Quarterly Report

Q1

DAVY Real Estate

Davy Irish Property Fund

Q1 2024 Report

3 Months to 31 March 2024

Welcome to the Quarterly Report for the Davy Irish Property Fund (“DIPF” or “the Fund”)

Overview

- The Fund's total return is -5.69% for the quarter.
- Gross Asset Value (GAV) as at 31 March 2024 was €142m, compared to €150m at 31 December 2023.
- 1 dividend per unit is €146 for the quarter to 31 March 2024 (1.79%). The Fund's annualised income distribution for the quarter is 7.16%.
- Rent collection for the quarter across the portfolio was 96% of rent billed.

Key Fund Metrics

-5.69% Total Return – YTD 2024	€142m Gross Asset Value
-7.48 Capital Return – Q1	€77m Net Asset Value
1.79% Income Return – YTD	€7,561 NAV per Unit

Fund Performance – Unit Class D

	Capital	Income	Total
QTR on QTR	-7.48%	1.79%	**-5.69%**
YTD	-7.48%	1.79%	**-5.69%**
1 yr p.a.	-24.65%	6.18%	**-18.47%**
3 yrs p.a.	-12.91%	5.71%	**-7.20%**
5 yrs p.a.	-10.13%	4.82%	**-5.31%**
10 yrs p.a.	-2.35%	6.97%	**4.62%**

[1] This figure has been rounded by Davy
[2] Gross Asset Value means the Net Asset Value of the Fund plus borrowings

All data refers to Unit Class D (Distributing) - Sedol Number 9795233

All performance figures are for the period ending 31 March 2024
3, 5 and 10 year figures show the annual average performance for those periods

These figures are net of fees. Capital Return represents Net Asset Value (NAV) excluding dividends. Income Return represents dividends distributed.

Sources: Northern Trust and J & E Davy Unlimited Company

Warning: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. The income you get from this investment may go down as well as up.

Warning: Forecasts are not a reliable indicator of future results.

Commentary

Outcome for Q1 2024

The Net Asset Value (NAV) per unit of the Fund reduced by 7.48% in Q1 2024 compared to quarterly reductions of 8.98%, 8.31%, 2.37% and 6.91 during 2024. The reduction in NAV was offset by an income distribution of 1.79% (Q4: 1.78%) for the quarter resulting in a net negative return of 5.69% (Q4: -7.20%). The negative outcome for the quarter was driven again predominantly by yields increasing as interest rate rises are feeding through to the commercial real estate sector with a lag.

Market dynamics

Values continue to drift lower across most sectors as the trends discussed in previous reports continue to affect investor sentiment and pricing decisions. Q1 2024 saw the lowest quarter of investment activity in over a decade with €160m traded. Office transactions made up 8% of that total, the third lowest figure ever recorded. This shows the headwinds in place to higher values. We are seeing some improvements in relation to some of these headwinds but less in relation to others.

While Q1 saw the lowest level of activity since the Financial Crisis, Q2 is showing signs of improved activity. JLL and Cushman & Wakefield have brought the RGRE portfolio to the market. This portfolio includes a number of prime properties including Connaught House and some prime retail on Grafton Street. Other sellers have also brought properties that would normally trade well to the market including this Fund which has brought 20 On Hatch to the market. These sales processes will properly test the depth of investor interest and their pricing expectations. While these processes won't have completed by the end of Q2, we should have a better guide to how they are likely to play out at that stage.

Post COVID it was always going to take some time for occupancy levels to get to an equilibrium. Transitioning from working from home to returning to the office was never going to be linear and has varied from industry to industry. Over time we have seen more companies put varying degrees of pressure on employees to return to the office. We can now see that occupancy in European markets is much higher than in US markets. Typically, in the major US cities occupancy levels are between 30% and 40%. In Europe it's generally over 60%, with some cities close to 70% (Savills research). It's likely that these numbers will increase further as companies experiment with hybrid models, but it does appear that both companies and staff see the benefits in working from the office for a number of days each week. As occupancy increases this will give investors more comfort that future requirements will be robust. A return to higher leasing volumes will help improve investor sentiment.

In late 2023/early 2024, the predominant view was that interest rates would reduce significantly over the second half of 2024 and into 2025. This was on the assumption that inflation had been tamed and that central banks would therefore reduce rates. That view has now been challenged by the data. Firstly, inflation remains higher than central banks would like so interest rate reductions have been delayed, along with a probable decrease in the total reduction amount. Secondly, having rates at the levels they are at hasn't been detrimental to the economy yet. Unless there is a change in those two elements, it's difficult to see interest rates reducing significantly from their current levels. On that basis, sellers waiting for rates to reduce in the hope of prices reverting towards 2022 levels may need to reassess.

Landlords are doing a lot of work on the costs required to bring older buildings up to higher sustainability ratings. The current focus is on improving BER ratings. The pathways here are becoming clearer and the costs required are better understood. Particularly where no significant work needs to be done to the façade. Those pathways may help in the tradability of these buildings. The targets due to be hit in relation to sustainability ratings will continue to rise as the focus moves to kilowatt hours per meter squared per annum and getting this figure as low as possible, both in theory and actual performance. Progress is being made in this area but it will continue to evolve and be a focus for all but the newest buildings.

Valuations across all sectors reduced in Q1. The value of the Fund's office properties reduced by 5.1% in Q1 (v. 8% in Q4) as yields were moved out and estimated rents reduced again. Retail valuations fell by less at 3.90% (v. 2.40% in Q4) as yields were moved out further. Valuers were more comfortable with estimated rents in this sector given leasing activity and that vacancies are now very low on main streets and in main centres.

There continues to be strong performance on the income side as occupancy remained high, rent recoverability was very good and void costs kept low.

The key objectives for 2024 were set out in our Q4 report:

- Make progress in leasing currently vacant assets - M50, Warrington and 68 O'Connell Street.

  - Making progress on leasing M50.
  - Warrington is sale agreed and should close in early May.
  - At legals on the leasing of 68 O'Connell Street.

- Complete the sales of assets currently on the market.

  - Both GFSC and Wicklow Street completed in the quarter.
  - Other completions are expected in Q2.

- Continue work being carried out in relation to sustainability of office assets, with a view to improving their viability and valuation.

  - Pathways have been prepared for both 20 On Hatch and Newmount House.

Portfolio updates

Further progress was made in relation to several assets during Q1 2024.

Terms are well advanced on M50 with the HSE in discussions in relation to a floor and possibly the entire building. Another party has also inspected and is indicating an interest in leasing at least a floor.

Discussions are well advanced in relation to leasing 68 O'Connell Street.

The sale of the Winthrop property in Cork completed in December. The Wicklow Street and Galway Financial Services Centre sales completed in the quarter. We are at late stage legals in the sales processes for Model Farm Road and Warrington Place – both of which should complete in May. The Fund has also seen a good start in the marketing of 20 On Hatch.

Proceeds from these sales will be used to fund redemptions, reduce debt and possibly provide some capital for identified value add projects. We saw an increase in redemptions in Q2 2023 given the market uncertainty. The plan to fund these remains the same as in previous cycles – a combination of finding new equity and, where necessary, selling some properties.

In Q4, a full refinancing of the AIB facility completed. This adds three years term certainty to the existing facility.

As has been outlined previously, the Fund has a number of potential value add projects which it hopes to take advantage of over the coming years and will be looking to raise new equity to fund these projects. These include:

- Nutgrove residential development – planning permission has been refused by Dun Laoghaire Rathdown (as expected) and the Fund has appealed this decision to Bord Pleanala. Bord Pleanala have also refused permission. The Fund is currently reviewing the ABP decision with its design team based on the criteria outlined in the decision.

- There are three other identified opportunities within the Fund which have potential for development or refurbishment. We are currently working with design teams to assess how best to progress these.

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Fund Performance – 2019 - 2023

	2019	2020	2021	2022	2023
Capital Return	-3.00%	-15.30%	-4.40%	-9.93%	-24.19%
Income Return	5.70%	4.60%	5.90%	5.89%	6.23%
Total Return	**2.70%**	**-10.80%**	**1.50%**	**-4.04%**	**-17.96%**

These figures are net of fees and represent calendar year performance for unit class D.
Capital Return represents Net Asset Value (NAV) excluding dividends. Income Return represents dividends distributed.
Source: Northern Trust & J & E Davy Unlimited Company

Top 3 Holdings

Nutgrove Shopping Centre

Size 111,000 sq ft
Ownership 67%
Tenants Multi Tenanted. Anchored by Tesco, Dunnes and Penneys
WAULT 2.13 Years to Break / 3.45 years to Expiry

20 On Hatch

Size 44,000 sq ft
Ownership 100%
Tenants MetLife, Medtronic
WAULT 3.29 Years to break / 4.63 years to expiry

Percy Place

Size 36,000 sq ft
Ownership 75.91%
Tenants Multi Tenanted
WAULT 3.75 Years to break / 10.14 years to expiry

Distributions

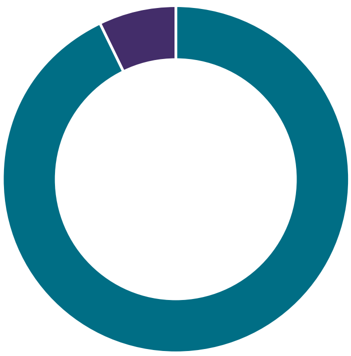
The distribution of net Q1 income was declared at the end of the quarter and will be distributed during April. This distribution equates to €146 per unit and brings the income distributed for the rolling 12-month period to €620 per unit or 6.18%.

The Fund is established as an open-ended fund with limited liquidity. The Manager will endeavour to redeem a redemption request as quickly as possible and it is expected that a redemption request will be fully dealt with within three years. Although it is intended that a certain number of Units will be redeemed on each Redemption Date occurring during this three-year period, there is no guarantee that a minimum number of units will be redeemed on any given Redemption Date during this three-year period. The eventual redemption proceeds may differ from the redemption price at the date of redemption notification.

Portfolio Breakdown

Office **53%**
Retail **42%**
Industrial **5%**

Geographical Split



Dublin **93%**
Outside Dublin **7%**

Office

8 properties
215,490 sq ft
25 tenants

Retail

12 properties
164,203 sq ft
86 tenants

Industrial

1 properties
32,833 sq ft
1 tenants

All data correct as at 31 December 2023
Source: J & E Davy Unlimited Company unless otherwise stated
All data refers to Unit Class D (Distributing) - Sedol Number 9795233

Source Net Asset Value NAV - Northern Trust
*WAULT = weighted average unexpired lease term Vacancy Rate by Value of the Fund

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