Phoenix Spree Deutschland

The path to releasing value

Review of strategic plans

Real estate

26 February 2025

The completion of amendments to its financing arrangements allows Phoenix Spree Deutschland (PSD) to increase condominium sales materially, exploiting the wide valuation gap between investment valuations and condominium sales values. This is core to the orderly asset realisation strategy, which the board has identified as the best way to unlock the value embedded in PSD's portfolio and maximise shareholder returns. Shareholders will be able to consider the merits of this approach in a continuation vote to be held on 12 March. Our updated analysis indicates that a managed portfolio realisation can be achieved in line with the current EPRA NTA, to which the share price is at a c 45% discount.

Year end	PBT (€m)	EPS (EUc)	NAV/share (EUc)	P/E (x)	Yield (%)	P/NAV (x)
12/23	(112.4)	(106.84)	395.94	N/A	N/A	0.49
12/24e	(44.1)	(38.33)	349.15	N/A	N/A	0.56
12/25e	3.0	4.86	353.41	40.2	N/A	0.55
12/26e	7.8	8.42	360.59	23.2	N/A	0.54

Note: PBT and EPS are shown on an IFRS basis, including valuation movements. Unless stated otherwise, throughout this report, NAV is EPRA net tangible assets (NTA).

Revised financing terms agreed

The financing agreement was made possible by the strategic €75.9m sale of a 16-building portfolio of rental properties. Although sold at a discount to book value, it has increased the number of properties that can be marketed as condominiums (condos) at any point in time from six to 40, and the number of units from c 100 to c 940. PSD hopes to achieve annualised condo sales of over €50m in 2025, and we expect this to increase materially over time. Disposal proceeds will initially be used to reduce existing debt and subsequently refinance it, which PSD expects to occur well ahead of its September 2026 maturity. After refinancing, PSD will seek to return excess capital to shareholders. Our forecasts reflect the impact of condo disposals up to FY28 combined with the earnings from those units that will continue to be operated in the private rental sector.

Realising value and redeploying capital

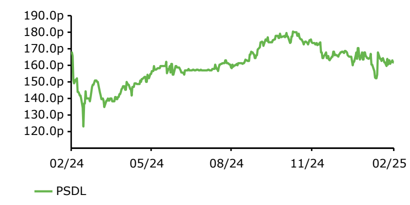
Although the portfolio sale was at a discount to book value, it has opened the door to the faster realisation of assets and unlocking of value across the whole portfolio. The c 8% reduction in EPRA NTA/share has been substantially offset by H2 property revaluations and we estimate an end-FY24 EPRA NTA/share of €3.49 (H124: €3.68), with a reduction in LTV to c 42% (H124: 46.5%). Our analysis indicates a full net realisation value in line with FY24e NTA. This comprises our forecasts for EPRA NTA to end FY28, which include the sale of c 40% of the existing portfolio units, plus the potential sale of the remaining units at a c 10% discount to estimated market value. Our forecasts reflect no return of cash prior to full realisation, but this is likely.

Valuation: Significant asset value discount

PSD's share price implies a portfolio value of c €2,700/sqm, more than 20% below the book value. Assuming a full realisation at end FY28, the IRR is c 16% pa. The IRR increases if cash is returned sooner but reduces if later.

Price	**162.25p**
Market cap	**£149m**
	€1.21/£
Net cash/(debt) at 30 June 2024	€(299.8)m
Shares in issue	91.8m
Code	PSDL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.4)	(6.5)	(3.4)
52-week high/low		182.0p	124.5p

Business description

Phoenix Spree Deutschland is a long-term investor in mid-market residential property in Berlin, targeting reliable income and capital growth. Its core strategy is to acquire unmodernised apartment blocks that may be improved to the benefit of tenants, generating attractive returns for shareholders based on improved rents and capital values.

Next events

FY24 results	12 March 2025

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The strategy to unlock value

With PSD shares continuing to trade at a material discount to NAV, the board has concluded that a portfolio realisation strategy represents the best outcome for shareholders and is no longer actively exploring a sale of the company. The primary focus is on accelerated condo sales but the disposal of rental properties is also likely over time. A continuation vote will be held on 12 March (which was in any case due no later than June 2025) and the board will recommend that shareholders vote in favour, providing time and flexibility for the realisation strategy to be pursued in an orderly way, to unlock the value embedded in the portfolio and to maximise shareholder returns. Alongside the realisation strategy, PSD continues to enhance its cost efficiency, with the primary expense being the fees paid to the investment advisor, QSix. The agreed cap on advisor management fees for the 12 months from 1 July 2024 is set at €4.3m, down from €5.0m in the previous 12 months. There is an additional disposal fee set at 1% of gross asset sales, aimed at aligning the incentives of the property advisor with PSD's intention to accelerate disposal activity.

The key elements of this strategy include:

- A material increase in the number of condos brought to market.
- Operating the residual rental apartments as private rental sector (PRS) properties, while investing to enhance their attractiveness to occupiers and potential investors.
- Possible further sales of whole buildings, both those split as condos and PRS, where the board believes it is in shareholders' interests to do so.
- Deploying disposal proceeds to reduce borrowings and invest in the portfolio. When existing debt facilities have been repaid or refinanced, PSD will look to return excess capital to shareholders.

In this note we have updated and extended our previous analysis and, given the increased clarity around the realisation strategy, present this as a forecast rather than an illustration. We model condo sales and PRS earnings to end 2028, reducing the total number of portfolio units by around 40%. Consistent with the medium-term realisation strategy, we have allowed for the sale of the remaining units, mostly PRS, at a 10% discount to estimated FY28 carried value. We forecast that c 60% of these units will be legally split as condos despite being operated and valued on a rental basis, providing an element of conservatism to our discount assumption.

We estimate total net realisation proceeds attributable to shareholders of €3.44/share, in line with our estimate of end-FY24 EPRA NTA per share, and a 75% premium to the current share price. The key sensitivities (which are quantified in the Key sensitivities section later in this report) include the following:

- Shareholder approval of the continuation vote.
- A successful refinancing of existing debt ahead of maturity in September 2026.
- Property valuation: we have assumed that rental growth is reflected in increased book values and sales values.
- The pace and timing of asset realisations.

Under the terms of the amended debt facility, PSD is unable to make distributions, including dividends and share buybacks, until the existing borrowings have been repaid, due by September 2026. However, subject to the continuation vote being approved, PSD intends to seek alternative financing to accelerate distributions to shareholders ahead of this date. Any early repayment of existing debt would not trigger repayment penalties. No accelerated distribution is reflected in our forecasts, which assume that cash is fully directed at debt repayment and that any debt remaining at the maturity of the Natixis facility in September 2026 is refinanced at current market rates.

Market and strategic background

The PRS market benefits from a favourable demand-supply balance, rental growth, high levels of occupancy and strong rent collection. PSD's portfolio continues to offer significant reversionary potential, but in the highly regulated Berlin residential market this takes time to feed through into income. For PSD, the Berlin re-letting premium to average in-place rents has continued at above 30%, while average in-place cold rents (rents paid excluding service charges) per square metre have increased by around 4% in each of the past four years. Nonetheless, war in Ukraine, increased inflation and interest rates, weak economic growth and uncertain capital markets have all contributed to challenging conditions in the real estate investment market, reflected in sharply lower investment market transactions and valuations. From the H122 peak to H124, PSD's like-for-like valuations fell by c 20% but began to improve in H224. The H124 decline of 3.3% already showed a significant slowdown of the declines seen in FY23 (6.8% in H123 and 5.3% in H223). In H224, like-for-like valuations increased 3.3% and increased 0.8% for the year as a whole. The combination of valuation declines and rental growth has seen the net yield on PSD's Berlin rental portfolio increase to 3.5% from around 2.8% in FY21.

In contrast to the fragility of the investment market for single apartment buildings or portfolios of buildings, the Berlin condo market has remained relatively robust and liquidity remains, particularly for vacant units. There is now a significant valuation gap between the average value per square metre of an apartment block and the resale value of an individual apartment to a private buyer as a condo. PSD now believes that the best way to maximise shareholder value is to exploit this arbitrage opportunity and greatly accelerate its condo sales.

Portfolio summary and the condo sales strategy

At end FY24, PSD's portfolio was externally valued by JLL at €553m or an average €3,633/sqm. This includes the sale of the 16-property portfolio, which completed shortly before year-end. The table below shows a summary of the portfolio, which we have estimated, based on the data thus far disclosed by the company. The condo sales pool includes 40 properties, with 954 units, and accounts for c 50% of the portfolio value. Almost 80% of all portfolio units are legally split as condos and those that are not included in the condo sales pool remain in the PRS portfolio, which numbers 1,210 units in total, including c 480 units that are not split as condos. The split units within the PRS portfolio may become available for sale following a refinancing of the existing debt facilities.

Exhibit 1: End-FY24 portfolio summary

	Valuation (€m)	Valuation (%)	Buildings	Units	Gross lettable area (000 sqm)	Annualised NCR (€m)	NCR/sqm (€)	Fully occupied net yield (%)
Condo sales pool	278.0	50	40	942	76	9.0	10.6	3.5
PRS	274.8	50	34	1,219	84	10.4	10.8	4.0
Total	**552.8**	**100**	**74**	**2,161**	**160**	**19.4**	**10.7**	**3.5**

Source: Phoenix Spree Deutschland data, Edison Investment Research. Note: NCR, net cold rent.

Portfolio assets are valued on a rental basis or on a condo basis. Rental valuations are driven by expected future rental income, while condo valuations give more weight to sales values. We estimate a fully occupied net yield of 3.2% for the condo sales pool assets compared with 3.8% for the PRS assets. Despite c 80% of portfolio units being legally split as condos, only c 5% were valued as such at H124, representing those units available to be marketed. The significant transfer of units from the PRS portfolio to the condo sales pool has increased the number of units valued on a condo basis to c 44% of the total (and c 50% by value). This drove a 9.8% like-for-like increase in valuations for the condo sales pool assets in H224. PRS values appear to be stabilising, with the H2 like-for-like decline slowing to 2.8%. PSD expects stable values in FY25. The Euribor benchmark five-year swap rate has fallen from its highs, to c 2.2%, and is now meaningfully below the PRS asset yield, which we estimate at 3.8%.

Reflecting the tight supply-demand situation in the Berlin rental market, portfolio occupancy is high. We do not have data for end-FY24 at this stage, but for the Berlin rental portfolio it was 95.9% at end-H124 or just 1.4% on an EPRA basis, adjusting for assets under refurbishment.

Exhibit 2: Portfolio valuation movements

	External valuation					Like-for-like change in value (%)	
	FY24 (€m)	FY24 LFL (€m)	FY23 LFL (€m)	FY24 per sqm (€)	FY24 rent multiple (x)	FY24/FY23	FY24/H124
Condo sales pool	278.0	253.1	255.1	3,641	34	9.0	9.8
PRS	274.8	282.7	293.2	3,277	28	(6.3)	(2.8)
Total	**552.8**	**535.8**	**548.3**	**3,633**	**31**	**0.8**	**3.2**

Source: Phoenix Spree Deutschland

The strategic portfolio sale

The agreement of PSD's main lender, Natixis, to the modification of lending arrangements and the loosening of the previous restrictions on the wider marketing of condos, was conditional on the 16-building portfolio sale. Although the sale was at a discount to book value (we estimate c 25%), it has opened the door to the faster realisation of assets and the unlocking of value across the whole portfolio. The sale portfolio, most of which was acquired in 2017, generated average monthly rent of €9.8/sqm compared to the remaining portfolio average of €10.7/sqm. It was acquired by funds managed by Partners Group, a leading global private markets firm. To facilitate the transaction, PSD's property advisor, QSix, was required to remain as the property advisor to the sale assets and to co-invest 2.5% in the transaction, independently of the company.

The proceeds of the €75.9m sale, after selling costs, have enabled a €58m repayment of debt while releasing €13m of cash, primarily for investment in the portfolio, and for corporate uses. Including the sale proceeds and other operational and working capital cash movements we expect H224 net debt to have reduced c €67m, taking the period-end loan-to-value ratio (LTV) to 42.2% versus 46.4% at end-H1. Primarily reflecting the repayment of fixed rate borrowings (Berliner Sparkasse) as part of the financing changes, the average cost of debt increased to 2.9% from 2.6%.

PSD has indicated that on a pro-forma basis the sale resulted in a c 8% reduction in H124 EPRA NTA per share, from the €3.68 reported to €3.39. Portfolio revaluation has significantly offset this during H224 and is reflected in our end-FY24 EPRA NTA forecast of €3.49 per share.

Condo sales momentum maintained in FY24

The value of PSD's condo notarisations reached a peak of €15.2m in FY21 and fell sharply as interest rates increased, but has been recovering through FY23 and FY24. The mix between occupied units and vacant units varies from one period to the next but, on average, vacant units account for a little over half the total. With a tenant in situ, occupied units typically sell at a discount to vacant units, which over the medium term has averaged c 15%. Historically, on average, the blended notarised values per square metre have been above both the carried value of those units and the portfolio average valuation. Although the book value of the notarised units has been on a condo basis, there is typically a further uplift at the point of sale.

Condo sales accelerated in FY24, with 26 units notarised (split equally between vacant and occupied) for a combined value of €9.4m, a 31% increase versus FY23. The average notarised price was €4,295/sqm, a 21% premium to end-FY23 carrying value and a c 60% premium to the value implied by the share price (see below). Vacant units sold for €5,027/sqm (a 41% premium), while occupied units sold for €3,430/sqm (a 3% discount). These sales accounted for 28% of the stock of condos available for sale at the start of the year.

Exhibit 3: Condominium notarisations

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Value of condominium notarisation €m)	5.7	9.1	9.9	8.8	14.6	15.2	4.7	7.2	9.4
Number of condo units sold									
Occupied units	13	8	4	6	20	12	5	13	0
Vacant	7	20	17	9	20	22	7	12	13
Total condo units sold	20	28	21	15	40	34	12	25	13
Occupied units as a % of total	65%	29%	19%	40%	50%	35%	42%	52%	0%
Sales values per sqm									
Occupied units (€)	3,617	3,379	3,765	4,816	4,444	4,572	4,928	3,332	3,430
Vacant (€)	4,427	4,322	4,733	4,700	4,209	5,313	5,735	5,345	5,027
Occupied sales values/vacant sales values	**82%**	**78%**	**80%**	**102%**	**106%**	**86%**	**86%**	**62%**	**68%**
Blended sales value (€)	N/A	4,352	4,566	4,068	4,320	4,988	5,502	3,976	4,295
Blended book value of units sold (€)	N/A	3,515	3,676	3,459	3,624	4,216	4,495	3,709	N/A
Sales value premium to book value	N/A	24%	24%	18%	19%	18%	22%	7%	N/A
Portfolio average value (€)	1,965	2,854	3,527	3,741	3,977	4,225	4,082	3,598	3,551
Sales value premium to portfolio average value		53%	29%	9%	9%	18%	35%	11%	21%

Source: Phoenix Spree Deutschland data

Sales values are significantly ahead of the implied value

PSD's share price discount to NAV continues to imply a portfolio valuation well below book value. Exhibit 4 below shows the range of values per square metre that are implied by various share prices, as calculated by PSD at H124. We do not believe this has changed materially and, based on our FY24 forecasts and the share price at the time of publication (162.25p), we estimate an implied value of c €2.700/sqm, well below the FY24 portfolio average of €3,633/sqm.

Exhibit 4: Implied portfolio value per square metre at various share price levels

Share price (p)	Implied value per sqm (€)
165	2,656
170	2,691
175	2,726
190	2,761
185	2,795

Source: Phoenix Spree Deutschland

The achieved average sales value for vacant condos in FY24 was 86% above the implied portfolio fair value. The average sales value for occupied condos was lower, but was still 27% above the implied portfolio value.

Exhibit 5: Sales premium to value implied by share price

	FY24		FY23	
	€ per sqm	Premium to implied value	€ per sqm	Premium to implied value
Vacant condos	5,027	86%	5,345	106%
Occupied condos	3,430	27%	3,332	28%
All condos	4,295	59%	3,976	53%
Portfolio book value	3,633	35%	3,598	38%
Share price (p)	0		157p	
Implied valuation	**2,700**		**2,600**	

Source: Phoenix Spree Deutschland data, Edison Investment Research

The condo disposal programme

Of the 40 condo sales pool buildings that are now available to be marketed, preparation for the first 10 buildings, comprising 258 units, began in late 2024. These buildings were prioritised due to minimal capital expenditure requirements and are now being actively marketed. Preparatory work on a further 12 buildings is underway, with capital expenditure expected to conclude by the end of the first half of the financial year, enabling their marketing to begin. The final 12 buildings, requiring more preparation, are expected to be market-ready by Q3. By year-end 2025, the total number of units available for marketing is projected to have grown from 108 (the six buildings prior to the addition of the first tranche of 10 buildings in Q4 24) to 942, with an annualised condo sales rate exceeding €50m.

There is potential for other split units, with 21 buildings from the PRS portfolio to be added to this, subject to future refinancing arrangements. Additionally, taking account of PSD's realisation strategy, we see the potential for further sales of whole buildings or portfolios of buildings, both condo buildings and PRS buildings, as discussed below.

Our disposal forecasts

Of the c 940 units that are now available to be marketed, some will be sold as vacant while others will be occupied and offered for sale to both tenants and investors. The number of vacant units available for sale will increase with natural portfolio churn, with a certain number of tenancies given up each year for a variety of reasons, including for example tenants moving within or away from Berlin. In line with historical experience, we have assumed that c 8% of the 950 units churn each year such that cumulatively c 300 occupied units become vacant during FY25–28. On this basis, sales of occupied units represent 60% of the total and vacant units 40%.

Throughout the following analysis, we draw no distinction between notarisations or completed sales, although in practice there is a slight timing difference between the two. This section of the note deals with our sales forecasts to end FY28 and in a later section we estimate the potential value of a full portfolio realisation, including the few condo pool units remaining at end FY28, as well as the PRS units.

PSD is targeting condo sales reaching an annualised run rate of €50m from 2025. Our forecasts are consistent with this, showing sales of €40m in 2025 and rising to €128m in 2028.

Reflecting the improved market tone, we now assume an increase in valuations across the portfolio (the condo pool and PRS) in line with forecast rental growth (3% pa). Within the condo pool our forecast sales values are initially set at €5,000/sqm for vacant units and €3,500/sqm for occupied units (previously €3,200/sqm), consistent with recently achieved values and indications from the sales brokers, but also increase in line with rental growth. Also within the condo pool, we allow for a gradual narrowing of the occupied unit sales value discount to 15%, more in line with the historical average. With the sales premium to book value for vacant condos broadly stable at 132–134%, and the occupied discount narrowing, the blended sales premium to the average book value rises slightly through the period. We forecast net gains after selling costs of €1.2m in FY25, increasing to €17.4m in FY28.

Exhibit 6: Edison condo sales forecasts

	Revised					Previously illustrated		
	FY24	FY25	FY26	FY27	FY28	FY24	FY25	FY26
Number of vacant units notarised	12	48	80	100	120	25	100	100
Number of occupied units notarised	13	72	120	150	180	25	80	140
Total number of units notarised	**25**	**120**	**200**	**250**	**300**	**50**	**180**	**240**
Occupied units as % of total units notarised	52%	60%	60%	60%	60%	50%	44%	58%
Notarisation value of vacant units (€m)	1.7	19.6	33.8	43.9	56.1	8.9	35.7	35.7
Notarisation value of occupied units (€m)	1.6	20.6	38.0	52.7	71.5	5.7	18.3	32.0
Total value of notarisations (€m)	**9.3**	**40.2**	**71.8**	**96.6**	**127.6**	**14.6**	**54.0**	**67.7**
Vacant notarisations per sqm (€)	4,936	5,041	5,214	5,415	5,765	5,000	5,000	5,000
Occupied notarisations per sqm (€)	3,430	3,528	3,910	4,332	4,900	3,200	3,200	3,200
Average notarised value per sqm (€)	**4,295**	**4,133**	**4,432**	**4,765**	**5,246**	**4,100**	**4,200**	**3,950**
Value of vacant notarisations/portfolio book value	136%	134%	134%	134%	132%	139%	139%	139%
Value of occupied notarisations/portfolio book value	94%	94%	100%	107%	112%	89%	89%	89%
Average value of notarisations/opening book value	**118%**	**110%**	**114%**	**118%**	**120%**	**114%**	**117%**	**110%**
Discount of occupied to vacant	31%	30%	25%	20%	15%	36%	36%	36%
Book value of notarisations (€m)	**7.2**	**35.7**	**61.5**	**79.6**	**101.2**	**12.8**	**46.3**	**61.7**
Gain/(loss) on disposal (before costs, €m)	**2.1**	**4.5**	**10.4**	**17.0**	**26.3**	**1.8**	**7.8**	**6.0**
Cost of disposal (€m)	**(0.9)**	**(2.8)**	**(5.0)**	**(6.8)**	**(8.9)**			
Cost of disposal	10%	7%	7%	7%	7%			
Net gain/(loss on disposal (€m)	**1.2**	**1.7**	**5.4**	**10.2**	**17.4**			

Source: Edison Investment Research

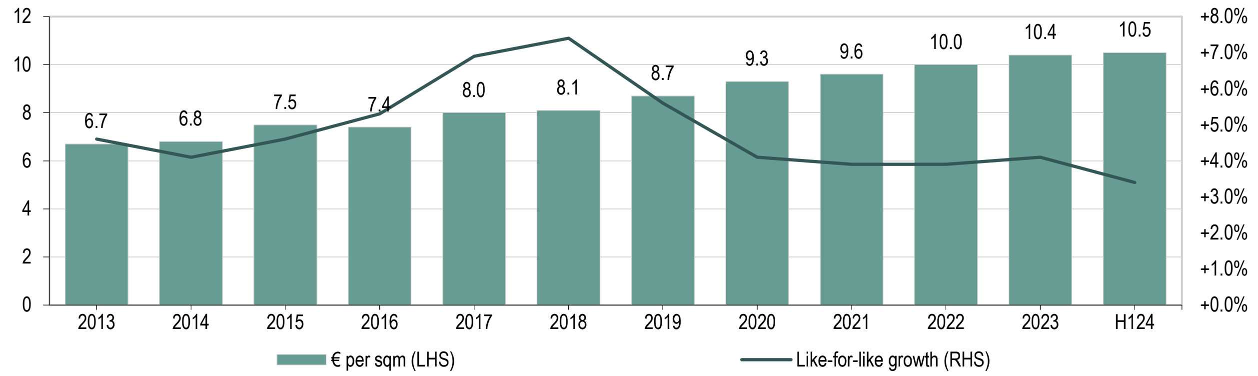
Enhanced sales capacity

PSD has significantly enhanced its resources to be able to execute on the accelerated condo sales strategy, partnering with specialist condo sales platforms to broaden its market, including internationally. Brokers have already completed site visits and have provided an assessment of the price potential for each building, including for vacant and occupied units. In FY20 and FY21, PSD's condo notarisations represented c 30–40% of the units available for sale. With the condo market picking up, in FY24, sales accounted for 28% of the stock of condos available for sale at the start of the year. Our forecast for FY25 notarisations represents c 13% of the units that will be made available for sale over time, rising to a cumulative 92% over the four years to end FY28. Available market reports and statistics indicate that c 17,000 condo units were notarised across the Berlin market in 2021 and c 12,000 in 2022.

PRS earnings potential

Conditions across the Berlin rental market remain strong, with supply-demand imbalances widening further, and reflected in record market rents and low vacancy. For PSD, on a like-for-like basis, end-H124 annualised rents were 3.4% above end-H123, comprising 3.2% rent growth and 0.2% from a further reduction in vacancy. By area, including vacant properties under refurbishment, H124 vacancy was 4.6% and, reflecting available space, just 1.4% on an EPRA basis.

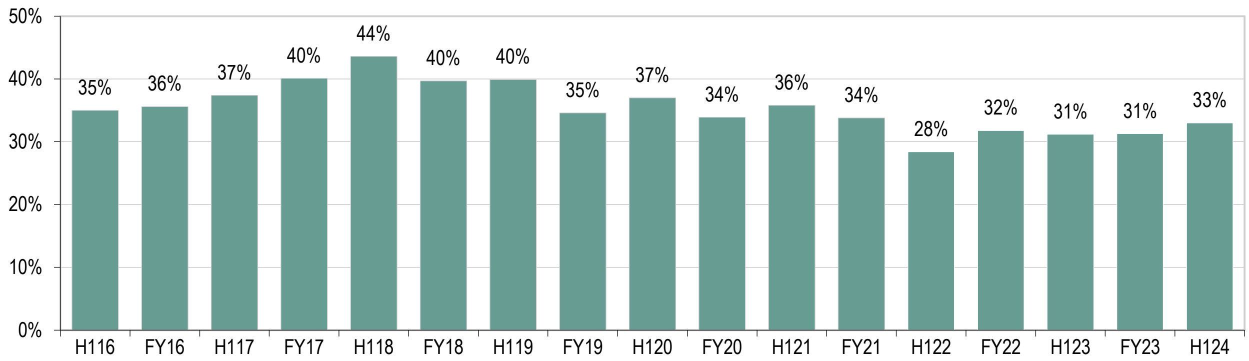
Exhibit 7: Portfolio rents per square metre and like-for-like growth rate



Source: Phoenix Spree Deutschland

Average portfolio rents have increased to a new high of €10.5/sqm and H124 new lettings were signed at an average premium of 33% to passing rents (FY22: 31.8%).

Exhibit 8: Re-letting premium



Source: Phoenix Spree Deutschland

Combining rental uplifts on existing tenancies and the premium achieved on re-letting vacated and refurbished properties at closer to market rents, we expect organic rental growth of c 3% pa, partly offsetting the impact of property sales. The changes to our previous forecasts (to FY26) are minimal in a company context, reflecting the visibility of PRS earnings.

Exhibit 9: PRS forecasts

	Revised						Previously illustrated		
€m unless stated otherwise	**FY23**	**FY24e**	**FY25e**	**FY26e**	**FY27e**	**FY28e**	**FY24e**	**FY25e**	**FY26e**
Rental units (000's)	2,629	2,161	2,041	1,841	1,591	1,291	2,527	2,242	1,845
Y-o-y change	2%	-18%	-6%	-10%	-14%	-19%	-4%	-11%	-18%
Rent per sqm (€)	10.4	10.7	11.0	11.4	11.7	12.1	10.8	11.3	11.7
Y-o-y change	4%	3%	3%	3%	3%	3%	4%	4%	4%
Annualised net cold rent	22.3	19.4	18.6	17.1	15.1	12.6	22.3	20.6	17.6
Y-o-y change	4%	-13%	-4%	-8%	-12%	-16%	0%	-8%	-14%
PRS income statement									
Rental income	**21.4**	**22.4**	**19.0**	**17.8**	**16.0**	**13.8**	**22.2**	**21.4**	**19.1**
Total property expenses	**(5.4)**	**(5.3)**	**(3.7)**	**(3.4)**	**(3.1)**	**(2.7)**	**(4.1)**	**(3.9)**	**(3.5)**
Net rental property income	**15.9**	**17.1**	**15.3**	**14.4**	**13.0**	**11.2**	**18.1**	**17.5**	**15.6**
Net to gross rental income	75%	76%	81%	81%	81%	81%	82%	82%	82%

Source: Phoenix Spree data for FY23. Edison Investment Research forecasts. Note: This includes all residential units, whether inside or outside the condo sales pool, as well as the relatively small number of commercial units.

Consolidated forecasts

The table below summarises our forecasts on a consolidated company basis up to end FY28, at which point IFRS net assets are €333m or €3.63 per share, with virtually no net debt. After adjustment for the remaining deferred tax liability, forecast EPRA NTA is €362m or €3.95 per share, prior to the realisation of the remaining portfolio (valued at €334m). As we explain in the following section, we have assumed no distributions to shareholders, although these are a possibility subject to refinancing existing debt. Also in the following sections we illustrate the impact of the additional realisation of the remaining investment portfolio and the residual value to shareholders.

Exhibit 10: Summary of consolidated financial forecasts

€m unless stated otherwise	**FY23**	**FY24e**	**FY25e**	**FY26e**	**FY27e**	**FY28e**
INCOME STATEMENT						
Net rental property income	**15.9**	**17.1**	**15.3**	**14.4**	**13.0**	**11.2**
Property advisor management fees	(5.8)	(3.9)	(3.5)	(3.6)	(3.7)	(3.8)
Admin expenses	(3.8)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)
Net finance charge	(9.4)	(9.1)	(7.6)	(7.8)	(5.9)	(2.4)
Recurring PBT (before realised/unrealised gains/(losses)	**(3.0)**	**0.8**	**1.0**	**(0.2)**	**0.2**	**1.8**
Property advisor disposal fee	0.0	0.0	(0.4)	(0.7)	(1.0)	(1.3)
Change in fair value of financial instruments	(7.2)	(0.6)	(4.1)	(4.1)	0.0	0.0
Change in fair value of investment property	(97.3)	(14.2)	4.7	7.5	9.4	10.6
Net gain/(loss) on property disposals	(4.3)	(29.6)	1.7	5.4	10.2	17.4
PBT as reported	**(111.8)**	**(43.6)**	**3.0**	**7.8**	**18.9**	**28.6**
Current tax	(0.6)	(0.5)	0.0	0.0	0.0	0.0
Deferred tax	13.6	8.1	1.5	(0.1)	(2.3)	(4.1)
Minority	0.6	0.8	0.0	0.0	0.0	0.0
IFRS attributable earnings	**(98.1)**	**(35.2)**	**4.5**	**7.7**	**16.6**	**24.5**
BALANCE SHEET						
Investment properties	675.6	552.8	533.6	488.0	422.9	334.4
Net debt (inc unamortised loan arrangement fees)	(313.0)	(233.1)	(209.0)	(155.9)	(78.8)	28.8
Deferred tax liability	(57.3)	(48.9)	(44.3)	(39.1)	(36.8)	(34.5)
Other assets/liabilities	9.8	9.1	4.1	(0.9)	1.4	4.5
Net asset value	**315.1**	**279.9**	**284.3**	**292.1**	**308.7**	**333.1**
Deferred tax assets & liabilities	57.3	48.9	44.3	39.1	34.5	29.1
Derivative financial instruments	(8.8)	(8.2)	(4.1)	0.0	0.0	0.0
EPRA net tangible assets (NTA)	**363.6**	**320.6**	**324.5**	**331.1**	**343.1**	**362.3**
IFRS NAV per share (€)	3.43	3.05	3.10	3.18	3.36	3.63
EPRA NTA per share (€)	**3.96**	**3.49**	**3.53**	**3.61**	**3.74**	**3.95**
Loan to value ratio	46%	42%	39%	32%	19%	-9%

Source: Edison Investment Research

Borrowings and distributable cash

Our forecasts indicate that by end FY25 borrowings, all with Natixis, will have reduced to c €216m (an LTV of 39%) and fall below €200m during H126. PSD expects to have refinanced this debt well before its maturity in September 2026, without incurring repayment penalties. As noted above, subject to the continuation vote being approved, the company will seek alternative financing that will enable it to accelerate distributions to shareholders.

For forecasting purposes, we have assumed that PSD continues to repay borrowings without any distribution, and we have implicitly assumed that outstanding Natixis debt at maturity in September 2026 is refinanced, at an increased cost of 4.25% (based on a three-year Euribor swap rate of c 2.3%).

A summary of our cash flow expectations can be seen in the Financial summary below.

Post-FY28 residual shareholder value of €3.41 per share

Based on the condo sales assumptions laid out above, our forecasts indicate an end-FY28 value of €334m for the remaining investment portfolio, comprising c 1,300 units, nearly all PRS units, with a gross lettable area (GLA) of c 94,000sqm and an average book value of €3.744/sqm. Of the total number of units, 63% are split as condos and 37% are unsplit, although most (93%) are valued on a rental basis. Valuing the split assets as condos and keeping the 480 unsplit assets on a rental value basis indicates a fair value of €368m or c €4,100/sqm. If sold in some format (including individual buildings or portfolios) at a 20% discount to this estimated market value, equivalent to a c 10% discount to book value, would leave both IFRS NAV and EPRA NTA of €316m or €3.44 per share, after settlement of the remaining deferred tax liability. This represents our estimate of the potential return of cash to shareholders from a full realisation of the company's portfolio. If this were to occur at the end of FY28, as a single cash distribution, the internal rate of return (IRR) of an investment at the current share price is c 16% pa. It is difficult to be precise about what the actual outcome would be. The company's plans to accelerate cash returns would have a positive impact. Conversely, it is perhaps unrealistic to expect a full portfolio realisation by end-FY28.

Exhibit 11: Estimated IRR on full realisation with assumed 'bullet' distribution

FY period end		2026	2027	2028	2028	2020
Share price in € (162.25p)	1.89					
Cash return/share (€)	3.44					
Net cash return	82%					
IRR per annum		**35%**	**22%**	**16%**	**13%**	**11%**

Source: Edison Investment Research

Key sensitivities to realised value

The pace at which cash can be realised from the portfolio is very much dependent on the progress made with condo sales, initially, but also including other PRS assets over time. Timing aside, key sensitivities to the quantum of cash flow include:

- Sales values. We have assumed that rental growth feeds through to asset valuation and sales proceeds. There is reasonable visibility to rental growth, but valuation yields are unpredictable, although there are indications that these are stabilising. With no asset revaluation, the distributable cash declines to €2.87 per share and the IRR to 11%.
- Discount applied to residual (post-end FY28 value). A 15% discount to estimated book (rather than 10%) would reduce distributable cash to €2.96 per share and the IRR to 12%.

The orderly realisations that we have modelled are dependent on both the continuation vote being approved and PSD's ability to refinance the existing debt prior to expiry in 2026.

Board and external property advisor

PSD is a Jersey-based, closed-ended investment company that was founded in 2007. It was initially listed on the Channel Islands Securities Exchange in 2007 and, after a period of strong growth, moved to a Main Market listing on the London Stock Exchange (LSE) in June 2015. It is externally managed by QSix, an independent and owner-managed specialist real estate manager, founded in 2006, with an established track record of performance in the German residential property market. QSix advises PSD on property acquisitions and disposals, supervises the renovation of properties, provides oversight of the third-party property managers and reviews tenant selection. It also advises on the initiation of bank finance and the preparation of business plans.

PSD has an experienced board with a diverse range of non-executive directors who bring a wealth of experience in real estate, corporate finance, investment funds and capital markets. The board is chaired by Robert Hingley, appointed in June 2015, who has more than 30 years' experience as a corporate finance adviser. Full biographies can be found on the company's website.

Property adviser fees

QSix is entitles to asset management, capital expenditure monitoring and investor relations fees. Since 2023 these have been progressively capped, for the year commencing 1 July 2024 to €4.3m, down from €5.0m in the prior year. In the current year, the cap has only a modest impact on the fees that would otherwise be payable, but it does allow shareholders to fully benefit from any improvement in property values. In addition, there is a disposal fee, set at 1% of the gross value of assets sold. The disposal fee is aimed at aligning the incentives of the property advisor with the company's intention to accelerate disposal activity and QSix will use the post-tax proceeds to buy shares in PSD. Following completion of the 16-property portfolio, QSix acquired a total of c 300,000 shares at an average price of c 169p, investing c £0.5m.

The normal fee arrangements, which would apply in the absence of caps, are as follows:

- 1.2% on EPRA net tangible assets of less than €500m.
- 1.0% on EPRA net tangible assets of €500m or more.
- The property adviser is also entitled to fees relating to property transactions and debt financings, lettings and investor relations activities. A capex monitoring fee (7% of capex) is also payable to the investment adviser and this is reported in the financial statements within capital expenditure.

Although the property adviser is also entitled to a performance fee, this is subject to a high-water mark and is no longer expected to be applicable. It is calculated as 15% of the excess by which annual EPRA NTA total return exceeds 8% pa on a cumulative basis measured over consecutive three-year periods, subject to the high-water mark.

Exhibit 12: Financial summary

Year ending 31 December, €m unless stated otherwise	2023	2024e	2025e	2026e	2027e	2028e
INCOME STATEMENT						
Net property income	15.9	17.1	15.3	14.4	13.0	11.2
Investment advisor management fees	(5.8)	(3.9)	(3.5)	(3.6)	(3.7)	(3.8)
Property advisor sales fees	0.0	0.0	(0.4)	(0.7)	(1.0)	(1.3)
Administrative expenses	(3.8)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)
Underlying operating profit/(loss)	6.4	9.9	8.2	6.8	5.1	2.9
Net finance charge	(9.4)	(9.1)	(7.6)	(7.8)	(5.9)	(2.4)
Underlying PBT	(3.0)	0.8	0.6	(0.9)	(0.8)	0.6
Tax on underlying earnings	(0.6)	(0.5)	0.0	0.0	0.0	0.0
Underlying earnings after tax	(3.5)	0.3	0.6	(0.9)	(0.8)	0.6
Gain/(loss) on disposal of investment property	(4.3)	(29.6)	1.7	5.4	10.2	17.4
Fair value movement on investment property	(97.3)	(14.2)	4.7	7.5	9.4	10.6
Change in fair value of interest rate derivatives	(7.2)	(0.6)	(4.1)	(4.1)	0.0	0.0
Profit before tax as reported	(112.4)	(44.1)	3.0	7.8	18.9	28.6
Tax	13.6	8.1	1.5	(0.1)	(2.3)	(4.1)
Profit after tax as reported	(98.8)	(36.0)	4.5	7.7	16.6	24.5
Non-controlling interest	0.6	0.8	0.0	0.0	0.0	0.0
Attributable profit after tax as reported	(98.1)	(35.2)	4.5	7.7	16.6	24.5
Closing basic number of shares (m)	91.8	91.8	91.8	91.8	91.8	91.8
Average diluted number of shares (m)	91.8	91.8	91.8	91.8	91.8	91.8
IFRS EPS, diluted (€ cents)	(106.8)	(38.3)	4.9	8.4	18.1	26.7
Underlying EPS (€ cents)	(3.9)	0.3	1.1	(0.2)	0.2	2.0
DPS declared (€ cents)	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET						
Investment properties	615.0	552.8	533.6	488.0	422.9	334.4
Other non-current assets	9.6	9.0	4.9	0.8	0.8	0.8
Total non-current assets	624.6	561.8	538.5	488.8	423.7	335.2
Investment properties held for sale	60.6	0.0	0.0	0.0	0.0	(1.3)
Cash & equivalents	11.0	18.0	7.0	15.1	22.2	39.9
Other current assets	12.8	12.9	10.8	10.0	8.9	8.9
Total current assets	84.4	30.9	17.8	25.1	31.2	47.5
Borrowings	(1.4)	0.0	0.0	0.0	0.0	0.0
Other current liabilities	(12.8)	(12.9)	(10.8)	(10.0)	(8.9)	(7.6)
Total current liabilities	(14.3)	(12.9)	(10.8)	(10.0)	(8.9)	(7.6)
Borrowings	(319.8)	(249.3)	(215.2)	(171.1)	(101.1)	(11.1)
Other non-current liabilities	(57.3)	(48.9)	(44.3)	(39.1)	(34.5)	(29.1)
Total non-current liabilities	(377.1)	(298.2)	(259.5)	(210.1)	(135.6)	(40.2)
Net assets	317.6	281.6	286.1	293.8	310.4	334.9
Non-controlling interest	(2.6)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Net attributable assets	315.1	279.9	284.3	292.1	308.7	333.1
Adjust for:						
Deferred tax assets & liabilities	57.3	48.9	44.3	39.1	34.5	29.1
Derivative financial instruments	(8.8)	(8.2)	(4.1)	0.0	0.0	0.0
Other EPRA adjustments	0.0	0.0	0.0	0.0	0.0	0.0
EPRA net tangible assets (NTA)	363.6	320.6	324.5	331.1	343.1	362.3
IFRS NAV per share (€)	3.43	3.05	3.10	3.18	3.36	3.63
EPRA NTA per share (€)	3.96	3.49	3.53	3.61	3.74	3.95
CASH FLOW						
Cash flow from operating activity	7.4	3.3	8.2	6.8	5.1	2.9
Income tax paid	(0.5)	(1.7)	(3.2)	(5.3)	(6.9)	(9.4)
Net cash flow from operating activity	6.8	1.6	5.0	1.5	(1.8)	(6.5)
Property additions	(4.9)	0.0	0.0	0.0	0.0	0.0
Proceeds from disposal of investment property	6.1	84.8	37.4	66.8	89.8	118.6
Capital expenditure on investment property	(9.4)	(5.8)	(11.7)	(8.4)	(5.0)	(2.1)
Other cash flow from investing activity	0.1	7.5	0.1	0.1	0.0	(0.0)
Cash flow from investing activity	(8.1)	86.5	25.7	58.5	84.8	116.5
Interest paid	(8.0)	(8.3)	(6.7)	(6.9)	(5.9)	(2.4)
Bank debt drawn/(repaid)	7.8	(72.8)	(35.0)	(45.0)	(70.0)	(90.0)
Share issuance/repurchase	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Other cash flow from financing activity	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activity	(0.2)	(81.1)	(41.7)	(51.9)	(75.9)	(92.4)
Change in cash	(1.5)	7.0	(11.0)	8.1	7.1	17.6
FX	0.0	0.0	0.0	0.0	0.0	0.0
Opening cash	12.5	11.0	18.0	7.0	15.1	22.2
Closing cash	11.0	18.0	7.0	15.1	22.2	39.9
Closing debt	(324.0)	(251.1)	(216.1)	(171.1)	(101.1)	(11.1)
Closing net (debt)/cash	(313.0)	(233.1)	(209.0)	(155.9)	(78.8)	28.8
LTV	46.3%	42.2%	39.2%	32.0%	18.6%	-8.6%

Source: Phoenix Spree Deutschland historical data, Edison Investment Research forecasts

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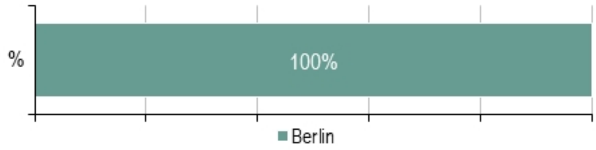
Revenue by geography



Management team

Independent non-executive chairman: Robert Hingley

Robert has over 30 years' experience as a corporate finance adviser, retiring as a partner at Ondra Partners in 2017. He joined the Association of British Insurers as director, investment affairs in September 2012 and, following the merger of its investment affairs with the Investment Management Association (IMA), acted as a consultant to the enlarged IMA until the end of 2014. From 2010 until January 2015, he was a managing director, and later senior adviser, at Lazard. He was previously director general of the Takeover Panel from December 2007, on secondment from Lexicon Partners, where he was vice chairman. Prior to joining Lexicon Partners in 2005, he was co-head of the Global Financial Institutions Group and head of German investment banking at Citigroup Global Capital Markets, which acquired the investment banking business of Schroders in 2000. He joined Schroders in 1985 after having qualified as a solicitor with Clifford Chance in 1984. He is chairman of Euroclear UK and International and The Law Debenture Corporation and a director of Marathon Asset Management.

CEO, QSix: Mike Hilton

Mike is one of QSix's founding partners, focused on the firm's growth strategy and overseeing all aspects of the German residential business and Phoenix Spree Deutschland. Prior to founding QSix, Mike was managing director and European sector head at UBS, where he worked closely with Matthew Northover, with whom he founded QSix in 2006. Mike also held roles at Charterhouse Bank and Dresdner Kleinwort Benson as an equity research analyst and LEK Partners within its corporate strategy division. Mike holds an MA in economics from Cambridge University.

CEO, Germany, QSix: Christian Daumann

Christian joined QSix in March 2024 as CEO of its German operation. He has over 25 years of experience in the real estate and asset management sector and has strong industry contacts. Prior to joining QSix, he established and led the German operations of Ivanhoé Cambridge. He previously held senior positions at Morgan Stanley and at Cerberus/LNR, and was CEO of market-listed Anterra. He has also served as a board member at Hamburg Trust, then co-owned by Colony Capital. Christian holds two state examinations in law and graduated from Bayreuth University.

Partner, head of public markets, QSix: Stuart Young

Stuart joined QSix in 2014 and is largely responsible for raising capital within public markets and overseeing activities related to Phoenix Spree Deutschland. Stuart began his career at Ernst & Young and then spent over 20 years in investment banking, where he held senior equity research and marketing positions at Charterhouse Bank, Dresdner Kleinwort Benson, Citigroup and Barclays Capital, and worked on a wide spectrum of IPOs, acquisitions, corporate restructurings and recapitalisations. Stuart holds a degree in accountancy and finance from the University of Glasgow.

Principal shareholders	%
Columbia Threadneedle Investments	22.3
Bracebridge Capital	15.5

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