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The Economist: How Jeff Collins Went From Player To Bankruptcy

By Mark Friedman - 10/19/2009



Jeff Collins has a doctorate in economics.

He also headed the Center for Business & Economic Research at the University of Arkansas' Sam M. Walton College of Business. He was on the Governor's Council of Economic Advisers. He is a partner in Streetsmart Data Services LLC of Fayetteville, which produces quarterly reports on real estate markets for sections of Arkansas.

Now he's bankrupt. Collins filed for Chapter 7 bankruptcy protection on Sept. 16, listing just over \$240,000 in assets and \$10.3 million in debts. Most of the debts are held by unsecured creditors.

Collins, with investments in nearly 150 apartments, thought he had considered and planned for the worst-case scenario in the northwest Arkansas real estate market. He hadn't.

Collins said he never dreamed that one of his partners would abandon a \$10 million-plus project in 2006, leaving Collins to burn through his cash just as the real estate market began to collapse.

"It's a daunting thought to realize at my age you're starting over," said Collins, who, with a goatee and a Boston Red Sox hat, looks younger than 46. "You're at zero, which is essentially what bankruptcy is. You don't keep much."

Collins began to invest in the real estate market in 2002, but he traces the start of his financial troubles to the collapse of a 30-acre project on State Highway 12 in Bentonville that would have featured 260 apartments and commercial spaces.

Collins had owned 40 percent of the project, while his partner, Hollis Cunningham of Olathe, Kan., owned the rest. Cunningham, who had years of construction experience, was the general contractor.

The former partners see the project's failure differently.

Collins said Cunningham's crews weren't hustling fast enough to prepare the site for construction as other apartment complexes were hitting the market.

The project was derailed when Cunningham asked for another \$450,000 to finish the work, Collins said. Collins says he came up with his share, but Cunningham didn't raise his portion. Then Cunningham walked away from the project, Collins said.

"I'm not saying that anybody lied, anybody cheated or anybody stole but ... if you had seen where that project was and how much money was gone and how much money still had to be put in, you would have said something is wrong here," Collins said.

Cunningham said last week that he didn't receive the \$1 million bank loan he was expecting to fund the project. "That's why I pulled out of it," he said. "I would not put any more money in it."

Cunningham said that he lost money on the project, too.

Cunningham said the project was on schedule when he left and gave Collins his share of the partnership. Cunningham also said he lost several million dollars in potential profit because the project fizzled.

Collins "was in trouble on that project before I even came in and partnered," Cunningham said. "That's the only reason that he and the bank wanted me involved in it, because they were in trouble on it."

Cunningham said the engineering work on the land wasn't done correctly and had to be redone.

But Collins said that Cunningham "didn't put a dime" into the project and the work he did do on it had to be redone.

Cunningham said he had put money into the project through his construction company. "Here we are in '09 and it's taken us two years to do what Cunningham was telling me would take us three months," Collins said.

Still, Collins said he tried to keep all the debt on his other real estate investments current while the Highway 12 project moved forward.

"From August of 2006 until today, with no liquidity left really, I've worked to try and keep all these balls in the air," Collins said.

Oct. 17, 2008, was a landmark day for Collins. Pulaski Bank & Trust Co. filed a foreclosure lawsuit against Collins' Campus Properties LLC for defaulting on a \$3.4 million loan. The loan was secured by an 80-unit apartment complex in Fayetteville. After the complex was sold, Collins and his partner, Marc E. Crandall of Fayetteville, still owed the bank \$2.2 million. And both had personally guaranteed the debt.

Collins said neither he nor Crandall had the money to pay the debt. Crandall hasn't filed for bankruptcy protection and he couldn't be reached for comment. Crandall's attorney, Constance Clark of Fayetteville, declined to comment.

"I couldn't work long enough to pay that off," Collins said. "So at that stage you're done."

Better Days

What happened to Collins happened to "countless thousands" of others across the country, said Harlan Platt, a professor of finance at Northeastern University in Boston, who studies bankruptcies.

"The real estate market - in contrast to 20 or 30 years of constantly escalating prices as everybody knows - recently went through a dramatic correction," Platt said. In something of an understatement, he said, "Anybody who was highly leveraged, using lots of debt would presumably have a great deal of difficulty."

Growing up in Colorado, Collins, the son of college professors, studied economics in junior high school and was hooked.

"It was a good combination of math and research, and I was interested in politics," he said. "I was also interested in trying to make people's lives better." He thought economics was a way to do that.

After graduating from Colorado State University, Collins attended the University of Tennessee at Knoxville for graduate courses in economics. He left with a Ph.D. in 1996. Collins landed a job at Lincoln Memorial University, a small liberal arts college at Harrogate, Tenn. If the commute from Knoxville hadn't been nearly 90 minutes each way, Collins said he probably would have stayed at Lincoln, where he had become an interim dean.

But he and his wife, Amy Farmer, had a young child and another on the way when the University of Arkansas called. Farmer also had a doctorate in economics and the university wanted both of them.

They took the jobs in the fall of 1999.

By 2001, both of Farmer's parents had died, leaving Collins and his wife with an inheritance to invest. In

2001, however, the stock market wasn't the place to park cash.

"We knew people who had invested in rent houses," he said. So they started looking at rent houses and quizzing others about their investments.

Collins became convinced that apartments, not rent houses, were the way to go. So he bought a four-unit apartment complex from Crandall, who was Collins' former student.

"One thing led to another and before I knew it, with partners, we probably owned 30 or 40 apartments in Fayetteville," Collins said.

Collins focused on the UA student housing market, which was tight thanks to a push by then-Chancellor John White to increase enrollment.

"Those days were very good investments for us," Collins said. "They were cash flowing for us."

Collins caught another break in 2003 when an Arvest Bank official asked him if he, through the university, could provide quarterly updates on the real estate market in northwest Arkansas.

"We started collecting data, and it didn't take long before I [noticed] quarter after quarter of very tight markets in the multifamily [market] up in Bentonville," Collins said of the Skyline Reports he researched.

At the time, vacancy rates were for one- and two-bedroom apartments had been about 4 percent for nearly two years, "which is really tight," Collins said.

Then he noticed that a 30-acre tract became available in 2005.

"I, along with some investors, purchased the property and started to do improvements on the property," Collins said.

Collins' investments were going so well that he didn't have time for the university anymore. His last day was Dec. 31, 2005.

For the Highway 12 project, however, Collins realized he would need an investor with deeper pockets and who was a general contractor to get the work done.

"So at that stage, I was introduced to a guy named Hollis Cunningham," Collins said.

Collapse

Cunningham had been in the construction business for more than 40 years and had done several large projects in Kansas, Collins said. He also had a net worth of \$15 million, Collins said.

Cunningham confirmed that estimate of his net worth at the time.

Cunningham was "someone who would get it done," Collins said.

In 2005, however, Collins started noticing cracks in the residential market.

Even though the population was growing in northwest Arkansas, too many lots were being developed, outpacing the population growth.

"People need to slow down in terms of their development," Collins said his research showed. "But of course, at that stage, there's so much stuff in the pipeline too. People already had their loans funded."

Still, the apartment market was tight. And Collins tried to urge Cunningham to finish the project quickly because other new apartment complexes were beating them to the market.

But Collins said Cunningham had one excuse after another why the project was being delayed. Meanwhile, the cost of the project was increasing.

"Until we have a product to sell, we've got nothing except a liability," Collins said.

Finally, Cunningham came to Collins and said he needed about \$450,000 more to finish the infrastructure work before construction on the buildings could start.

"I asked him why he went through the budget and he said, 'We've had increases here, increases there,'" Collins said.

Collins said the explanation was convincing. Collins wasn't an expert in construction, but he thought officials at First Western Bank of Rogers, the bank that had made the loan, must be monitoring the project or Cunningham wouldn't have been able to draw more money from the loan.

Collins came up with his \$225,000 share of the capital call.

Three months passed. Cunningham didn't generate his portion of the money, Collins said.

Then Cunningham told Collins he was done with the project, Collins said.

Cunningham said his company provided a cost estimate and budget for the project, which Collins signed off on.

"And it was approved by the bank," Cunningham said. "The primary reason for it to go over budget was because [Collins] did not have the experience.

"Oftentimes a person gets into financial trouble ... and they blame everyone but themselves for the fall," he said.

Cunningham has since become CEO of Omni Ventures Inc. of Olathe, Kan., a company he founded and which is publicly traded. Omni has lost \$368,000 and generated no revenue between its inception in August 2008 until June 30. The company said it provides housing and recreational activities near casinos operated by Native Americans.

"We believe that tourism in these areas is becoming more oriented toward family activities," according to the company's June 30 quarterly report.

Collins never completed the Highway 12 project.

"I was a 40 percent guy," Collins said. "I never anticipated that I'd be the guy who was going to be meeting the debt service payments by myself."

About half of Collins' debt was tied to the Highway 12 project. He listed \$5.25 million in debt to First Western Bank in connection with the project.

Collins still thinks the property is going to be a hit for somebody.

"It just wasn't going to be me," he said.

Other Troubles

Just as the Highway 12 project was crumbling, so was Collins' marriage.

He and Farmer separated in June 2006 and she filed for divorce in July 2007.

Collins said the collapse of the Highway 12 project didn't cause the divorce, "but clearly that doesn't help."

His apartment complexes weren't doing well, either. One 80-unit complex at Bedford Loop Apartments in Fayetteville built primarily for students was only 50 percent occupied, and it needed to be at 75 or 80 percent to break even. He said there were too many apartments in the area.

The money that he spent for the Highway 12 project could have helped offset the losses on his troubled apartments, he said.

"I had reduced my expenses considerably," he said. "I was living pretty cheaply, but you couldn't live cheaply enough."

He reported an income of \$10,658 in 2007. In 2008, his financial situation didn't improve. Collins had a loss of \$2,557, according to his bankruptcy filing.

Collins said he tried to work with Pulaski Bank & Trust Co. to prevent the foreclosure on the apartment complex. He hoped to ride out the rough real estate market.

The bank's attorney, David Vandergriff of Little Rock, declined to comment on the case.

Collins and Crandall had personally guaranteed the note, too, and were named as defendants in the foreclosure suit.

"In the end you just can't do enough," Collins said.

Lessons Learned

"I think a lot of my problems [were] about execution," Collins said.

He said if the Highway 12 project had been finished earlier, his story might have turned out differently.

Instead, the failed project caused him stress and affected his health.

"You sort of sit around eating and sitting there thinking what would I have done differently," Collins said.

Collins said even with all his knowledge of economics and the real estate market, he knew his projects weren't guaranteed winners. But he thought the worst he could do was break even. And if that happened, he and his partners could absorb the hit.

"I never envisioned that things would be going back to the bank," Collins said.

Collins recently, though, has had some good news. He has a new wife, Kristin, and a new job with a software company in Houston, where he commutes from northwest Arkansas. His monthly salary is \$10,000, according to his bankruptcy filing.

"You take your minute of grief for your losses and then you got to pick yourself up and start again," Collins said. "And that's what I'm trying to do."