

Banking by John Hoefle

Olympia & York puts banks in a vise

The bankers must keep up the illusion that real estate has not collapsed, and they must protect their liquidity source—dope.

Behind a tight security and disinformation screen, representatives of 91 of the world's biggest banks met in Toronto April 13, to begin talks with real estate giant Olympia & York on a rescheduling of its massive debt.

At the meeting, the secretive Olympia presented financial records which claimed that the firm had U.S. \$12 billion in debts in its own name, and another \$7 billion in debts of subsidiaries and affiliates. Against those \$19 billion in debts, the company claimed some \$24 billion in assets, giving it an alleged net worth of \$4.7 billion.

Given this alleged solvency, Olympia proposed to the banks that only \$4 billion of its debt, primarily that involving the huge Canary Wharf development in London, be restructured. Loans involving the company's New York and Toronto real estate would not be touched, under the preposterous theory that those projects are basically sound. Were its proposal to be accepted, Olympia claimed, none of the banks would lose any money in the long run; all debts would be repaid, even if some payments were a little late.

This is nonsense. According to a senior source on one of the creditor banks' restructuring committees, the total of Olympia & York debts is "in the range of at least \$25 billion, rather than even the \$20 billion thought only some days ago. If they were to sell off all assets today to repay the debts, it would fetch some \$15 billion. That leaves the creditors with a \$10 billion net loss facing them."

The sudden resignation of Thomas

Johnson as president of Olympia & York Development Co. after only three weeks on the job is, according to a London banking source, tied to the worse-than-reported situation at Olympia. The Olympia deficit is too big for the banks to handle and demands a government bailout, the banker said. Further, he said Canada cannot handle the crisis alone without severely damaging the Canadian dollar and bond markets, and will require help from the U.S.

The bankers are caught between the proverbial rock and hard place. If they accept Olympia & York's restructuring proposals, it will mean rolling over existing loans and even providing new money to the bankrupt giant. With property values falling, they will simply postpone losses now, to take even bigger losses later.

On the other hand, were the bankers to reject Olympia's proposal, they would force the company into either bankruptcy or liquidation. Either way, the firm—the largest commercial landlord in North America—would be forced to begin selling huge chunks of its 43 million square feet of commercial office space, including some of the most prestigious office buildings in New York and Toronto.

Such a move would play havoc with the real estate markets, further dropping market values in this heavily over-leveraged field, and poking serious holes in the fictitious book values real estate projects enjoy on the balance sheets of banks, insurance companies, other businesses, and individuals.

There is another, darker side to the crisis, however: narcotics trafficking

and money laundering.

Olympia & York sits near the center of a complex of British and American financial institutions identified in *EIR's* 1978 book *Dope, Inc.* as inseparable from the financial organization of the international drug trade. Creditors of Olympia & York, such as the Hongkong and Shanghai Banking Corporation, Canadian Imperial Bank of Commerce, and Barclays Bank, also featured in that book, are among the select group of international banks expected to be most affected by Olympia & York's losses.

As *Dope, Inc.* documented, large portions of the international banking system were set up to launder drug money. The role of the British colony of Hong Kong as a financial center is primarily due to the heroin trade in Southeast Asia, just as the offshore banking centers in the Caribbean owe their existence to the drug trade in Ibero-America.

Without the massive financial flows created by the drug trade, these banking centers would barely exist. But the converse is also true: Without the massive money laundering facilities established by the international banks, the drug trade simply could not function on its current scale. Much of this laundered drug money gets invested in real estate: The real estate boom of the 1980s would not have been possible without the trillions of dollars of dope money which flowed into U.S. real estate markets.

Now the collapse of the real estate bubble is outrunning the capacities of companies like Olympia & York, creating a dilemma for the international bankers. They must not only save themselves from bankruptcy at the hands of Olympia & York, they must keep up the illusion that the real estate market has not collapsed, and they must protect their main source of liquidity, the dope trade.