

Developer defaults on X/O condo site

By Alby Gallun, April 15, 2009

(Crain's) — After winning a legal fight with a Chicago alderman, South Loop condominium developer Keith Giles now faces what could be an even tougher adversary: his bank.

A venture led by Mr. Giles has defaulted on a \$19.1-million loan secured by a Prairie Avenue property where the developer had planned a controversial 479-unit project called the X/O Condominiums, according to Joubin Khorsand, an investor in the venture.

The default puts Mr. Giles and his firm, Kargil Development LLC, on a growing list of local developers who have run into loan trouble amid the financial crisis and condo glut. Unable to secure construction financing for new high-rises, many



Rendering of X/O Condominiums

developers find themselves stuck with development sites they no longer want, along with the loans, now overdue, that they used to pay for the properties.

Mr. Giles declines to discuss the status of the X/O loan, and a spokeswoman for the lender, National City Bank, didn't return phone calls.

"We have a great relationship with our bank and are diligently trying to work through our issues," Mr. Giles says.

The loan was scheduled to mature in June 2007, but included options to extend the due date for two six-month periods, according to a mortgage filed with the Cook County Recorder.

The project at 1712 S. Prairie Ave. sold well initially but attracted strong opposition from neighborhood residents who complained that its two modern glass towers clashed with nearby historic buildings.

Alderman Robert Fioretti (2nd) tried to push through a zoning change that would have forced Kargil to reduce the project's size but withdrew the proposal last year after the development venture sued the alderman to block the measure.

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Yet it turned out to be a Pyrrhic victory for Kargil, as the dispute hurt condo sales and delayed construction. The developer has since shut down the X/O sales center.

At last count, buyers had signed contracts for about 210, or 44%, of the 479 units in the project, according to Chicago-based consulting firm Appraisal Research Counselors.

Dr. Khorsand, the investor, says Mr. Giles informed him a couple months ago that the National City loan was in default.

"He said, 'We've got bad news: X/O has basically failed,'" says Dr. Khorsand, a general surgeon from South Barrington.

Property records show that Kargil initially took out a \$13.4-million loan to finance the \$13-million acquisition of the property in December 2005 and pre-development costs. The developer also raised \$8 million in equity from investors like Dr. Khorsand, who by himself invested \$1 million in the project — "everything from my savings," he says.

The developer increased the loan to \$19.1 million in 2007 and acquired two adjacent properties, bringing the total property cost to \$17.7 million.

In addition to the overdue National City loan, Kargil also faces a lien from the project's architect, Lucien Lagrange Architects Ltd., for \$505,368 in unpaid bills.

Mr. Giles declines to say whether he plans to put the property up for sale or return deposits to buyers of X/O condos.

"Those relationships are being dealt with properly," he says.

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