



Eddie Hobbs, Brendan Investments and the disaster in Detroit



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The €13m property fund he co-founded has lost 90 per cent of investors' cash. Hobbs opens up as we investigate what happened

For more than 25 years Eddie Hobbs has forged a career selling his financial acumen. Since his 2005 *Rip Off Republic* television series captured public anger and gave the then government a hernia, his media profile as a self-styled consumer champion has been constant.

For some, he is an everyman favourite, while others are less enamoured with his chippy style – but the cocksure Corkman takes it all in his stride.

On Monday, however, a different Hobbs showed up for interview at the RDS Members' Club in Dublin. He was edgy, defensive and emotional at times, but determined to rebuff criticism over his role at Brendan Investments.

Brendan is a boom-time property fund, co-founded and fronted by Hobbs, that raised €13 million from small investors for European property. It later punted this money on a disastrous foray into the abandoned-homes market in Detroit.

Last October, some of the 700 shareholders of Brendan Investments Pan Europe Property (Bipec) met at the Red Cow hotel in Dublin. They were shocked to be told that the fund had lost 90 per cent of their cash. Investors were furious at the lack of detail. The fund will be wound up this year unless shareholders vote to extend.

Hobbs resigned as a non-executive director two years ago but remains a magnet for shareholders' anger due to his public profile.

Following an investigation by *The Irish Times* that has thrown up internal documents, leaked emails and various records, we examined what happened to Bipec's cash.

Hobbs admits that Bipec lost money on disastrous deals, that it misjudged the market and that its management company

criticism that his celebrity status may have helped sell a risky proposition in Brendan Investments.

"I can be questioned for my judgment, no doubt about that," he says. "But I'll defend my integrity. I'm embarrassed by what has happened. You can see I'm annoyed I have to explain it, but I don't engage in chicanery."

Hobbs was approached in 2006 to join what became Bipec. At his insistence, he says, Bipec spent the next year compiling a regulated prospectus. The fund was launched in late 2007, just as the tide went out on the boom.

The non-executive directors were Hobbs and senior counsel Dermot Flanagan, while its executive directors are former Deloitte corporate financier Hugh O'Neill and developer Vincent Regan, its managing director.

Hobbs, however, was the pulling power. The minimum investment was just €5,000. Most investors were ordinary punters, although some well-known names, such as tailor Louis Copeland, piled in.

Hobbs, Flanagan and Regan each invested €600,000. The fund rebuffed media criticism at the time that Bipec was too risky.

It is managed by Brendan Investments Property Management (BIPM), then separately owned by the four men and due a 1 per cent annual fee.

The fund raised far less than hoped, but it proceeded anyway, focusing first on Germany. Bipec 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 Bipec to deal with. The fund sold it, according to Hobbs, at "the loss of the cost of the refurbishment", which shareholders estimate was millions.

Bipec then made a profit of nearly €500,000 on a hotel development, before losing again on a Frankfurt office development, F31. Bipec bought F31 on five-year credit, but was unable to refinance it and sold for about €9 million in 2014, board 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.

However, shareholders are angry that BIPM could have cleaned up at home if it had waited a while longer, as Ireland soon became rich pickings for vultures.

The board signed off on the US foray. But, according to Hobbs, it was O'Neill and Regan who first suggested investing in Detroit property. Where did they get the idea?

"I don't know," says Hobbs, insisting that the executives did all of the "investigative work and pathfinding".

Regan, who these days is based in Tunisia and would only correspond with *The Irish Times* by email, has a different emphasis.

He says "the board carried out extensive research including all directors went to Detroit to see for themselves". Hobbs says he only visited "for a tour".

BIPM, which was soon building up a private clients' income stream aside from Bipec, started investing on clients' behalf in Detroit in late 2012. Its private clients included a handful of wealthy Irish, and others from Germany. Rene Schuster, former chief executive of Telefonica Deutschland, was one.

Detroit is a troubled city, with many blighted areas. BIPM focused on a fair-to-middling district near the university. It often snapped up piles of houses on

the same street, sometimes in sketchy locations.

Between 2012 and 2014, BIPM deployed all of Bipec's capital in Detroit. By mid-2014, minutes show, Bipec owned 130 houses and an apartment block. But its holdings were by now worth only half its initial equity, although it hoped to get back to 75 per cent, or possibly even parity, by 2017.

BIPM initially partnered with local outfit Metro Property Group (MPG), which was supposed to refurbish the properties and run them for BIPM.

Shareholder newsletters spoke of the "significant returns" possible in Detroit, but Hobbs says he saw the first "red flag" in mid-2013, when MPG was sued by US investors for alleged fraud.

"From that day forward, the wheels started to come off," he says.

BIPM/Bipec was not involved in the case, which was later settled. But BIPM

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soon parted ways with MPG anyway. US sources suggested that BIPM paid relatively high prices for many assets.

Over Christmas 2013, O'Neill and Regan flew to Detroit for an audit of the portfolio, and found that much of what they believed MPG was to refurbish hadn't been touched.

"In January 2014, they came to me and said there was a problem. Alarm bells started ringing," says Hobbs.

Board minutes taken in June 2014 by Flanagan, then the chairman, show O'Neill told that meeting that MPG had only refurbished "30 units... [It] does not have the cash to do the refurb in accordance with the agreement".

Those minutes also refer to \$1.5 million Bipec says it was owed "on security held" under the MPG agreement.

Hobbs says he later criticised the executives heavily for partnering with MPG, after what he read of it in court filings. When *The Irish Times* asked Regan how much Bipec lost on the MPG contract, he replied: "Internal company business." Did he pursue MPG for any cash lost? "Internal company business."

In spring 2014, BIPM hit a liquidity crisis that could have imperilled Bipec. The fund's value was falling, so BIPM's income from fees was too. It was short anyway after the MPG debacle. Hobbs was asked to bail out BIPM with a €30,000 loan.

"I got an email out of the blue from the BIPM executives," he says. "They basically said: 'We need money from you, now, or this thing is gone.'"

Quit the board

He lent the cash, which he got back months later. By September 2014, Hobbs had handed back his shares in BIPM for no consideration, and had quit its board. He remained a non-executive director of Bipec.

"The executives knew bloody well I wasn't happy with the situation the company had gotten into," he says.

Regan says: "Other directors, including myself, have advanced more money than Eddie Hobbs over the years, but, again, it's internal company business."

Eddie Hobbs: "The executives knew bloody well I wasn't happy with the situation the company had gotten into."

PHOTOGRAPH: NICK BRADSHAW

BIPM had by then taken €2 million in fees from Bipec, but Hobbs insists he never got a penny. He showed a letter from accountants appearing to confirm this.

By now, Hobbs had also become involved with the putative political party that would soon be launched as Renua. In early 2015, he quit as director of Bipec in order, he says, to avoid the fund becoming a target for political rivals and the press.

Flanagan also stepped down from Bipec and BIPM shortly before this "for my own reasons".

Both Hobbs and Flanagan say they have had little contact with the executives since then, although Hobbs maintains some dealings with O'Neill.

Regan has since moved to Tunisia, where he has opened other businesses, including a back-office company, GC Partners, that provides services to BIPM. He insists he spends "70 per cent of my time in the US and Ireland".

Since Flanagan and Hobbs left the fund two years ago, what has happened to drive losses from 50 per cent to 90 per cent? Both men say they haven't been told.

Hobbs says that, with hindsight, he believes the area of Detroit that Bipec is invested in is too risky. Tenant churn is too high, and the carrying cost of properties due to taxes, vacancy rates and local ordinance requires expert control.

"There has been a stampede for the exits from some investors," says Hobbs. "But BIPM should really be giving shareholders a written report on all this."

Emails

A string of emails over the past two years between BIPM and US property agents – seen by *The Irish Times* – show that O'Neill and Regan have been trying to sell off holdings over the past 20 months or more.

"Everything is for sale," said O'Neill in one missive.

The emails reveal O'Neill complaining that, due to low sale prices and agents' fees, Bipec was offloading many units at heavy losses. "It makes no sense for us," O'Neill emailed as far back as May 2015.

Other emails detail an ongoing argument between BIPM and agents over the maintenance of an apartment block that had no heating in winter months, causing tenants to withhold rent and complain to authorities. The block had, one agent said, a "47-year-old boiler" that must be replaced. Both sides argued over where to get the money to do this.

After the heating situation made local TV news in January this year, Regan emailed to berate the agents for "talking to the press". BIPM has since switched agents.

City records also show that Bipec has had many houses listed for forfeit to local authorities over unpaid taxes. Records show it has also accrued hundreds of fines – "blight tickets" – for alleged infractions, such as the poor upkeep of property.

Regan insists that many factors were outside BIPM's control, but says: "Hugh and myself have stood in front of our shareholders and held our hands up to the problems, [and not] deserted the shareholders."

Flanagan and Hobbs says they acted correctly. Hobbs regrets what happened.

"It's handy [for some] that I am a lightning rod," he says. "But do I accept responsibility? Of course I do. I'm not trying to shirk it."

Bipec's long-suffering shareholders, meanwhile, are left to ponder what they might salvage from their investment.

Business Week Colin Gleeson



Leixlip job losses put a dampener on more positive news elsewhere

■ There was a sense of shock this week in Leixlip, Co Kildare and its surrounding hinterlands as the news filtered through that US tech giant Hewlett-Packard is to cut nearly all of the 500 jobs at its Kildare plant in the coming year.

Workers at the facility had feared cutbacks since October, when HP announced plans to restructure its global operations, but the scale of the cuts suffered in the Republic came as a shock. Just a handful of staff will stay on in Leixlip to maintain a local presence for the company.

Minister for Jobs Mary Mitchell-O'Connor said every effort was being made to secure a buyer for the print plant in Leixlip, while the IDA was working to ensure the site was sold as a going concern and "to make sure that those people who have lost their jobs will be re-employed".

On the other side of the ledger, there were also several positive job announcements throughout the week.

AbraKadabra Investments, the fast-food franchise group led by businessmen Graeme Beere and David Zebede, said it will create 300 jobs over the next three years. The group, whose brands include AbraKadabra, Bagel Factory and O'Brien's Sandwich Cafe, made the announcement as it opened its 130th outlet in Co Kildare.

Separately, about 200 jobs will be created by two companies in Kilkenny and Waterford. Kilkenny animation company Cartoon Saloon announced a strategic tie-up with Canada's Mercury Filmworks. The new venture, to be known as Lighthouse Studios, will create more than 140 jobs in the next three years.

In Waterford city, computer solutions firm Red Hat announced 60 new jobs over four

460

Number of jobs to be created as part of Centra's expansion announced this week

years as part of a €12.7 million investment in a new project.

In retail, convenience store franchise Centra said it will open 20 new stores this year and revamp 100 more as part of a €20 million investment plan. Centra said the expansion will create about 460 new jobs.

If all that wasn't enough, work also commenced on a new town centre development in Cherrywood, south Dublin, that will eventually provide 4,000 new homes for some 15,000 people. US property investment firm Hines, which owns 60 per cent of the site, said the initial work will lead to the creation of 180 construction jobs.

■ There was good news for jet-setters as Ryanair said air fares are expected to continue falling this year. The company said its profits for the three months ended December 31st fell 8 per cent, to €94.7 million from €103 million on the back of cheaper fares and weak sterling.

"You are going to see fares down all the way through 2017," chief marketing officer Kenny Jacobs said.

The company said it is sticking with its prediction that full-year profits will touch down between €1.3 billion and €1.35 billion, assuming that a terror attack or other incident does not dissuade people from flying over the next few weeks.

In a separate development, Ryanair raised €750 million from the third bond issue in its history. The debt must be repaid in 2023 and will have an interest rate of 1.125 per cent.

It was a busy week for the low-cost airline. Chief executive Michael O'Leary told reporters in Brussels it is likely to take up an option to buy a further 100 Boeing 737 Max aircraft to add to the 100 it has already committed to purchasing.

The airline has already dubbed the craft a "gamechanger", as it will cut fuel bills by 20 per cent while carrying 197 passengers, compared with the current 737's capacity of 189.

■ The State's never-ending struggle to secure inward investment continued as data from international jobs site Indeed.com indicated a signifi-

cant surge in the number of financial sector workers in Britain and Europe looking to relocate to the Republic.

Since the UK voted to leave the European Union in June, UK-based job searches for "auditor" roles in Ireland have increased by 55 per cent. Searches for "financial analyst" and "accountant" have jumped by 50 per cent and 46 per cent, respectively.

One institution the Republic might have to miss out on, however, is Lloyd's of London, which is reportedly leaning towards Luxembourg for its post-Brexit EU home, despite detailed discussions between company representatives and Irish authorities.

And it's not just Brexit-related investment being enjoyed by the State: According to a study by international law firm



■ Sean Spicer: the US has "got to be smarter when it comes to tax and regulatory policy"

Baker McKenzie, FDI from China surged to \$2.9 billion (€2.7 billion) in 2016 from just \$10 million in 2015.

The increase means the Republic was the fifth-largest market in Europe for Chinese investment last year, and the sixth-biggest when North America is included.

The big rise in investment was largely down to the HNA Group's purchase of Irish aircraft leasing company Avolon for \$2.5 billion. The deal saw Avolon become part of HNA's extensive interests in the aviation sector, spanning stakes in 20 airlines and nine airports in China.

With all that FDI, and more on the way, it seems there has never been a better time to lease office space. Property consultancy HWBC has said office rents will grow strongly in Dublin this year despite a major acceleration in completions of new projects.

It is predicting an 8 per cent rise in prime office rents to €65 per square foot. The consultancy said there was little chance of an oversupply, despite the large number of new developments coming on stream in 2017.

Despite all that, the Republic remains under threat from plans by US president Donald Trump to cut corporation tax. However, his press secretary, Sean Spicer, assured *The Irish Times* this week that the State need not worry.

"Ireland, frankly, did a really good job of getting the Celtic Tiger by bringing industry and business over there through smart policy," Spicer said. "We have got to be smarter when it comes to tax and regulatory policy."

■ In housing, the Government moved to shake up the "mortgage-to-rent" scheme, which has been hampered with poor take-up.

Under a new plan announced by Minister for Hous-

... residential development land value in Dublin rose by 14 per cent last year and is forecast to grow by a further 15 per cent in 2017

ing Simon Coveney, private-finance houses will be able to bulk-buy the mortgages of struggling families and lease the properties back to the State.

Families then become State tenants, with a guaranteed 20-year lease and an option for a further 20 years. It is understood there will be another option for families to buy back their homes at the market rate any time they choose.

Separately, residential development land value in Dublin rose by 14 per cent last year and is forecast to grow by a further 15 per cent in 2017, according to the Society of Chartered Surveyors Ireland.

The group's latest survey indicated that prime office and retail rents in the capital will likely increase by 7 per cent this year.

Moreover, the value of office development land in Dublin is forecast to rise by 12 per cent in 2017 after recording 17 per cent growth in 2016.

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came close to collapse. Some co-founders now barely speak to each other.

The fund also had some rotten luck, but most of its wounds appear self-inflicted.

"For me, this is all about integrity," says Hobbs, bristling with emotion in a private meeting room at the exclusive RDS club.

He has been a member there since 1991, before he built his reputation exposing endowment mortgages and chasing the financial fraudster Tony Taylor.

The consumer champion is answering