

Financial tornado hits mobile-park owner

Klarchek's Capital First struggles even as sector sidesteps worst of crisis

BY ALBY GALLUN

Richard Klarchek made out so well in the mobile-home business that he could afford a seven-bedroom mansion on Lake Geneva, a \$10-million donation to Loyola University and the cost of jetting 42 friends to a three-day wedding bash in Palm Beach, Fla.

But the 76-year-old investor is spending more time these days coping with a different reality amid

a mounting financial crisis at his Chicago firm, Capital First Realty Inc. After amassing a portfolio of 18 mobile-home parks with 7,200 sites throughout the Midwest, Mr. Klarchek is now attracting a wave of foreclosure suits. He's missed loan payments on more than \$200 million in debt.

The casualties include a property with 744 home sites in southwest suburban Justice that's in bankruptcy and a foreclosed 384-site park in Rockford that a lender has put up for sale. The stakes are high for Mr. Klarchek, who has been sued personally by two lenders, including MB Financial Bank N.A.,



Richard Klarchek

trying to collect nearly \$10 million.

Like so many other struggling real estate investors, Mr. Klarchek made the fatal mistake

of refinancing properties during the boom with levels of debt that operations ultimately couldn't support, observers say. Occupancies suffered as Capital First hiked rents at some properties, pricing them out of the market.

Mr. Klarchek, chairman, president and CEO of Capital First, did

not return calls, and attorneys representing him either did not return calls or declined to comment. A recent letter to MB blames his troubles on the tight lending climate rather than any bad decisions.

"We have been an extremely successful company for 30 years, and through no fault of our own, we have run into difficult times," Mr. Klarchek writes in a July 15 letter asking the bank for forbearance.

During better times, he enjoyed the trappings and shared his wealth, donating \$10 million for

PARK PLACES

Capital First owns three mobile-home parks in the Chicago area, including Sterling Estates, a park in Justice that has filed for Chapter 11 protection.



Source: Crain's reporting

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the Richard J. Klarchek Information Commons, a library at Loyola that opened in 2008.

A frequent companion of the late Eppie Lederer (better known as columnist Ann Landers), Mr. Klarchek flew 42 friends in private jets to Palm Beach in 2003 for the party that followed his wedding to model Michelle Love, then 32, according to a *Chicago Sun-Times* story. The Lake Geneva estate, meanwhile, has been put up for sale with an asking price of \$6.95 million.

Plenty of real estate investors with successful track records have run into trouble in the downturn. What's unusual about Mr. Klarchek's problems is that his industry is holding up better than other real estate sectors thanks to the collapse of the sub-prime lending market.

Many buyers who could finance the purchase of a \$250,000 single-family home during the bubble can't anymore, so now they're buying a \$30,000 manufactured home and renting a site in a mobile-home park.

"We have been benefiting and, I think, will continue to benefit" from the trend, says Ed Zeman, president of Zeman Homes Inc., a Chicago company that owns 40 manufactured-home communities.

Loans to mobile-home parks that were packaged into commercial mortgage-backed securities, or CMBS, had a 5.4% delinquency rate in July, up from 3.8% a year earlier, according to Trepp LLC, a New York research firm. That's much lower than the 8.7% delinquency rate for all CMBS loans.

Observers say Capital First loaded up on too much debt, leaving little room for error if its properties suffered a hiccup.

The firm also aimed at the high end of the market, investing heavily in amenities like clubhouses and betting incorrectly that it could charge rents 10% to 20% above rivals, says Hannah Ott, an Indianapolis broker who recently sold two foreclosed Capital First properties in Indiana.

At least four Capital First parks have been taken over through foreclosure, and another five have been hit with foreclosure suits or are late on loan payments, according to court documents and regulatory filings.

A Capital First affiliate that owns the Sterling Estates Manufactured Home Community in Justice filed for Chapter 11 protection in May, two weeks after a lender filed a foreclosure suit alleging it had failed to pay back a \$36.2-million loan.

Mr. Klarchek also faces trouble at Capital Home Sales LLC, a company he owns that sells mobile homes and provides loans to finance them. Textron Financial Corp. of Rhode Island has sued to collect \$5.1 million from Capital Home, while MB is seeking \$25 million, \$4.75 million of it from him. In court filings, Mr.

loan is in default.

In his letter to MB, Mr. Klarchek puts forth a plan to restructure his debts, saying that “demand for manufactured homes has never been greater” but his efforts to refinance haven’t succeeded.

“I will not be able to continue to fund the Company any further,” he writes. “Either it stands on its’ (sic) own through the help of those who are interested in helping the Company ‘weather the storm,’ or the cards will fall where they may.”

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