

Banking by John Hoefle

Bramalea files for bankruptcy

The empire of Edward and Peter Bronfman has begun its descent into liquidation.

Bramalea Ltd., the \$5 billion Canadian real estate firm controlled by the Edper group of Toronto's Edward and Peter Bronfman, filed for bankruptcy protection under the Canadian Companies' Creditors Arrangement Act (the equivalent of Chapter 11 in the United States) on Dec. 22. The filing, which is the second largest bankruptcy in Canadian history after the May 1992 bankruptcy of Olympia & York Developments, marks the beginning of the end of the Edper financial empire.

Bramalea's fate was sealed in the mid-to-late 1980s, when it bought large quantities of undeveloped land in California and southern Ontario at the peak of the real estate bubble, only to see its value evaporate. "The decision to replenish the land inventory was strategically the wrong decision," Bramalea president Marvin Marshall has admitted, in a bit of understatement.

The timing of Bramalea's failure was no surprise, since the company had been a virtual zombie for months. Bramalea's credit ratings dropped steadily during 1992. The Canadian Bond Rating Service dropped Bramalea to junk bond status in the spring, and the Dominion Bond Rating Service dropped it an unprecedented four notches at once in June.

In May, Bramalea sought to renegotiate its \$4 billion in debt after it defaulted on loan agreements with its bankers. It also cut dividends paid to its stockholders. Its situation was so dire that the *Financial Times* of London observed on June 18 that Brama-

lea "has financial problems at least as severe as those of Olympia & York."

On June 30, Bramalea missed a \$4 million payment on an \$80 million bond issue, further cementing its fate. When it was obvious for all to see that Bramalea could not survive, Edper began severing its links with the doomed company, in the vain hope that it could avoid a similar fate.

The Edper-controlled Trizec Ltd., North America's largest publicly held real estate firm, owns 72% of Bramalea, and had pumped \$170 million in cash into the company over the past year. By mid-summer, Trizec had stopped putting equity into Bramalea and started buying choice assets.

Edper's decision to abandon Bramalea to its fate came to a head on Dec. 10, when it reached an agreement with holders of \$410 million of Bramalea bonds, to give the bondholders control of the company in lieu of repaying the bonds. Under the agreement, the bondholders would wind up owning 52% of Bramalea, reducing Trizec's stake to 20%.

"We believe that the plan is the only alternative available to debenture holders which will allow Bramalea to continue to exist," the committee representing the bondholders said in a letter advising the holders to accept the proposal. The committee's financial adviser estimated that the bondholders would get, at best, 39¢ on the dollar were Bramalea to be liquidated.

Bramalea hoped to be able to force the rest of its creditors to agree to the plan, but found, as did O&Y, that bankrupt companies have little lever-

age. When several banks refused to accept the proposal, Bramalea filed for bankruptcy protection.

Bramalea is the first Edper company to file for bankruptcy, but it will certainly not be the last, since its fall will set into motion a chain reaction which will topple the already-weakened Edper empire.

Since late 1989, the 32 public companies in the Edper group have lost, on average, more than 50% of their value, and lost more than 10% of their value in November 1992 alone. Between the end of 1989 and Nov. 30, 1992, Bramalea's stock lost a staggering 89% of its value, Trizec's stock lost 88%, and the stock of Carena Developments, which controls Trizec, lost 91%. The stock of Royal Trustco, an Edper financial services company, dropped 86% during that period, and the stock of its parent, Trilon Financial, dropped 83%. Royal Trustco is also restructuring, and has cut its dividend each of the last two quarters.

On Dec. 17, just days before its bankruptcy filing, Bramalea announced an after-tax writedown of \$659 million, the bulk of it against the \$1.2 billion nominal value of its undeveloped land. That action prompted Trizec to write off \$446 million, on both its Bramalea stock and its own real estate holdings, and cut its dividend payments another 50%. Carena Developments, in turn, wrote off \$215 million, on both its 40% interest in Trizec and its 56% interest in real estate developer Coscan Developments. During the year, Carena's stock dropped 46%.

The future of Edper can best be understood by watching what is happening at O&Y, where a liquidation is in progress. Prudential Insurance Co. has become the first creditor to seize one of O&Y's buildings, taking title to the 28-story Aetna Canada Center in Toronto.