QUARTERLY REPORT

Q4

DAVY REAL ESTATE

DAVY IRISH PROPERTY FUND

PURE PROPERTY

QUARTERLY REPORT

31 DECEMBER 2017

Welcome to the Q4 2017 quarterly report to unitholders in the Davy Irish Property Fund ("DIPF" or "the Fund").

The Fund has declared a distribution of net rental income for Q4 equating to €190 per unit and this distribution will be made in January. The amount distributed for the calendar year 2017 equates to 4.53% and the projected figure for 2018 is 4.80% (based on December 2017 valuation). The Investment Manager continues to market the Fund and attract new investors.

We project that income and therefore distributions will grow significantly over the next 5 years. This is mainly as a result of rents in the office portion of the portfolio increasing to market levels from their current under-rented position but also captures some growth in the retail sector. Our projections show rent growing from €14.7m in 2017 to €17.9m in 2022 and distribution yield rising from 4.53% in 2017 to 5.7% in 2022 (based on December 2017 pricing).

The key industry event in the quarter was the increase of stamp duty on commercial properties from 2% to 6% in Budget 2018. The effect of this for existing investments was that it increased the adjustment for purchasers' costs made when valuing investment property. The 4% rise in stamp duty therefore immediately devalued all existing portfolios by 3.67%. DIPF took this adjustment into its valuation immediately in its October pricing.

FUND PERFORMANCE

	Capital Return	Income Return	Total return
QTR	-1.80%	1.25%	**-0.54%**
YTD	0.83%	4.53%	**5.35%**
1 yr	0.83%	4.53%	**5.35%**
3 yr p.a.	10.76%	5.08%	**15.84%**
5 yr p.a.	17.14%	4.28%	**21.42%**

All performance figures are for the period ending 31st December 2017
3 and 5 year figures show the annual average performance for those periods
*Net total return based on NAV growth and distributions
Sources: Northern Trust and J&E Davy

KEY FUND METRICS

-1.80%
NAV Change Quarter on Quarter

€669
Dividend per Unit YTD

€281 m
Net Asset Value (NAV)

€14,890
NAV per Unit

20/01/18
Distribution Date

6 Years
WAULT**

* Vacancy Rate by value ** Weighted average unexpired lease term

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Warning: Indications of future performance are estimates only and are not a reliable guide to future performance.

Top 3 Holdings

20 ON HATCH

Size	44,000 sq ft
Ownership	100%
Tenant	MetLife, Medtronic
WAULT	1.4 Years

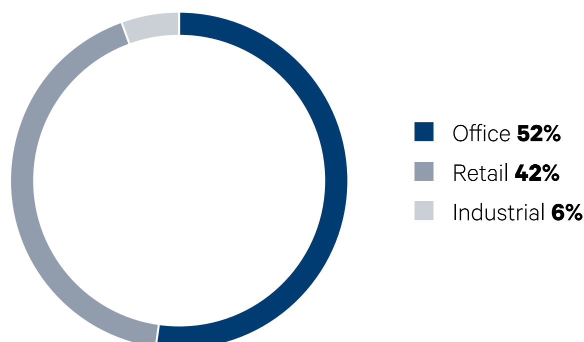
NUTGROVE SHOPPING CENTRE

Size	62,000 sq ft
Ownership	70%
Tenants	Multi Tenanted. Anchored by Tesco, Dunnes and Penneys
WAULT	6 Years

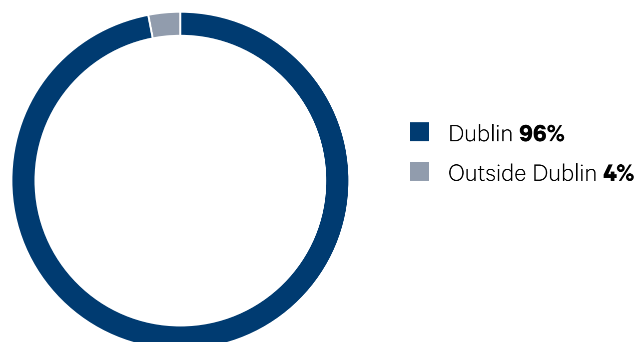
FERRY HOUSE

Size	34000 sq ft
Ownership	100%
Tenants	Multi Tenanted
WAULT	4.6 Years

PORTFOLIO BREAKDOWN



GEOGRAPHICAL SPLIT



Performance

The Fund's bid unit price as at 31st December 2017 was €14,890.14 (Offer price €16,267.46). This reflects a capital decrease of 1.80% for the quarter. The distribution yield for the quarter was 1.25% giving a Total Return of minus 0.54% for the quarter.

The stamp duty increase announced in the budget in October reduced the value of the Fund by 3.67% and so stripping this out, the Fund had a positive capital performance of 1.87% in the quarter.

For the full year 2017 the total capital return was 0.82% (4.49% ignoring stamp duty adjustment). This was largely driven by the Fund's office portfolio as this sector continued its strong recovery during the period. The total income distribution yield for the year was 4.53% giving a total return of 5.35%.

KEY FACTS:

€14,890
Fund's bid unit price

1.25%
Distribution yield for quarter

4.53%
Total income distribution yield for the year

FUND PERFORMANCE 2013 TO 2017

	2013	2014	2015	2016	2017
CAPITAL	5.5%	33.1%	20.7%	8.7%	0.8%
INCOME	–	–	3.6%	4.7%	4.5%
TOTAL	**5.5%**	**33.1%**	**24.3%**	**13.4%**	**5.4%**

These figures are net of fees and represent calendar year performance

Distributions

The distribution of net Q4 income was declared at the end of the quarter and will be distributed during January. This distribution equates to €190 per unit and brings the income distributed for 2017 to €669 per unit or 4.53%.

As outlined above, we project that income and therefore distributions will grow significantly over the next 5 years. This is mainly as a result of rents in the office portion of the portfolio increasing to market levels from their current under-rented position but also captures some growth in the retail sector. Our projections show rent growing from €14.7m in 2017 to €17.9m in 2022 and distribution yield rising from 4.53% in 2017 to 5.7% in 2022 (based on December 2017 pricing).

These are projections only and are based on assumptions being made in relation to lease events between now and the end of 2022. They also assume no sales or acquisitions in the period.

Warning: Forecasts are not a reliable guide to future performance.

Fund Activity

Investment activity

The Fund continued to work towards completing the acquisition of two further units in Nutgrove Shopping Centre for a combined consideration of €2.5m. The Fund sold no assets in Q4.

Asset management activity

Vacancy within the Fund increased to 4.27% (Q3: 3.03%) as measured by value. The activity in Q4 included:

- 2 Parkway Dublin 12 : Lease executed with a German equipment manufacturer Linde who took up occupation during Q4.
- Treasury Building, Dublin 2: The agreed letting to Perrigo did not proceed. There have been media reports about a potential sale of the Treasury Building and one of the conditions of this sale is that the Perrigo letting wouldn't proceed. The offer was an unsolicited one and discussions in relation to this continue. We should be in a position to report more fully on this next quarter.

We expect to have almost no vacancy within the portfolio during Q1 2018. The two key deals to secure this are:

- 83-85 Patrick Street, Cork City: the redevelopment of these buildings into a single property has now been completed. The Fund has reached heads of terms with a fashion retailer and we expect to finalise this letting in January 2018 with tenant works expected to start in February.

KEY FACT:

4.27%

Vacancy rate within the Fund

- One Airton, Dublin 24: agreement reached with a party in early November and it is expected that this lease will be signed in early 2018. This will lead to a significant increase in value for this asset and the income from it will be significant and help to boost distributions.

- At the Nutgrove Shopping Centre the façade works that started in Q2 2017 were completed. This has given the shopping centre a significant upgrade. In addition, both Penneys and Tesco completed significant refurbishments of their units in Q4. These upgrade works by both landlord and key occupiers continue to improve the offering and general shopping experience for Nutgrove customers thereby improving its position versus competing schemes.

In Broomhill Business Park, Dublin 2 , a lease expired during September and a deal has been agreed with the subtenant to lease the unit from expiry. This has ensured no vacancy or void cost.

The rent review remains ongoing in Warrington Place, Dublin 4 although some progress has been made recently and it is expected this will complete in Q4.

Market & Economic Outlook

The office market continues to see very strong demand which has resulted in the first wave of development following the 2008 crash being substantially leased in advance of completion and no resulting adverse impact on rents. A number of themes have evolved over the last 12 months.

Tech Sector Occupation

In 2017 we have continued to see strength of the technology sector in the occupational market. During the year technology firms leased 36% of the space leased in the Dublin market and were also very active on the acquisition side. These figures do not include space taken in serviced and shared space offices (counted under Business Services which accounted for 12% of lettings) where the technology sector is also very active[1]. This is on top of strong leasing activity over the last five years and a significant pipeline of activity from this sector in 2018.

Brexit Underwhelming

The second distinct pattern is the lack of activity relating to Brexit. The public announcements to date have favoured Amsterdam, Paris and Frankfurt. While the number of relocations that have actually happened has been low to date, various reasons have been given for why Dublin hasn't been the key market for announced banking and insurance relocations including its peripheral location within Europe, regulatory environment and local issues such as housing and other resources.

So the high leasing volume of the last couple of years has largely happened without any Brexit dividend. There will be Brexit led activity but Dublin is likely to get less than initially anticipated given the factors outlined above. The true level of Brexit driven lettings will also be difficult to determine accurately – for example some of the space being taken by technology companies may have been space that would have gone to London had Brexit not happened.

Foreign Direct Investment (FDI) Reliance

The impact of FDI generally on the Dublin office market is clear and is likely to be the most important factor in leasing activity in future. While the pipeline here remains strong it is obviously dependent on continued investment from these sectors which are influenced by general economic factors but also political ones. Resolving issues such as housing and school places will be important to ensuring we do as much as possible so that Dublin and Ireland more generally remain an attractive location for these businesses and their employees[2].

Economy Drives Retail Growth

The Retail sector continues its slow pace of recovery linked to the gradual improvement in the Irish economy and consumer sentiment. It also continues to be subject to headwinds from technology and other sources that are far more muted in the office sector. We are seeing gradual growth in sales values and volumes and retail property values (driven by the rental growth achieved since the trough) remain well behind where they were at the peak.

What can be seen in the retail sector is that retailers continue to have a strong requirement for the key streets and suburban/regional shopping centres. This is linked to the consumer's need to interact with brands but also the fact that consumers enjoy the physical experience of shopping. Even as online shopping increases the continued need for physical stores can be seen, most visibly through Amazon's acquisition of Whole Foods and Alibabas acquisition of Sun Art Retail, both examples of the key online retailer in their region acquiring a large existing physical network of shops.

So while technology and other issues have put retail under pressure, physical stores will remain a requirement with an emphasis on prime locations. Over time this is likely to drive a wider wedge between prime assets and secondary ones.

1 Data: CBRE

2 Per Davy Research report circulated on 5th January 2018 employees in FDI sector has hit its highest level ever.

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