Banking by John Hoefle

The Bronfmans sue the Reichmanns

Grabbing for a bankrupt man's wallet is no way to stay solvent, but it sure shows a lot of chutzpah.

The ongoing collapse of two of Canada's largest financial empires, the Edper group of Toronto's Edward and Peter Bronfman and the Reichmann brothers' Olympia & York, took a turn for the worse Nov. 20, when a company controlled by Edper filed suit in New York, to put O&Y's Manhattan flagship World Financial Center into receivership.

Battery Park Holdings Inc., which filed the suit, owns a 35% interest in three of the four O&Y-controlled World Financial Center towers. In the filing, Battery Park said it was seeking a court-appointed receiver in order "to ensure that the cash flows generated by these assets are not misappropriated to other uses of Olympia & York." Battery Park is also seeking to recoup $75 million which it says was "improperly withdrawn from the center by O&Y companies," and the payment of a further $8.5 million in claimed excess cash flow.

Battery Park is owned jointly by Carena Developments and J. Richard Shiff. Carena Developments is a key real estate holding company in the Edper empire, while Shiff is a director of several Edper group companies. Carena secretly bought Battery Park Holdings from the Reichmanns in 1989 for $309 million, then one year later sold a 50% interest in Battery Park back to the Reichmanns. Shiff recently bought out the Reichmanns' interest in Battery Park, with money borrowed from Edper.

The Bronfman and Reichmann empires have long been closely interlinked. The Reichmanns own a substantial chunk of Trizec Corp., the largest publicly traded real estate company in North America. Trizec, in turn, owns 72% of Bramalea Ltd., the brain-dead real estate company which is the leading edge of the collapse under way at Edper. Trizec is controlled by Carena Developments.

O&Y, once falsely considered the premier real estate developer in the world, has virtually disappeared. The company and 28 of its Canadian subsidiaries are in bankruptcy court in Canada, and its largest project, the massive Canary Wharf development in London, has been put into receivership. O&Y is transferring a number of its properties, including 55 Water Street in Manhattan—the largest office building in the world—to creditors, has all but abandoned the Yerba Buena project in San Francisco, and has sold its interest in a number of companies, including an 8% interest in Edper's Trilon Financial.

Having failed to convince its creditors to accept shares in the bankrupt company, O&Y is now preparing for what it hopes will be an orderly liquidation, with the best-secured creditors seizing O&Y's prime properties in lieu of payment. The unsecured creditors will be left holding an empty and worthless shell.

Only O&Y's U.S. operation has thus far escaped bankruptcy, and its days are numbered.

In addition to the Battery Park suit, a number of other creditors have taken O&Y U.S. to court for non-payment of debt. The latest is Swiss Bank Corp., which in October obtained an $8 million court judgment against O&Y, in settlement of a letter of credit related to one of O&Y's New York properties. Any of these lenders, including J.P. Morgan, Sweden's Svenskehandelsbank, and the Teachers Insurance & Annuity Association, could force O&Y U.S. into immediate Chapter 11 bankruptcy by executing their claims.

The situation at the Bronfmans' Edper is not much better, with stocks in the publicly traded portion of Edper's $85 billion empire being hit with massive selling in recent weeks. The 40 publicly traded Edper companies account for some 10% of the market capitalization of the Toronto Stock Exchange; that, combined with some 500 private Edper companies, make the crisis at Edper much more explosive than the failure of O&Y.

The problems facing Edper's $5 billion Bramalea, are quite similar to those which hit O&Y earlier this year. A limited partnership controlled by Bramalea's U.S. subsidiary Bramalea Pacific Inc., recently filed for Chapter 11 to prevent three lenders—Toronto Dominion Bank, Banco di Roma and Union Bank of Switzerland—from seizing an Oakland, California, office building in lieu of repayment of $27.5 million mortage.

Bramalea president Marvin Marshall tried to put the best face on the debacle by claiming that the debt on the Oakland property "is only one of more than 200 loans by approximately 100 lenders to Bramalea and represents less than 1% of our total debt." But if Bramalea, which is in negotiations with creditors to restructure its debt, is so short on cash that it cannot cover 1% of its debt, one can safely assume that the remaining 99% is also unpayable.

O&Y has already failed, even if that failure has not yet been fully admitted, and now Edper is following O&Y into the abyss. But they are merely tremors of the coming earthquake collapse of the entire Anglo-American financial system.