

Banking by John Hoefle

Canada says no bailout for O&Y

Bankruptcy looms for the real estate giant Olympia & York, and the market bloodbath has already begun.

The insolvent real estate giant Olympia & York suffered two severe setbacks on May 4, sharply reducing the likelihood that the firm will be able to avoid formal bankruptcy.

The company's hopes of a government bailout were dashed by a statement issued by Canadian Finance Minister Don Mazankowski. "We think that's clearly a private matter, and it can best be resolved in the private sector," Mazankowski said.

The Ontario provincial government also threw cold water on Olympia & York. "We are monitoring the situation, but there never was any intention to get involved more actively," a spokesman for Ontario Premier Bob Rae said.

Olympia & York had been seeking a \$100 million guarantee from the two governments, to help the company sell its Exchange Tower in Toronto to its banks. The idea was that the banks would buy the building, with the understanding that O&Y would buy it back in two years. The government's role in this indirect bailout would be to cover the banks' losses were Olympia to prove unable to repurchase the building.

The money from this proposed sale would have been used to pay off some of the \$250 million in commercial paper secured by the Exchange Tower in Toronto. That paper is currently in default, and the holders have scheduled a meeting May 20 to discuss their options, which include declaring a formal default and seizing the building.

The second setback was O&Y's inability to make a \$14.5 million inter-

est payment on bonds secured by the company's First Canadian Place building in Toronto. Olympia has issued \$400 million in commercial paper secured by First Canadian Place, on top of an \$85 million mortgage.

The First Canadian Place default is the most serious yet of all the company's missed payments. Dominion Bond Rating Service, which rated the bonds one notch above junk bond status, promised to declare the bonds in default were the payment to be missed.

The company is now in default on a number of loans and commercial paper issues in addition to the Exchange Tower and First Canadian Place paper. These include an \$800 million mortgage secured by Tower B of the World Financial Center in Manhattan, New York City; a \$355 million loan secured by One Liberty Plaza in Manhattan; and a \$378 million loan secured by the 68-story Scotia Plaza in Toronto. Proceeds of the sale of O&Y's interest in Interprovincial Pipe Line were used to catch up on another commercial paper payment program, which was in default from mid-March to early April.

The growing impatience of Olympia's creditors was demonstrated when the company missed its April payment on the \$155 million mortgage on the Aetna Center tower in Toronto. The mortgage-holder, Prudential Insurance Co., responded by sending notices to the tenants instructing them to send their rent payments directly to Prudential, instead of Olympia. That move got the arrogant Olympia's attention: in a hastily called meeting,

the two companies reached an undisclosed agreement and Prudential withdrew its action to seize the rents.

While the Olympia & York drama plays toward its inevitable bankruptcy, however, a bloodbath is occurring in the Canadian stock market, where Olympia-related companies are being devastated.

In the two months since the Olympia crisis surfaced, investors have fled the stocks of Olympia & York's major Canadian banks, wiping \$2.8 billion—13%—off the stock prices of Canadian Imperial Bank of Commerce, Royal Bank of Canada, Bank of Nova Scotia, National Bank of Canada, and the Bank of Montreal.

Montreal's National Bank, believed to have lent between \$250 million and \$400 million to O&Y, has tumbled more than 30% since the crisis surfaced. National Bank alone dropped 25% during the five-week period ended April 27, Canadian Imperial Bank dropped 12.2% during that period, and Royal Bank dropped 7%. Analysts say that stock losses for the big five Canadian banks have already surpassed the estimated \$2.1-2.5 billion they have loaned Olympia.

Companies affiliated with Olympia are also being hit hard, especially those owned jointly by Olympia and the Bronfman family's Edper. Stocks of their Trizec Corp. real estate company have dropped to about one-third of their 52-week high, and to barely half the lows they hit during the stock market crash in the fall of 1990. Trizec lost some 25% of its stock value during the five-week period ending April 27, including 18% in the last five days alone.

Trizec was the biggest loser on the Toronto Stock Exchange during that five-day period, followed by its real estate subsidiary Bramalea Ltd., which lost 15.7%. The Canadian Bond Rating Service has slashed Bramalea's bond ratings to junk levels.