

## The patron saint of real estate

By focusing on complexity, London's Patron Capital hopes to bestow high returns on its investors. By Paul Fruchbom

While many of the world's largest private equity firms, including The Blackstone Group and The Carlyle Group, have offices in the heart of London's historic Berkeley Square, Patron Capital, a six-year old private equity real estate firm, has set up shop a few hundred yards away from the fashionable enclave. It's perhaps a fitting location for a firm that prides itself on finding value in small, intricate transactions that fall outside the shadows of the industry's behemoths.

"We don't compete with Morgan Stanley or Goldman Sachs," notes Keith Breslauer, Patron's founder and managing director. "That's just not our business."

Instead, Patron's business emphasizes transactions that require €10 million to €40 million of equity, a size that fits nicely between the capabilities of small, local investors and large, global opportunity funds. The London-based firm seeks to further differentiate itself by looking not just at size, but also complexity, focusing on distressed properties, non-core businesses and assets encumbered by complicated ownership, tax or legal issues. In 2003, for example, the firm made its largest equity investment to date, acquiring Simon Storage, a UK operator of bulk liquid and gas storage facilities, from the struggling parent company. It's the type of transaction in which Patron specializes, seeking to add value where private equity and real estate converge.

"A lot of property fund and property companies call themselves private equity real estate firms, but all they really do is buy real estate assets," says Breslauer. "We really do bridge the gap between private equity and real estate."

It's a strategy that has, thus far, paid off handsomely for the firm. Late last year, Patron closed its second fund on just over €300 million, more than double the size of its previous fundraising effort. According to Breslauer, the firm deliberately kept the fund at a relatively modest size in order to maintain its focus on small to medium-sized transactions. To that end, Patron raised capital primarily from university endowments and foundations, who together comprise more than 75 percent of Patron Capital II.

No doubt many of the investors who signed on were impressed with the returns that the firm has been able to gen-

erate in its first fund, Patron Capital I, which closed in 2002 with total investable capital of \$152 million. Through March 31, 2005, the fund had returned approximately 80 percent of invested capital and was projecting a gross IRR of approximately 50 percent and an approximate equity multiple of 2.15 times.

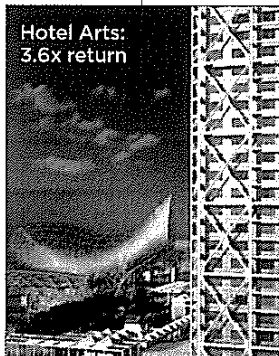
In addition to Breslauer, who founded the firm in 1999 after a 10-year tenure at Lehman Brothers, Patron is managed by senior partners Tad Shay and Kendall Langford. Langford, formerly in-house counsel for Cargill, had previously worked with Breslauer as part of a Lehman Brothers/Cargill joint venture acquiring French loan portfolios in the mid-1990s. Breslauer notes that having an experienced lawyer in the partnership ranks is a necessity, particularly given the legal complexity of the firm's transactions.

Over the past six years, those transactions have included 13 different investments across 8 different countries, from the UK to Spain to more far-flung destinations such as Slovakia and Poland. It's an opportunistic, pan-European strategy that is partially reflected in the firm's name, one that Breslauer chose not just for its meaning - the dictionary defines "patron" as "a special guardian, protector, or supporter" - but also for its commonality.

"I wanted a name that meant the same thing in all markets and languages," notes Breslauer. "Unfortunately, I later found out that in Italy and France, 'patron', if pronounced differently, can also refer to the mafia. That's why you find us correcting pronunciations."

Nevertheless, the spirit that Breslauer was trying to convey remains intact. Outside of London, the firm maintains operations in Milan, Barcelona and Luxembourg, working with a small group of origination affiliates who help source deals for the firm. In keeping with Patron's focused strategy, Breslauer and his team have consciously limited the number of partners it works with - the average length of these relationships goes back more than a decade.

Notes Breslauer: "We're cognizant of making sure we don't have too many people in the field who don't understand our business."



Hotel Arts:  
3.6x return

One of the more recent successes of this long-standing operating network was Patron's investment in the Burzovni Palac, the Prague Stock Exchange, which the firm sold earlier this year, less than twelve months after acquiring the property, returning two times the firm's capital. The local partner who sourced the deal happened to be a tenant of the building.

Of course, Breslauer is quick to point out that even the Burzovni investment wasn't as straightforward as the quick, profitable sale might suggest: the building had to be purchased from multiple owners, the major tenant was on a short-term lease that needed to be extended and there was uncertainty regarding the tenants' future plans.

Another example of the complicated nature of the firm's transactions was its acquisition of the Hotel Arts complex in Barcelona, Spain three years ago. The property, which included a Ritz-Carlton hotel, an office building, a retail building and an undeveloped land parcel, was being sold off by its distressed Japanese parent. Few prospective buyers were willing to take the whole project given employee liabilities and tax issues. Teaming up with Deutsche Bank, Patron was able to buy the entire complex at less than break-up value. By selling off individual pieces of the property over a little more than two years, Patron was able to return 3.6 times the firm's capital while still retaining a small stake in the assets.

As Patron begins to deploy its second fund, it is investments like these that the firm is certainly hoping to replicate - at the end of May, Patron acquired a residential portfolio in Barcelona for €207.5 million, a sign of its continued interest in the Spanish market.

Yet whether or not the firm is acquiring properties in the sunny climes of Catalonia or the growing cities of Eastern Europe, Patron is committed to living up to its name, conferring superior, above-market returns to its investors. Thus far, it's an offer LPs can't refuse. ■

## Profile: Keith Breslauer

Managing director and senior partner  
Patron Capital

Listening to Keith Breslauer talk about his hobbies, one hopes that his firm's limited partners have a well-written "key-man" provision.

The founder and managing director of London-based Patron Capital spends his winters skiing the European Alps - sometimes via helicopter - and his summers scaling the Matterhorn or the north face of Eiger, a 13,000-foot Swiss peak known by such endearing nicknames as The White Spider and Murder Wall.

Yet while these seemingly dangerous extracurricular activities might give some LPs pause - Breslauer once fell more than 10 meters down a mountain - when asked who joins him on these annual expeditions, Breslauer casually notes, "Oh, I take investors with me all the time."

Private equity real estate, it is often said, is a "people" business, a phrase that is probably even more true in Europe, where an investor needs to develop relationships and trust with a variety of different constituencies across a multitude of cultures, languages and countries. By ostensibly earning the trust of his limited partners - and not just with their capital - Breslauer seems a man well suited for the task.

Breslauer's own ascension in the financial world began more than fifteen years ago, when he joined Lehman Brothers in 1988 after earning an MBA from the University of Chicago. Although he graduated early with an offer to join the firm's financial institutions group in the fall, Breslauer - in a hint of the intense work ethic that he would come to embrace - decided to forego a long vacation and instead spent several months on the investment bank's mortgage sales desk, an experience that would later prove valuable.

Breslauer spent the next five years as an investment banker, sleeping a couple nights a week in the bed he had in his office. Rising quickly through the ranks, he was able to use his stint in sales and trading to help Lehman traders buy distressed assets in the wake of the US savings and loan crisis, the breeding ground for many modern-day private equity real estate professionals.

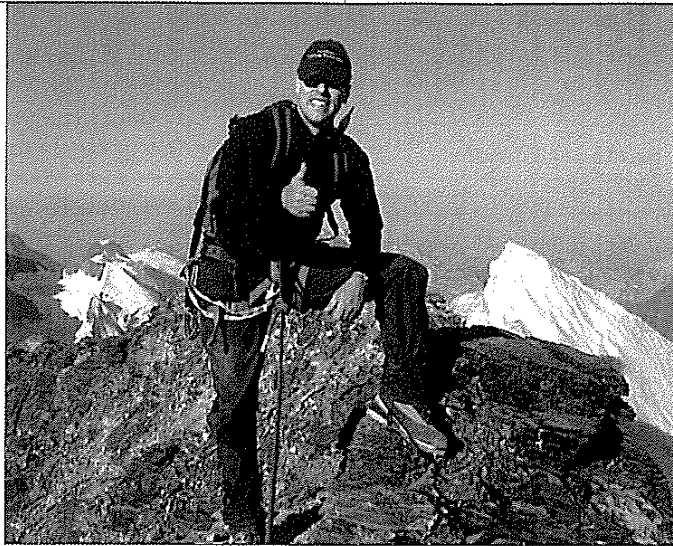
In 1993, Breslauer went to London to head up Lehman's European principal investment business, a move that those around him assumed would be temporary. "My friends thought I would never stay for more than six months," notes Breslauer. "I was perceived to be - and probably still am - a hardened New Yorker."

Yet the Big Apple-bred Breslauer did stay and more than

Patron Capital	
<b>PATRON CAPITAL</b>	<b>Patron Fund I (2002)</b>
<b>Head Office</b>	<b>Total equity:</b> \$152m
<b>Patron Capital</b>	
16 Berkeley Street	<b>INVESTMENTS</b>
London W1J 8DZ	<b>Capital invested:</b> \$300m
www.patroncapital.com	<b>Deals completed:</b> 21
<b>Other offices</b>	<b>Exits since inception:</b> 8
Barcelona, Luxembourg, Milan	<b>Current # of properties:</b> 82
<b>KEY PERSONNEL</b>	<b>RECENT TRANSACTIONS</b>
<b>Keith Breslauer</b> Founder	<b>June 2005:</b> Purchased Barcelona apartment and office complex for €208m
<b>Tad Shay</b> Sr. partner	
<b>Kendall Langford</b> Sr. partner	<b>March 2005:</b> Sold Prague Stock Exchange building, Burzovni Palac
<b>FUNDS</b>	
<b>Patron Fund II (2004)</b>	
<b>Total equity:</b> €303m	

SOURCE: PATRON CAPITAL

ten years – and four kids with British accents – later, he still calls the British capital home. Although Breslauer spent most of the mid-1990s applying the tools he had developed in the US to the European market, buying underperforming residential and consumer loans in the UK before turning his sights to the distressed Parisian real estate market, when Lehman asked him to come back to the US and head the firm's mortgage trading business, Breslauer declined.



Breslauer: reaching great heights

"I love New York," he explains. "I still have an apartment there. But Europe was – and still remains – an inefficient market. I had developed a platform here and I wanted to build on that."

While Breslauer has fond memories of his days at the investment bank – "I'm still a Lehman Brothers follower" – he subsequently left the firm and formed a joint venture with Lone Star, helping the US-based opportunity fund expand its presence in Europe. Named Capstar Holdings, the group acquired 27 office buildings and nine hotels over the course of 18 months and the resulting success of those investments gave Breslauer what he needed to branch out on his own.

"That experience gave me some money to start my own business," notes Breslauer. "It also gave me the confidence that I wasn't going to fail."

That self-belief was no doubt bolstered by Patron's first deal – before raising a debut fund, Breslauer teamed

up with the Royal Bank of Scotland in the £511 million acquisition of UK subprime lender Ocwen Financial, a transaction that ultimately generated a cash multiple of 2.3 times and an IRR in excess of 100 percent. That exit won the British Venture Capital Association's 2001 "Deal of the Year" and, in Breslauer's words, "put Patron on the map."

Six years and two private equity real estate funds later, Breslauer continues to make his mark on the European private equity real estate industry, bringing the same focus and intensity to his work that one would expect from a man who spends his free time 4,000 meters above sea level with crampons strapped to his feet. Nevertheless, his passion and enthusiasm,

"We're a hard-working, high energy office."

particularly when combined with his New York vocabulary, can sometimes get him into trouble – or at least make his placement agent nervous.

"When we were raising the second fund, Monument [one of Patron's placement agents] had an issue that I might be too crude with investors," notes Breslauer. "We made a bet as to whether or not I would mention any words associated with my butt during the meetings."

Nevertheless, Breslauer takes nothing more seriously than the commitment he and

his firm have made to their LPs – he once quipped that "we operate under the theory that our investors are Gods." That ecclesiastical conviction can be seen in the monastic simplicity of Patron's London offices: in a throwback, perhaps, to Breslauer's days on the trading floor, all of the firm's employees work side by side in one large sparsely decorated room. Breslauer's desk sits unassumingly against the wall.

That openness has helped to foster a cohesive company culture, one that certainly lives up to the cliché that a firm's personality starts at the top. "We're a hard-working, high-energy office," notes Breslauer. "But we also have a policy: you need to have an alternative life outside of work. Most of the people here are either skiers or climbers..."

Evidence of these outside interests are scattered around Patron's office. Coffee table books with cover photos of snowy, alpine peaks can be found in the firm's waiting area and conference room. And hanging on the wall, a framed announcement for the closing of Patron Capital II pictures a grinning Breslauer, in full climbing gear, at the top of a mountain.

Yet, while Breslauer, his co-workers (and even his investors) climb some of the largest summits in Europe, there are certain risks that Breslauer, like any seasoned private equity real estate investor, will simply not take. When asked if he would ever want to ascend Mount Everest, Breslauer quickly shakes his head. "I have no interest," he says. "It's basically a life bet, as people who go above 20,000 feet are nuts."

It's perhaps a fitting metaphor for a firm that eschews the heady altitudes of a global private equity firm for the relative anonymity of less visible transactions. After all, if Breslauer has his wish, with the requisite knowledge, the right skills and perhaps even the proper equipment, smaller deals can still generate returns that reach for the sky. ■