

# RatingsDirect®

---

## Research Update:

# Dutch Residential Property Fund Vesteda Upgraded To 'BBB+' On Lower Leverage, Improving Property Market; Outlook Stable

### Primary Credit Analyst:

Nicole Reinhardt, Frankfurt (49) 069 33 999 303; nicole.reinhardt@standardandpoors.com

### Secondary Contact:

Marie-Aude Vialle, London +44 (0)20 7176 3655; marie-aude.vialle@standardandpoors.com

## Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

## Research Update:

# Dutch Residential Property Fund Vesteda Upgraded To 'BBB+' On Lower Leverage, Improving Property Market; Outlook Stable

## Overview

- Dutch real estate fund Vesteda Residential Fund FGR (Vesteda) has significantly improved its credit metrics, because of recent refinancing activities and a €600 million equity contribution last year.
- Operating cash flow has been increasing over the last two years, and we expect stability in the future, thanks to Vesteda's refocusing its portfolio toward the unregulated midmarket segment in Dutch metropolitan areas.
- We are therefore raising our corporate credit ratings on Vesteda and its finance subsidiary, as well as our issue ratings on Vesteda's senior unsecured debt and revolving credit facility to 'BBB+' from 'BBB'.
- The stable outlook reflects our view that Vesteda should continue to benefit from stable rental income in the next two to three years, supported by its high occupancy and favorable dynamics in the Dutch midmarket unregulated sector.

## Rating Action

On April 22, 2016, Standard & Poor's Ratings Services raised its long-term corporate credit rating on Vesteda Residential Fund FGR (Vesteda) and its finance subsidiary Vesteda Finance B.V. to 'BBB+' from 'BBB'. The outlook is stable.

We also raised our issue ratings on the company's senior unsecured debt and on its revolving credit facility (RCF) to 'BBB+' from 'BBB'.

## Rationale

The upgrade reflects Vesteda's improved credit metrics following an equity increase of €600 million last year, recent debt refinancing activities, and a turnaround in the Dutch residential real estate market. We consider the company's improvement in credit metrics to be sustainable, with debt to debt plus equity just below 30% as of the end of 2015, while EBITDA interest coverage was at 4x and debt to EBITDA at 7x on the same date.

The upgrade also reflects the company's increased operating cash flow base in the last 24 months as a result of its refocusing its portfolio toward the unregulated midmarket segment in the Randstad area of the Netherlands, which

consists of the four largest Dutch cities and its surrounding areas.

The Dutch residential real estate market has recovered further after five years of continuous house price declines leading to negative property revaluations between 2008 and 2013. House prices rose in 2015 at about 3.5% and we expect further growth of about 3% for the next 12 to 24 months, backed by the low interest rate environment, relatively high employment rates, increasing consumer confidence, and improving macroeconomic conditions.

Therefore we adjusted our comparable rating analysis modifier to neutral from negative, which previously led to a one notch reduction from the initial analytical outcome, or anchor, of 'bbb+'.

Vesteda business risk profile continues to be strong and 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 25 years compares favorably with other rated residential real estate companies. Over 65% 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% to 2% 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 as positive Vesteda's increasing focus on the midmarket unregulated segment (65% of its portfolio at year-end 2015), where we expect demand to be strongest over the next few years. Of its total portfolio, 18% is in the regulated segment and 17% in the high-end unregulated segment.

In our view, Vesteda has a good operating performance track record. The average occupancy rate is high and improved slightly in 2015 to 97.9%, and the average stay per tenant is close to 8 years, with a low 13% percentage of tenants leaving each year. 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 its existing development projects by 2018, and will not start any further new in-house development projects. Nevertheless, we believe that Vesteda will grow further with taking on turnkey-development projects, which we expect to remain limited at less than 10% to its overall portfolio exposure.

We forecast that growth in house prices and values will remain in low single digits in the next 12 to 24 months. Having said that, after a period of falling house prices (about an 18% drop in the period from 2008 to 2013), the Dutch residential real estate market has seen some price increases in 2014 and 2015.

Vesteda's financial risk profile is supported by low leverage for the industry, with debt to debt plus equity close to 30% as of year-end 2015. Based on the company's financial policy of keeping its loan-to-value ratio (roughly equivalent to our debt-to-debt plus equity ratio) between 30% and 40%, we believe leverage could increase somewhat on increased investment activity. But recent capital structuring actions support our view that management's conservative financial policies will remain intact. The company successfully raised €600 million of new equity, of which €185 million remains undrawn. Furthermore, the company put in place a new €600 million RCF in June 2015 of which €330 million remained undrawn as of Dec. 31, 2015. With its €300 million, seven-year, senior unsecured notes issuance at 2.5% in October 2015, Vesteda fully paid back its remaining outstanding commercial mortgage-backed securities notes.

The financial risk profile is furthermore supported by the ratio of debt to EBITDA of about 7x and EBITDA interest coverage of 4x at the end of 2015, and we expect the company to benefit further in 2016 from the refinancing activities in 2015.

Vesteda maintains a rate of hedged or fixed interest at over 90% of its debt, which we view as credit positive. Vesteda's average debt duration has improved to 4.7 years in 2015 (2.9 years as of December 2014).

In our base case we assume:

- About 1.2% to 1.6% of like-for-like growth in rental income for 2016 and 2017, based on real GDP growth of about 1.7% and low indexation of 0.4% for 2016 and some uplift in renegotiated rents, while occupancy rates remain broadly stable.
- Relatively low maintenance capital expenditures (capex) of approximately €25 million annually, assuming no material renovation work on the existing portfolio.
- Some positive, but low-single-digit portfolio revaluation, underpinned by further recovery of the Dutch housing market, with average house prices expected to rise of 3% in the next 12 to 24 months.
- EBITDA margin to remain stable and in line with the industry average in the residential sector, at around 65%.

Based on these assumptions, we arrive at the following credit measures:

- Adjusted debt-to-debt plus equity ratio of about 30%;
- Adjusted debt to EBITDA ratio of 7x to 7.5x; and
- Adjusted EBITDA interest coverage of above 4x, further benefiting from lower interest rates of refinancing activities in 2015.

## **Liquidity**

We have revised our assessment of Vesteda's liquidity to strong from adequate, based on our analysis, including a stress scenario under which EBITDA declines by 10%.

We forecast that the fund's liquidity sources will exceed its funding needs by

at least 1.5x over the next 12-24 months. The company benefits from the absence of large debt maturities in the next two to three years, an addition of €115 million of undrawn equity commitment, and its committed RCF agreement of which €330 million was undrawn as of Dec. 31, 2015.

As of Dec. 31, 2015, Vesteda's liquidity sources consisted mostly of:

- About €19.8 million of unrestricted cash and about €330 million available under its RCF agreement;
- Our forecast of about €120 million to €130 million of cash funds from operations; and
- €115 million of new committed undrawn equity.

This compares with potential liquidity uses of:

- About €1.2 million annual debt amortization; and
- Approximately €136 million of capex, of which around €25 million relates to renovation and refurbishment work for existing properties (mostly uncommitted) and about €111 million committed for properties under construction in 2016.

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

## **Outlook**

The stable outlook on Vesteda reflects our view that the company should continue to benefit from stable rental income from its unregulated residential property portfolio in the mid segment. We expect like-for-like rents to grow by low single digits, in line with our forecast of very low inflation and stable occupancy rates, and some positive valuation of Vesteda's asset portfolio, based on further recovery of the Dutch housing market.

Over the next 12 months, we anticipate that Vesteda will still benefit from the refinancing activities in 2015 and report an EBITDA interest coverage ratio of well above 4x and a debt-to-debt plus equity ratio of approximately 30%. We also assume that the ratio of debt to EBITDA will remain stable at approximately 7x to 7.5x for the next 12 to 24 months.

### **Downside scenario**

We could lower the rating if Vesteda's debt-to-debt plus equity ratio increases to 40% or more, due to a large debt-financed acquisition, or much higher renovation capex than we anticipate, combined with a return to negative revaluations in the Dutch residential market. A change of this magnitude is not likely, in our view, and is 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 portfolio size on a sustainable basis, with a better positioned business

risk profile, such that we no longer considered it to be smaller, more concentrated, and somewhat more volatile than other rated peers with the same business risk.

An upgrade could also occur if the company's debt-to-debt plus equity ratio fell to 25% or below, and we viewed such improvement as sustainable and consistent with the company's stated financial policy.

## Ratings Score Snapshot

Corporate Credit Rating: BBB+/Stable/--

Business risk: Strong

- Country risk: Very 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)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

## 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
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Upgraded

	To	From
Vesteda Residential Fund FGR Corporate Credit Rating	BBB+/Stable/--	BBB/Stable/--

Vesteda Finance B.V.

Corporate Credit Rating  
Senior Unsecured

BBB+/Stable/--  
BBB+

BBB/Stable/--  
BBB

**Additional Contact:**

Industrial Ratings Europe; Corporate\_Admin\_London@standardandpoors.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2016 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).