 by John Hoefle

The bigger they are . . .

The harder they fall. Creditors take control of Olympia & York, a real estate empire much mentioned in the book "Dope, Inc."

The demise of Toronto's Olympia & York Developments as a major real estate developer was sealed Feb. 5, when Justice Robert Blair of the Ontario Court of Justice approved the insolvent company's debt-restructuring plan.

"Olympia & York was one of the most respected real estate empires in the world," said Justice Blair. "Unfortunately it has fallen on hard times, and indeed it seems it has fallen apart."

Under the plan, the company's creditors will control 90% of what is left of the company, and the former owners, the Reichmann family, will own just 10%. Just how much will be left remains to be seen, since the plan allows the company's secured creditors to seize any of the collateral securing their debt, including a number of Canadian office towers and controlling stakes in two major Canadian natural resources firms, Gulf Canada Ltd. and Abitibi-Price, Inc.

The main role of O&Y under the new regime, will be to manage some of the properties it formerly owned. Justice Blair appointed the accounting firm of Coopers & Lybrand to run the company, in conjunction with a committee of the new creditor-owners.

The collapse of O&Y began one year ago, on Feb. 13, 1992, when the Dominion Bond Rating Service downgraded a number of O&Y debt issues, hurting the heavily indebted company's ability to raise money in the commercial paper market. By mid-March, O&Y admitted it was in a severe "liquidity crisis," and was seeking to restructure some $12 billion in bond and bank-loan debts.

On March 25, O&Y co-founder Paul Reichmann stepped down as president, as the bankers began to take control. Replacing Reichmann as president was former Manufacturers Hanover president Thomas Johnson; Johnson stepped down after just three weeks, after he reportedly discovered that O&Y's debt was actally in excess of $25 billion, an amount too big for the banks to handle without outside help. Johnson was replaced by Dillon Read's Gerald Greenwald. A trio of advisers, James D. Wolfensohn Inc., headed by former Federal Reserve chairman Paul Volcker; J.P. Morgan; and Burns Fry Ltd. of Canada, were brought in by the Bank of Canada, the Bank of England and the Federal Reserve to oversee the take-down of the Reichmann empire.

In default on a growing number of payments and unable to persuade the Canadian government to grant a bailout, O&Y Developments and 28 of its Canadian subsidiaries filed for bankruptcy under the Canadian Companies' Creditors Arrangement Act, the Canadian equivalent of Chapter 11 in the U.S.

"This is not a bankruptcy, this is not a liquidation, and this is not the end of O&Y," Greenwald claimed at the time.

With O&Y's Canadian operations in bankruptcy, attention turned to the company's massive Canary Wharf development in London, the largest real estate project in Europe.

"Our company remains fully committed to the completion of its Canary Wharf project in London and is confident that the development will be a success," Paul Reichmann had said when he resigned as O&Y president.

Nevertheless, Canary Wharf was put into bankruptcy May 27, under the British Insolvency Act. The court appointed the accounting firm of Ernst & Young to manage Canary Wharf, effectively ending O&Y's role in the project.

That leaves the United States, where O&Y's U.S. subsidiary will be the last part of the O&Y empire to be taken down.

A bankruptcy filing for the U.S. subsidiary is inevitable. The firm is some $5 billion in debt. It faces nearly $1 billion in debt payments this year alone, and is already in default on a number of interest and principal payments on its 25 U.S. office buildings.

In August, the company proposed a restructuring plan which included a five-year moratorium on principal payments and limited interest payments, but the plan was rejected by the creditors. The company is now at work on an amended restructuring plan, which it will review with creditors in the next month.

By taking O&Y down in stages, the central banks have partially papered over the hole the firm's failure has blown in the world financial and real estate markets, but the collapse has escalated.

For evidence, one needs look no further than the Edper empire of Toronto's Edward and Peter Bronfman, which is some five times bigger than O&Y. Two Edper firms, real estate developer Bramalea Ltd. and financial services firm Royal Trustco, are already insolvent, and shares of the 32 publicly traded companies in the Edper group have dropped precipitously in value over the last several weeks, to all-time lows.

With its dividend flows and borrowing ability drying up, Edper will inevitably follow O&Y into bankruptcy, blowing out an even bigger chunk of the bankrupt financial system.