

# Davy Irish Property Fund

## Q2 2019 Report

3 Months to 30 June 2019

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

## Overview

- Overall Fund performance is +5.08% for the full year and 1.72% for the quarter.
- Gross Asset Value (GAV) at 30 June 2019 is €265m, as compared to €261m at the end of Q1 2019.
- Q2 dividend per unit is €207.75 and €764 for the rolling 12 months to 30 June 2019.
- The Fund continues to deliver strong income. The annualised quarterly dividend has increased to just over 5.4%.
- The Fund vacancy rate across all assets is currently at 4.87% by square foot.

## Key Fund Metrics

+1.72%

Total Return – Q2



€265m<sup>1,2</sup>

Gross Asset Value



+0.36%

Capital Return – Q2



€193m<sup>1</sup>

Net Asset Value



+1.37%

Income Return – Q2



€15,261

NAV per Unit



## Fund Performance – Unit Class D

	Capital return	Income return	Total return
QTR	0.36%	1.37%	1.72%
YTD	0.19%	2.65%	2.83%
1 yr	0.07%	5.01%	5.08%
3 yr p.a.	2.43%	4.98%	7.41%
5 yr p.a.	11.51%	5.86%	17.37%

<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 30 June 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: Forecasts are not a reliable indicator of future results.**

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

# Performance

The Fund's bid unit price at 30 June 2019 was €15,261. This reflects an increase of 0.36% in the unit price of the Fund for the quarter. The distribution yield for the quarter was 1.37% giving a total return of 1.72% for the quarter.

During the quarter the capital value of assets in the portfolio was up marginally at 0.09% with retail valuations down 1.1% quarter on quarter being offset by an increase in the capital values of the office assets. The ERV (Estimated Rental Value) for 20 on Hatch increased in line with rental terms issued on the Ground Floor resulting in continued strong performance from that asset. Yield compression in pockets of Dublin 4 resulted in the value of Percy Place increasing.

While the footfall at Nutgrove Shopping centre is currently down 2.9% year on year, the average spend per visit in the centre appears to be up. This footfall trend that we are seeing across other shopping centres may be attributed to higher macro employment levels, leaving people with less time to shop but spending more money each time they visit. This combined with strong tenant trading numbers indicates that the Centre will continue to drive value for the unitholders.

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** 6.52 Years

### Percy Place



**Size** 36,000 sq ft  
**Ownership** 75.91%  
**Tenants** Multi Tenanted  
**WAULT** 9.55 Years

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# Fund Activity

## Office

We have issued terms for the Ground Floor of 20 on Hatch. The headline rate was strong and after the Metlife lease extension last summer, 10-year term for the ground floor secures long-term income for the Fund from one of its premium assets.

During the quarter our Investment Management Team negotiated an early surrender of the Londis at 68 O'Connell Street as we had strong interest in the space from Claddagh Jewellers. 10-year term significantly extends the contracted income period for that asset and is another demonstration of asset management driving Fund value. Claddagh Jewellers is a sitting tenant of our unit at 2 Grafton Street. Our ongoing relationship with them provides our Investment Management Team with an understanding of the Claddagh's growth objectives and allowed us to accommodate this within the portfolio's assets.



▲ 20 on Hatch, Dublin

## Key Metric:

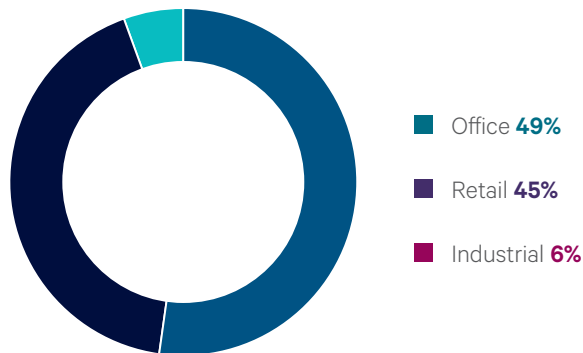
**7.0 years**  
WAULT\*

# Distributions

The distribution of net Q2 Income was declared at the end of the quarter and will be distributed during July. This distribution equates to €207.75 per unit and brings the income distributed for the rolling 12-month period to €764 per unit or 5.01%.

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.

## Portfolio Breakdown



### Office

8 properties  
207,654 sq ft  
25 tenants

### Retail

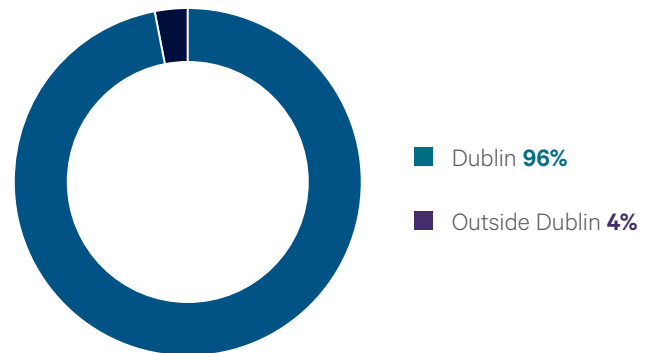
16 properties  
183,570 sq ft  
86 tenants

### Industrial

4 properties  
186,145 sq ft  
10 tenants

All data correct as at 30 June 2019  
Source: J&E Davy unless otherwise stated  
All data refers to Unit Class D (Distributing) - Sedol Number 9795233

## Geographical Split



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

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# Omni-channel retail strategy

The relentless march of technology has transformed almost everything about the way we lead our lives. Only death and taxes, those stubborn outliers, remain impervious to the business of disruption.

One of the aspects of the day-to-day that has evolved beyond all recognition is the concept of retail shopping. The very word 'shopping' seems almost quaint in the galloping digital age; a throwback to the idea of a weekly ritual or occasional treat. Really, who goes shopping these days?

Actually, most of us do. Still! Like so much else, we just do it differently. In the past two decades, the retail sector has shifted from online to multi-channel – more options to maximise revenue and drive customer loyalty – and again to the current trend of omni-channel strategy.

Omni-channel is an integrated approach to the holy trinity of retail marketing, sales and service, designed to ensure a consistent customer experience regardless of how that customer is interacting with the brand.

Whether it's by mobile device, desktop, any social channel, telephone, or of course within the physical store, the consumer gets the same 'feeling'; the experience is seamless across all brand touchpoints.

Apple is one of the brands getting the most out of an omni-channel approach, with an acclaimed mobile app that works in tandem with its Irish network of stores and resellers to cover all retail bases. The app does not merely help to drive footfall, it also works to enrich the brand experience when customers are in the physical store.

Of course, omni-channel means different things to different retailers. From a real estate perspective, however, we are seeing traditional retail spaces being used and leveraged in new and different ways.

## The rise of the in-store 'experience'

With so many browsing and purchasing options, there is often very little need for people to physically set foot in a store. Savvy

retailers are therefore creating different, distinct events and experiences to help drive footfall.

Brown Thomas, for example, has launched a range of themed afternoon tea events to deepen the retail experience. Shoppers at the flagship Dublin outlet can join a Veuve Clicquot-inspired afternoon tea while in Cork, the Whittard branch recently offered an intriguing Alice in Wonderland-themed experience.

This type of event can reinforce long-standing brand values while giving customers an opportunity to see that brand in a whole new light. A yoga class in your favourite department store. A barista course in your go-to shoe shop. An organic, zero-alcohol beer tasting at your local health food store.

## Maintaining investment returns

For hard-nosed, bricks-and-mortar investors, the common denominator in the examples listed here is obvious: physical space.

Retailers still need that space to innovate and diversify; consumers still need somewhere they can see and touch a brand and its products – even if they are ambivalent on the idea of purchasing. (In any case, research has shown again and again that retail shopping drives online purchasing and vice-versa.)

Like many other industries, the retail sector is changing at a mind-boggling pace. There are challenges galore. However, while the concept of 'the shop' may be on the way out, the concept of shopping is here to stay – and for most retailers, physical space is still a necessity.

As retailers embrace technology and the evolving needs of their customers, the real estate industry must also evolve, not only to understand the changing landscape but to maintain investment returns now and into the future.

For real estate investors, the retail sector's adaptation of omni-channel strategies provides the opportunity to continue to drive value for physical retail real estate. As part of a balanced, diversified real estate portfolio, there is still plenty of life in retail property into the future.

## 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

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