
New investor moves in on failed River North hotel

By: Alby Gallun June 08, 2011

(Crain's) — A Chicago hotel investor has entered the legal fracas over a failed River North hotel development, a key step that could bring the 16-story project closer to completion — or escalate the battle for control of it.

A venture led by Oxford Capital Group LLC has acquired the construction loan on the unfinished building at 127 W. Huron St., which was supposed to be a 216-room Staybridge Suites hotel but has been tied up in litigation since October 2008, when it was hit with a \$19.8-million foreclosure suit from the construction lender.

While Oxford aims to take over and complete the project, it faces competition from another investor, Corporex Cos. LLC, which bought a roughly \$8-million claim on the development from its general contractor last year. Based in suburban Cincinnati, Corporex has been pushing its own development plans for the hotel and shows no signs of backing off, setting the stage for some tough negotiations and more wrangling in court.

The opportunity to own the project has become increasingly compelling amid an improving downtown hotel market, which is attracting hotel chains that don't yet have a presence here. Virgin Hotels, the upstart chain launched by Sir Richard Branson, is among several companies that have expressed interest in the River North project.

An affiliate of Oxford, whose portfolio includes the Hotel Felix just east of the disputed project, on May 23 bought the construction loan, which was issued by Maryland-based CapitalSource Finance LLC. A Cook County Circuit Court judge will hold a hearing Wednesday morning on a motion to insert the Oxford venture into the foreclosure case.

"We are working closely with counsel to resolve the foreclosure litigation between the original parties and look forward to ultimately finishing this architecturally distinctive development," Oxford CEO John Rutledge says in an email. He declines to say what the Oxford venture paid for the loan.

Corporex's claim is senior to Oxford's, meaning it gets paid back first in the foreclosure case. But Oxford likely would gain control of the project if it paid off Corporex's claim, a figure that would need a judge's approval.

Including interest, legal fees and other expenses, Corporex now is owed nearly \$11 million, says the firm's lawyer, David Neff.

"They're either going to have to pay us off in full or litigate it to a final resolution," says Mr. Neff, a partner in the Chicago office of Perkins Coie LLP.

Still, Corporex doesn't seem in a hurry to take the money and walk away.

“Oxford got into this to develop the asset, and we got into it to develop the asset,” says Thomas Banta, president of the Covington, Ky.-based company. “Right now, we are pursuing the normal court process.”

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Complicating matters further is Duke Miglin, the hotel's co-developer, who has a countersuit against construction lender CapitalSource and still wants a stake in the project when it comes out of foreclosure.

“We are hopeful that the new party being proposed as plaintiff in this action will assist in bringing this matter to a conclusion that results in the hotel being completed with a continuing interest on the part of ownership,” says Mr. Miglin's lawyer, Cornelius Brown of Cohon Raizes & Regal LLP in Chicago.

He says representatives of Virgin Hotels have expressed interest in the project. A Virgin executive did not return a phone call.

In addition to the 225-room Hotel Felix, Oxford is an investor in the 174-room Hotel Cass in River North and a planned 330-room Langham Hotel in the former IBM building along the Chicago River. Mr. Rutledge also was court-appointed receiver of the Staybridge project, relinquishing the post in March when Oxford decided to pursue the construction loan.

With the hotel market in recovery mode, it's a good time to be pursuing developments, even unfinished ones, says Rob Hunden, owner of Hunden Strategic Partners, a Chicago-based consulting firm. The market is forecast to be even better a year or two from now, and few developers are starting new projects, keeping a lid on supply.

“They'll be the newest kid on the block for some time,” he says.
