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## Lender to unload failed suburban condo project

By: [David Lee Matthews](#) January 07, 2014

Wintrust Financial Corp. has hired a broker to sell Willows of Grayslake.

The hangover isn't over yet for lenders that financed failed boom-era suburban condominium projects.

Wintrust Financial Corp. hired broker ACO Commercial to sell 89 units in a so-called fractured condo conversion in north suburban Wildwood, according to marketing materials circulated by the broker. The Rosemont-based lender has positioned the Willows of Grayslake as a rental property, counting on demand from yield-hungry investors.

The development was called Royal Oak Condominiums when an affiliate of the Inland Group Inc. converted the 180-unit apartment complex to condos. Records show the venture sold about half of the units, a mix of one- and two-bedroom condos sprawling over 17 acres, before defaulting on a \$10 million loan issued in 2007 and a \$8.7 million loan from 2010 by now-defunct First Chicago Bank & Trust. First Chicago failed in 2011 and its assets were assumed by Wintrust subsidiary Northbrook Bank & Trust.

Wintrust took back the property through a so-called deed-in-lieu of foreclosure in August, records show.

The Wildwood project was one of several suburban condo conversions that stalled out as the residential market plunged, forcing developers and lenders to rent out unsold units as a stopgap survival strategy.

"We sold 89 units off the bat and the market crashed almost overnight," said Nicholas Helmer, chairman and CEO of Inland Great Lakes LLC, a subsidiary of Oak Brook-based Inland that specialized in condo conversions, including the Wildwood project. A separate development entity led by Mr. Helmer later sold two other units.

Built between 1968 and 1986, the rented units compete at the low end of the market, with rents of about a dollar per square foot, said ACO Executive Vice-President George Toscas. That's well below the median suburban rent of \$1.23 per square foot, according to Appraisal Research Counselors, a Chicago-based consulting firm. The average Willows apartment rents for \$968 a month.

### 'A LOT OF MEAT ON THE BONE'

The units' first-year net operating income is projected by ACO at \$490,037, according to marketing materials.

"This deal has exceptional investment fundamentals. There's a lot of meat on the bone," Mr. Toscas said, pointing to its location close to schools and near Interstate 94, its low management costs and the fact that it has almost no vacancies.

The project was one of several conversions pursued by Inland before the crash. The company sold out three projects in Chicago, but the Wildwood project and a larger development in Glendale Heights, called Stonegate, stalled out, Mr. Helmer said. Inland Great Lakes paid \$18.1 million for the Wildwood property in 2005, according to Appraisal Research.

Lenders have steadily sold off their failed real estate investments in recent years amid investor demand for distressed developments. The delinquency rate for bank loans secured by income-producing real estate fell to 4.5 percent in the third quarter last year, down from a peak of 7.7 percent in early 2011, according to New York-based research firm Trepp LLC.

By straddling both sides of the housing market, fractured condo developments offer

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opportunities and challenges for investors. Potential clashes between condo owners and renters represent a risk, and the properties can be harder to finance. But the deals are attractive to investors because of their low prices, and the rebounding for-sale residential market offers an opportunity to sell the units as condos once again.

Wintrust is listing the units without a price, but records show the condos, ranging from 750 to about 1,000 square feet, sold for less than \$100,000 to about \$164,000. Brian Doyle, an associate in Wintrust's purchased assets division, declined to comment on the property.

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