Bramalea defaults on bond issue

The Bronfman brothers' Edper Group is poised at the edge of the financial abyss.

Bramalea Inc., the real estate company controlled by Toronto's Bronfman family, defaulted on a Can. $100 million bond issue June 30, when it was unable to make a Can. $5.2 million payment to its bondholders. Bramalea has until the end of July to come up with the money, or face the prospect of asset seizures by those bondholders.

Bramalea's problems, which the *Financial Times* of London has described as being "as least as serious" as those of the bankrupt Olympia & York, demonstrate the shock wave of collapse which is knocking out ever-bigger chunks of the Anglo-American financial establishment.

Rumors of Bramalea's impending bankruptcy have swirled through the markets since early June, when the Dominion Bond Rating Service dropped its rating on Bramalea's debt an unprecedented four notches. Dominion noted that Bramalea has to refinance some Can. $373 million of debt which falls due this year. Both Dominion and the Canadian Bond Rating Service have downgraded Bramalea's debt to junk bond status.

By mid-June, Bramalea was unable to make payments on its bank loans, and was forced to suspend dividend payments to its shareholders, chiefly Trizec, North America's largest publicly traded real estate company, which owns 72% of Bramalea.

Both Bramalea and Trizec are part of Edward and Peter Bronfman's Edper Group of some 540 public and private companies, with assets of over Can. $100 billion. One of Canada's largest conglomerates, the Edper Group's publicly traded companies account for over 10% of the total market capitalization of the Toronto Stock Exchange.

This Edper empire is now facing collapse itself.

Edper, like the Reichmanns' Olympia & York, is a house of cards, built upon layer after layer of speculation, borrowed money, and accounting legerdemain. Backed by Bronfman money and hired brains, Edper bought control of some of Canada's largest companies over the last two decades. Once Edper obtained control of a company, it would loot the assets of the victim to pay for yet another conquest.

As described in an article in *Barron's* in May 1991, Edper used a technique called "cascade financing," in which the company would leverage relatively small amounts of money into control of large amounts of assets.

In the example cited by *Barron's,* a senior Edper company might issue $100 million worth of common stock in a public offering, buying half itself for $50 million and selling the rest to the public. The senior company would then invest that $100 million in a similar $200 million stock issue by a subsidiary; Edper would buy $100 million and sell $100 million to the public. The subsidiary would then invest the $200 million downstream into one of its subsidiaries, whereupon the amount would double again. Just four tiers down the organization chart, Edper's original $50 million would be transmuted into $800 million in capital—and $800 million worth of control.

This pyramid scheme works, to a point, as long as buyers can be found for the securities, as long as the banks continue to loan, and as long as the victims can pass dividend payments back up the chain to the parent. But when any of these aspects break down, the whole operation begins to unravel.

That is precisely what is happening now, with the loan defaults and suspension of dividends by Bramalea. Not even Trizec, which has pumped some Can. $200 million in cash into Bramalea over the past year in a vain attempt to keep the company afloat, is willing to put in more money.

Bramalea's only hope for survival is to reduce its Can. $4.8 billion debt by selling enough assets to service its debt. But that will be difficult, since its assets are mainly real estate, including office buildings, residential real estate, and shopping centers. A large chunk of the residential real estate is undeveloped land in California, which it bought at the top of the market in the late 1980s. Were Bramalea to find a buyer for that land, it would have to take enormous losses, putting it closer to bankruptcy, not further away.

When Bramalea falls, it will take Trizec with it, although probably not right away. The collapse of Trizec would cause the failure of its parent, Carena Development, and so on all the way to the top.

Trizec is already suffering, significantly slicing its semi-annual dividend last month, as its stock trades at a 20-year low. The company raised between Can. $200 million and $300 million last month through the sale of new common stock; other Edper units, including Carena, were reportedly the major buyers.

Trizec controls over 300 commercial properties, with some 25 times the space of O&Y's Canary Wharf property in London.