Quarterly Report

Q2

Real Estate

Davy Irish Property Fund

Q2 2024 Report

3 Months to 30 June 2024

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

Overview

- The Fund's total return is -3.58% for the quarter.
- Gross Asset Value (GAV) as at 30 June 2024 was €127m, compared to €142m at 31 March 2024.
- Q2 dividend per unit is €152 for the quarter to 30 June 2024 (2.01%). The Fund's annualised income distribution for the quarter is 8.04%.
- Rent collection for the quarter across the portfolio was 97% of rent billed.

Key Fund Metrics

-9.00% Total Return – YTD 2024	€127m Gross Asset Value
-5.59 Capital Return – Q2	€71m Net Asset Value
3.65% Income Return – YTD	€7,138 NAV per Unit

Fund Performance – Unit Class D

	Capital	Income	Total
QTR on QTR	-5.59%	2.01%	**-3.58%**
YTD	-12.65%	3.65%	**-9.00%**
1 yr p.a.	-27.11%	6.38%	**-20.73%**
3 yrs p.a.	-13.55%	5.83%	**-7.71%**
5 yrs p.a.	-10.53%	4.73%	**-5.80%**
10 yrs p.a.	-3.14%	6.65%	**3.51%**

[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 30 June 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 5.59% in Q2 2024 compared to reductions of 7.48% in Q1 2024 and 24% in 2023. The reduction in NAV was offset by an income distribution of 2.01% (Q1: 1.79%) for the quarter resulting in a net negative return of 3.58% (Q1: 5.69%). The negative outcome for the quarter was driven again predominantly by yields increasing due to a combination of interest rate rises and investor sentiment.

Market dynamics

Valuations continued to reduce across all sectors in Q2. The value of the Fund's properties reduced overall by 3.09% in Q2 (Q1: 4.49%). Retail valuations fell by less than office values at 2.15% (Q1: 3.90%) as yields were moved out by between 0.15% and 0.2% depending on the asset. Estimated rental values ("ERV's") remained steady reflecting the reasonable demand for space in the retail sector. Office values fell by more at 3.93% (Q1: 5.14%). The yield movement here was more than in the retail sector, moving out by 0.15% to 0.25%, and ERV's also being reduced.

Q2 saw a lot more activity in the investment than the multi-year low level of activity seen in Q1. The feedback coming from that sales activity is mixed with both positive and negative evidence.

The sale of 40 Molesworth Street to German fund Deka completed in May, and at a sales price of €40m, equated to a net initial yield of c. 5.2% which is positive evidence for the market. However, this sale benefitted from a number of positive property specific characteristics such as location, single tenancy to a large global law firm, length of lease remaining and lot size.

As reported in the Q1 report 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. This process hasn't completed yet but the evidence likely to be generated by sales completing at the prices now being discussed would provide negative evidence for the price of office assets. What is positive about the RGRE process is that it looks like a number of the assets will trade – there had been concerns in advance that there might be muted interest in the portfolio.

The other process currently in train is the sale of the Northern Dock portfolio. This consists of two office buildings near The 3 Arena, located on northern banks of the Liffey and quite far down the river but close to a Luas line. The buildings are also c. 50% vacant. The prices being discussed for this sale are low for buildings of their quality, if it trades at these levels, this will demonstrate further negative evidence for the office market.

On the basis of the above, the evidence being generated is mixed. A positive that can be drawn from this mixed evidence is that despite the issues facing office properties (outlined again below), there are buyers in the market prepared to purchase office assets. This should help put a floor under prices at some stage.

As outlined in previous reports, one of the key issues facing offices is occupancy, which has fallen post-COVID. However, we continue to see improving levels of occupancy as people are beginning to spend more days in the office as opposed to working from home. In Q1, we reported that while occupancy levels are low (at between 30% and 40%) in the major US cities, in Europe occupancy levels are generally over 60%, with some cities close to 70% (Savills research). Anecdotally, we are also hearing that groups such as the Central Bank are seeing improved occupancy over the last few months as this trend continues. Occupancy levels vary by sector and even by team within some companies. However, the general trend is that occupancy levels are veering back towards pre-COVID levels for Monday to Thursday, with Friday being a generally quiet day in offices everywhere.

It is also now clear that interest rates are unlikely to fall significantly in the near term. While inflation has reduced, it is still higher than target and rates at current levels don't seem to be creating issues in the economy. Unless there is a change in those two elements it's hard 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.

There continues to be strong performance on the income side as occupancy remains high, rent recoverability is good and void costs are kept low.

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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.

  - A number of sales have been completed so far in 2024 and progress is being made in the couple that are ongoing.

- 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

The portfolio is almost fully leased and income producing. In terms of further progress during Q2:

- 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 one floor. It is important to note that it is normal for the HSE to move slowly on these decisions, and that while this can be frustrating, we do believe progress is being made.

- Discussions are well advanced in relation to leasing 68 O'Connell Street. Finalizing the lease has been delayed by discussions with the Dublin City Council conservation team but we believe these issues have now been resolved.

- The sales of Model Farm Road and Warrington Place completed in Q2. The Fund also went sale agreed on 20 On Hatch and as of this date, the legal due diligence process is progressing well. Progress is also being made in the sales processes of two other buildings and we hope to be able to report on the sale of one, or both, of these in the Q3 report.

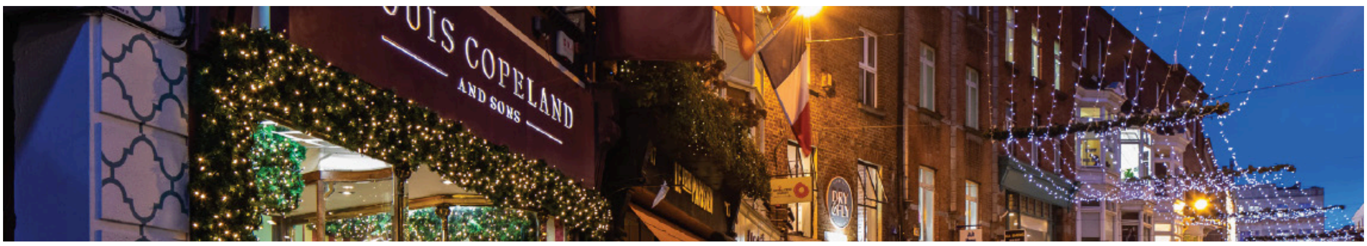
- Following the recent sales and end Q2 valuations, the portfolio is 52% office and 48% retail. The portfolio is now 100% located in Dublin and its suburbs.

- Sales proceeds from completed sales are being 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, with a combination of finding new equity and, where necessary, selling certain properties.

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 Dún Laoghaire Rathdown (as expected) and the Fund has appealed this decision to Bord Pleanála. Bord Pleanála have also refused permission. The Fund is currently reviewing the ABP decision with its design team based on the bases outlined in the decision.

- There are three other opportunities that have been identified within the Fund that have development or refurbishment potential. 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 Q2 income was declared at the end of the quarter and will be distributed during April. This distribution equates to €152 per unit and brings the income distributed for the rolling 12-month period to €625 per unit or 6.38%.

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.

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