



PALACE CAPITAL plc

EXPERTS IN REGIONAL PROPERTY

PALACE CAPITAL PLC ANNUAL RESULTS

YEAR TO 31 MARCH 2019

Palace Capital are experts in regional property investment unlocking value to deliver attractive total returns

HIGHLIGHTS | STRATEGY | FINANCIAL REVIEW | PROPERTY REVIEW | CONCLUSION | APPENDICES

Introduction



NEIL SINCLAIR
Chief Executive



STEPHEN SILVESTER
Finance Director



RICHARD STARR
Executive Property Director

Regional focus continues to deliver income and capital growth

- Total property return of **7.1%** (FY18: 10.2%)
- Passing rent of **£17.7m** pa with significant reversionary potential (ERV: **£21.5m** pa)
- **37** lease events across **235,000 sq ft** generating **£3.4m** rental income pa, averaging **14.4%** ahead of ERV
- Property portfolio increased **3.5%** to **£286.3m** (FY18: £276.7m)
- EPRA NAV per share **407p** (FY18: 415p) reduced marginally by **2%**
- Dividend maintained at **19p**
- Proposal to convert to a UK REIT from 1st August 2019

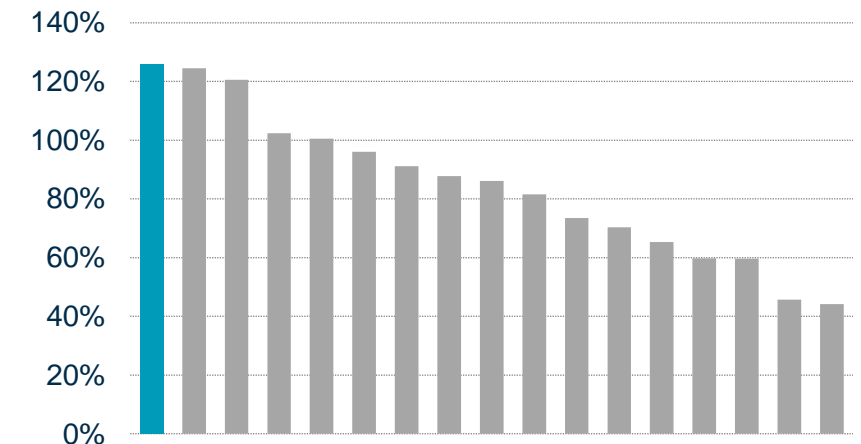
Experts in regional property

Palace Capital plc (PCA) is a property investment company with a regional focus delivering attractive total returns

- Entrepreneurial & opportunistic approach
- We drive income and capital growth through refurbishment and redevelopment
- Management has a deep knowledge of the UK regions focussing on office and industrial sectors
- Strong track record delivering attractive returns



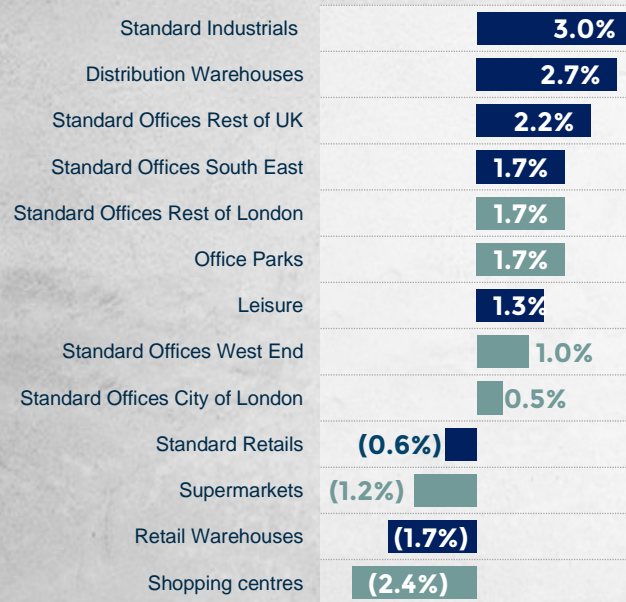
5.5 Year Total Accounting Return vs peer group
(EPRA NAV growth + dividends as at 31 March 2019)



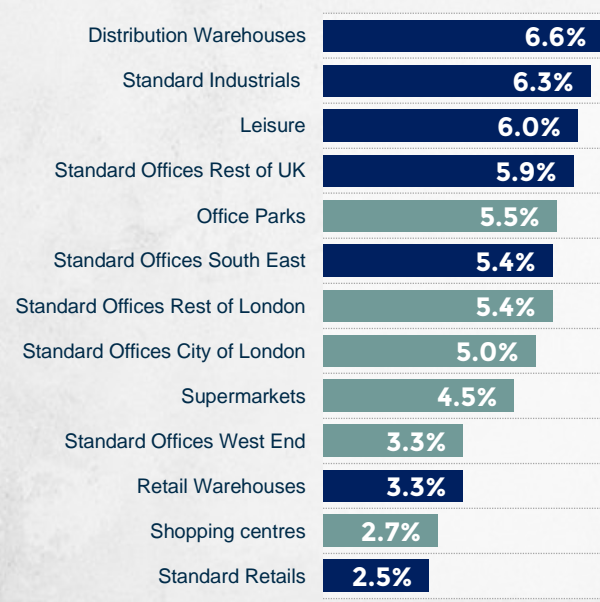
Source: Arden Partners plc

Outlook supports regional strategy

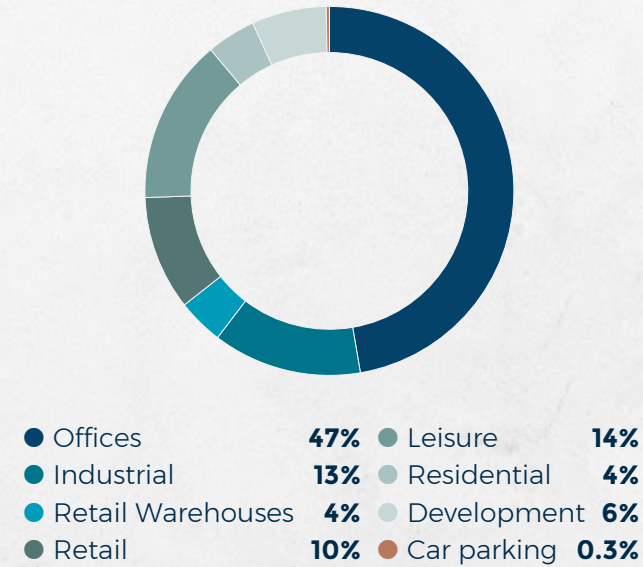
ERV Growth 2019 - 2023 % pa



Total Return 2019 - 2023 % pa



Sector Split



Market outlook supports Palace Capital regional strategy

Focus on regional office and industrial sectors which show strong forecast returns

Our portfolio has limited exposure to retail & Central London sectors

Source: Colliers International

■ Palace Capital exposure ■ No exposure

Stephen Silvester Finance Director

FY19: FINANCIAL REVIEW

Financial highlights

Robust financial performance

	FY19	FY18	Growth
INCOME			
Net rental income	£16.4m	£14.9m	+10%
Adjusted profit before tax*	£8.9m	£8.5m	+5%
IFRS profit before tax	£6.4m	£13.3m	-52%
Dividend per share	19p	19p	-
CAPITAL			
Property portfolio	£286.3m	£276.7m	+3.5%
EPRA NAV per share	407p	415p	-2%
Net assets	£180.3m	£183.3m	-2%
Net debt	£96.5m	£82.4m	+17%
Group LTV	34%	30%	+400bps
Average cost of debt	3.3%	3.4%	-10bps

*Excludes non-recurring income and expenditure, property revaluations, profit/losses on disposal and fair value movements

REIT conversion

1st August 2019

- The Company received independent advice from Deloitte
- Supports our total return strategy by maximising dividends
- Eliminates double-tax, saving over £1m tax pa, adding +2 pps to earnings
- Expected to broaden shareholder base and increase liquidity in shares



Balance sheet

Positioned for growth

	FY19 £m	FY18 £m
Property portfolio	286.3	276.7
Cash	22.9	19.0
Other assets	7.1	4.5
Borrowings	(118.0)	(99.8)
Deferred tax liabilities	(5.6)	(6.5)
Other liabilities	(12.4)	(10.6)
Net assets	180.3	183.3
EPRA NAV per share	407p	415p
Group LTV	34%	30%

£22.9m cash available

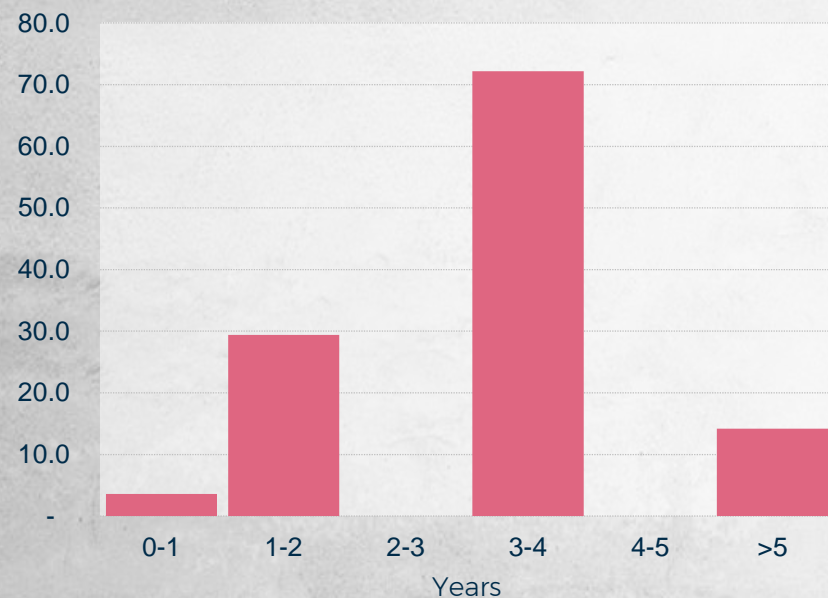
IFRS net assets total £180.3m

Group LTV of 34% at 31 March 2019 and within our target range

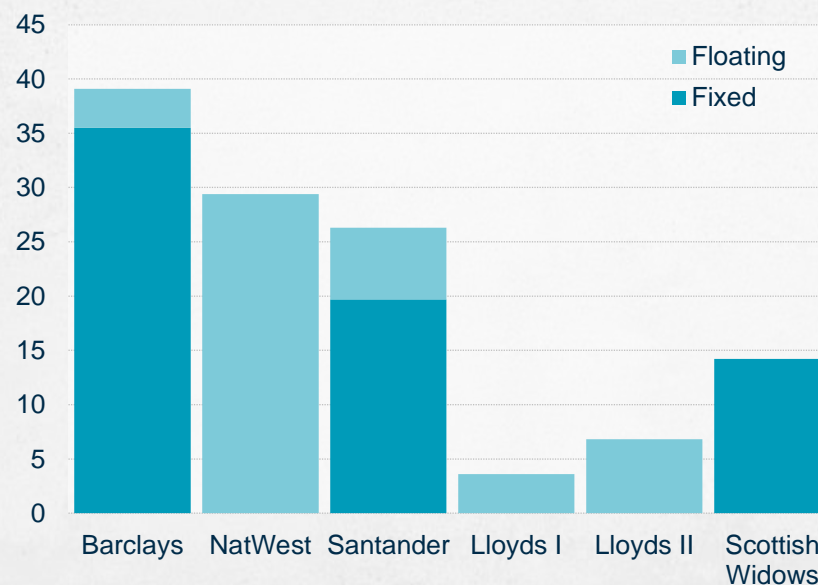
Majority of £5.6m deferred tax liability will be wiped off the balance sheet on REIT conversion

Debt maturity & hedging

Debt maturity (£m)



Fixed/Floating (£m)



Group LTV at 34% within target range

Average debt maturity of 3.6 years

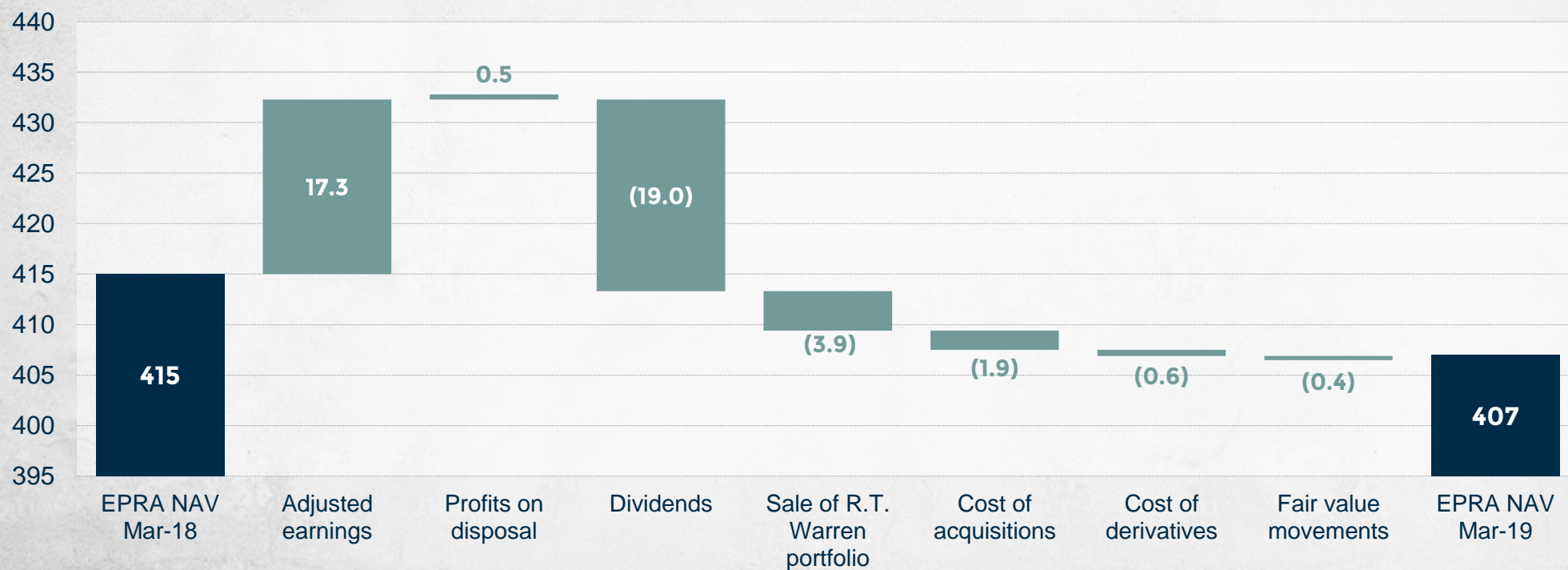
Average cost of debt 3.3%

Fixed/hedged: 59%

Headroom on debt covenants

EPRA NAV per share

Movements
in EPRA NAV
per share for the
year ended
31 March 2019
(Pence)



Continued growth in recurring earnings

	FY19 £m	FY18 £m	Growth
Gross rental and other income	18.8	16.7	+12%
Property operating expenses	(2.4)	(1.8)	
Net rental income	16.4	14.9	+10%
Administrative expenses	(3.8)	(3.3)	
Net finance costs	(3.7)	(3.1)	
Adjusted profit before tax	8.9	8.5	+6%
Adjusted EPS*	17.3p	21.2p	-18%
Dividend per share	19.0p	19.0p	-
Dividend cover	0.91x	1.12x	
Weighted average no. shares	45.9m	34.9m	

*Adjusted profit before tax less corporation tax charge (excluding deferred tax movements) divided by the weighted average number of shares in the period.

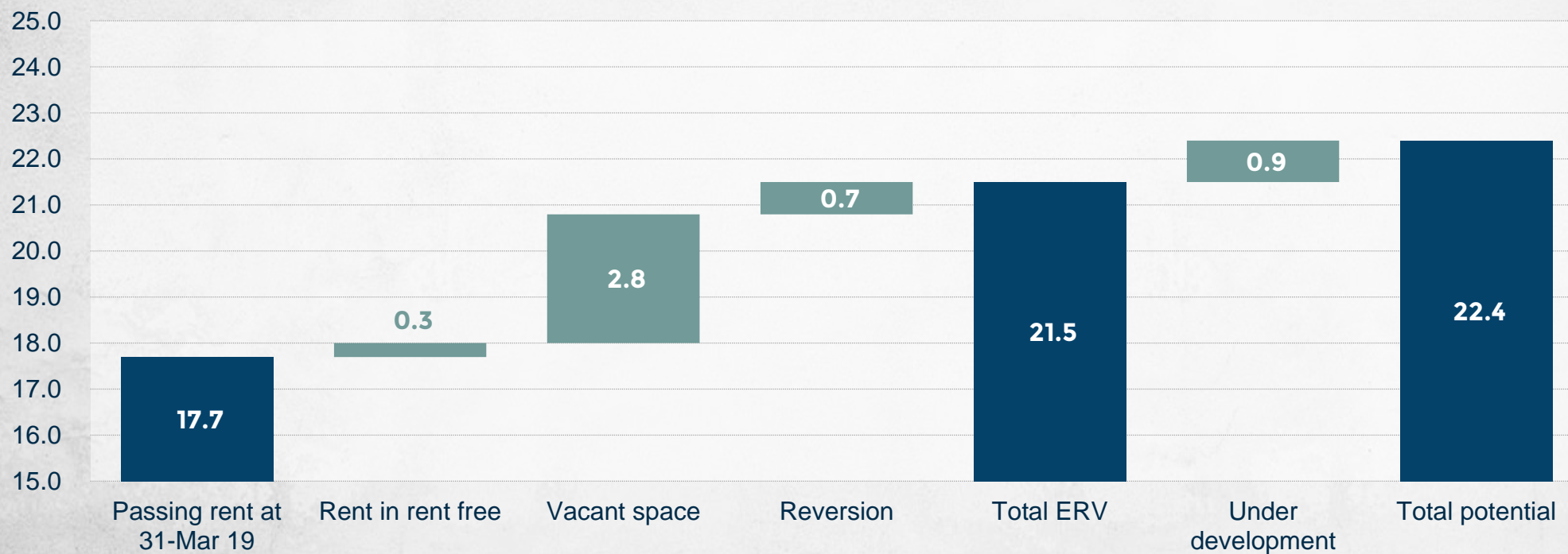
Gross property income
increased 12% to £18.8m

Adjusted profit before tax
increased 6% to £8.9m

Dividend maintained at 19.0p

Substantial opportunity to grow rental income by +25%

Gross passing rental income per annum (£m)



Source: Cushman & Wakefield

PROPERTY REVIEW

Richard Starr Executive Property Director

PROPERTY REVIEW

Active Management Strategy

Unlocking value

- **37** lease events across **235,000 sq ft** generating **£3.4m** annual rental income, averaging **14.4%** ahead of ERV
- Overall EPRA occupancy remains high at **87%** (FY18: 90%)
- WAULT of **4.5 years** to break and **6.2 years** to expiry
- Funding secured and construction commenced on HQ York development
- One Derby Square, Liverpool acquired for **£14.0m**
- Warren residential portfolio of **50 units** sold for **£18.2m** at **97%** of book value



Regional portfolio

Focussed on growth sectors

Core Sectors



Geography











● South East	31.3%
● Midlands	19.9%
● North East	19.9%
● North West	19.0%
● South West	9.9%







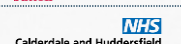





Diversified portfolio

By tenant and industry

Top 20 tenants
make up 44% of
passing rents

Tenant	Industry	Contracted Rent £'000
	Leisure	913
	Charity	595
	Legal	568
	Hotel	510
	Insurance	408
	Retail	401
	Auto	399
	Legal	360
	Technology	355
	Car Parking	345

Tenant	Industry	Contracted Rent £'000
	Auto	325
	Government	322
	Legal	310
	Retail	294
	Retail	291
	Local Authority	283
	Health	262
	Retail	246
	Construction	240
	Aviation	240

Good income
visibility with broad
spread across a diverse
tenant base

York – Hudson Quarter

- Planning consent granted for 127 apartments, 35,000 sq ft offices, 5,000 sq ft of commercial and car parking
- Development facility secured with Barclays for £26.5m
- 2 year design and build construction contract commenced Feb 2019
- GDV £69m – expected surplus +£10m
- Local market for residential & Grade A office space remains strong
- York voted Best Place to Live 2018 by Sunday Times

Marketing & sales launch 20 June 2019
www.hudsonquarteryork.com



Acquisitions and disposals

Disposal of 50 non-core residential units

- Acquired as part of the R.T. Warren portfolio in Oct 2017 average NIY 3.5%
- Sold on aggregate for £18.2m at 97% book value – ahead of business plan

Funds recycled into...

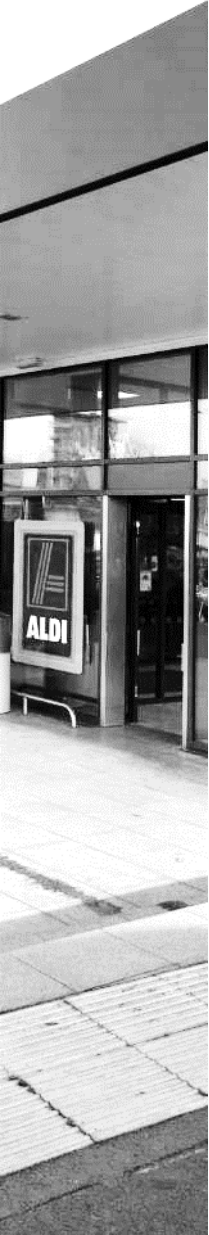
One Derby Square, Liverpool

- Acquired Dec 2018 for £14.0m at 6.75% NIY
- 96% occupancy generating £1.0m net rent pa
- +18% potential rental growth (ERV of £1.2m)











Gosport – Aldi

- Prime location in town centre
- Acquired in 2017 as part of the R.T. Warren portfolio
- Let to Aldi with 12 years remaining at £0.25m p.a.
- New lease completed for 20 years at 17% increase in passing rent, now £0.29m p.a.
- Secure income with benefit of minimum uplifts every 5 years providing long term growth
- Most recent valuation up 28% on purchase price



Value creation

Future upside within the portfolio

	Status	Historic Performance	Future Potential
	Hudson Quarter, York Planning consent achieved for 127 apartments, 35,000 sq ft offices, 5,000 sq ft of commercial and car parking	Acquired in 2013 for £3.8m. Uplift in value to date: £14.9m	GDV £69m Development profit +£10m forecast +20pps to NAV
	Bridge House, High Street, Weybridge Resolution to grant planning consent achieved for 28 residential units and 4,000 sq ft of retail space	Acquired in 2014 for £3.5m. 5 years of income, now predominantly vacant	Obtain full planning consent. GDV £12m Target IRR 15%
	2&3 St James' Gate, Newcastle Refurbishment of two floors and entrance underway. Forecast lettings > rents on acquisition	Acquired in 2017 for £20.0m	£1.85m ERV vs £1.47m passing rent +25% potential growth in rents and positive impact on capital value
	Boulton House, Manchester Centrally located office of 75,000 sq ft 30% vacant space refurbished/ to be refurbished.	Acquired in 2016 for £10.5m +38% uplift in value to date	£1.30m ERV vs £0.68m passing rent +90% potential growth in rents and positive impact on capital value
	Kiln Farm, Milton Keynes All 3 buildings refurbished in 2014 and 2017, and re-let. Upward only rent reviews so implicit growth still to come.	Acquired in 2013 for £2.3m +315% uplift in value to date	£0.81m ERV vs £0.61m passing rent +34% potential growth in rents and positive impact on capital value
	249 Midsummer Boulevard, Milton Keynes City centre offices. Short WAULT of 1.6yrs provides opportunity for refurbishment and reletting at ERV	Acquired Feb 2016 for £7.2m +7% uplift in value to date	£0.68m ERV vs £0.43m passing rent +57% potential growth in rents and positive impact on capital value
	Black Moor Road, Verwood Multi-let industrial estate let off low average rents of £5.27 psf Small refurbishments and re-let.	Acquired in 2017 for £6.1m. +20% uplift in value to date	£0.46m ERV vs £0.35m passing rent 33% potential growth in rents and positive impact on capital value
	Point Four Estate, Avonmouth Multi-let industrial estate let off low average rents of £4.68 psf Small refurbishments and re-let.	Acquired in 2013 for £3.4m. +120% uplift in value to date	£0.54m ERV vs £0.40m passing rent 36% potential growth in rents and positive impact on capital value

Confident outlook for regional strategy

Income and capital growth

- **Right assets** in the **right locations** in the **right sectors**
- **+25%** income reversion within portfolio:
 - Repositioning city centre office assets with short WAULT of **2.8yrs**
 - **+£4.7m** potential future income growth
- Capital growth upside:
 - **+£10m** surplus forecast at HQ York
 - Planning consent on Bridge House, High Street, Weybridge
- Dividend maintained at **19p**
- REIT conversion proposed from 1st August 2019 providing tax efficiency **+2p EPS**

**Regional
expertise
continues to
deliver**





PALACE CAPITAL plc

EXPERTS IN REGIONAL PROPERTY

APPENDICES

Our story so far

- July 2010** Management taking Board control of the Company valued at £0.1m with a vision to invest in regional property
- October 2011** Hockenhull Estates portfolio acquired for £1.8m consisting of nine properties
- October 2013** Sequel portfolio consisting of 24 properties across office, industrial and retail sectors acquired for £39.25m
- August 2014** Property Investment Holdings portfolio acquired for £32m consisting of 17 commercial properties across office, industrial and retail sectors
- 2015-2017** Seven individual property acquisitions at values ranging between £4m and £24m focussed in the office and leisure sectors.

	31-03-2013	31-03-2019
Net asset value	£0.6m	£180.3m
Property portfolio	£2.0m	£286.3m
Contractual rental income	£0.2m	£17.7m
Total Accounting Return since 2013		126%

- October 2017** Acquisition of the R.T. Warren Portfolio for £68m and consisting of 21 commercial and 65 residential properties
- March 2018** Completed move from AIM to a Premium Listing on the Main Market of the London Stock Exchange
- May 2018** Joined FTSE Small Cap and All Share indices
- December 2018** One Derby Square, Liverpool acquired for £14.0m
- August 2019** REIT conversion proposed from 1st August 2019

Financial track record

Balance Sheet	FY15	FY16	FY17	FY18	FY19
Property portfolio	£102.8m	£173.4m	£183.2m	£276.7m	£286.3m
Net assets	£80.0m	£106.8m	£109.6m	£183.3m	£180.3m
EPRA NAV per share	393p	414p	443p	415p*	407p
Group LTV	23%	37%	37%	30%	34%

Income Statement					
IFRS profit before tax	£13.9m	£11.8m	£12.6m	£13.3m	£6.4m
Adjusted profit before tax**	£4.8m	£5.6m	£6.7m	£8.5m	£8.9m
Adjusted EPS	28.3p	18.9p	22.2p	21.2p	17.3p
Dividend per share	13.0p	16.0p	18.5p	19.0p	19.0p
Dividend cover	2.1x	1.2x	1.2x	1.1x	0.9x

* EPRA NAV in FY18 diluted as a result of £70m equity fundraise at 340p – October 2017

** Excludes non-recurring income and expenditure, property revaluations, profit/losses on disposal and fair value movements

£145.9m debt facilities

Strong relationship with existing lenders.

Low cost of debt maintained and conservative LTV.

59% debt fixed/hedged to mitigate interest rate risk.

Lender	Debt Facility (£m)	Debt Drawn (£m)	Debt Maturity	Hedging
Barclays	39.1	39.1	Jan-2023	£35.5m fixed
NatWest (RCF)	29.4	29.4	Mar-2021	100% floating
Santander	26.3	26.3	Aug-2022	£19.7m fixed
Lloyds I*	3.6	3.6	May-2019	100% floating
Lloyds II	6.8	6.8	Mar-2023	100% floating
Scottish Widows	14.2	14.2	Jul-2026	100% fixed
Barclays (development facility)	26.5	0.0	Oct-2021	100% floating
	145.9	119.4	3.6 years	

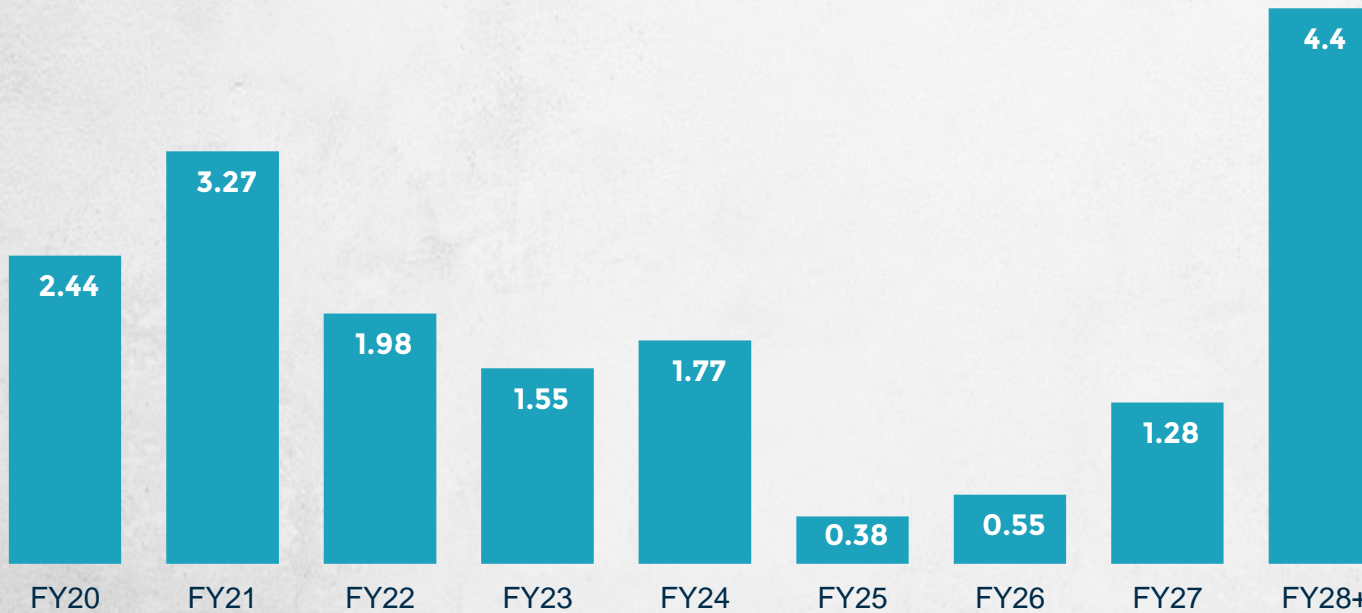
*Debt facility fully repaid after year end

	Mar-18	Mar-19
Property portfolio	£276.7m	£286.3m
Gross debt	£101.4m	£119.4m
Net debt	£82.4m	£96.5m
Average cost of debt	3.4%	3.3%
Group LTV	30%	34%
Fixed debt	70%	59%
Interest cover	3.1x	3.3x



Income security supported by diversified portfolio

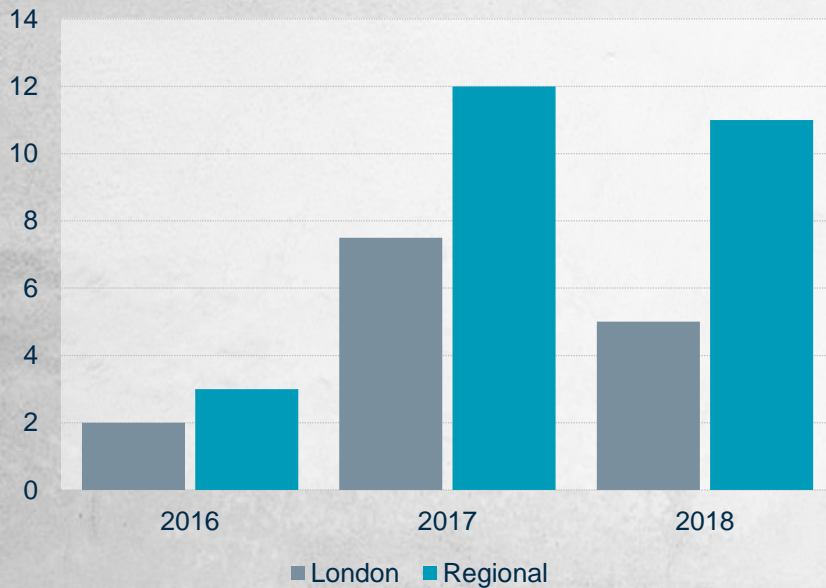
Lease expiries to first break by gross rental income (£m)



Clear income visibility with WAULT of 4.5 years to first break.

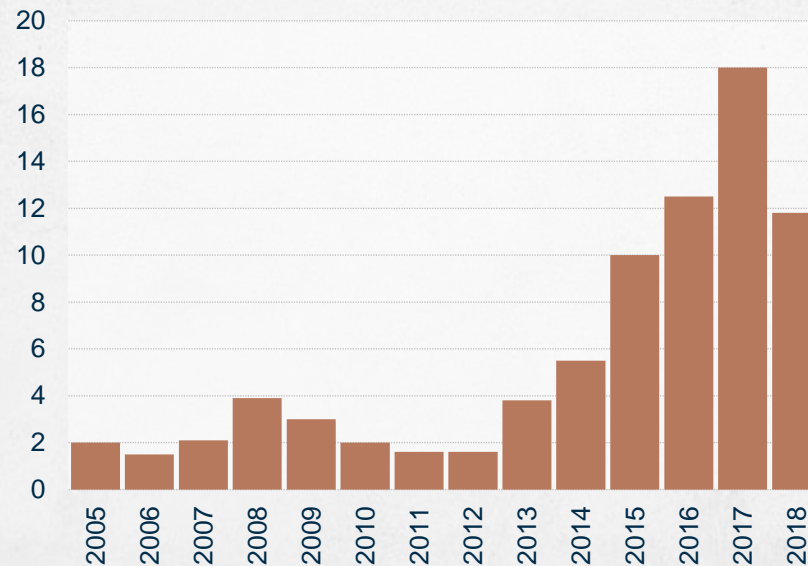
Regional returns outperforming London

London vs. regional UK office
(% p.a. total property returns)



Source: MSCI

Office conversion to residential
(England) (million. sq. ft.)



Source: Ministry of Housing, Communities, Local Government

Regional office returns have exceeded those generated by London every year since 2016.

Regional offices (47% of our portfolio) provide the strongest, risk-adjusted sector in the UK.

Reduction in office supply is driving rental value.

Supported by structural drivers and accelerating urbanisation trends.

Urbanisation and connectivity

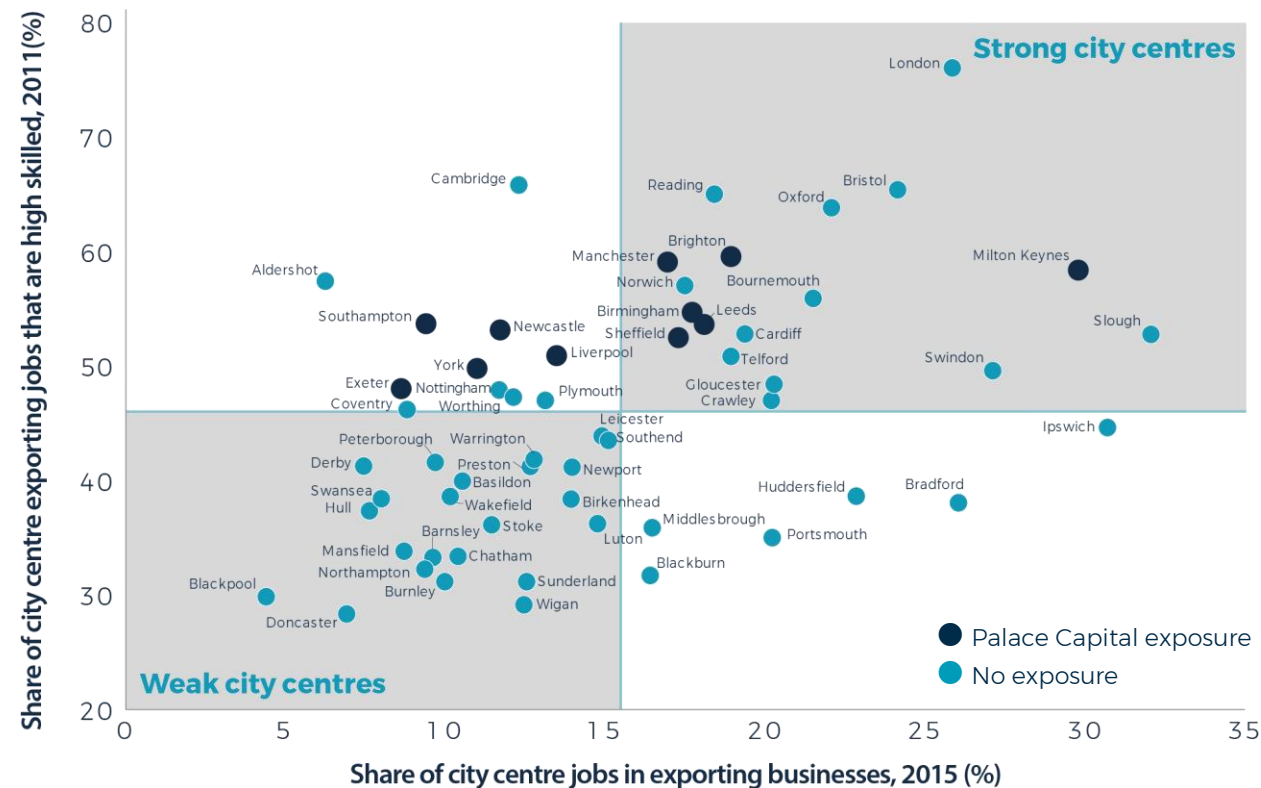
The Northern Powerhouse is a prime example of a growth hub, where investment in road and rail connectivity has supported rising rents and growth.

Graduate retention is high in strong regional cities and we are seeing a definite trend for companies moving into strong inner-city locations as staff turnover is far lower than out-of-town locations.

Palace has targeted acquisitions to capitalise on these trends, with office buildings in city centres across the Northern Powerhouse.



City centre offices



Location is crucial when investing in the regions

According to Centre for Cities strong city centres have a higher than average share of jobs in exporting firms and a lower than average share of these are high-skilled.

The majority of city centre offices within the Palace Capital portfolio are in strong locations increasing likelihood of opportunities for value creation.

Source: Centre for Cities 2018

Top 10 assets by value

53% of total portfolio

Property Name	Area (sq ft)	Gross rental income (£)	Reversionary yield*	WAULT to break (yrs)
Broad Street Plaza, Halifax	117,767	1,710,070	7.07%	12.3
2 & 3 St James Gate, Newcastle	99,129	1,473,832	8.45%	3.3
Sol, Northampton	129,703	1,769,994	7.64%	7.7
Hudson Quarter, York development	n/a	n/a	n/a	n/a
Boulton House, 17-21 Chorlton Street, Manchester	74,653	684,886	7.96%	2.1
One Derby Square, Liverpool	70,161	1,051,696	8.16%	4.0
Bank House, 27 King Street, Leeds	88,036	700,374	9.53%	1.4
Kiln Farm, 2-4 Pitfield, Milton Keynes	52,818	607,900	7.97%	8.0
Units A & B, Imberhorne Lane, East Grinstead	30,672	514,018	5.53%	8.3
249 Midsummer Boulevard, Milton Keynes	49,713	432,593	8.17%	1.6
Total	712,652	8,945,363		

* Based on Cushman & Wakefield estimated rental values

Sector splits

Office and Industrial focus

	Market value 31 March 2019 (£)	% of Portfolio by market value	No. properties	No. leases	Area (sq ft)	Contractual rental income (£)	ERV (£)*	WAULT (yrs)	Total ERV of void (£)
Offices	135,455,000	47.3%	33	122	794,726	8,959,579	12,094,259	2.8	1,928,197
Leisure	41,380,000	14.5%	2	20	247,470	3,480,064	3,341,944	9.9	433,393
Industrial	37,395,000	13.1%	10	38	409,593	2,310,024	2,696,920	3.2	88,700
Retail	28,695,000	10.0%	9	49	137,512	2,058,481	2,483,221	3.9	405,500
Development	18,740,000	6.5%	1	-	-	-	-	-	-
Residential	12,331,138	4.3%	36	n/a	22,622	n/a	n/a	n/a	n/a
Retail Warehouses	11,540,000	4.0%	2	3	59,477	759,964	679,800	8.3	-
Car Parking	780,000	0.3%	2	2	8,660	115,132	177,000	-	-
Total	286,316,138	100%	95	234	1,680,060	17,683,244	21,473,144	4.5	2,855,790

* Based on Cushman & Wakefield estimated rental values

Newcastle – St James' Gate

- Purchased August 2017 for £20m
- 82,500 sq ft offices average rents £19 psf
- City centre multi let offices
- Recently vacated 3rd floor still being refurbished as well as the ground floor entrance and landscaping upgrade during 2019 for £1.6m
- Limited new build offices in city centre
- Expected newly refurbished space will achieve up to 20% premium to current levels



Manchester – Boulton House

- Purchased August 2016 for £10.5m
- 75,000 sq. ft. of multi-let offices in City Centre
- Average rents £12 psf
- 18,000 sq ft vacant space & ground floor reception refurbished with 10,700 sq ft let at headline rentals of £18.50 psf
- Further refurbishments planned
- Since purchase new lettings of 10,700 sq ft completed
- Latest valuation 38% uplift since acquisition



Biographies



NEIL SINCLAIR
Chief Executive

Chartered Surveyor FRICS

Neil co-founded Palace Capital and 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.



STEPHEN SILVESTER
Finance Director

Chartered Accountant FCA

Stephen joined Palace Capital in 2015 and brings over 10 years' experience as a finance professional in real estate. He previously held the role of Group Financial Controller at NewRiver REIT for 3 years and prior to that was Head of Finance at St Hilliers, a construction, development and property fund management business in Australia.



RICHARD STARR
Executive Property Director

Chartered Surveyor MRICS

Richard joined Palace Capital in 2013 on the back of the Sequel acquisition and related equity raise. He has extensive experience sourcing and managing commercial investments from his previous role running his own successful boutique property consultancy and before that, four Central London property firms.

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