STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
Vesteda Residential Fund FGR

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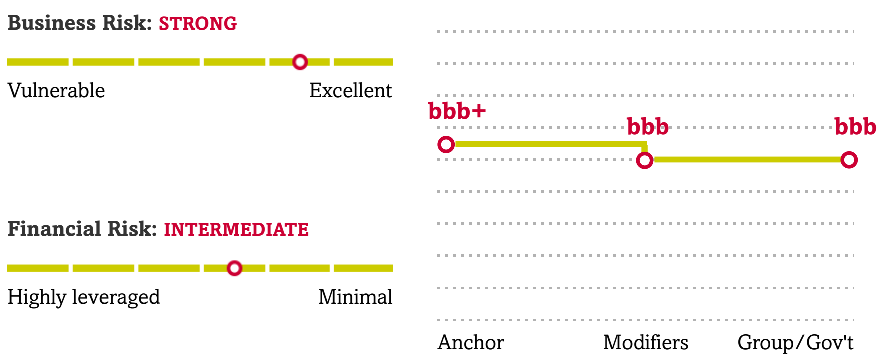

CORPORATE CREDIT RATING

BBB/Stable/--

Rationale

Business Risk: Strong	Financial Risk: Intermediate
• Good position in the Dutch mid-market unregulated sector, where property values appear to be stabilizing. • Good track record of organic rental income growth, even during weaker periods in the Dutch property sector. • Operating stability supported by high occupancy, low tenant turnover (average stay of 11 years), and minimal development activities. • Relatively small cash flow base compared to higher-rated residential property companies in Europe.	• Modestly leveraged capital structure, with debt to debt plus equity of 35%, and EBITDA interest coverage of 2.9x. • Relatively stable but small cash flow base, supported by a balanced strategy of acquisitions and disposals. • "Adequate" liquidity, with declining capital expenditure requirements as development activities subside.

Outlook: Stable

The stable outlook on Vesteda Residential Fund FGR reflects our opinion that the company should continue to benefit from stable rental income from its residential property portfolio. We expect like-for-like rents to grow slowly, in line with inflation, and the valuation of Vesteda's asset portfolio to continue to stabilize over the next two years as the Dutch housing market recovers.

The outlook is further supported by our view of favorable dynamics in the mid-market unregulated sector, and Vesteda's strong track record of low vacancy rates and continuous rent increases. Over the medium term, we anticipate that Vesteda will benefit from recent refinancing activities and report an EBITDA interest coverage ratio of above 3x and a debt-to-debt-plus-equity ratio of between 30% and 35%.

Downside scenario

We could lower the rating if Vesteda's EBITDA interest coverage ratio falls to less than 2.4x. This could occur if vacancies increase as a result of lower demand or increased competition from social housing associations or other institutional players. However, such developments are not part of our central assumptions. We could also lower the rating following an increase in the debt-to-debt-plus-equity ratio to more than 50%, due to a large debt-financed acquisition, or higher renovation capital expenditure (capex) than we anticipate, combined with low levels of asset disposals. A change of this magnitude is not part of the company's stated financial policy.

Upside scenario

The most likely trigger for an upgrade would be if Vesteda continued to expand its cash flow base on a sustainable basis, such that we no longer considered it to be smaller and somewhat more volatile than higher-rated peers. An upgrade would also likely require the company's EBITDA interest coverage to reach 3.5x or higher and its debt-to-debt-plus-equity to fall to 30% or below. We have slightly adjusted these target metrics for an upgrade based on our assessment of Vesteda's overall risk profile versus peers.

Standard & Poor's Base-Case Scenario

Assumptions

- About 1.5%-2.0% of like-for-like growth in rental income in 2014, based on very low indexation and some uplift in renegotiated rents, as well as stable occupancy rates.
- Relatively low maintenance capex of €15 million-€20 million, assuming no material renovation work on the existing portfolio.
- Neutral or marginal positive revaluation of assets.

Key Metrics

	2014A	2015E	2016E
EBITDA margin (%)	66.0	66.0-67.0	67.0-68.0
EBITDA interest coverage (x)	2.9	3.0-3.4	~3.5
Debt to debt plus equity (%)	35.5	~32.0	~32.0

*Fully Standard & Poor's-adjusted. A--Actual. E--Estimated.

Business Risk: Strong

Vesteda's "strong" business risk profile reflects our view of the fund's well-positioned portfolio of residential properties in The Netherlands. This is supported by the relatively good quality of Vesteda's assets, whose average age of 21 years compares favorably with other rated residential real estate companies. Approximately 60% of Vesteda's portfolio is in the Randstad conurbation (which consists of the four largest Dutch cities: Amsterdam, Rotterdam, The Hague, and Utrecht).

Our assessment of business risk also reflects Vesteda's good track record of stable rental income despite difficult conditions in the Dutch housing market in the past five years. The fund has been able to grow like-for-like rental revenues at an annual average rate of about 1.5%-2.5% over the past three years, and to dispose of some noncore assets. We consider Vesteda to be well-positioned to benefit from current dynamics in the Dutch rental market, including low levels of new construction, an increasing number of households, and stabilizing housing prices. We view positively Vesteda's increasing focus on the mid-market unregulated segment (63% of its portfolio at year-end 2014), where we expect demand to be strongest over the next few years. Of its total portfolio, 19% is in the regulated segment and 18% in the high-end unregulated segment.

In our view, Vesteda has a good track record of operating performance. The average occupancy rate is high and improved slightly in 2014 to 96.6%, and the average stay per tenant is close to 11 years, with a low percentage of tenants leaving each year (12%). Lastly, Vesteda has significantly reduced its pipeline of development activities in the past few years, in line with its strategy. We understand that the fund is committed to finishing existing projects by 2018, and will not start any new development projects.

We forecast that growth in prices and values will remain slow in the next 12-24 months. Having said that, after a period of falling house prices (about an 18% drop since 2008), the Dutch residential real estate market has seen some price increases in 2014.

We assess Vesteda's business risk profile at the lower end of the "strong" category. Although Vesteda has changed the profile of its portfolio to generate stable rental income, the portfolio is small compared to its rated European peers with business risk profiles in the "strong" category. In addition, macroeconomic uncertainty makes it difficult to estimate the amount of potential like-for-like growth in rental income.

Real estate valuations are subject to investor sentiment regarding yields. We do not consider that the volatile real estate valuations of the past five years provide a good basis for capital value forecasts in The Netherlands. A combination of a business risk profile of "strong" and financial risk profile of "intermediate" results in an anchor of either 'a-' or 'bbb+'. We chose an anchor of 'bbb+' for Vesteda, rather than 'a-', because in our view the company's business risk profile is at the weaker end of the "strong" category.

Financial Risk: Intermediate

Our assessment of Vesteda's financial risk profile as "intermediate" mainly stems from the company's modestly leveraged capital structure. Vesteda has a Standard & Poor's-adjusted debt-to-debt-plus-equity ratio of 35%, which we view as low compared with its investment-grade peers.

Vesteda maintains hedging of its debt facilities at over 90%, which we view as credit-positive. Vesteda's average debt duration is low (2.9 years as of December 2014), but we believe this should improve thanks to the company's recent refinancing of its bank facilities, and once its bridge facility falls due at the end of 2015. This facility was fully drawn in April 2015 to repay the remaining CMBS notes.

That said, the recently announced equity inflow of a total of €600 million should support Vesteda's credit metrics. We forecast that the company's EBITDA interest coverage will improve to above 3x by the end of 2015, well within the "intermediate" financial risk profile category.

Liquidity: Adequate

We assess Vesteda's liquidity as "adequate" under our criteria, supported by our forecast that the fund's liquidity sources will exceed its funding needs by about 1.4x-1.6x over the next 12-24 months. We consider that Vesteda's committed new equity from two additional investors, combined with its funds from operations (FFO), cash balance, and availability under the new revolving credit facility (RCF), will be enough to cover its liquidity requirements over the next 12 months, including material debt maturities.

Principal Liquidity Sources	Principal Liquidity Uses
• A cash balance of €36 million as of March 31, 2014, and about €600 million available under the new RCF agreement; • About €130 million-€140 million of cash FFO; and • €415 million of new equity from new investors, which are fully committed for the next 12 months. We also note that an equity commitment of a further €185 million, as part of the total €600 million commitment, should become available in 2016.	• A repayment of €300 million related to the fully drawn bridge facility that will mature at the end of 2015, as well as a repayment of the €135 million drawn under the current €300 million RCF, which will be replaced with a new €600 million RCF; • About €255 million of equity redemption; and • About €22.2 million of development capex committed to complete the construction of existing projects.

Covenants

As of March 31, 2015, the fund had adequate headroom (above 10%) under all its financial maintenance covenants.

Other Credit Considerations

We apply a one-notch negative adjustment to our initial analytical outcome, or anchor score, for our comparable rating analysis. This reflects some volatility in operating cash flows over the past few years as a result of disposals and development activities. We also view Vesteda's absolute cash flow base as relatively small compared to higher-rated peers in the residential property segment. Operating cash flows are constrained by Vesteda's portfolio size and the recent change to its portfolio profile, which in our view makes medium-term operating cash flows less predictable.

Furthermore, we observed some signs of recovery of the Dutch housing market in the second half of 2014, with small uplifts in property valuations. Nevertheless, there is a lack of track record for housing price stability in this market and within Vesteda's portfolio, further underpinning the volatility in operating cash flows.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/--

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: bbb+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Key Credit Factors For The Real Estate Industry, Nov. 19, 2013

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	**a-/bbb+**	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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