



Foreclosure suit hits trio of Lakeview hotels

By Alby Gallun
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(Crain's) — A Los Angeles-based investment group is facing foreclosure on a portfolio of three boutique hotels in Lakeview that it bought just two years ago.

Affiliates of Reliance Capital Partners LLC defaulted on a \$25-million loan secured by the City Suites Hotel, the Majestic Hotel and the Willows Hotel when they stopped making loan payments last November, according to the foreclosure lawsuit. The story is all too familiar in a recession that has depressed occupancies and room rates at hotels across the Chicago area, leaving many in arrears.

Reliance, an investment firm that also owns a small apartment portfolio, paid \$30 million in February 2008 for the three properties: the 45-room City Suites at 933 W. Belmont Ave., the 52-room Majestic at 528 W. Brompton Ave., and Willows Hotel, a 55-room building at 555 W. Surf St.

Reliance financed the acquisition with a 10-year, \$25-million fixed-rate loan from Lehman Bros., which was pooled with other loans and sold to investors in a commercial mortgage-backed securities (CMBS) offering. In 2007, the hotels had a combined occupancy rate of 60.9% and an average daily rate of \$176.57, according to a prospectus for the offering.

By last year, the occupancy was 65%, but the daily rate had fallen to \$147.95, according to a report by Bloomberg L.P.

Many hotel investors that borrowed heavily as the hotel market peaked are struggling today to cover loan payments on properties that are now worth less than what's owed on them.

"Any hotel that traded in 2008 is probably in trouble right now," says Steven Marx, president of Hotel Sources Inc., a Chicago-based hotel brokerage.

Reliance executives, who guaranteed the loan, did not return phone calls. A spokesman for Charlotte, N.C.-based Bank of America N.A., the trustee for the bondholders, declines to comment and referred a reporter to the loan's special servicer, Needham, Mass.-based CWC Capital Asset Management LLC, which also declines to comment.

The properties, once run as single-room occupancy hotels, were fixed up by a prior owner and converted into boutique hotels many years ago. They became a lodging option for baseball fans in town to see Cubs games at Wrigley Field or parents visiting children living in Lincoln Park, Mr. Marx says.

The properties also became a less expensive alternative to downtown hotels, an advantage that has eroded amid rampant rate discounting.

"I think probably what's happening now is the cost cutting is so severe downtown, so why bother to go up there," Mr. Marx says. "They are probably a little more susceptible."

Bank of America has not sought the appointment of a receiver, says David Neff, a partner at law firm Perkins

Coie LLP who is representing the bank.

The hotels are currently managed by Broughton Hospitality Group, a Newport Beach, Calif.-based hotel management firm.
