Quarterly Report

Q4

DAVY Real Estate

Davy Irish Property Fund

Q4 2023 Report

3 Months to 31 December 2023

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

Overview

- The Fund's total return is -7.20% for the quarter.
- Gross Asset Value (GAV) as at 31 December 2023 was €150m, compared to €160m at 30 September 2023.
- Q4 dividend per unit is €160 for the quarter to 31 December 2023. The Fund's annualised income distribution for the quarter is 6.23%.
- Rent collection for the quarter across the portfolio was 98% of rent billed.

Key Fund Metrics

-17.96% Total Return – 2023	€150m Gross Asset Value
-8.98 Capital Return – Q4	€85m Net Asset Value
6.23% Income Return – 2023	€8,173 NAV per Unit

Fund Performance – Unit Class D

	Capital	Income	Total
QTR on QTR	-8.98%	1.78%	**-7.20%**
YTD	-24.19%	6.23%	**-17.96%**
1 yr p.a.	-24.19%	6.23%	**-17.96%**
3 yrs p.a.	-11.58%	5.69%	**-5.88%**
5 yrs p.a.	-9.27%	4.88%	**-4.39%**
10 yrs p.a.	-0.34%	4.81%	**4.47%**

[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 December 2023
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 the Q4 2023

The Net Asset Value (NAV) per unit of the Fund reduced by 8.98% in Q4 compared to a reduction of 8.31%, 2.37% and 6.91 in Quarters 3, 2 and 1 respectively. The reduction in NAV was offset by an income distribution of 1.78% (Q3: 1.70%) for the quarter resulting in a net negative return of 7.20% (Q3: -6.62%). The negative outcome for the quarter was driven again by a reduction in valuation and the factors driving the continued falls in valuations are outlined in more detail below.

Market dynamics

The Fund's valuation continued to be under pressure in Q4 for the same reasons as outlined in our reports for the first three quarters of the year. Valuations have continued to fall due to the higher interest rate environment. The European Central Bank raised rates from 0% to 4% over the 15 months from July 2022 to September 2023.

Investment levels remained very low throughout 2023 as potential buyers and sellers were reluctant to buy or sell assets until there was more certainty as to where yields will end up. An initial view that rates would go up and then come down again have been replaced with a belief that rates will stay higher for longer. This means property yields have continued to increase. Property values fall as yields increase. There is still uncertainty about how high property yields will go and the lack of activity in the investment market means there's very little evidence to replace this uncertainty.

As commented on in previous reports, there are also other factors influencing valuers.

There have been general concerns about the degree to which office occupiers are back to work in offices as opposed to working from home and what this means for how much space occupiers will need in the future. It now seems most occupiers require or encourage their employees to be in the office most of the time. While this is still weighing on investor sentiment it is likely to be less of a factor over time. It does appear to be a bigger issue overseas and in the US in particular and so it remains a larger issue for any investors based there.

A bigger issue would appear to be concerns in relation to the future costs required to improve the sustainability and energy rating of buildings. Investors and many tenants are requiring more sustainable buildings for economic reasons and to fit in with their corporate responsibility objectives. A lot of work is being done in relation to the costs required to bring older and less sustainable buildings to a higher rating. Given the uncertainty still in relation to the costs involved, these concerns are most keenly felt in relation to secondary office buildings.

The Fund is looking in depth at the issues around sustainability and improving property energy ratings. The refurbishment of M50 has been completed resulting in a building that is now rated A3. The Fund has engaged technical surveys of a number of office buildings to assess what works would need to be done to achieve a similar result. Once received plans will be put in place to implement the findings.

Valuations across all sectors reduced in Q4. The value of the Fund's office properties were reduced by 8% in Q4 (v. 6% in Q3) as yields moved out and estimated rents reduced. The Fund's retail property valuations fell by less at 2.4% (v. 1.85% in Q3). Valuers were more comfortable with estimated rents in this sector given leasing activity and the fact that vacancy on the main streets and in the main centres is now very low.

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 are to:

- Make progress leasing the currently vacant assets - M50, Warrington and 68 O'Connell Street.
- Complete the sales of the assets currently on the market.
- Continue the work being carried out in relation to sustainability of office assets with a view to improving their viability and valuation.

Portfolio updates

Further progress was made in relation to several assets during Q4 2023.

The refurbishment of M50 Business Park completed in Q3. The works carried out improves the sustainability rating on the building to A3. Lisney are marketing the building to potential tenants and have continued to have very positive discussions with one potential occupier. The M50 space is now the only vacancy in the office portfolio.

The works at 68 O'Connell Street completed in Q4. Savills have been appointed to market the space and discussions with potential occupiers are ongoing.

The sale of the Winthrop property in Cork completed in December. Progress was also made in selling the properties at Wicklow Street and Galway Financial Services Centre in the quarter. Both are sale agreed and at legals. Two other assets are also in the process of being marketed for sale and we hope to go sale agreed on both in the early weeks of 2024.

Sales 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 is 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 loan facility completed. This adds three years term certainty to the existing facility.

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

- M50 Business Park – discussed above.
- Warrington Place – planning permission in place for a redevelopment of this office. The lease expires at the end of 2023 and the tenant has confirmed they will be vacating. Work is ongoing to finalise the dilapidations figure with the tenant and work will then begin to refit the space with a view to letting the property.
- Nutgrove residential development – planning permission has been refused by Dun Laoghaire Rathdown (as expected) and the Fund has appealed this decision to Bord Pleanala. A decision was expected in Q2 2023 but the date of the decision has been put back towards the end of Q3.

There are three other identified opportunities within the Fund which 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 – 2018 - 2023

	2018	2019	2020	2021	2022
Capital Return	2.3%	-3.0%	-15.3%	-4.4%	-9.93%
Income Return	4.6%	5.7%	4.6%	5.9%	5.89%
Total Return	**7.2%**	**2.7%**	**-10.8%**	**1.5**	**-4.04%**

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 / 3.68 years to Expiry

20 On Hatch

Size 44,000 sq ft
Ownership 100%
Tenants MetLife, Medtronic
WAULT 3.54 Years to break / 4.88 years to expiry

Percy Place

Size 36,000 sq ft
Ownership 75.91%
Tenants Multi Tenanted
WAULT 4.00 Years to break / 10.39 years to expiry

Distributions

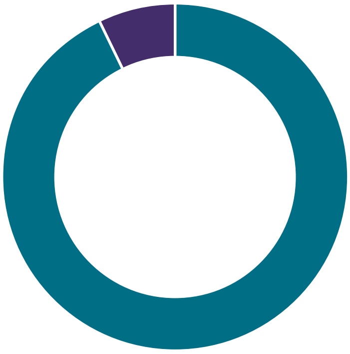
The distribution of net Q4 income was declared at the end of the quarter and will be distributed during January. This distribution equates to €160 per unit and brings the income distributed for the rolling 12-month period to €671 per unit or 6.23%.

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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