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## MONEY & INVESTING THE PROPERTY REPORT

### New Life for Stalled Project

*Chicago Tower to Take Trim, Lose Hotel and Rise Again; High Risk, Reward*

BY ELIOT BROWN

**Related Cos.** bought control of a half-built skyscraper in Chicago's downtown on Tuesday in a bid to restart construction on the site, people involved with the deal said.

Construction on the project froze at 25 stories in 2008. The developer at the time, a group led by Ivan Dvorak, was planning a 90-story, mixed-used project including condominiums and a Shangri-La hotel called Waterview Tower.

Instead, Related plans to turn it into a luxury rental building of about 500 apartments, rising over 50 stories. The New York-based company is using money from a \$1 billion distressed real-estate fund it is raising to finance the project, according to people familiar with the matter. Terms of the transaction weren't available.

The deal shows how some developers are turning to messy projects eschewed by traditional investors in the pursuit of high returns in a crowded landscape.

Private-equity funds and traditional investors are lining up to buy office buildings and hotels in

cities such as New York and Washington, bringing up prices faster than rents, and thus pushing down yields to near-historic lows.

But there is less competition for higher-risk projects such as unfinished condo towers. Returns in these deals can be far higher than safer bets like office buildings with low vacancy.

But they also could suffer if the economy weakens or they run into construction problems. Related, for example, still needs to arrange new construction financing for the Chicago project.

Related typically focuses on ground-up development of retail and apartment projects in New York and some other cities. But recently, it has used its distressed fund to target a set of stalled condo projects, including a failed condo project in Ft. Myers, Fla., called Oasis Condominium, and Rector Square, a stalled condo conversion project in Manhattan the firm bought into in January.

Jeff Blau, president of Related, said in an interview Tuesday that the Waterview project will be more successful as a rental-apartment building.

"We eliminated a five-star hotel brand and condos, which are not the right product for the market today," he said.

The Los Angeles-based **CIM Group** has also set its sights on a number of stalled developments, and last year bought the vacant site of the former Drake Hotel in New York on Park Avenue in a deal with developer Harry Macklowe.

**A five-star hotel and condos are 'not the right product for the market today,' says Jeff Blau.**

CIM and Mr. Macklowe also recently bid on the failed condo conversion project at 1107 Broadway, a mostly empty building in Manhattan, according to a person familiar with the matter.

In Chicago's Waterview Tower, Related is buying a skyscraper project that once was slated to be among the city's tallest buildings, a slender glass building on West Wacker Drive along the Chicago

River. With contracts signed for many of its condos and a hotel tenant committed, Mr. Dvorak's group took the unusual step of starting to build without a construction loan back in 2006.

They ran out of money by the end of 2007, but contractors kept working, assuming money was soon to come.

"We obviously convinced everybody that the loan is around the corner," said Mr. Dvorak, a Chicago-based developer, in an interview. He said he received tentative commitments from multiple banks. "Until you have it, it's only on paper," he said.

Construction stopped in April 2008, and subsequently a group of contractors and others filed claims for lack of payment. In 2009, creditors and Mr. Dvorak worked out an accord in which the creditors and developers collectively formed a limited liability corporation and searched for a new source of capital.

After months of talks, Related struck a deal this week in which it would buy a controlling stake, with the creditors' group keeping a stake, people involved in the transaction said.



CasStar Group

**Work may soon begin again on Chicago's unfinished Waterview Tower.**