Property Week Interview

Three of a kind: (left to right) Stephen Silvester, Neil Sinclair and Richard Starr pictured near their Hudson Quarter site in York

Palace's top scorers

■ Palace Capital trio Neil Sinclair, Richard Starr and Stephen Silvester have built up a £140m business from a standing start in 2010. They reveal to **Simon Creasey** how they plan to grow it into a £500m one

In 2010, property industry veteran Neil Sinclair was looking for a new adventure. There was just one problem. He didn't have a property vehicle. So he started looking at companies listed on the London Stock Exchange – specifically those in the bottom 50.

Towards the very bottom of the list, he found Leo Insurance Services, which the Lipman brothers owned a circa 46% stake in. Before the financial crash, shares in Leo hit 26p, but by the time Sinclair started doing due diligence on the business they were worth just 1.5p, giving the company a market cap of around £108,000.

Sinclair delved into his contact book and called the Lipman brothers, who he had sold the Baker Lorenz agency to around a decade earlier. "I asked them what they were doing with this company and they said: 'Not a lot. Are you interested?' I said 'yes', so the next day we met at 9am and by 10am we had agreed to buy 29.9% of this little listed company for £48,000."

Today, the business he bought, which he renamed Palace Capital, has £276.7m worth of property under its stewardship, a stock market capitalisation of £140m and ambitions to one day become a £500m business. *Property Week* caught up with Palace Capital's senior management team at its London office to find out more about their modus operandi and how they plan to hit that target.

It was a stroke of ingenuity from Sinclair that first set the vehicle off and running. When he bought the business from the Lipmans, he promptly sold the insurance part of it back to them for £90,000 and paid off the company's debts of £75,000. He had not been after the business itself – he had been after the listing. "We had £15,000 in the bank, a stock exchange quote and hope," he recalls.

That hope has taken the business a long way. Sinclair admits that in the early days it was hard graft getting the business going and keeping that all-important listing.

"Back then, under the rules of AIM, if you went into cash you had to make an acquisition within 12 months or they suspended your shares, but it was really hard to find anything," he says.

Fortunately, he managed to snap up a portfolio of nine properties in Cheshire for £1.8m that was generating income of £180,000 a year. "We went to Nantwich where five of the nine properties were located and I thought: 'This is a nice town.' What was interesting was after we had finished our inspections we thought we would go and get a coffee, but we couldn't get in anywhere – they were all full. I thought 'hello'.

"The more we investigated the more we found this was a rich part of Cheshire and we have tended to follow that strategy [of buying property in affluent areas] ever since."

> **"We've always said we're not just property asset managers; we manage the cash**
> **Neil Sinclair**

First-hand experience

Sinclair's intention had always been to concentrate on snapping up regional opportunities, but this coal-face experience reinforced his view that there was a lot more value to be had in the UK's regional property markets.

"London was moving, but the regions were pretty much as dead as a dodo. Our view was the regions would follow London, but probably at least two years later. We got it a bit wrong – it was three years later in the end, but we knew it would follow," explains Sinclair.

Palace Capital's next acquisition was significantly bigger and also helped Sinclair to shape the company's management team thanks to a fortuitous email sent by Richard Starr, who at the time had his own boutique property consultancy.

Starr says: "My agency needed to move offices so I emailed my contact database [to let them know the change of address] and Neil responded saying that he used to work in my new building back in the mid-1970s on the same floor as me. Neil told me he was looking for a significant portfolio to buy and asked if I wanted to meet up."

So in November 2012, Sinclair and Starr met and the latter presented all the portfolios that were on the market at the time.

"There was one in there that Neil hadn't seen and wasn't aware of that was owned by Quintain and he said: 'What do you know about this?' I replied: 'Nothing at the moment, but give me one hour and I will know everything.' It was in my black book."

The 'black book' Starr refers to is a database of every deal he has seen since 2005 and consists of around 34,000 PDFs.

"Every town across the country has its own folder and in London it's every street – the idea being that when we see a property we can actually see what's happened to that property over a period of time and it gives you a lot more insight."

Having pored over the details of the portfolio, which consisted of 24 properties dotted around the country, the pair liked what they saw and after a rollercoaster ride to secure the funding, they bought it for £39.2m in October 2013 – Starr officially joined the business as executive director, head of property, in the same month.

"That was the beginning of how we've grown the company," says Sinclair. "Quintain had put the properties together at a value of £60m so when we bought it we inherited over £20m of losses that we could use against our tax charges in the ensuing years, which we've done. We've always said we're not just property asset managers; we manage the cash. It's all about the cash and the return."

Palace bought another portfolio in 2014, this time buying 17 properties from Property Investment Holdings in what Sinclair describes as "really nice places".

Starr explains: "That's one of our USPs. It's »

« not just buying property for the sake of it, but making sure we are buying the right property in the right place. It's all about longevity, sustainable income streams and making sure you buy the right thing.

"If property people look through our portfolio, there isn't that much in there where they wouldn't say 'ah, I actually understand that'. Our challenge is communicating with our investors about why we buy what we buy."

Benefits of portfolio sales

One of the people at Palace Capital whose job it is to communicate that strategy to the market is finance director Stephen Silvester, who joined the company in 2015 having spent the previous three years as group financial controller at NewRiver REIT. He explains why Palace Capital is predominantly interested in portfolio sales.

"First you save stamp duty," says Silvester. "If you buy a £20m property you have to pay £1m in stamp duty, but if you bought the company vehicle and you bought the shares you only have to pay 0.5% on the shares. Another one of our USPs is the ability of our team. We've been through [the portfolio purchase] process so many times now we know what to look for and we know what the risks are so we are able to mitigate those risks."

Palace Capital is not sector specific, adds Starr, explaining that it is risk averse, so doesn't like to put all its "eggs" in one basket. This is reflected in the weighting of the portfolio.

"We're 49% in offices, 15% leisure, 13% industrial, 4% retail warehouse, 11% retail, and we have residential and car parking as well," he says. "It's an eclectic mix, which means we are able to continuously have that sustainable income stream. If one sector does not perform as well then another sector hopefully comes forward."

Location is also key. "We like city centres, we like university towns and cities and we like railway hubs because we're always on them," says Silvester.

An asset that ticks all these boxes is Hudson House in York. The company acquired the office building, which sits on a two-acre site right next to York railway station, as part of the Quintain portfolio deal. Initially, Palace Capital got permission via permitted development rights to convert the building into residential, but Sinclair had bigger ambitions for the site.

Following discussions with the council, the company got approval to demolish the existing office block and replace it with the Hudson Quarter, which consists of 127 luxury apartments, 34,500 sq ft of grade A office space and 5,000 sq ft of other commercial uses.

In terms of timings, the company hopes to make a start on site in February next year with practical completion in January 2021. Starr says the project – which is Palace Capital's first new-build development – is "very exciting" and he expects the office space, which is much needed in stock-starved York, will set a new headline rent for the city.

Opportunities like this don't come along too often, which is why it is 12 months since Palace Capital completed an acquisition, but Sinclair says the company is constantly on the lookout.

> **"It's about longevity, sustainable income streams and making sure you buy the right thing**
> **Richard Starr**

"We're a bit like the number 73 bus – nothing for half an hour and then three come along at once," he jokes. "We haven't bought for a little while because some of the things we've gone for are too expensive and you can't make any money out of it. There is a lot of money around and some of the prices paid for some of the things we've looked at, we just don't get it. We always say you make your money going in, not coming out."

While the company is looking at a few potential acquisitions at the moment,he says he isn't prepared to pay over the odds when the numbers don't stack up.

"You have to know when to walk away," he says. "I worked with John Ritblat for two years and I never forget what he said to me: 'Don't fall in love with your buildings.' We're looking very hard at the moment, but we want value and if we don't get value we won't do it."

The tortoise wins

However, he acknowledges that if he wants to achieve his goal of hitting a market cap of £500m, which will allow the company to access larger institutional investors, deals need to be done. While he expects pricing to remain a challenge – he likens today's pricing environment to 2006 – he doesn't see Brexit presenting too much of an issue for the business.

"Brexit is like a rent review," says Sinclair. "We won't get quite what we want and they [the EU] won't get quite what they want, which means we will have done a good deal. It is an uncertain time, but there is an argument that fortunes are made and lost in periods of uncertainty."

The key is to be patient and not rush into rash decisions that might come back to bite the business. "I take the view the tortoise won the race," he adds. "We are cautious, but we're in a position now where we can act very quickly if we see something interesting, so if we do see something we like we pounce."

To date, Sinclair's patient approach to doing portfolio deals has served the business well. There is no reason to think it won't hit the business's £500m target – if not quite as soon as he would like given the current political and economic headwinds. ■