



## WAS I REIT AND WAS EDDIE WRONG

In November 2007 I wrote an Opinion Piece about a meeting I went to with Eddie Hobbs and Brendan Investments. In the Opinion Piece I wrote about what was said at that meeting and what was said in a subsequent phone call I had with Eddie.

Here we are almost ten years later and Eddie and Brendan Investments are back in the news and unfortunately the news is not good. In fact it appears that anyone that gave them money will end up losing everything.

Having reread what I wrote back then the thing that jumps out at me the most is how Brendan Investments and the Brendan Investments Pan European Property (BIPEP) fund became something completely different to what I thought it was meant to be. I was told 70% of the money was going to end up in low risk German property (as outlined by Hugh O'Neill at the meeting) and only 30% in riskier development projects in Europe. There was no mention of the possibility that American property might become part of the portfolio (I might have been far more negative in my original opinion piece if I had thought that rundown properties in Detroit could become the only exposure in the fund).

I don't know the full story of what happened but from reading a few newspaper articles I have found out that in the beginning they did invest in Germany. Here is what Mark Paul in the Irish Times had to say:

*Bipep lost heavily on an office investment at Düsseldorf Airport that it let to retail giant Arcandor. Arcandor went bust in 2009, leaving a shell for Bipep to deal with. The fund sold it, according to Hobbs, at "the loss of the cost of the refurbishment", which shareholders estimate was millions.*

*Bipep then made a profit of nearly €500,000 on a hotel development, before losing again on a Frankfurt office development, F31. Bipep bought F31 on five-year credit, but was unable to refinance it and sold for about €9 million in 2014, minutes show, which was €1 million less than book value.*

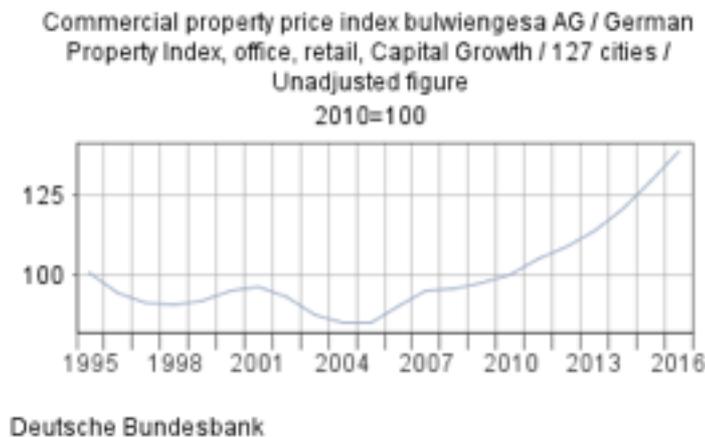
### **Stateside**

*Two years before it sold F31, however, it had already trained its eyes Stateside.*

*"We could have stayed in Germany and got nowhere. The US was the only western economy recovering," says Hobbs.*

I have no idea how much of their misfortune in Germany was just bad luck and how much was bad judgement but I do know that the overall German property market has done well over the last ten years. If they had just managed to buy any middle of the road buildings they would have done fine. I therefore find it disappointing to read Eddie say that staying in Germany would have got them nowhere. The following chart from the Bundesbank shows

that far from going nowhere the German commercial property market has been a good place to be.



The Brendan Investments team seemed so certain Germany was the place to invest that I presume a lot of soul searching took place before deciding to do something completely different. I would also presume that non-executive members of the board would do just as much soul searching as the executive board members and yet when Mark Paul in the Irish Times asked Eddie (a non-executive director) where the idea for Detroit came from he said the executives (Regan and O'Neill) came up with it and when he asked Eddie where did Regan and O'Neill get the idea from, Eddie said "*I don't know*". This I find incredible. I would have thought that Eddie should ask lots of difficult and detailed questions about something so important. Eddie did accept that he visited Detroit with all the directors but in his words this was just "*for a tour*". He wants us to believe that he went all the way to Detroit and didn't bother to ask where the original idea came from!

If there is one thing I have constantly heard about property, it is the old saying that the most important thing is location, location, location. I would therefore assume that the first question any non-executive director would ask is why invest in this location when there are so many potential locations.

I have never been to Detroit and so I have to admit that I know absolutely nothing about the place. The Mark Paul article stated that they focussed their purchases on a district near the University. Once again I can give no opinion as to the merits of this location. All I can say is that the results have been awful.

Given the terrible results achieved in both Germany and Detroit I think I can easily say that Eddie got this particular investment wrong (I have not even mentioned that he was also wrong about peak oil).

Eddie was wrong but can I say that I was Right (or REIT as I phrased it in the title). In other words was I right to invest in a syndicate that bought German supermarkets and was I right that German Real Estate Investment Trusts (REITs) might also be an interesting way to invest in German property.

First of all the syndicate has been particularly interesting because the loan for the syndicate came from Anglo Irish Bank. When Anglo was nationalised and ultimately became IBRC the syndicate was put under pressure to repay the loan or else sell the supermarkets. IBRC was so desperate to get things done quickly that they were prepared to let the syndicate repay less than 100% of the loan (an approx. 7.5% discount was ultimately given). Luckily a German bank was found to refinance and therefore IBRC (the Irish government!) took a hit that in my opinion need never have happened.

Over the years the supermarket chain has kept paying their rents and with the fall in interest rates the loan has been reduced relatively quickly.

The syndicate is now over 10 years old and with the strength of the German property market it seems likely that it will soon be wound up with a decent return to the members but as of yet I cannot say exactly how good that return will be.

With regard to German REITs, in December 07 I made a small investment in the first German REIT, Alstria Office REIT. I paid €10.20 per unit. This REIT owns offices in major German cities but with a particular concentration in Hamburg.

I still own Alstria today and the current price is around €11.30 so I've only made a small capital gain. Eddie did say REITs were mainly for income so this is one thing I think I can say Eddie got right because here is a list of the dividends I have received:

<b>Declared Date</b>	<b>Ex Date</b>	<b>Payment Date</b>	<b>Type</b>	<b>Currency</b>	<b>Amount</b>
01/04/2016	13/05/2016	13/05/2016	Cash Dividend	EUR	0.50
23/03/2015	07/05/2015	07/05/2015	Cash Dividend	EUR	0.50
02/04/2014	15/05/2014	15/05/2014	Cash Dividend	EUR	0.50
15/05/2013	30/05/2013	30/05/2013	Cash Dividend	EUR	0.50
15/03/2012	25/04/2012	25/04/2012	Cash Dividend	EUR	0.44
18/03/2011	09/06/2011	09/06/2011	Cash Dividend	EUR	0.44
08/06/2010	17/06/2010	17/06/2010	Cash Dividend	EUR	0.37
14/04/2009	11/06/2009	29/06/2009	Cash Dividend	EUR	0.52
25/04/2008	06/06/2008	-	Cash Dividend	EUR	0.52

At the current share price and the indicated dividend for this year of 52c, Alstria currently trades on a yield of 4.6%. This is a reasonable yield in the current low interest rate environment.

Here is a chart of the Alstria price going all the way back to the day it started trading.



Having bought in Dec 07 I had an interesting situation after the Lehman crisis with the unit price falling below €3 but once the crisis was over a recovery took place.

Overall I've ended up significantly better off than I would have by investing in Brendan Investments so I think I can say it was the REIT thing to do!