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Predatory Practices of Conglomerates to Take Over Schools For Real Estate Play

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Abstract: Predatory practice is when real estate companies commit abusive lending practice by preventing consumers to access mortgage credit facilities instead they are paying more and makes these consumers at risk of losing their homes. Real estate companies had since time immemorial bought agricultural land and converted them into commercial and residential complexes. When converted into real estate play, these agricultural lands command very high prices and real estate companies became profitable as conglomerates. The examples include the cogon land of Makati and Ortigas/ Greenhills; mango orchards of Ayala Alabang; the former sugar lands of Canlubang that is now West Groove; and the water district in Balara, Quezon City that is now Ayala Heights Subdivision. The conversion mania increased into feverish pitch with the promulgation of the comprehensive land reform in 1988 as agricultural landowners sold and converted their lands into commercial and residential lands to escape from the coverage. Currently, agricultural combines are much wiser and the upward adjustment in selling prices of agricultural land prompted real estate moguls to turn to schools as a viable source of cheap land. These schools were established at the turn of the 20th century so they are located in very prime areas. For as long as the Philippine population is increasing, there is a need to construct additional dwellings and commercial space. New San Jose Builders bought recently Manuel Luis Quezon University. STI Holdings also bought recently into Philippine Women's University with a view to convert the initially the Quezon City campus into a mixed used residential, office, and school complex, in partnership with Ayala Corporation. There were also schools in the provinces of Negros and Pampanga that were bought by real estate companies. This research intends to investigate and find out how widespread is this practice with a view to create a feasible business model to repel such predatory practices of conglomerates. Predatory practices were one of the practices cited as the cause of the 2008 financial crises of America. While it is true that business conglomerates had helped a lot of schools to survive the difficult times, a few can be considered predatory in terms of their desire to convert schools into more malls and condominium edifices.



Key words: real estate conglomerates, predatory practices, universities and colleges

Introduction

The Legal Dictionary (2016) defined predatory pricing as undercutting and relating to the practice of plundering, pillaging, or exploitation. It is the practice of injuring or exploiting others for personal gain or profit, including predatory practices. Henkel and Reitzig (2011) discussed companies that focus on Research and Development generally have values tied up in intangible assets such that patent sharks can attack technology companies and patent trolls. Predatory lending is when lenders commit abusive lending practices by not allowing consumers to access mortgage credit facilities. Consumers are given a loan for which they are paying more than they should which could put their home at risk. Consumers are directly approached to make home improvements.

Philippine real estate companies have since time immemorial converted agricultural land into residential and commercial complexes. The examples include the Makati financial district that used to be marshland and the cogon land. The same can be said of the Greenhills area that used to be also marshland that was handled by the Ortigas family who were a family of lawyers handling

the land arrangements between the Rizal and its municipalities of Mandaluyong and San Juan. Mandaluyong was still known as San Roque and Makati was San Pedro. Alabang used to be the mango plantation of the Madrigal family that was proximate to the National Penitentiary. Canlubang was then a sugar plantation. Ayala Heights was part of the Balara filtration plant and the Capitol Golf Club course. The conversion of agricultural land into real estate subdivisions reached a feverish intensity when the Comprehensive Agrarian Reform Law was promulgated in 1988 as landowners tried to convert their land into residential and commercial complexes to avoid being land reformed. After awhile, agricultural land became scarcer and this meant that it was also becoming expensive so real estate developers turn to other sources of real estate that can be converted into residential and commercial space, One of these possible source are educational institutions. New San Jose Builders bought the Manuel Luis Quezon University (MLQU) from its original owners while STI Holdings foreclosed on the Philippine Women's University campuses in Taft Avenue, EDSA Philamlife and Davao City.



The Philippine Taipans in contrast have bought into several colleges and universities with an aim to upgrade and improve the teaching competencies of these institutions. The family of Henry Sy bought into the National University (NU) and improved its facilities. The family of Lucio Tan bought into the University of the East and likewise saved the university from near collapse. The family of Alfonso Yuchengco also bought into the Mapua Institute of Technology and turned around the finances of the school. The same experience can be said about the foray of the Philippine Investment and Management Company (PHINMA) that bought several schools with the intent of turning around these schools after selling all their cement companies. These are clear examples of the Taipans families paying forward and embracing the need to educate the populace to make them more productive members of society and for the most part allow the poor to break the cycle of poverty through education.

The experience of PWU is very different. STI Holdings already had 72 campuses and locations nationwide so that these three PWU campuses could not be integrated anyways into the STI system. There was no fit. PWU runs a progressive school in the Jose Abad Santos Memorial School (JASMS) that cannot fit the traditional school K plus

12 programs of STI schools. The tertiary education of STI is more into Computer science and the like that makes it easier for its graduates to look for jobs in the Business Process Outsourcing (BPO) and the call center business while PWU is mainly in liberal education, fine arts and the hotel and restaurant business. One of the collaborations of STI Holdings is with the University of Makati that was even mentioned in the Senate hearing on the corruption practices allegedly being done by Vice President Jejomar Binay. Dumlao (2013) reported that STI Holdings bought the PWU debt with BDO, amounting to P230 million. The true motive became only apparent when STI Holdings announced during its 2014 stockholders meeting that it had signed a deal with Amaia that is one of the Ayala real estate companies to build a twin storeys high rise edifice in the PWU campus in Quezon City together with a 9 storeys school building and a sprawling mall complex. The Quezon City campus is proximate to the MRT 3 station and is now the site for several land development complexes. One of the controversies that surrounded the area was the proposed phase out of the Children's hospital into another mall and mixed used land development of one of the several Ayala real estate companies. The design and working papers of the proposed PWU JASMS twin tower development had been completed

until the parents comprising the PTA of JASMS complained that the progressive school concept requires vast track of land and the students may not be susceptible to be contained in the confines of a building. Meanwhile Montealegre (2014) mentioned that STI Holdings is claiming P925 million in principal payments, interest, lawyer's fees and Value added tax (VAT). This was broken down into the P223 million bailout of the BDO debt, P26.5 million that was lent to the school to improve its facilities, P198 million lent to Unlad Resources, the corporate arm of PWU on a proposed share for property swap. Lee (2015) mentioned that the Benitez family mentioned a much lower figure of P644 million.

Methodology

Predatory lending practices is defined by the Predatory Lending Practices Law & Legal Definition as a term used in lending contracts where lenders following predatory lending practices target vulnerable consumers like women or those who do not qualify for conventional loans. There are six main points to consider and these are:

1. The target group will be mainly the elderly or those with very low income.
2. The cost of loan terms at closing is not what you initially agreed to.

3. The lender practices aggressive sales techniques.
4. There are repeated options over short periods of time, enabling the lender to collect additional fees and strips the owner's equity from their homes.
5. Lending is not in tune with the borrower's ability to repay and the lender's focus is foreclosure.
6. The borrower is blind to many underlying truths and there are a lot of misrepresentations on the nature of the loan.

While this is the basis for predatory practices in lending, it can also be used as the measure to determine whether the STI Holdings investment in PWU is considered predatory practices.

Discussion and Analysis

STI Holdings appeared as the white knight of PWU when it rescued PWU from its loan with Banco De Oro, amounting to P 233 million. PWU was on the lookout for an investor that was willing to rescue it from its loan and at the same time will not want a controlling position. STI Holdings bailed out PWU P233 million from BDO, lent another P26.5 million and lent Unlad Resources P198 million to purchase land adjacent to the QC campus that was owned by Jardine Finance with a view to converting



these loans into equity. There is a BIR rule that land given, as investment is tax deferred but the current dispensation has not issued a tax-free exemption for the past several years. Consequently, if the transaction is taxed then the estimated tax exposure is about P 300 million. This would make the deal with STI Holdings as unenforceable so the solution was to disengage and just pay off the loan to STI Holdings.

STI Holdings filed an extrajudicial foreclosure proceeding to gain control of the three campus of PWU. PWU petitioned for rehabilitation but after several hearings, the petition was denied.

Conclusion

It would appear from the discussions that STI Holdings dealt with elderly, as the members of the PWU Benitez family were already senior citizens except for Dr. Benitez who is PWU President. The cost of the bail out plan was not what was initially agreed on as the three campus foreclosure would have a real estate value that would approach almost P2 billion. Aggressive techniques were exercised on the bail out plan as well as the extrajudicial foreclosure arrangements. The press releases relating to this episode would show there is a conflict with the parents, the teachers and the major owners unlike the entry of the Taipans in the schools they are managing right now that was

welcomed by the parents, teachers, and the owners.

Lee (2015) mentioned that the Benitez family was able to secure a court order for the rehabilitation of PWU. This meant that the creditors like STI Holdings would have to honor the stay order that preserves the status quo in PWU. Gamil (2014) wrote about the numerous objections of the parents and the teachers. The objections were premised on the development plan having a construction period of over four years but there appears to be no plan as to the children which means that the students will continue schooling in the campus while the construction is ongoing. The PWU Quezon City campus also is an aquifer and that means the construction of massive structures may destroy the water source of the community. Another concern is the apparent disconnect between the STI Holdings pedagogy with that of PWU. The STI Holdings style of education is not compatible with JASMS and PWU.

It would appear also that the mode of entry as investor and friendly turned into a creditor relationship and one of a hostile takeover. STI Holdings was not forthright in its dealings with the teachers, parents and the Benitez family. The lenders focus was the foreclosure of the properties and the Borrower PWU was made blind to the underlying truths. Both sides were accusing each other of



misrepresentations. It would appear that the six considerations were present that would adjudge the STI Holdings investment and loan to PWU is considered predatory practice. While this was being done, STI Holdings was also completing its takeover of the West Negros University. Morales (2013) narrated that West Negros is also a very old institution started by three Baptiste women that STI acquired in 2013. It has 10,000 students and graduates about 1,500 students annually.

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