Olympia & York U.S. holdings next

With Canadian operations in bankruptcy and the London Canary Wharf in receivership, now it's the U.S. branch.

The U.S. arm of Olympia & York Developments has moved closer to formal bankruptcy, with the threat by a banking syndicate led by J.P. Morgan to initiate legal action to seize the cash flow from six of the bankrupt real estate developer's U.S. properties. In May, O&Y filed for bankruptcy in Canada for itself and its Canadian operations, and its massive Canary Wharf project in London was put into receivership, leaving only the U.S. subsidiary outside formal bankruptcy proceedings.

O&Y pledged six buildings in Los Angeles and New York City, including two towers in the World Financial Center, as collateral for a $160 million loan from the eight-bank Morgan syndicate in 1991. Earlier this year, O&Y pledged part of the income from the World Financial Center to a group of Japanese institutional lenders in exchange for an agreement to defer interest payments on the Japanese syndicate's $800 million loan to O&Y.

Morgan's threat to force O&Y to place the rental incomes from the six buildings into accounts controlled by the lenders, if carried out, would almost certainly force the real estate company into Chapter 11 bankruptcy proceedings in the United States, by blocking the company's efforts to use the cash flow from its financially healthier properties to support its weaker ones.

O&Y is hemorrhaging, posting a loss of $1.7 billion for its fiscal year 1992 ended Jan. 31, after writing down the values of its U.S. and Canadian real estate, and the values of its holdings in publicly traded companies, by $1.2 billion. The write-down, which followed $452 million in write-downs for fiscal 1991, did not include any write-down for O&Y's Canary Wharf project. O&Y still carries a $3 billion value on its books for Canary Wharf, despite the company's admission that there has been "major deterioration" of the value of the project. A new value will be placed on the project once its future becomes more clear, the company said in July.

O&Y's repeated claims that its U.S. operations are basically healthy were belied by papers it filed in Canadian bankruptcy court in July, showing that its U.S. subsidiary lost $184 million in fiscal 1991, after losing $147 million in fiscal 1990. Those papers showed the U.S. operation had a net worth of minus $470 million at the end of 1991, and mortgage debt of $5.7 billion.

That loss will continue through 1995, according to O&Y's own projections. Of the 33 U.S. properties listed in the Canadian filing, 18 are expected to have negative cash flows in 1993; 14 are projected to have negative flows in 1994, with 10 in 1995 and 8 in 1996.

No wonder the creditors are nervous.

The depression which bankrupted O&Y is taking its toll on other financial interests, too, chief among them the Edper empire of the Bronfman family of Toronto. Edper's Bramalea Ltd. real estate company, whose troubles have been described in the financial press as being "at least as serious" as those of O&Y, has defaulted on a number of debt payments and is desperately seeking to renegotiate the $4 billion it owes its bankers and bondholders.

Bramalea was forced to eliminate its stock dividend payments, forcing its 72% owner Trizec (which is one-third owned by O&Y), to cut back its own dividend payments. Similarly, the rapid rise in non-performing loans at Royal Trustco will likely force a dividend reduction at its parent, Trilon Financial, the financial holding company of the Edper Group. These dividend cuts, and expected cuts in the group's natural resources units, put the entire Edper group in serious jeopardy. Given that the Edper Group represents some 10% of the total market capitalization of the Toronto Stock Exchange, the collapse of Edper would have serious repercussions, both in Canada and internationally.

The crisis at O&Y also directly affects JMB Realty of Chicago, which has pumped $1 billion of its investors' money into joint real estate projects with the Canadian firm. Shares in some of the JMB-O&Y funds can now be bought for less than 10% of their original purchase price.

O&Y defaulted in July on a $160 million mortgage held by Hong Kong billionaire Li Ka-Shing, until recently the vice chairman of the notorious Hongkong & Shanghai Banking Corp. Li had acquired the mortgage just eight months earlier. Li's O&Y problems, coupled with the unexpected $10 million half-year loss just reported by his Hutchison Whampoa company, have made it difficult for Li to borrow money from his bankers.

The real estate crunch has hit Britain with a vengeance. Barclays Bank just reported an after-tax loss of $57 million for the first six months of 1992, only the second time in the bank's 300-year history it has reported a deficit. There are no "green shoots of recovery," warned Barclays chairman Sir John Quinton.