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Chicago's Hotel 71 Sale Upends Condo-Hybrid Model

By MAURA WEBBER SADOVI

A Chicago hotel that was part of developer Robert Falor's ill-fated effort to build a condo-hotel empire has sold for a fraction of its debt.

A fund managed by Canyon Capital Realty Advisors of Los Angeles bought the 437-room Hotel 71 for \$37 million. The all-cash deal wiped out tens of millions of dollars in debt, according to people familiar with the transaction.

The seller was a special servicer managing about \$68 million of debt backed by the property that was carved up and sold as commercial mortgage-backed securities. The bondholders were represented by a special servicer that took control of the 40-story building in a July 2008 foreclosure action.

The history and sale of Hotel 71 shines additional light on the busted business model of condo-hotels, which typically allows unit owners to rent rooms when they aren't using them. At the peak of the real-estate boom, many small investors snapped up condo-hotel units. But the economic collapse, which has hit the hotel and condo markets the hardest of any commercial-property class, naturally hasn't been kind to the hybrid property type.

Canyon plans to complete the renovation Mr. Falor started but has no intention of pursuing his condo-hotel strategy. Rather, the property will be operated as a traditional hotel, according to people familiar with the deal.

The Hotel 71 deal also marks another loss for Mr. Falor's empire. At the peak of the market, Mr. Falor, 41 years old, was prominent national developer of condo-hotels with numerous properties in Illinois and Miami. As the market soured, a number of Mr. Falor's projects have become mired in litigation and other problems. At Hotel 71, only about 309 of the rooms are operational as renovation plans have stalled.

In September, the Securities and Exchange Commission filed a lawsuit against Mr. Falor alleging that he misappropriated money from investors that was intended to fund the conversion of several properties in Illinois and Florida into hotel condominiums, and that Mr. Falor did so by taking funds intended for those projects and using the money instead for unrelated real estate, cars and private airplanes. Hotel 71 was not included in the properties named in the suit. A court filing on behalf of Mr. Falor states that the hotel condominium industry has proven not to be lucrative for Mr. Falor and others like him and states that some of the counts in the SEC complaint should be dismissed because they lack specificity.

Also, Mr. Falor is scheduled to go on trial early next year in Cuyahoga County, Ohio, on a theft charge. In that case, the prosecution alleges Mr. Falor deceived a Cleveland businessman by persuading him to invest in a Chicago property that Mr. Falor didn't own, according to a spokesman for the Cuyahoga County Prosecutor's Office. Mr. Falor pleaded not guilty to the theft charge. Mr. Falor's attorney didn't return calls for comment.

Despite Hotel 71's problems, the project had one recent moment of glory: when it was used in "The Dark Knight," a Batman movie. A ballroom on the 39th floor of the glass and steel tower was turned into the fictional Bruce Wayne's apartment.

The Hotel 71 saga stretches back to 2005 when Chicago H&S Hotel Property LLC, then affiliated with Mr. Falor, bought it for about \$95.5 million and loaded it up with about \$128 million in debt. In 2006 Mr. Falor defaulted on a mezzanine loan originally valued at about \$27.3 million that was provided by Los Angeles hedge fund and private-equity firm Oaktree Capital Management LLC. Last year, Oaktree obtained judgments against the guarantors of the debt, a group that includes Mr. Falor, and is seeking to enforce them, said John Berry, an attorney for Oaktree.

By mid-2007 the property was delinquent on a \$68 million commercial mortgage-backed security originated in 2005, according to Trepp, a New York firm that tracks commercial real estate.

The hotel was put on the block in January by the special servicer. The sellers had hoped the property would fetch a price in the \$100 million range, but instead got nibbles and one written offer over the summer in the \$20 million range, said Bill Hodges, chief executive of Hodges Ward Elliott of Atlanta, a real-estate brokerage firm that specializes in lodging properties which marketed the property. "It's a great property, great real estate with a great location but the industry has just really been hurt," Mr. Hodges says.

Ultimately, Canyon stepped up with the highest bid. Canyon isn't new to the property. The Los Angeles private-equity firm, was one of Mr. Falor's lenders, putting some \$32.7 million of junior debt on the property that was eventually wiped out. But the purchase of Hotel 71 was described as an arm's-length transaction, with no special consideration or credit given to Canyon for their extinguished debt, said people familiar with the transaction.

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