Focus

inside

Finance

Time for a change
A new way of doing things.
FUND RESTRUCTURING, PAGE 90

Vision of division
Is a UK loans database a good thing?
DEBATE, PAGE 96

PATRON SAINT

A no-nonsense chat with
Patron Capital founder Keith Breslauer PAGE 94

ONLINE THIS WEEK

Listen: Southampton agents discuss the pros and cons of permitted development rights.
www.nla.co.uk/blog/feature

Coverage is reproduced under license from the NLA, CLA or other copyright owner. No further copying (including the printing of digital cuttings), digital reproduction or forwarding is permitted except under license from the NLA, http://www.nla.co.uk (for newspapers) CLA, http://www.cla.co.uk (for books & magazines) or other copyright body.
Patron saint

Tireless. Frenetic. High-speed. Pocket dynamo. These are some of the descriptions given to Patron Capital managing partner, Keith Breslauer.

In person, Breslauer doesn’t disappoint. The former Lehman Brothers banker who founded the private equity firm in 1999 is also brutally honest, like a good anecdote and a little bit sweaty. Not attributes you necessarily need to lead a successful pan-European real estate investment manager, but they have worked for Patron.

With around £2.5bn ($1.9bn) of funds under management, the firm’s portfolio reflects an eclectic selection of deals spanning hotels, nursing homes, petrol station retailer chains, five-a-side football pitches and youth hostels, alongside more traditional real estate such as sheds and offices.

Its geographical focus is less diversified. Deals are concentrated in the UK and western Europe’s largest markets, albeit with a couple of historic outliers in Romania and Russia.

Operating firmly in the mid-market, with equity investments of £30m–£70m, Breslauer explains that Patron’s strategy is a little bit different from some opportunistic players who target value-added investments. Leverage is a key component of their strategy. By contrast, Patron is comfortable with operational risk and restricts leverage to 50% across its funds.

He points to the Gala Homes deal as a good example of this. Patron bought the house builder in partnership with Legal...
& General for £110m in March 2013. It was a case in point of backing the existing management team, which had been constrained by a lack of capital after falling under the control of reluctant owner Lloyds Banking through a series of debt-for-equity swaps.

Investments made by the firm’s fourth vehicle, its 2012-vintage €1.1bn Patron Capital IV, have followed the opportunistic strategy pursued by the firm since it was set up by the New Jersey native 15 years ago.

At two-thirds invested, investments are “broadly speaking, 60-70%, distress” situations, which could include “liquidity-constrained operators, borrowers or developers” (20-30% businesses with underlying property below its intrinsic value, 10% institutional non-core stock, and 5% “complex situations”). This strategy is likely to continue for the next three to four years, says Breslauer, but as the recovery takes hold across the Continent, the balance of geographies will change.

“Basically, all the deals we have done have been in the UK because that’s where a lot of the banks have sold first. We are going to see a lot more on the Continent — that’s our assumption, that’s where banks will be selling more.”

Specifically, this means the UK and Germany, followed by Spain and Ireland, then France and Italy. The leveraging of Irish assets means Patron has already netted up a number of deals with Nama, and it is also set to capitalize on Spain’s recovery by backing its local partner Menda Capital to form an €800m vehicle.

The increasing continental flavour will be strongest in the firm’s upcoming fifth vehicle, for which Breslauer anticipates kicking off fundraising next year. He hopes to repeat the success of the fourth fundraise — which comfortably exceeded its €750m-€1bn target, taking in €988m from outside investors and a further €200m in co-investment — but is in no wanting to go bigger.

“Hand-in-hand with more fundraising comes the end of the investment period for fund four — around the close of 2016 — and the realisation of previous investments to deliver the promised target of a 17-23% gross internal rate of return and 1.8-2.6x gross equity multiple.

“Working back from the IRR, how do you define ‘best’ and worst? Is it the most money made or the most interesting transaction or the one I thought was going to be terrible?”

The worst deal, he says, was “a German industrial deal called Philips in Munich, where we lost money, that was a pretty crap deal. It was a boom-market situation. It was a combination of what went right, but the starting point was that it was a very complex deal — it was to work, four or five things had to happen. When you put all the issues together, it was just a serious money-losers.”

The best — one that has been sold and halted is “futuristic,” he says — was the Verrone portfolio of French offices built up in early 2005, listed in Paris by the end of the year and two years later at a 29% profit to NAV. “Very successful financially, not that complicated but still interesting,” is Breslauer’s summary.

Common to all Breslauer’s deals is a high level of attention to detail, which he says is a foundation of the business. “When you’re not detail-focused, you make a lot of mistakes. Some people will criticize that because you might miss the flow and the wave of money and we try to capture that. We are not always successful at it, but that’s what we try to do. We don’t do gigantic deals because we are not playing the beta — we are not playing the market.”