CoStar Interview: Patron Capital’s Keith Breslauer on how Covid-19 is shaping his investment strategy

Industry veteran explains what opportunities he is finding in the disruption caused by the pandemic

Keith Breslauer, founder and managing director of Patron Capital

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Keith Breslauer, the industry veteran, whose 32-year investing career has thrived through the dotcom bust, 911 and the GFC, outlines his approach to finding opportunities in the latest black swan event to disrupt global real estate markets.

**How has the lockdown affected the day to day running of the business?**

I am working 7:30am to 9pm doing video calls, meetings with investors and local partners. We are very busy with either existing investments or opportunities that are coming up now - it’s a really interesting time.

In the few months prior to the outbreak, we sold the Arlington Business Park and Northside Shopping Centre from our fourth fund and the Jacobs Inn in Dublin and Frankfurt development from the fifth fund. Our fourth fund realised 1.75 times money back which was a huge success for us and we have more to come and our fifth fund has 50% of its cash back, so that alongside 99% in cash has helped to insulate us for the future. Our sixth fund is sitting on 99% cash, or £770m and we are still fund raising so we are in a really good position.

**How has new fund raising been affected?**

Fundraising is going well. Approximately 95% of our capital comes from existing client relationships. So the obvious question was why were we not getting new money? Up until about four months ago and before Covid-19 a lot of new capital who saw we did a lot of special situations and direct real estate, they were saying "we only want one idea, office buildings in Europe”. So it was hard to convince new capital that our approach - which is the ability to play different cycles in different countries buying different products in different Western Europe - made the most sense. Since the outbreak of Covid-19, I’m getting a lot of calls all of a sudden from new investors saying you’ve been doing this for 32 years, doing it at Patron for 21 years – you’ve seen it all and we want you to be our partner. Virtually everyday we have an investor call from a new or existing investor. The new investors are mostly Americans; they are more accustomed to investing in funds. The ones that are staying away are more typically European investors.

We have seen no pullback from existing investors. Personally, I think that the end of May or early June we will begin to see markets starting to operate again;
hopefully by end of August there will be a bit of normality, and certainly by January 2021 liquidity will be back to a new normal.

**How has the current situation affected your strategy?**

If you go back to January this year we were looking at mid-market residential as at the time there were a lot of people in the work force looking to buy homes. In addition, were seeing a reasonable amount of demand for offices and limited supply. Public companies were trading at really high prices because there was so much cash in the system looking for assets and the amount of cash looking for yield was so dramatic it made it very hard for us to buy yield so we were basically buying challenged buildings and fixing them, then selling them into the yield hungry market. We were looking for corporations but we couldn’t get them cheap enough.

What is happening now, at least in the short term and assuming that the health aspect of the crisis is fixed quicker than people think, is capital market disruption. Is demand for residential assets going to bounce back? Where will unemployment be at the end of all this? These are big giant question marks that impact our strategy. So now, our approach now that we are all sitting a home and we can’t really do our site visits, we are all focusing on that public market dynamic and figuring out what is going to be impacted in the public markets rather than the private, and then in two months hopefully once we start to see the light we will to be in a position to see if there are buyers for yielding assets again and if people will have jobs.

**What sort of recovery are you envisaging?**

Some people are predicting a V shaped recovery. Our model is a much slower U shape, as we see that there will be structural impairment to the economy that will take time to fix. If you think about earlier this year, people were excited and markets were booming, but you think about last year and they were not so excited. I think we are underwriting to where we were a year or two ago in our numbers.

**Other investors are pausing to assess the situation, will Patron do the same?**

We are not pausing, this concept of people pausing isn’t true – when I hear this it sounds like people think we say “hey, we are going to make this investment and the following morning we go make the investment”. That’s not the way it
works – you decide to buy this building from a public company so you have to do a shed load of due diligence to go figure it out, price the asset and a whole other bunch of work that takes nearly a month and more, so my team right now is working around the clock to figure all this out and see which opportunities are arising out of the situation.

The regulation that the various governments are coming out with to help businesses is very hard to interpret and implement. Take for example these loan pools we are supposed to have access to. I have two businesses that qualify for loans but in both cases we don’t know what that means, it's very difficult to underwrite the health of a business if you’re not even sure you can get the loan. Take the loans to small businesses for example in America. In theory you don’t have to pay the principal on the loans, the principal is guaranteed by the government, but in the UK those loans are actually company loans and the only benefit we are getting form the government is that theoretically the banks are underwriting them quickly and we get an interest free period for the first year and that’s it – so the cost of Covid-19 is going to be a real cost.

**Which sectors are going to be hardest hit by the impact of the pandemic?**

Will retail in Europe start to suffer in the same way as the UK , yes and no. I think in the short term people will scramble to get out again and hit the shops once this is over but in the long time I think in countries where internet shopping was just starting to take hold and it wasn’t really clear if it was going to take off, they have definitely now embraced the new world.

In terms of sectors I look at things from a very different perspective. I am not trying to buy things that are stable that have not been impacted, I am trying to buy things that are inherently unstable right now but they will be stable again in the future in some opportunity. So the question right now is what hotel companies are worth buying - we are doing a lot of work on that at the moment because hotels will definitely come back.

For example we bought the Hotel Arts in Barcelona the night after 9/11 when no one would touch high rise hotels. It was a great asset, we bought it cheap and it was scary because it was near half empty at the time. The point is hotels are not out, people will travel and its understanding that dynamic and finding best in class.

*Born and raised in New York, Breslauer holds a Master of Business Administration (MBA) degree from the University of Chicago and a Bachelor of*
Science (BSc) degree from the New York University School of Business. He began his career at Lehman Brothers, where he worked for nine years and led transactions in the US distressed markets in the ‘80s and ‘90s. In 1992 he began working in London to target the European distressed markets and served as the co-head for the International Mortgage and Real Estate Department. In 1997, he left Lehman to create and manage an investment fund focusing on smaller European property and property-related opportunities which was a bridge to the formation of Patron in 1999.

An accomplished alpinist and philanthropist, Breslauer dedicates ten hours a week of his time to charity work and donates 10-20% of what he makes to charity every year. He serves as Chairman and Trustee of the Prince’s Teaching Institute at the Prince’s Trust and Trustee and lead Corporate Donor for the Royal Marines Charity. Last year he co-launched the World’s first gender-lens property fund to support survivors of domestic abuse experiencing or at risk of homelessness by providing them with housing and access to the support networks needed to help them rebuild their lives by partnering with women’s sector charities.

The Fund is seeded with £10m and aims to reach £100m to provide among other forms of support, 750 affordable homes across the UK for vulnerable women.