

# Palace Capital

COVID-19 impacts actively managed

FY21 interim results

Real estate

Palace Capital's (PCA) H121 performance was robust and ahead of our central expectations. We have slightly increased FY21 earnings forecasts and introduced FY22–23 estimates, with growth driven by Hudson Quarter completion, on track for March 2021. Significant additional reversionary potential and development/refurbishment represent significant value creation potential.

Year end	Net rental income (£m)	Adj PBT* (£m)	Adj EPS* (p)	EPRA NAV/ share (p)**	DPS (p)	P/NAV (x)	Yield (%)
03/20	18.8	8.0	17.5	364	12.0	0.57	5.8
03/21e	14.5	6.7	14.5	341	12.0	0.61	5.8
03/22e	14.9	6.9	14.9	364	12.0	0.57	5.8
03/23e	16.6	8.4	18.2	378	16.0	0.55	7.7

Note: \*Adjusted for revaluation gains and non-recurring items. \*\*EPRA NAV is fully diluted.

## Robust rent collection and property performance

For the March and June quarter days 96% and 94% of rents were collected, respectively; 82% collection of rents due on and since the September quarter day exceeds the previous two quarters at an equivalent stage. However, COVID-19 has slowed letting activity, reducing both rent roll and H121 rental income. At the portfolio level, the capital return (-3.5%) was ahead (albeit slightly) of the MSCI UK Quarterly benchmark (-3.7%), as it has been in each of the past three years. Adjusted PBT was £3.4m (H120: £3.9m) and adjusted EPS 7.3p, 1.46x the 5.0p of DPS declared in the period. Net revaluation losses of £10.0m reflected COVID-19 and the lag in capex recognition until completion and letting with EPRA NAV per share of 347p (FY20: 364p). Our FY21 'central scenario' becomes a firm forecast, slightly increased other than DPS (now 12p vs 13p previously), although we continue to forecast an increase on the current 2.5p quarterly run-rate.

## Hudson Quarter upside and other opportunities

PCA has a range of opportunities to optimise both income and capital values in various market conditions over the medium term. The end-H121 estimated rental value (ERV) of the portfolio (including HQ) was 25% ahead of passing rent. We expect Hudson Quarter (HQ) to support NAV growth in FY22 (development gains of at least 20p per share when complete and let/sold) and income growth in FY23 (fully let annual rental income of c £0.9m). HQ apartment sales should generate c £50m in proceeds and reduce the loan to value ratio (LTV) (42% at end-H121) towards 30%. With management remaining very positive about the prospects for regional commercial property in its core office and industrial sectors, there will be significant scope to invest in yielding acquisitions and in a range of further identified refurbishment and development initiatives.

## Valuation: Attractive yield and wide discount to NAV

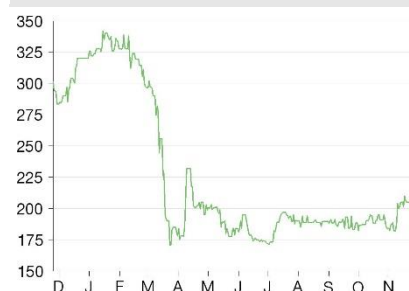
The PCA valuation remains undemanding. Our DPS forecasts represent a prospective yield of c 5.8%, ahead of the peer average (4.8%), and provide a significant premium to risk-free alternatives (10-year UK gilt yield less than 0.5%). The c 40% discount to EPRA NAV is wider than peers (c 30%).

25 November 2020

**Price** 207p  
**Market cap** £95m

Net debt (£m) as at 30 September 2020	118.4
Net LTV as at 30 September 2020	42.0
Shares in issue	46.0m
Free float	95%
Code	PCA
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	8.5	11.6	(28.7)
Rel (local)	(1.1)	4.5	(20.7)
52-week high/low	345p	171p	

### Business description

Palace Capital is a UK property investment company listed on the Main Market of the LSE. It is not sector-specific and looks for opportunities where it can enhance the long-term income and capital value through asset management and strategic capital development in locations outside London.

### Next events

Q221 DPS paid	31 December 2020
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**Palace Capital is a research client of Edison Investment Research Limited**

## Investment summary

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### Regional investor targeting total returns

Palace Capital (PCA) is an internally managed UK real estate investment trust (REIT), focused on commercial properties in major cities and university towns in the UK, outside London. It has an entrepreneurial approach to investment and operates a total return model, with a proven track record of acquiring properties where it can extract value by enhancing sustainable recurring income and generating capital growth through refurbishment and development opportunities. This strategy provides both attractive income returns, as well as exposure to capital growth from the repositioning of value-add properties. Although currently focused on regional office and industrial assets, the investment strategy is sector-agnostic over the medium term, adapting to shifting market opportunities. The existing portfolio contains strong reversionary potential and offers significant refurbishment and development opportunities. We expect completion of the flagship Hudson Quarter (HQ) development in York to materially drive returns in the next two years

### Financials: Hudson Quarter to drive near-term returns

Our expectations for FY21 adjusted earnings and net asset value (NAV) are increased slightly post-H121 and become a firm forecast (previously a central scenario amid pandemic uncertainty) and we introduce forecasts for FY22 and FY23. HQ completion, expected for March 2021, is a key driver of our FY22–23 return expectations, generating c £10m of development gains in FY22, more than 20p per share, and adding c £0.9m to rental income in FY23. On an annual basis we expect gearing (LTV) to peak at just under 44% in FY21 as development funding is drawn to complete HQ, falling to around 30% as the residential apartment sales are completed in full (c £50m net proceeds). In addition to HQ, our FY23 forecast includes some capture (c £0.9m) of the current £3.2m reversionary upside potential (but not accretive acquisitions). This drives an increase in aggregate annual DPS to 16p, fully covered by adjusted earnings, compared with 10p through FY21–22.

### Valuation: Dividend yield premium and NAV discount

Based on our DPS forecast the prospective yield is 5.8% (above the peer average), and based on the current quarterly rate of DPS (2.5p per quarter), the minimum payout that the company anticipates, the yield is 4.7% (in line with the peer average). We expect DPS to be fully covered by adjusted earnings. The yield compares favourably to the risk-free yield on offer (10-year UK gilt yields are less than 0.5%). The c 40% discount to EPRA NAV is clearly below the peer average and, while gearing (LTV) is above average, a successful completion of Hudson Quarter and sale of the residential apartments should both reduce LTV significantly and generate strong returns. With significant additional asset management potential embedded within the portfolio, the PCA valuation continues to appear undemanding despite the recent increase in the share price. There is clear potential for further upside if economic and market prospects become clear in the coming months.

### Sensitivities: Macro and sector

We review the main sensitivities on page 13. We consider these to be related mainly to the broader macroeconomic background and the cyclical nature of the commercial property market, with COVID-19 and Brexit creating additional uncertainties. Commercial property has historically exhibited substantial swings in valuation through cycles. Income returns are significantly more stable, but still fluctuate according to tenant demand and rent terms. Although development activity brings additional risk, the significant Hudson Quarter is well advanced, fully funded and on budget with a fixed price construction contract. Almost one-third of apartments have been pre-sold, the first commercial pre-let agreed, and interest in the remaining commercial space has been strong.

## Robust H121 results

The H121 financial performance was robust. Although COVID-19 continued to negatively affect valuations and slowed leasing activity, slightly increasing voids and reducing rent income, rent collection remained robust. 96% of rents due on the March 2020 quarter day were collected and a slightly lower 94% of rents due on the June quarter day, reflecting the increased lockdown impact. 82% of all rents due on and since the September 2020 quarter day have been collected, a higher percentage than at the equivalent stage in the previous two quarters. With December monthly payments still to come, PCA expects collection to be above 90%. Meanwhile, active asset management has secured long-term occupancy at the two leisure assets, particularly challenged by the lockdown, providing near-term rent concessions in return for lease extensions/lease break removal. Positively, HQ remains on track and on budget for delivery in March 2021 and while COVID-19 has slowed pre-sales of residential apartments, these have continued without price adjustment, and management expects an acceleration as completion approaches.

### Exhibit 1: Summary of H121 financials

£m unless stated otherwise	H121	H120	H220	H121/H120	H121/H220
<b>Adjusted earnings</b>					
Rental & other income	8.3	9.1	9.2	-8.9%	-10.5%
Non-recoverable property costs	(1.0)	(1.2)	(1.2)	-17.6%	-15.1%
<b>Net rental income</b>	<b>7.3</b>	<b>7.9</b>	<b>8.1</b>	<b>-7.5%</b>	<b>-9.8%</b>
Dividend on listed equity investment	0.0	0.1	0.1		
Administrative expenses	(2.1)	(2.1)	(2.1)	0.8%	2.4%
Net finance expense	(1.8)	(1.9)	(1.9)	-5.6%	-6.8%
<b>Adjusted profit before tax</b>	<b>3.4</b>	<b>3.9</b>	<b>4.1</b>	<b>-14.1%</b>	<b>-18.5%</b>
Surrender premium	0.0	2.9	0.0		
Share based payments expense	(0.2)	(0.1)	(0.0)		
<b>EPRA earnings</b>	<b>3.2</b>	<b>6.7</b>	<b>4.1</b>	<b>-51.8%</b>	<b>-21.5%</b>
Unrealised gains/(loss) on revaluation of properties	(10.0)	(6.5)	(11.4)		
Profit/(loss) on disposal of investment properties	0.3	(0.3)	0.2		
Unrealised gain/(loss) on listed investments	(0.2)	0.1	(0.5)		
Fair value loss on derivatives	(0.4)	(0.7)	(0.2)		
Debt termination costs	0.0	(0.5)	0.0		
<b>IFRS profit before tax</b>	<b>(7.2)</b>	<b>(1.2)</b>	<b>(7.9)</b>		
Tax	0.0	3.7	(0.1)		
<b>IFRS net profit</b>	<b>(7.2)</b>	<b>2.6</b>	<b>(8.0)</b>		
Basic EPS (p)	(15.5)	5.6	(17.4)		
Fully diluted EPRA EPS	7.0	14.5	8.9		
Fully diluted adjusted EPS (p)	7.3	8.5	9.0	-14.4%	-19.0%
DPS declared (p)	2.5	9.5	9.5		
EPRA NTA per share (p)	347	391	364	-11.3%	-4.7%
EPRA NTA total return	-4.1%	-1.4%	-4.4%		
Investment properties (inc. trading assets)	279.8	274.4	276.3		
Gross debt	(132.7)	(108.1)	(120.8)		
Cash	14.3	14.0	14.9		
Net LTV	42.0%	34.1%	38.1%		

Source: Palace Capital data, Edison Investment Research

Key highlights of H121 included:

- Rental and other income of £8.3m was 8.9% down on H120, including the impact of increased vacancy, lower dilapidation receipts and other income, and a £0.3m provision against rent receivables, increased by COVID-19.
- Administrative expenses were well controlled and underlying net interest expense (excluding fair value movements on interest rate derivatives and capitalised interest in respect of the HQ development loan) was lower, primarily reflecting a reduction in market lending rates.
- Underlying PBT was £3.4m compared with £3.9m in H120. EPRA earnings were £3.2m compared with £6.7m in H120, which included £2.9m of non-recurring surrender premium. Adjusted EPS was 7.3p and covered DPS paid in the period of 5.0p by 1.46x.

- The net unrealised negative movement in property valuations in the period was £10.0m reflecting a like-for-like reduction in value of 3.5% (MSCI UK Quarterly Index capital value return -3.7% over the same period).
- IFRS earnings also included a mark to market loss on interest rate derivatives, a small decline in the fair value of the 5.04% stake in Circle property, partly offset by realised gains on disposal.
- EPRA net tangible assets per share (NTA, and equivalent to its predecessor EPRA net asset value) was 347p per share compared with 364p at end-FY20.
- Liquidity remained good with £26.3m of cash and immediately available borrowing facilities, while LTV increased to 42.0% with construction at HQ funded by borrowing from the development loan facility, combined with the reduction in property values.

## Positive outlook

PCA management remains positive about the prospects for regional commercial property, especially in its core sectors of offices and industrial assets, both of which have been benefiting from relative shortages of supply and good levels of demand.

The supply of good quality, well located office assets remains constrained, while rents remain relatively low (particularly relative to London and also compared with rebuilding costs) and have yet to increase to a level that justifies significant new development. Permitted development rights have seen significant office supply withdrawn from the market in recent years, repurposed for residential/hotel use. With structural demand factors such as office migration from (more expensive) London to the regions and the political goal of rebalancing economic activity from south to north likely to remain, possibly reinforced by a shift to 'localism' (smaller, regional offices located in regional towns outside the capital), beyond the immediate challenge of the pandemic, management sees a strong opportunity for continued rental growth. PCA believes that the 'death of the office' has been vastly overstated, highlighting the important role that the office plays in company culture and productivity, being a place for both concentrated work and collaboration, connection, innovation and social interaction.

In the short term PCA says that it will continue to focus on rent collection and maintaining a good level of liquidity, including the disposal on non-core assets (see below). However, with positive developments in terms of COVID-19 vaccine development, it is hopeful of a more certain economic environment in 2021 and the opportunity to take advantage of opportunities as they may emerge. The proceeds from the expected sale of HQ residential assets in FY22 should allow for the repayment of development funding and overall LTV as well as investment in accretive acquisitions and/or value-enhancing redevelopment/refurbishment plans in place for existing assets.

## Strategy and portfolio

### Total return strategy

PCA is an internally managed UK REIT, listed on the Main Market of the London Stock Exchange (LSE). It focuses on commercial property in major cities and university towns in the UK, outside London and at 30 September 2020 had a property portfolio externally valued at £281.6m. It has an entrepreneurial approach to investment and operates a total return model, with a proven track record of acquiring properties where it can extract value by enhancing sustainable recurring income and generating capital growth through refurbishment and development opportunities. This strategy provides both attractive income returns as well as exposure to capital growth from the repositioning of value-add properties. Although currently focused on regional office and industrial assets, the investment strategy is sector-agnostic over the medium term, adapting to shifting market opportunities. The existing portfolio contains strong reversionary potential and offers significant

refurbishment and development opportunities. We expect completion of the flagship HQ development in York to materially drive returns in the next two years.

The management team has considerable experience in the real estate sector, across cycles. Its extensive networks and strong industry relationships have been an advantage in sourcing opportunities to grow the business, which was given its current form in July 2010 when Stanley Davis (the current non-executive chairman) and Neil Sinclair (the current CEO) acquired board control of an AIM-listed vehicle for the purpose of property investment. The growth of the portfolio and the company's performance since then has been significantly driven by corporate acquisitions, including the £39.25m acquisition of a subsidiary of Quintain in 2013 and the £32.0m acquisition of Property Investment Holdings (PIH) in 2014. Both of these transactions had the added attraction of being tax efficient with minimal purchase costs (stamp duty) to absorb and their availability was in part due to the high leverage of both companies. While focusing on rent collection and liquidity as well as the delivery of HQ in the short term, PCA is ambitious to grow further. As gearing reduces following completion of HQ and the sale of residential assets, we expect (but have not forecast) PCA to seek new investment opportunities including acquisitions from distressed vendors and further corporate opportunities. We note the 5.04% stake that the company has in Circle Property, a relatively small, listed peer (market capitalisation of c £50m) that follows a very similar total return strategy focused on regional offices.

## Portfolio focus on regional property outside London

Exhibit 2 provides a summary of the PCA portfolio as at 30 September 2020 (H121). The external fair value of £281.6m differs slightly from the balance sheet value primarily due to lease incentive and other adjustments and comprised 52 income generating commercial properties (plus two car parks) plus the HQ development, split on the balance sheet between investment properties under development (the office and other commercial) and trading properties (the residential space that will be sold). The standing commercial assets had a gross annualised contracted rental income of £16.9m, and after non-recoverable property costs that mostly relate to voids, the net contracted rental income was £14.9m. The weighted average unexpired lease term was 4.9 years to first break and on an EPRA basis, occupancy was 84.9%. As a result of the total return strategy, voids are inevitable in the portfolio as vacancy is deliberately targeted ahead of asset management projects. However, the reduction in occupancy in H121 resulted from COVID-19 slowing letting activity across the portfolio in combination with some tenants vacating on lease break/expiry. The ERV of the portfolio of £20.2m represents a significant income opportunity, discussed below, and is expected to increase to c £21.1m upon completion of the HQ commercial space. The small reduction in ERV during the period primarily reflects a reduction at the leisure assets as well as a small office property disposal.

### Exhibit 2: Portfolio summary

	H121	FY20
	30-Sep-20	31-Mar-20
Portfolio value	£281.6m	£277.8m
Net initial yield	5.9%	6.0%
Reversionary yield	7.3%	6.6%
Contractual rental income	£16.9m	£17.6m
Estimated rental value (ERV)	£20.2m	£20.6m
Properties	52	53
Tenants	191	204
WAULT to first break	4.9 years	4.8 years
Void rate	15.10%	12.70%

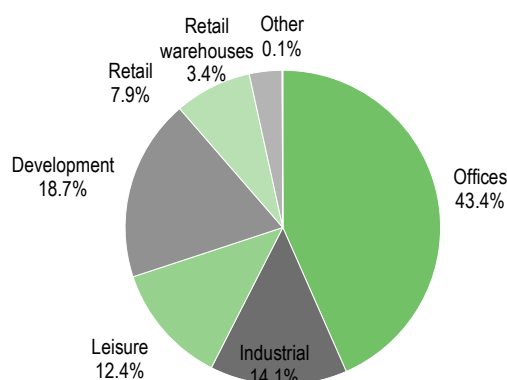
Source: Palace Capital data

Since the end of H121 PCA has disposed of two non-core office assets for a combined c £2.7m, an average c 23% above the H121 book value. Meadow Court, a partially let office in Sheffield, was sold for £1.25m, 30% above book value, and the vacant Hyde Abbey House, in Winchester, with its historic Georgian façade was sold for £1.46m, 17% above book value with planning consent for a

change of use to residential. As part of an ongoing disposal programme on non-core assets, typically smaller properties acquired with portfolio acquisitions and/or with limited further asset management potential, agents have been instructed on four further assets with a combined book value of £8.3m. PCA expects the assets to be sold at or above valuation.

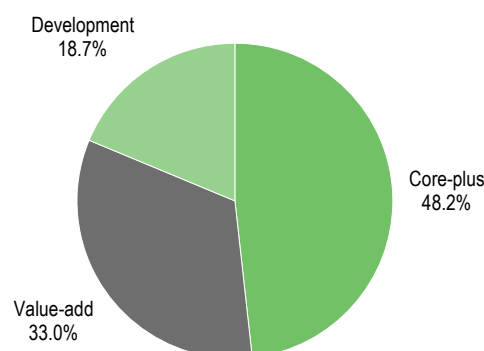
The largest sector exposure is to regional offices (c 43% by value) where growing tenant demand, including relocations away from London, limited new supply and conversion of office space to residential have all contributed to a generally positive demand-supply balance and continuing rental growth. Industrial property (c 14% by value) has similarly benefited from firm occupier demand, limited new supply, and rental growth. There are two large leisure assets in Halifax and in Northampton, which account for c 12% of the portfolio by value. As with retail, the pandemic has presented significant additional challenges to the leisure sector. Securing longer-term occupancy and protecting valuation, and providing immediate pandemic support to the tenants, rental concessions were granted at Sol Northampton. A six-month, rent-free period was agreed with Accor Hotels in return for a five-year lease extension until 2032, and with Gravity Fitness PCA agreed nine months at half rent in return for the removal of a break clause, securing occupancy until 2034. Since end-H121 a rental concession granted to TGI Friday at Broad Street Plaza in Halifax has secured a three-year lease extension until 2030. In retail and retail warehouse (c 11% by value) the largest tenant exposure is to Aldi on a secure and recently extended long lease. The range of other retail tenants is diverse with no exposure to problem areas like mid-market fashion or department stores.

**Exhibit 3: Sector split of portfolio by value**



Source: Palace Capital. Note: At 30 September 2020.

**Exhibit 4: Portfolio split by strategy**



Source: Palace Capital. Note: At 30 September 2020.

Adjusted for capital expenditure and the small disposal in H121, the like-for-like valuation decline in the first half of the year was 3.5%. Industrial valuations held up well and management expects this to remain the case; office asset valuations reflected the increase in occupancy and COVID-19, but management remains optimistic about sector fundamentals; and leisure, retail and retail warehouse assets bore the brunt of COVID-19 impacts in common with the broader market. The increased value of the development assets in H121 primarily reflects continuing construction spend.



**Exhibit 5: H121 unrealised valuation movements**

	Market value (£m)*		Gain/(loss) (£m)	Gain/(loss) %	EPRA topped-up NIY**
	H121	FY20			
Offices	122.3	127.5	(5.3)	(4.1)	5.7%
Development	52.7	37.8	14.9	39.4	N/A
Industrial	39.6	38.8	0.8	2.1	5.7%
Leisure	35.0	37.9	(2.8)	(7.4)	7.5%
retail	22.3	23.9	(1.6)	(6.5)	7.7%
Retail warehouse	9.4	10.5	(1.1)	(10.5)	7.6%
Other	0.2	0.4	(0.2)	(44.4)	N/A
Total market value	281.6	276.8	4.8	1.7	
Capex in H121	(14.5)		(14.5)		
Total like for like	267.1	276.8	(9.8)	(3.5)	

Source: Palace Capital. Note: \*FY20 adjusted for disposal in H121. \*\*Net initial yield based on contracted rents before lease incentive impact.

The portfolio total return (capital and income) on an ungeared basis has been ahead of the MSCI Quarterly Index total return for the past three years and remained ahead in H121.

**Exhibit 6: Investment portfolio total return continues ahead of index**

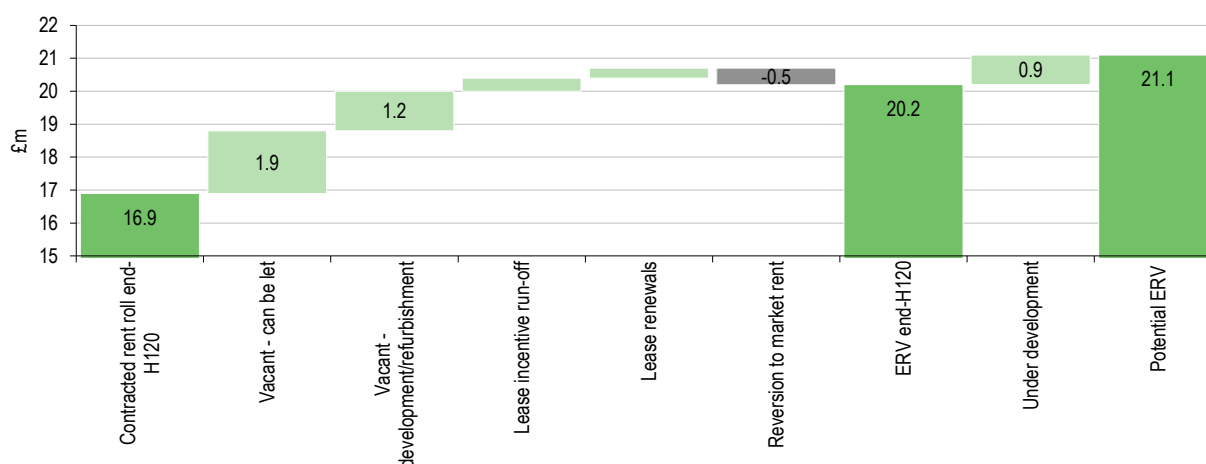
	FY18	FY19	FY20	H121
Palace	10.5%	7.1%	1.1%	-1.2%
MSCI Quarterly Index	10.1%	4.5%	-0.5%	-1.6%

Source: Palace Capital

## Embedded potential and further opportunities from asset management and development

There is considerable potential income upside embedded within the existing portfolio, represented by:

- the significant £3.3m pa upside from current contracted rent for the completed assets and the externally assessed estimated full occupancy rental value at market rents (ERV);
- the £0.9m of additional rent uplift that management expects from the completion and letting of HQ;
- and several additional medium-term refurbishment and development opportunities for which detailed asset management plans have been identified.

**Exhibit 7: Bridge from contracted rent roll to ERV**


Source: Palace Capital

Of the £3.3m (20%) end-H121 reversionary potential from the existing completed assets (ie excluding HQ), the single largest opportunity comes from void reduction (£3.1m). This includes vacant properties, in many cases recently refurbished, that are immediately available to let (£1.9m) and properties where vacant possession has been strategically obtained with a view to

refurbishment or development activity, some of which could meanwhile be offered on short lets (£1.2m). Including HQ, end H121 potential ERV (£21.1m) was 25% ahead of the end H121 contracted rent.

Exhibit 8 indicates the reversionary potential by sector within the portfolio. Regional offices, the largest single sector in the portfolio, represent the largest void reduction opportunity and ERV upside.

#### Exhibit 8: Contracted rental income and ERV by sector

Sector	H120 valuation (£m)	Contractual rental inc. (£m)	ERV (£m)	ERV of void (£m)	WAULT to first break (years)
Offices	122.3	8.5	11.3	2.4	2.8
Industrial	39.6	2.4	2.8	0.1	3.7
Leisure	35.0	3.2	3.2	0.4	11.3
Development	52.7	-		N/A	
Retail	22.3	1.9	2.2	0.2	7.7
Retail warehouses	9.4	0.8	0.6	0.0	6.2
Other	0.2	0.1	0.1	0.0	2.9
<b>Total portfolio</b>	<b>281.6</b>	<b>16.9</b>	<b>20.2</b>	<b>3.0</b>	<b>4.9</b>

Source: Palace Capital data

## Hudson Quarter on track for March 2021 completion

HQ is a key development for PCA and the scheme remains on track and on budget for completion in March 2021, having previously been delayed by around two months due to social distancing measures and materials supply chain issues resulting from the pandemic and lockdown.

HQ occupies a two-acre site in York, within the city walls and just a minute's walk from York railway station, which is 105 minutes (non-stop) by rail from London. The scheme comprises three residential buildings and a commercial building. The 127 flats will be sold and the commercial element, comprising 39,500 sq ft of grade A offices, of which 4,500 sq ft has been pre-let, will be retained for income. The underlying market conditions in York are favourable and interest in both the residential and commercial assets has been good.

Although the marketing suite was closed by the lockdown for four months from March to July (and again recently), contracts have been exchanged on 36 of the 127 apartments, up from 28 at 31 March 2020, with a value of £9.6m. The scheme is of high quality and PCA confidently expects an acceleration in pre-sales as completion approaches, without need to discount prices. It has recently been actively targeting overseas buyers through social media, particularly in the Far East and Middle East.

As previously announced, in February, 4,500 sq ft of office space, on the ground floor of one of the residential buildings was pre-let to Knights, a quoted law firm, at a record rent for York of £25 per sq ft. PCA has received considerable interest in the 35,000 sq ft of self-contained commercial space supported by its quality and location and a dearth of new building in recent years.

## Further refurbishment/development opportunities






Palace has also identified several medium-term asset management opportunities that it plans to phase in over a number of years, potentially providing counter-cyclical opportunities to add value to the portfolio should market-wide rents and capital returns stall.



**Exhibit 9: Development opportunities**

## Opportunistic Development

Pipeline to generate capital growth

	Description and Status	Estimated build cost	Timing
	High Street, Uxbridge 7 Residential Units. Planning permission granted subject to S106	£2m	Possible 2021 start or sell with planning
	Milbarn Medical, Beaconsfield Mixed use development of c10,000 sq ft B1 and 10 flats being considered	£3m	Tenant break March 2022
	Midsummer Blvd, Milton Keynes Potential for at least 100,000 sq. ft. office or residential.	£30m	Target VP by 2023
	Holly Walk, Leamington Spa Potential 70,000 sq ft residential and office development	£20m	Currently let to November 2022
	Boulton House, Manchester Identified as potential future development 150,000 sq ft	£45m	Target VP by June 2024






Source: Palace Capital FY21 interim results presentation

Exhibit 10 provides examples of some of the total returns on individual projects that contribute to the group performance. By way of example, PCA estimates that Hudson Quarter will generate a cash on cash return of c 47% (assuming the residential units are sold as expected and the commercial space is fully let and income generating 12 months after completion), or an ungeared IRR of 17%.

**Exhibit 10: Key asset management projects**

## Cash on cash returns

How our regional portfolio is delivering total returns

	Status	Performance	Total Return
	<ul style="list-style-type: none"> <li>Acquired in 2013 for £3.8m</li> <li>103,000 sq ft office building adjoining York station</li> <li>Largely vacant initially, short term lets during planning process.</li> <li>Demolished in 2018 and construction commenced 2019 with PC due March 2021</li> </ul>	<ul style="list-style-type: none"> <li>New development of 127 apartments</li> <li>39,500 sq ft of offices and car parking</li> <li>Value uplift through planning consents: £10m</li> <li>Forecast GDV £69m to generate a further £10m profit</li> </ul>	<ul style="list-style-type: none"> <li>Forecast cash on cash return: <b>47%*</b></li> <li>Forecasted Ungeared IRR: <b>17%*</b></li> </ul>
	<ul style="list-style-type: none"> <li>Acquired in 2014 for £3.5m</li> <li>Planning consent achieved for development of 28 residential units and 4,000 sq ft of retail space</li> <li>Building currently vacant prior to redevelopment</li> </ul>	<ul style="list-style-type: none"> <li>5 years of income return</li> <li>Main office tenant vacated leaving a liability to manage and currently being marketed to sell with planning</li> </ul>	<ul style="list-style-type: none"> <li>Forecast cash on cash return: <b>34%</b></li> <li>Forecasted Ungeared IRR: <b>7%</b> (forecast once sale is completed)</li> </ul>
	<ul style="list-style-type: none"> <li>Acquired in 2016 for £10.6m with £0.6 million rent pa</li> <li>Centrally located office building of 75,000 sq ft</li> <li>Common area upgrade carried out and floor by floor refurbishment &amp; reletting programme</li> </ul>	<ul style="list-style-type: none"> <li>Average rents increased from £12 sq ft to £18.50 sq ft</li> <li>Now 80% occupied</li> <li>+43% uplift in value to date</li> <li>Latest value in 2020: £15.23m</li> </ul>	<ul style="list-style-type: none"> <li>Total return to date: <b>45%</b></li> <li>Ungeared IRR to date: <b>11%</b></li> </ul>
	<ul style="list-style-type: none"> <li>Acquired in October 2013 for £2.3m</li> <li>38,300 sq ft let to Rockwell Automation which were refurbished for the tenant</li> <li>14,500 sq ft fell vacant in 2016, refurbished &amp; let in 2018 to Monier Redland (BIM Group)</li> </ul>	<ul style="list-style-type: none"> <li>Capex of £3.3m on refurbishment</li> <li>Net income generated over the 7 years: £3.2m</li> <li>Latest value in 2020: £10.60m</li> </ul>	<ul style="list-style-type: none"> <li>Total return to date: <b>145%</b></li> <li>Ungeared IRR to date: <b>19%</b></li> </ul>
	<ul style="list-style-type: none"> <li>Acquired in October 2017 for £4.7m</li> <li>Let to Aldi at a rent of £247,800 pa, expiring in August 2030</li> <li>In 2018 regeared the lease for a further 20 years without a break option at an increased rent of £291,000 pa (17.4% uplift)</li> </ul>	<ul style="list-style-type: none"> <li>Five yearly rent review based on RPI which compounds annually (Collar: 1%, Cap: 2.75%)</li> <li>Latest value in 2020: £6.13m</li> </ul>	<ul style="list-style-type: none"> <li>Total return to date: <b>48%</b></li> <li>Ungeared IRR to date: <b>15%</b></li> </ul>

Source: Palace Capital FY21 Interim results presentation. Note: \*Cash on cash return and IRR forecasted once residential units sold and commercial space let 12 months post completion.

## Forecasts

Reflecting the level of sector-wide uncertainty our [last note](#) included a range of scenarios for FY21 alone. With improving evidence of robust rent collection, increasing levels of market transaction activity and a gradual reopening of the economy (notwithstanding the more recent tiered restrictions), we have reinstated full forecasts for FY21 through until end-FY23. A summary is shown in Exhibit 11 below. Our forecasts for FY21 earnings and NAV are a little higher than our previously published central scenario. However, taking into account what we expect to be a relatively flat adjusted performance in FY22 versus FY21 (although we expect NAV to benefit from HQ development profits), we have slightly trimmed our FY21 DPS forecast (to 12p per share, still

above the current quarterly run rate of 10p). For FY23 we expect adjusted earnings to benefit from a full year of income from the HQ commercial space and further positive leasing of vacant space and forecast an increase in annualised DPS to 16p.

**Exhibit 11: Key estimate revisions**

	Net rental income (£m)			Adjusted PBT (£m)			Adjusted EPS (p)			EPRA NTA (p)			DPS (p)		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
03/21e*	14.3	14.5	1.2	6.6	6.7	0.8	14.4	14.5	0.8	339	341	0.6	13.0	12.0	(7.7)
03/22e	N/A	14.9	N/A	N/A	6.9	N/A	N/A	15.0	N/A	N/A	364	N/A	N/A	12.0	N/A
03/23e	N/A	16.6	N/A	N/A	8.4	N/A	N/A	18.2	N/A	N/A	378	N/A	N/A	16.0	N/A

Source: Edison Investment Research. Note: \*For FY21e 'Old' refers to our central scenario, now replaced by a firm forecast.

## Forecast assumptions

Our forecasts include the post-H121 asset sales referred to above (with only a minimal impact on contracted rent) but we have not at this stage factored in the additional £8.5m in non-core asset sales targeted by management. We allow for the completion of HQ in March 2021, the sale of the residential apartments in full during FY22, and the letting of the standalone commercial space in FY22 with a first (and full year) income contribution in FY23. Our balance sheet forecasts assume that the residential disposal proceeds are fully directed at debt reduction, although in practice we would expect PCA to seek accretive acquisition opportunities and proceed with additional internal refurbishment and development opportunities (not included in our forecasts). Our key forecasting assumptions include the following:

- Reflecting lease expiry, economic uncertainty, and the impact of continuing COVID-19 restrictions, we assume annualised gross contracted rent roll to be slightly lower by end-FY21 (£16.7m) compared with end-H121 (£16.9m). For FY22 we assume only modest underlying improvement (£16.8m) before any benefit from HQ. Although we expect leases on HQ to be agreed during FY22 we assume no income benefit until FY23. Including HQ (£0.9m) and net leasing of existing space we forecast an end-FY23 gross contracted rent roll of £18.5m.
- Based on our annualised rent roll projections, for the income statement we expect net rental income in H221 to be at a similar level to H121 and increase very modestly in FY22. For FY23, we expect growth of 11%, driven by the growth in rent roll, including a full year contribution from the HQ commercial assets.
- We assume administrative costs (before share-based payments) to be at a similar level in H221 to H121 and grow modestly with inflation in FY22 and FY23.
- Our net finance expense forecasts assume no change in the valuation of interest rate derivatives, unchanged debt costs and no change in borrowings other than increased drawings of the development facility to complete HQ in FY21 and subsequent repayment from the proceeds of the HQ residential sales. Interest on the development facility is capitalised and so these debt movements have no impact on the net finance expense forecast.
- Given uncertain market conditions, we have assumed c £4.5m of additional negative revaluation effects in H221, which net of assumed capex of £2.0m represents c 1% of the opening value of income-generating properties. For subsequent periods we assume flat underlying valuations but include the expected c £10m HQ development profits in FY22. Each 1% increase or decrease in the value of the overall portfolio (including HQ) is equivalent to an increase or decrease in EPRA NTA of c 6p per share.

## Funding and gearing

PCA has total borrowing facilities of £151.9m of which £132.7m had been drawn at end-H121 (including unamortised debt arrangement fees). The debt was well spread across lenders with an average cost of 2.9% and an average maturity of 3.9 years. 51% of the debt was either fixed rate or hedged to mitigate interest rate risk. Other than the £25.6m Barclays Bank development facility that

specifically funds construction costs at HQ, the first maturity is the £6.8m Lloyds facility in March 2023. We expect the Barclays development facility to be repaid from c £50m of HQ residential sales proceeds during FY22.

**Exhibit 12: Debt portfolio summary**

Lender	Facility (£m)	Drawn (£m)	Maturity	Fixed/floating
Barclays	40.5	40.5	Jun-24	£34.8m fixed
NatWest (RCF)	40.0	28.6	Aug-24	100% floating*
Santander	25.5	25.5	Aug-22	£19.3m fixed
Lloyds	6.8	6.8	Mar-23	100% floating
Scottish Widows	13.5	13.5	Jul-26	100% floating
Barclays (development facility)	25.6	17.8	Jan-22	100% floating**
<b>Total</b>	<b>151.9</b>	<b>132.7</b>	<b>3.9 years</b>	<b>51% fixed/49% floating</b>

Source: Palace Capital. Note: \*Facility fee on undrawn balances 1.05%. \*\*Facility fee on undrawn balances 1.3%

Allowing for balance sheet cash of £14.3m, end-H121 net debt was £118.4m and the LTV was 42.0%. During H121 net debt increased from £105.8m at end-FY20 and LTV from 38.1% due to additional drawing to fund construction at HQ. On an annual basis, our forecasts indicate a peak LTV of c 44% at end FY21 and assuming no reinvestment of the proceeds we expect HQ residential sales to reduce LTV to c 31% by the end of FY22. Our forecasts do not assume completion of the £8.6m of assets currently offered for sale and this has the potential to reduce peak LTV to c 42%.

Each of the facilities has its own agreed banking covenants in respect of minimum levels of LTV and interest cover (ICR) or debt service cover (DSCR, including loan amortisation). With the FY20 results PCA indicated that rental income would need to fall by more than 40% on average and asset values by 18% on average for all the ICR and LTV covenants to be challenged, respectively. The two facilities funding the leisure assets (Scottish Widows and Santander), where rent receipts were particularly affected by the pandemic lockdown, required temporary covenant waivers for the April quarterly test, but with improved rent collection met the tests in July and October. Group interest cover in H121 was 2.8x (FY20: 3.8x).

Exhibit 13 shows the end-H121 liquidity position. Cash reserves and immediately available borrowing facilities amounted to £26.3m and adjusting for £9.9m of capital commitments (the majority being the cost to complete HQ) net liquidity showed strong cover of annualised overheads. The immediately available debt includes the remaining development loan facility and a part of the undrawn RCF. To fully draw on the RCF facility requires additional properties to be charged.

**Exhibit 13: Liquidity position at 30 September 2020 (H121)**

£m unless stated otherwise	
Cash and immediately available borrowings	26.3
Capital commitments	9.9
<b>Net liquidity</b>	<b>16.4</b>
Annualised interest overheads	7.0
Interest & overhead cash cover	2.3 years

Source: Palace Capital

## Valuation

Since its first major post-IPO transaction in H214 until end-H121 Palace's total return strategy has generated cumulative EPRA NAV total returns of 106.1% or a compound annual average return of 10.9%. This is a good level of return despite the negative impacts of COVID-19 on late FY20 and H121 property valuations. Our forecasts indicate a negative (4.5%) total return for FY21 but positive returns in FY22 (10.8%, driven by development gains/residential disposal profits on the completion of HQ) and FY23 (7.5%, driven by increased rental income).

**Exhibit 14: NAV total return history**

	H214	FY15	FY16	FY17	FY18	FY19	FY20	H121	Cumulative return H214-H121
Opening EPRA NTA per share (p)*	218	341	388	414	443	414	407	364	218
Closing EPRA NTA per share (p)*	341	388	414	443	414	407	364	347	347
DPS paid (p)	2.5	8.50	14.00	18.00	19.00	19.00	19.00	2.5	103
Income return (%)	1.1%	2.5%	3.6%	4.3%	4.3%	4.6%	4.7%	0.7%	47.0%
Capital return (%)	56.6%	13.5%	6.9%	6.9%	-6.4%	-1.8%	-10.4%	-4.8%	59.1%
<b>NAV total return (%)</b>	<b>57.8%</b>	<b>16.0%</b>	<b>10.5%</b>	<b>11.2%</b>	<b>-2.1%</b>	<b>2.8%</b>	<b>-5.8%</b>	<b>-4.1%</b>	<b>106.1%</b>
<b>Ave, annual compound return</b>									<b>10.9%</b>

Source: Palace Capital data, Edison Investment Research. \*FY20 and H121 are EPRA net tangible assets per share and previous years reflect the broadly equivalent EPRA net asset value per share.

The company says that the current rate of quarterly DPS (2.5p per quarter) is the minimum that it expects to pay and that it expects to increase the payout with greater clarity on the economic outlook. We forecast 12.0p of aggregate DPS in FY21 and assume an increase to 16p in FY23 to reflect an uplift in recurring income earnings. Based on our forecast DPS the prospective yield is 5.8% and even at the annualised rate (10p) of current quarterly DPS (2.5p per quarter) the prospective yield is 4.7%, and we expect this to be fully covered by adjusted earnings. The shares trade at a significant discount (of almost 40%) to both H121 EPRA NTA per share (347p) and our forecast end-FY21 diluted NTA per share (341p).

In Exhibit 15 we show a summary performance and valuation comparison of Palace and a peer group of UK commercial real estate investment companies with a strong regional focus.

Palace shares have declined over 12 months, broadly in line with the peer average. However, the peer group performance is below that of the broad UK property sector where some of the long-income-focused specialist REITs and industrial-focused REITs have until recently been outperformers. In terms of valuation we show the trailing yield based on aggregate declared DPS over the past 12 months as well as the forward-looking yield based on the most recently declared DPS annualised. Neither is entirely satisfactory as the sector remains in a state of flux; most companies reduced DPS payouts during the pandemic and some postponed payments altogether for a time, and it will be a while before the full-year prospective DPS outlook becomes clearer and a true comparison can be made. To be clear, this trailing analysis does not reflect our FY21 DPS forecast of 12p per share. With that said, PCA's annualised yield of almost 5%, based on the current quarterly run-rate, is in line with the peer average and compares favourably to the risk-free yield on offer (10-year UK gilt yields are less than 0.5%). Its price to NAV rating (P/NAV) is clearly below the peer average. Given the strong track record of total return generation, the prospect of HQ completion in March 2021, and the potential to drive further returns from the existing portfolio, the Palace valuation continues to appear undemanding despite the recent increase in the share price. There is material upside if economic and market prospects become clear in the coming months.

**Exhibit 15: Peer group valuation and performance comparison**

	Price (p)	Market cap (£m)	P/NAV* (x)	Trailing yield** (%)	Annualised yield*** (%)	Share price performance			
						1 month	3 months	12 months	From 12M high
Circle Property	168	47	0.59	3.2	n.m.	4%	6%	-18%	-28%
Custodian	89	373	0.93	6.0	4.7	3%	3%	-23%	-23%
Picton	74	406	0.80	3.8	3.8	19%	7%	-19%	-32%
Real Estate Investors	34	61	0.53	8.6	5.9	21%	21%	-36%	-40%
Regional REIT	83	359	0.81	9.0	7.7	39%	7%	-24%	-32%
Schroder REIT	40	200	0.68	4.4	5.8	16%	23%	-28%	-32%
UK Commercial Property REIT	77	1003	0.92	3.0	2.4	15%	17%	-11%	-16%
BMO Commercial Property Trust	76	604	0.65	3.0	4.0	24%	13%	-36%	-38%
BMO Real Estate Investments	63	152	0.66	6.9	4.0	17%	5%	-25%	-30%
<b>Average</b>			<b>0.73</b>	<b>5.3</b>	<b>4.8</b>	<b>18%</b>	<b>12%</b>	<b>-25%</b>	<b>-30%</b>
<b>Palace Capital</b>	<b>212</b>	<b>98</b>	<b>0.61</b>	<b>3.5</b>	<b>4.7</b>	<b>13%</b>	<b>11%</b>	<b>-26%</b>	<b>-39%</b>
UK property index	1,605					13%	9%	-13%	-19%
FTSE All-Share Index	3,608					9%	7%	-11%	-15%

Source: Company data, Refinitiv. Note: Prices at 18 November 2020. \*Based on last reported EPRA NAV per share. \*\*Based on trailing 12-month DPS declared. \*\*\*Based on last reported quarterly DPS annualised except Circle Property (DPS declared half-yearly) and Regional REIT (6.4p full-year aggregate quarterly DPS confirmed).

## Sensitivities

The commercial property market is cyclical, historically exhibiting substantial swings in valuation through cycles. Income returns are significantly more stable, but still fluctuate according to tenant demand and rent terms. We would also highlight the increased risks and uncertainties that attach to development activity, including planning consents, timing, construction risks and the long lead times to completion and eventual occupation. In particular we note:

- The COVID-19 pandemic and Brexit continue to create uncertainty regarding the UK **economic outlook**. The HM Treasury comparison of independent forecasts for the UK economy published in October 2020 indicated a consensus UK GDP decline of 10.2% for 2020 followed by an increase of 5.9% in 2021, but with a wide range of expectations. Consensus expectations for the rate of unemployment have broadly doubled since before COVID-19 to around 7% while inflation and interest rate expectations have been tempered.
- **Sector risk**: some of the inherent cyclical risk to vacancy in commercial property can be mitigated by portfolio diversification. As noted above, Palace has a diversified portfolio across property types, locations and tenants, and its sector-agnostic approach to asset selection provides scope to adjust the portfolio to evolving market conditions. The portfolio contains significant reversionary potential and a significant stream of asset management opportunities, providing scope for counter-cyclical income growth and value creation. As noted above, the long-term outlook for certain key commercial property sectors has become more uncertain as a result of the pandemic.
- **Development risk**: although we expect asset management projects to continue to be an important contributor to property income growth and capital returns, active projects normally represent a relatively low share of the overall portfolio at any point in time. The HQ development is an exception and is significant in relation to the overall group, although we note that construction is significantly advanced, on budget with a fixed price contract, with development loan funding in place for remaining construction costs. Significant pre-sales of residential units have been secured, a first pre-let of the commercial space has been agreed, and management reports good interest in the remaining space despite the pandemic.
- **Funding risks**: our estimates indicate that existing debt facilities are adequate to meet the company's funding needs over the forecast period. On an annual basis we forecast a peak in gearing (LTV) of just under 44% at the end of FY21 as development funding is drawn to complete construction at HQ, although the ongoing disposal programme may reduce this



somewhat. We expect a successful completion of HQ and disposal of the residential apartments to substantially reduce LTV to around 31% in FY22, assuming no reinvestment. Portfolio valuation movements are among the factors that will affect the actual LTV outcome. Just more than half of borrowing costs are fixed or hedged, providing protection against an unexpected increase in market lending rates. However, on a long-term basis interest rates remain historically low and any significant increase in long-term rates in particular may be expected to negatively affect market-wide property valuations.



**Exhibit 16: Financial summary**

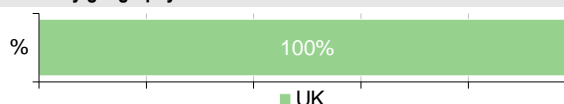
Year end 31 March (£m)	2017	2018	2019	2020	2021e	2022e	2022e
<b>PROFIT &amp; LOSS</b>							
Rental & other income	14.3	16.7	18.8	21.1	16.7	17.2	18.8
Non-recoverable property costs	(2.1)	(1.8)	(2.3)	(2.4)	(2.2)	(2.3)	(2.2)
Net rental income	12.2	14.9	16.4	18.8	14.5	14.9	16.6
Dividend income from listed equity investments			0.0	0.1	0.0	0.0	0.0
Administrative expenses before share-based payments	(2.7)	(4.0)	(3.8)	(4.2)	(4.2)	(4.3)	(4.4)
Share-based payments	(0.2)	(0.2)	(0.3)	(0.1)	(0.3)	(0.3)	(0.3)
Operating Profit (before capital items)	9.3	10.7	12.4	14.6	10.0	10.3	11.9
Unrealised gains/(losses) on properties	3.1	5.7	(0.7)	(17.9)	(14.5)	10.0	0.0
Realised gains/(losses) on properties	3.2	0.3	(0.4)	(0.1)	0.7	0.0	0.0
Loss on revaluation of listed equity investments			(0.2)	(0.4)	(0.2)	0.0	0.0
Operating Profit	15.6	16.7	11.1	(3.9)	(4.0)	20.4	11.9
Net finance expense	(3.0)	(3.4)	(4.7)	(5.2)	(4.0)	(3.8)	(3.8)
Profit Before Tax	12.6	13.3	6.4	(9.1)	(8.0)	16.6	8.1
Taxation	(3.2)	(0.8)	(1.3)	3.6	0.0	0.0	0.0
Profit After Tax (FRS 3)	9.4	12.5	5.2	(5.4)	(8.0)	16.6	8.1
EPRA adjustments:							
Unrealised gains/(losses) on properties	(3.1)	(5.7)	0.7	17.9	14.5	(10.0)	0.0
Realised gains/(losses) on properties	(3.2)	(0.3)	0.4	0.1	(0.7)	0.0	0.0
Deferred tax charge	2.2	(0.3)	0.2	0.0	0.0	0.0	0.0
Other adjustments	0.2	0.3	1.1	(1.8)	0.6	0.0	0.0
EPRA earnings	5.4	6.5	7.6	10.8	6.4	6.6	8.1
Non-recurring items	0.0	0.7	0.0	(2.9)	0.0	0.0	0.0
Share-based payments	0.2	0.2	0.3	0.1	0.3	0.3	0.3
Adjusted earnings	5.7	7.4	7.9	8.1	6.7	6.9	8.4
Tax adjustments	1.0	1.1	1.0	(0.0)	0.0	0.0	0.0
Company adjusted PBT	6.7	8.5	8.9	8.0	6.7	6.9	8.4
Average fully diluted number of shares outstanding (m)	25.7	35.0	45.9	46.0	46.1	46.1	46.1
Basic EPS - FRS 3 (p)	36.5	35.8	11.3	(11.8)	(17.3)	36.0	17.6
Fully diluted EPRA EPS (p)	21.2	18.7	16.5	23.4	13.8	14.3	17.6
Fully diluted adjusted EPS (p)	22.2	21.2	17.3	17.5	14.5	14.9	18.2
Dividend per share declared (p)	18.5	19.0	19.0	12.0	12.0	12.0	16.0
EPRA dividend cover (x)	1.14	0.98	0.87	1.95	1.15	1.19	1.10
<b>BALANCE SHEET</b>							
Fixed Assets	184.0	254.0	261.1	251.7	239.7	246.2	251.2
Investment properties	183.9	253.9	258.3	248.7	237.0	243.5	248.5
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.1	2.7	3.0	2.7	2.7	2.7
Current Assets	13.7	46.3	55.3	51.8	72.1	48.4	51.1
Trading properties	0.0	0.0	14.4	27.6	45.5	0.0	0.0
Assets held for sale	0.0	21.7	11.8	0.0	0.0	0.0	0.0
Cash	11.2	19.0	22.9	14.9	16.6	38.4	41.1
Other current assets	2.5	5.6	6.2	9.3	10.0	10.0	10.0
Current Liabilities	(8.2)	(11.5)	(16.0)	(16.1)	(14.2)	(12.5)	(13.8)
Creditors	(6.2)	(8.8)	(10.0)	(14.1)	(12.2)	(10.5)	(11.8)
Short term borrowings	(2.0)	(2.7)	(6.0)	(1.8)	(1.8)	(1.8)	(1.8)
Long Term Liabilities	(79.9)	(105.5)	(120.0)	(121.1)	(142.2)	(115.9)	(116.1)
Long term borrowings	(75.8)	(97.2)	(112.0)	(117.5)	(138.6)	(112.3)	(112.4)
Deferred tax	(2.2)	(6.5)	(5.6)	(.2)	(.2)	(.2)	(.2)
Other long-term liabilities	(2.0)	(1.8)	(2.4)	(3.3)	(3.4)	(3.4)	(3.4)
Net Assets	109.6	183.3	180.3	166.3	155.4	166.3	172.5
EPRA net assets	111.8	190.0	187.0	167.9	157.1	168.0	174.2
Basic NAV/share (p)	436	400	393	361	338	361	375
Diluted EPRA NTA/share (p)*	443	414	407	364	341	364	378
<b>CASH FLOW</b>							
Operating Cash Flow	10.3	9.9	11.9	15.7	8.5	8.9	13.5
Net Interest	(2.5)	(2.7)	(3.4)	(3.7)	(3.5)	(3.3)	(3.4)
Tax	(1.0)	(0.4)	(1.6)	(2.2)	(1.1)	0.0	0.0
Net cash from investing activities	(3.4)	(67.7)	(11.5)	(10.1)	(19.2)	49.0	(5.0)
Ordinary dividends paid	(4.6)	(6.7)	(8.7)	(8.7)	(3.5)	(6.0)	(2.2)
Debt drawn/(repaid)	6.5	8.2	18.0	1.4	20.6	(26.8)	(0.3)
Proceeds from shares issued (net)	0.0	67.7	(0.0)	0.0	0.0	0.0	0.0
Other cash flow from financing activities	(2.9)	(1.1)	(0.1)	(1.0)	0.0	0.0	0.0
Net Cash Flow	2.4	7.0	4.4	(8.5)	1.8	21.8	2.7
Opening cash	8.6	10.9	18.0	22.4	13.9	15.7	37.6
Closing cash	10.9	18.0	22.4	13.9	15.7	37.6	40.3
Restricted cash	0.2	1.0	0.5	1.0	0.8	0.8	0.8
Closing balance sheet cash	11.2	19.0	22.9	14.9	16.6	38.4	41.1
Closing balance sheet debt	(77.8)	(99.8)	(118.0)	(119.4)	(140.4)	(114.1)	(114.3)
Unamortised debt costs	(0.9)	(1.6)	(1.3)	(1.4)	(1.0)	(0.5)	(0.1)
Closing net (debt)/cash	(67.5)	(82.4)	(96.5)	(105.8)	(124.8)	(76.2)	(73.3)
Net LTV (exc restricted cash & adjusted for unamortised debt costs)	36.9%	29.8%	33.7%	38.1%	43.9%	31.1%	29.3%

Source: Palace Capital historical data, Edison Investment Research forecasts. Note: \*FY20 and H121 are EPRA net tangible assets per share and previous years reflect the broadly equivalent EPRA net asset value per share.



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**Revenue by geography**

**Management team**
**Non-executive chairman: Stanley Davis**

Stanley Davis is a successful entrepreneur who has been involved in the City of London since 1977. He founded company registration agent Stanley Davis Company Services, which he sold in 1988. In 1990 he became chief executive of a small share registration company that became known as IRG and acquired a number of businesses including Barclays Bank Registrars and was sold for a substantial sum to The Capita Group. He is chairman of Stanley Davis Group, specialising in company formations, property and company searches.

**CEO: Neil Sinclair**

Neil Sinclair has over 50 years' experience in the property sector. He was a founder of Sinclair Goldsmith, chartered surveyors, which was admitted to the Official List in 1987 and subsequently merged with Conrad Ritblat in 1993, when he became executive deputy chairman. Neil was appointed non-executive chairman of surveyors Baker Lorenz in 1999, which was sold to Hercules Property Services in 2001. He was appointed a non-executive director of Tops Estates, a fully listed company, in 2003 and remained so until Tops Estates was sold to Land Securities in 2005. He was one of the founders of Mission Capital, now Watchstone Group, which was admitted to AIM in 2005, and was executive chairman until February 2008.

**Executive director: Richard Starr**

Richard has extensive experience of sourcing and managing commercial investments throughout the UK. After qualifying as a chartered surveyor in 2000, he developed his experience working as a fundamental team member of four Central London property firms including the corporate real estate division of what is now CBRE Global Investors. In 2011, Richard established his own boutique property consultancy, successfully negotiating sales and acquisitions on behalf of a wide variety of institutional and private clients before joining the board of Palace Capital in October 2013.

**CFO: Stephen Silvester**

Stephen Silvester, a chartered accountant, joined Palace Capital in 2015 and brings over 15 years' experience as a finance professional, of which 10 years was in property finance, including capital raising from both debt and equity markets, hedging, securing credit facilities from major institutions for both investment and development finance. Prior to joining Palace Capital, he served for three years as group financial controller at NewRiver REIT and before that was financial controller at St Hilliers, a large private real estate company based in Australia with construction, fund management and property development operations.

**Principal shareholders**

	(%)
Miton Group	10.1
Axa Investment Managers	10.0
JO Hambro	7.7
Unicorn Asset Management	7.3
Allianz Global Investors	5.5
Janus Henderson	4.8
M&G	4.3
Peter Gyllenhammar	4.0
Stanley Davis (chairman)	3.6
Charles Stanley	3.4

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