

# Davy Irish Property Fund

## Q1 2019 Report

3 Months to 31 March 2019

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

## Overview

- Overall Fund performance is +5.70% for the full year and 1.11% for the quarter.
- Gross Asset Value (GAV) at 31 March 2019 is €261m, as compared to €288m at the end of Q4 2018.
- Q1 dividend per unit is €195.24 and €733 for the rolling 12 months to 31 March 2019.
- Strong letting in the second half of last year has continued in the first quarter of this year. The Fund vacancy rate across all assets is currently at 4.87% by square foot.

## Key Fund Metrics

+1.11%

Total Return – Q1



€261m<sup>1,2</sup>

Gross Asset Value



-0.17%

Capital Return – Q1



€189m<sup>1</sup>

Net Asset Value



+1.28%

Income Return – Q1



€15,206

NAV per Unit



## Fund Performance – Unit Class D

	Capital return	Income return	Total return
QTR	-0.17%	1.28%	1.11%
YTD	-0.17%	1.28%	1.11%
1 yr	0.84%	4.86%	5.70%
3 yr p.a.	3.05%	4.94%	8.00%
5 yr p.a.	13.67%	5.82%	19.49%

<sup>1</sup> This figure has been rounded by Davy

<sup>2</sup> 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 2019  
3 and 5 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

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

It's not just business. **It's personal.**

# Performance

The Fund's bid unit price at 31 March 2019 was €15,206. This reflects a decrease of 0.17% in the unit price of the Fund for the quarter. The distribution yield for the quarter was 1.28% giving a total return of 1.11% for the quarter.

During the quarter we continued to see asset management driven valuation increases in specific assets across our office portfolio. This sat against a backdrop of relatively stable yields and rental values reflecting a mature office sector the Dublin.

The retail component of the portfolio has experienced a softening of valuation during the quarter as capitalisation rates for some of our prime retail and shopping centre have moved out. The capitalisation rates for shopping centres in particular have moved out as a result of a smaller number of large transactions in the space. Our sense is that there is currently a valuation disconnect in this market with sentiment not being supported by operating metrics. Despite the present capital valuation impact, income yields are strong and so we are comfortable holding this asset class in the portfolio over the long term.

DIPF won the MSCI European Property Investment Award 2018 which was awarded for achieving the highest total return relative to the MSCI benchmark annualised over the 3 years to December 2017.



**European Property Investment Awards**  
**WINNER 2018**

The unit prices for the Fund are published and updated monthly on our website at [www.davy.ie/real-estate/dipf](http://www.davy.ie/real-estate/dipf)

## Fund Performance – 2014 to 2018

	2014	2015	2016	2017	2018
<b>Capital Return</b>	33.1%	20.7%	8.7%	0.8%	2.3%
<b>Income Return</b>	–	3.6%	4.7%	4.5%	4.8%
<b>Total Return</b>	<b>33.1%</b>	<b>24.3%</b>	<b>13.4%</b>	<b>5.4%</b>	<b>7.1%</b>

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

## Top 3 Holdings

### Nutgrove Shopping Centre



**Size** 111,000 sq ft  
**Ownership** 67%  
**Tenants** Multi Tenanted. Anchored by Tesco, Dunnes and Penneys  
**WAULT** 6 Years

### 20 On Hatch



**Size** 44,000 sq ft  
**Ownership** 100%  
**Tenants** MetLife, Medtronic  
**WAULT** 6.75 Years

### Percy Place



**Size** 36,000 sq ft  
**Ownership** 75.91%  
**Tenants** Multi Tenanted  
**WAULT** 9.8 Years

**WARNING: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. This product may be affected by changes in currency exchange rates.**

**WARNING: Forecasts are not a reliable indicator of future results.**

# Fund Activity

## Nutgrove Shopping Centre

We have had a very high level of releasing/leasing at Nutgrove Shopping Centre during the quarter.

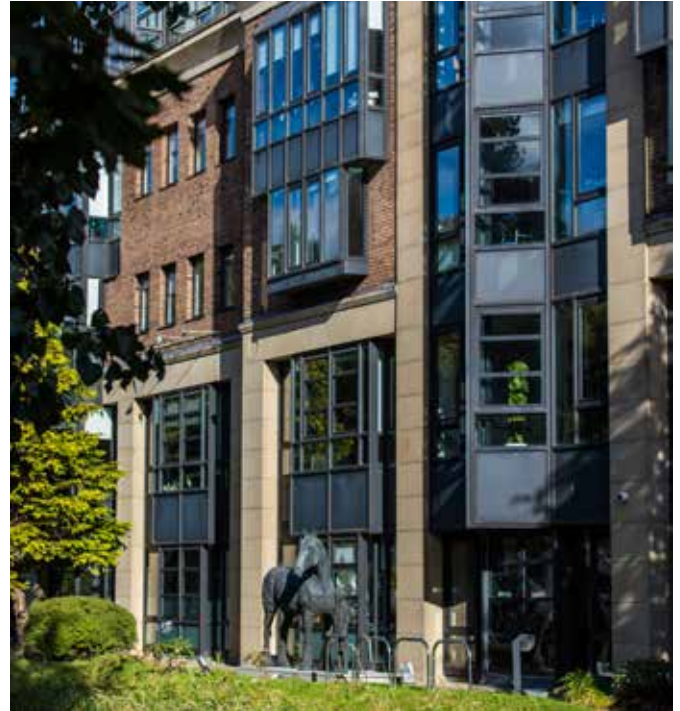
For the first time in the centre's history we will be proceeding with the installation of digital advertising. We have agreed a 10-year lease term with JC Decaux for two advertising signs within the mall. This will be incremental income to the Fund from this asset and will improve the overall offering within the malls area.

During the quarter Axa Insurance surrendered their lease of an outside unit. Given the appetite for Food and Beverage offerings in the centre and the broader local area, we will seek to secure a tenant of that nature. Initial interest in the unit has been strong and we expect leasing soon after surrender.

## Office

We are currently marketing the 6,782 sq ft of ground floor space at 20 on Hatch with the assistance of Knight Frank. The accommodation is in the process of being refurbished to fully fitted Cat A standards.

A 7-year lease term was recently secured at 3rd floor of Newmount House. This space had recently gone through a minor refurbishment and strong interest for a space of this size in a prime location bodes well for the realisation of rent growth in this building over the coming years.

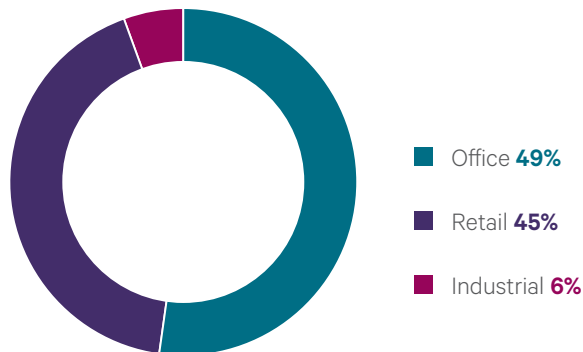


▲ Percy Place, Dublin 4

## Key Metric:

**7.2 years**  
WAULT\*

## Portfolio Breakdown



### Office

8 properties  
207,654 sq ft  
25 tenants

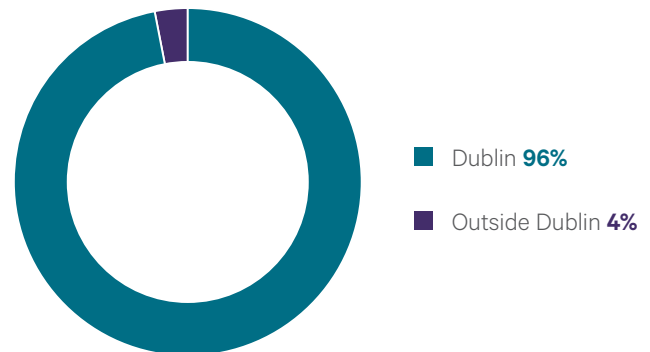
### Retail

16 properties  
183,570 sq ft  
86 tenants

### Industrial

4 properties  
186,145 sq ft  
10 tenants

## Geographical Split



All data correct as at 31 March 2019  
Source: J&E Davy 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

**Warning: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. If you invest in this product, you may lose some or all of the money you invest.**

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

# 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 €195.24 per unit and brings the income distributed for the rolling 12-month period to €733 per unit or 4.8%.

In January 2018, the Fund introduced a scrip share class. This class is for investors who would prefer not to receive cash distributions but receive additional units to the same value instead. There has been strong demand for this non-distributing unit share from both existing investors who have elected to switch unit class and from new investors into the Fund.

## Retail Investment Market

A very interesting dynamic is unfolding in the Irish retail sector. On one hand consumer sentiment and spend is improving. On the other hand investor sentiment appears to be disimproving as evidenced by recent sales of shopping centres.

Our sense is that the current investment sentiment towards Irish Retail being largely informed and influenced by poor sentiment in US and UK markets.

The characteristics driving this poor sentiment in these markets however are not always apparent in the Irish market. The US for example is significantly over retailled compared to the UK and Germany and typical lease terms in US mall/shopping centres allow for all tenants to break lease should the anchor tenant terminate. We would not see those types of characteristics at a European level. In Ireland the shopping centre sector is smaller on a per capita basis and generally centres are food anchored or have a substantial food and beverage offering.

While we understand that international sentiment will always have some influence on the local Retail market it is worth considering whether that influence is overstated at this point in the cycle.

In addition to differing structural characteristics, the Irish retail sector is operating in a backdrop of strong economic fundamentals:

- Irish economy is showing continued strong growth with Gross Domestic Product (GDP) forecast to increase to 4% for 2019
- The Consumer Spending (CS) numbers continue to improve. The average CS in Ireland from 1995 to 2018 was €19.8bn; it reached an all-time high of €25.7bn in Q4 2018
- Raising employment has continued to boost disposable income and support overall retail sales volumes. Ireland's retail trade surged 2.1 percent from a month earlier in February 2019 driven by strong numbers in the Clothing and Footwear and Motor sectors

We understand that you can't row against sentiment in the short term however, we are seeing approximately 500 bps differential between prime Dublin office yield and shopping centre yields across the Greater Dublin Area. It is difficult to see how this yield gap can continue over the longer term and that capital will not return to the sector to take advantage of this mismatch. We believe the current gap will narrow and believe retail and shopping centres have a valuable place in a balanced portfolio.

### Annualisation

	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018
<b>Total Return</b>	<b>36.2%</b>	<b>31.8%</b>	<b>15.0%</b>	<b>7.5%</b>	<b>8.9%</b>

Source: MSCI

Source Date: December 2018

Number above represent annualised total returns gross of fees

**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 guide to future performance.**

This quarterly report is intended as a summary of activity and performance for the specified period. It is strictly for information purposes and is not intended to be a comprehensive list of all activities of the Fund or an invitation to invest. It is not a recommendation or investment research and is classified as a marketing communication in accordance with the European Union (Markets in Financial Instruments) Regulations 2017. It does not constitute an offer or solicitation for the purchase or sale of any financial instrument, trading strategy, product or service and does not take into account the investment objectives, knowledge and experience or financial situation of any particular person. Investors should be aware that the Manager & Alternative Investment Fund Manager ('AIFM') (Davy Investment Fund Services) is a wholly owned subsidiary of the Investment Adviser and Distributor (J&E Davy) and the Directors of the Manager / AIFM may also be Directors of the Investment Adviser and Distributor; both companies are part of the J&E Davy Holdings Group. Our conflicts of interest management policy is available at [www.davy.ie](http://www.davy.ie).

**Dublin Office**

Davy House  
49 Dawson Street  
Dublin 2  
D02 PY05  
Ireland  
+353 1 679 7788  
[dublin@davy.ie](mailto:dublin@davy.ie)

**Belfast Office**

Donegall House  
7 Donegall Square North  
Belfast BT1 5GB  
Northern Ireland  
+44 28 90 310 655  
[belfast@davy.ie](mailto:belfast@davy.ie)

**Cork Office**

Hibernian House  
80A South Mall  
Cork  
T12 ACR7  
Ireland  
+353 21 425 1420  
[cork@davy.ie](mailto:cork@davy.ie)

**Galway Office**

1 Dockgate  
Dock Road  
Galway  
H91 K205  
Ireland  
+353 91 530 520  
[galway@davy.ie](mailto:galway@davy.ie)

**London Office**

Dashwood House  
69 Old Broad Street  
London EC2M 1QS  
United Kingdom  
+44 207 448 8870  
[london@davy.ie](mailto:london@davy.ie)

 @DavyGroup

[www.davy.ie/real-estate/dipf](http://www.davy.ie/real-estate/dipf)