

Worker Walk-Off Shuts Down Capella Telluride, for Now

by Karen James

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CONSTRUCTION HALTED – The Capella Telluride site sat empty and quiet Friday afternoon. (Photo by Karen James)

‘Still Full-Speed Ahead’ for February Opening, Says New York-Based Developer

A specter of Wall Street’s recent decline haunted Telluride last week as hundreds of workers abandoned construction on what is to become the region’s newest ultra-luxury hotel, the Capella Telluride, out of concern over its developer’s liquidity.

Indeed, the skeleton of concrete and scaffolding in the Mountain Village Center from which a symphony of construction noise would normally have sounded produced near silence on Friday.

“We were told to come back in a week,” said one of the remaining workers as he was seen leaving the job on Friday afternoon. He said that many subcontractors, worried that the developer had run out of money to pay them, temporarily laid off their employees.

As a result, the workforce had dwindled to about 30 by the end of the week, he estimated.

The near shut-down can be traced back to the month-old collapse of Lehman Brothers, the nation’s fourth-largest investment bank, which on September 15 filed for Chapter 11 bankruptcy protection. The firm listed \$613 billion in debt against assets of \$639 billion in its filings with the U.S. Bankruptcy Court in Manhattan. It is the largest bankruptcy in U.S. history, Bloomberg.com reported.

Until then, Lehman Brothers had been financing the European-style ski-in/ski-out resort project for its New York-based developer, RAL Companies and Affiliates.

On September 16, Barclays, a London-based global financial services company, announced it would buy the Lehman division that was financing the Capella Telluride.

“Barclays is now an equity partner with Capella,” said Brian O’Neill, listing agent for the five-star property.

It remained unconfirmed that Barclays would continue financing the construction project as recently as last Thursday, while the British rescuer completed due diligence on the Capella project. "Nobody wanted to assume anything," said O'Neill.

As uncertainty about the next round of construction financing developed, Chicago-based McHugh construction, the general contractor for the project, submitted a draw – or invoice – to RAL requesting payment for a percentage of the completed work. The invoice was issued a few weeks ago and due in 30 days, said Capella Telluride General Manager John Volponi.

Although RAL had made all its construction payments on time, representatives of the company met with the subcontractors to alert them of a potential delay in payment, according to O'Neill.

"Based upon the current financial environment and concerns over our construction lender, contractors have been concerned over payments," RAL Chief Executive Officer Robert Levine wrote *The Watch* in an e-mail.

"We had reassured them, and over the past days had our representative meet with them and explain the review process for the payment application, which was being reviewed and not late in payment according to our contract terms," Levine's email continued.

Nevertheless, as news about the national and global economies grew worse with each new day, that meeting apparently did little to assuage the contractor's fears.

While O'Neill said that it was not until Friday that most of the subcontractors failed to show up for work, others familiar with the project said that the site had steadily bled workers over the course of the week.

"I understand that people get nervous when they hear there might be a delay," said Volponi, who reiterated that RAL had not been late with any payments when workers began walking off the site.

"I don't really know why some chose to do that and others didn't," he said.

Phone calls made to McHugh and its project partner, Denver-based Shaw Construction, seeking confirmation of RAL's payments, were not returned as of press time.

The worker seen leaving the site on Friday afternoon confirmed that he has been paid on time throughout the project. In fact, he had just received a check, he said, patting his

pocket.

On Friday, RAL was told that Barclays had approved payment of the draw, and that funding would be available early this week. "This information was forwarded to McHugh construction so that they could reassure the subs that payments are forthcoming in accordance with our contract," Levine wrote.

"It's in everyone's best interest to see that this project is completed," said Volponi, who added that the week's events are not expected to interfere with the scheduled mid-winter opening of Capella Telluride.

"We're still full-speed ahead for our opening in mid-February," he said.

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