Olympia & York Developments Ltd., the world's largest commercial real estate company, filed for bankruptcy in Canada and the United States on May 14. Those popping noises you heard that night were not champagne corks; it was the air rushing out of the Anglo-American financial and real estate bubble. In the shady world of high finance, banking elites are pushing and shoving to position themselves to get more loot, and postpone the day of reckoning. In the shady world of politics, George Bush and his cohorts in London are looking ever more ridiculous with their talk of recoveries and upturns. Meantime, the conditions of the real economy are sinking from bad to catastrophic.

The multibillion-dollar real estate bubble that Olympia & York had created over recent decades, was perhaps the bubble of all bubbles in history. The 1720 South Sea Bubble, the 17th-century Tulip Bubble, and the others don't even rank compared to this one. Olympia & York came to be the largest real estate "developer" in the United States, Canada, and Britain. It is the largest landlord in New York City, with 23 million square feet of office space; it is developing Canary Wharf in London, the largest real estate development in Europe. It made itself into a world-class debtor: The total indebtedness of the O&Y empire is estimated at between $18.5 billion (the official amount) and $25 billion (the estimate of informed sources). This amount far exceeds the debt of dozens of nations. And now the great Olympia & York bubble has burst.

The bankruptcy filing in Canada was made under the Canada Companies Creditors Act (considered more favorable to creditors than the U.S. bankruptcy protection laws). The 29 Olympia & York companies which filed in Canada listed total debts and financial guaranties to outside entities at $14.9 billion, with close to $464.3 million in intercorporate obligations.

The bankruptcy filing in the United States involved the U.S. holdings of several of the company's Canadian subsidiaries, but did *not* involve the company's huge U.S. real estate holdings. The U.S. real estate holdings include Manhattan's 55 Water Street, the largest office building in the world, the World Financial Center, and a host of other prestigious properties. Nor has O&Y filed for bankruptcy in Britain, where its principal holding is the Canary Wharf project. The U.K. insolvency laws can mean relatively automatic liquidation—which strikes fear in even the blackest creditors' hearts.

Widespread repercussions

Following these long-anticipated May 14 O&Y bankruptcy declarations, other real estate operations are ready to go under, in turn wiping out more banks and insurance companies and other funding entities.

Consider, for example, the case of 55 Water Street. O&Y has $548 million in bonds in the Olympia & York Water Street Finance Corp., secured by this giant building. The largest holder of these bonds is reportedly the Alabama Retirement System, which is on the hook for $100 million. The value of the bonds has sunk down to 25¢ on the dollar, so the Alabama fund has already lost $75 million, and the remaining $25 million is shaky.

The Water Street structure itself is in trouble: It doesn't meet New York building codes dealing with asbestos. Olympia & York needs to spend $20 per square foot to fix it; they can't afford it. Against annual interest payments of $35.8 million, the building's cash flow is projected at $25 million in 1993, and $5.6 million in 1994, assuming no new leases are signed in the structure.

Five days after the bankruptcy filing, O&Y informed the holders of the $548 million bonds for Water Street, that the company would not even be able to make the interest payments on those bonds beginning 1993. This year's payments, if made at all, will be made only because O&Y has Swiss bank credit and an Aetna surety bond.

The company has asked New York City tax authorities for temporary relief on $75 million in municipal tax payments due July 1. According to the London *Financial Times,* eight of O&Y's New York City office buildings are solvent, but the company has diverted all possible cash out of them to the parent company and to London's Canary Wharf.

The situation of 55 Water Street characterizes every aspect of the great Olympia & York bubble. On May 18, in Britain, where no special insolvency filings have been made, the "Club of 11" big banks met on the Olympia & York crisis, and decided to leave in place a line of credit of £21 million ($38.6 million) which they "drip feed" for work to continue on Canary Wharf, in hopes of meeting the terms of the few tenant contracts. Lloyds and Barclays head the committee of lenders, which have $1.01 billion in loans outstanding on the project. The others in the Club of 11 include: Canadian Imperial Bank of Commerce, Citicorp, Commerzbank, Crédit Lyonnais, Crédit Suisse, HSBC Holdings' Hongkong and Shanghai Banking Corp., Kansallis Osake Pankki, National Bank of Canada, and Royal Bank of Canada.

The Canadian banks are especially feeling the heat. The *Financial Times* of May 21 reported that the Royal Bank of Canada and the National Bank of Canada are having their credit ratings reviewed for possible downgrading. On May 21, a court hearing on Olympia & York was scheduled under the Canadian Companies Creditors Act, at which some foolish lenders planned to challenge the contention that it can't make payments.

Barclays, the largest bank in the United Kingdom, has backed off from a plan to move some of its employees to Canary Wharf. Barclays also announced that it is selling off its 65 U.S. branches to the Bank of New York.

Citicorp has a direct, unsecured exposure to Olympia & York of $1.02 billion. Chemical Banking Corp., which lent $250 million, has announced plans to raise $250 million through the sale of preferred stock. The bank denies that the two are related.

The statistics on declining rentals of commercial real estate in the United States throw the drama into sharp focus. As of March 31, office building vacancies in major downtown areas continued to climb up to a national rate of 19.3%; and in the major suburbs to 21.4%. The downtowns with the highest vacancy rates are: New Haven, Connecticut—35.4%; Dallas, Texas—32%; San Antonio, Texas—30.7%; Miami, Florida—29.3%. New York City's midtown office vacancy rate is given as 17.9%. At current real estate market values, O&Y's properties fall short of the debts owed against them.

Stage-managed crisis?

The pedigree of some of the principal "handlers" active in the O&Y takedown internationally indicate that elite banking interests may think they can intervene to save their own selected financial operations, while orchestrating a lowered valuation of real estate generally. The immediate cause of the Olympia & York bankrupcty filings was action by the House of Morgan. On May 13, J.P. Morgan foreclosed on $160 million worth of currency swap agreements with O&Y. On May 14, Morgan Stanley successfully got a British High Court judgment that Olympia must pay them $240 million—which the company could not do, as Morgan Stanley knew. These actions are reminiscent of Morgan's actions in the previous depression of this century, when the House of Morgan acted to minimize the damage to itself and its friends, by steering the crash toward others.

Representing O&Y in the negotiations with its bankers are three firms, J.P. Morgan, James D. Wolfensohn and Co., and Burns Fry Ltd. of Canada. The current chairman of the Wall Street investment bank Wolfensohn is former U.S. Federal Reserve chairman Paul Volcker. James Wolfensohn himself spent the early 1980s at Salomon Brothers; before that, he was introduced into high-level British financial circles by Bank of England governor Sir Gordon Richardson. Wolfensohn's role model was Sir Sigmund Warburg, the bankers' banker. Besides representing Olympia & York, the Wolfensohn firm represents the notorious Hongkong and Shanghai Banking Corp., and had recently forged an alliance with Britain's Lord Jacob Rothschild.

Federal Reserve chairman Alan Greenspan's trip to Basel, Switzerland in May, for the monthly Bank of International Settlements meeting of central bankers, and his May 12 meeting with Bank of England head Robin Leigh-Pemberton, reportedly included discussion of how to contain the damage of the O&Y crisis.

A bankrupt policy

But have you ever tried to "save" a bubble? Olympia & York is the premier enterprise of the rotten Anglo-American financial system, which has grown over recent decades through infusions of drug money, speculation, and looting. Then-Federal Reserve chairman Volcker opened the valves for this during the Carter administration in 1979, with his banking deregulation. The policy continued throughout the Reagan-Bush years.

The financial crisis is rippling throughout the Anglo-American world. In Australia, for example, on May 20, the nation's largest bank, Westpac Banking Corp., announced a loss of Aus $1.67 billion ($1.25 billion), for the six months to March 31, which is the highest interim loss in the bank's history.

But George Bush can't seem to get his cue cards adjusted. He is still sticking with his "real estate-led recovery thing." On May 18, Bush addressed a group of homebuilders at a White House ceremony, and spoke hopefully of an uptick in the real estate market. He said, "As housing goes, so goes the economy." But two days later, new federal statistics came out saying that U.S. housing starts in April posted their biggest monthly decline in more than eight years.