

## Banking by John Hoefle

### O&Y faces bankruptcy in U.S., too

*Felix "the Fixer" Rohatyn is brought in to save the banks; Representative Gonzalez is to investigate.*

While it has thus far managed to avoid the bankruptcy courts, Olympia & York (U.S.) Holdings, the U.S. arm of the bankrupt Canadian real estate giant, is living on borrowed time.

O&Y U.S. defaulted on a \$2 million payment on its Yerba Buena office building and entertainment complex in San Francisco this month, a project into which it has already poured 10 years of planning and \$25 million. Unless a last-minute deal is arranged, O&Y will have to forfeit the entire investment.

"I find it difficult to understand why they don't pay us the \$2 million, keep their rights, and get another developer to take over the project," complained Edward Helfeld, the director of the San Francisco Redevelopment Agency.

The reason is simple: O&Y is broke. Even were it to scrape up the \$2 million, it could never afford to complete the project. Nor would it be able to sell those rights to another developer. These days, completed office projects are available at huge discounts, with buyers few and far between; one would have to be crazy to take over an undeveloped property like Yerba Buena.

When the O&Y crisis first surfaced publicly in the spring of this year, the company claimed that it was merely the victim of a temporary liquidity crunch, comparing its troubles to a run on an otherwise healthy bank. Even after the bankruptcy of the Canadian and United Kingdom operations, the company insisted that its U.S. operations were healthy.

However, according to papers

filed in Canadian bankruptcy court, the U.S. subsidiary lost \$147.1 million in 1990 and \$184.3 million in 1991. Without a gain of \$97.5 million on the sale of part-interest in a Manhattan office building, the loss would have been much worse.

In fact, the court papers show, O&Y is suffering massive losses on its U.S. properties, and is expected to post a negative cash flow through 1995. Of the 33 U.S. properties listed in the document, 18 are expected to have negative cash flow in 1993; 14 in 1994; 10 in 1995; and 8 in 1996.

According to the Canadian court papers, the U.S. operation had a net worth of minus \$470 million at the end of 1991, compared to a net worth of minus \$300 million at the end of 1990. These figures were calculated on a historical cost basis. Some published reports claim that the properties would be worth closer to plus \$1 billion at current market values, but that has little meaning in a real estate market where no one is buying.

The court papers also show that O&Y U.S. has \$5.3 billion of debt in first mortgages, and another \$458 million of debt in second mortgages, for a total mortgage debt of \$5.7 billion.

But, as the case of Aetna Life & Casualty Co. shows, mortgages are only part of the debt. Aetna, which is struggling under the weight of \$3.4 billion worth of non-performing real estate loans—17% of its portfolio—has announced that it will write off \$45.7 million in its second quarter for losses related to O&Y. The loss stems from a guarantee that Aetna extended on bonds

issued by O&Y on its 55 Water St. office tower in Manhattan. When O&Y defaulted on the bonds, Aetna had to pay the investors nearly \$21 million. Of Aetna's \$399 million in exposure to O&Y, roughly half of the obligations are guarantees and the other half are mortgage notes, according to Shearson Lehman Brothers.

Aetna is going to have lots of company in writing off O&Y debts. O&Y's consolidated financial statements for the accounting year that ended Jan. 31, 1992 are expected shortly, and company sources say O&Y will write down its assets by at least \$2 billion; other published sources say the writedown may go as high as \$4.5 billion. Either way, that's a lot for a company which claimed—falsely—a net worth of \$5 billion in April.

Meanwhile, O&Y has been shuffling its advisers. The Canadian parent company has fired J.P. Morgan and Burns Fry, while the U.S. unit has hired Lazard Frères. According to O&Y U.S. President John Zucotti, Lazard was retained because of its "expertise in real estate and capital raising and its worldwide contacts."

Lazard's real expertise, however, is bailing out the banks by looting the public. That's what the so-called bailout of New York City, run in large part by Lazard's Felix Rohatyn, was all about. Zucotti was deputy mayor of New York City during the bailout. Now, with the big banks facing extinction, "Felix the Fixer" has been brought in to rescue them again.

The impact of the failure of O&Y has not gone unnoticed on Capitol Hill, either. House Banking Committee Chairman Henry B. Gonzalez (D-Tex.) has announced hearings on the collapse of O&Y and its "very troubling" effect on the U.S. banking system. Gonzalez has been quite critical of the banks for hiding their real estate losses.