S&P Global
Ratings

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Summary:
Vesteda Residential Fund FGR

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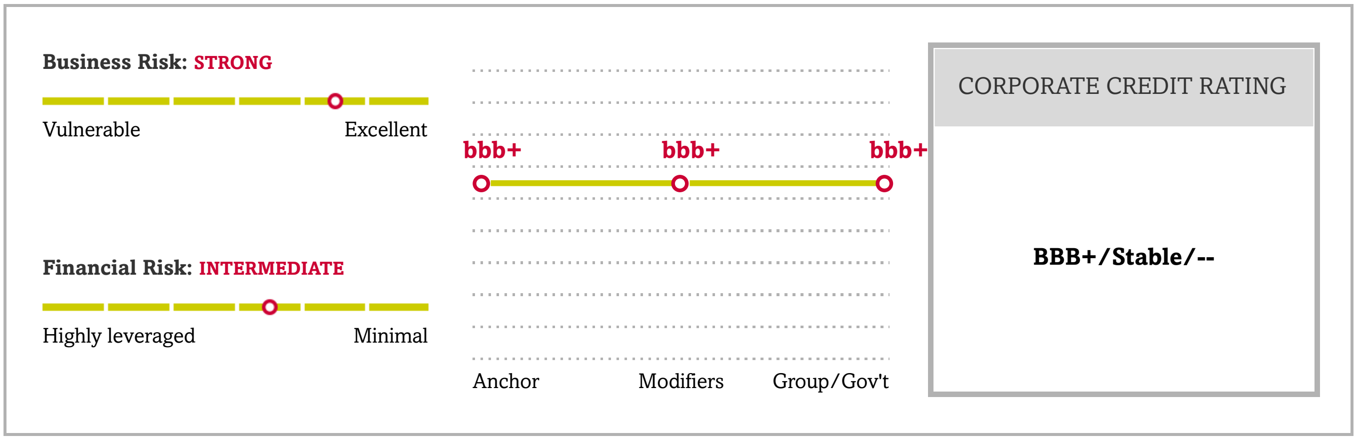

Rationale

Business Risk: Strong	Financial Risk: Intermediate
• Good market position as the largest Dutch institutional residential investor and well-positioned in the Dutch mid-market unregulated sector, where property values are continuing to rise. • History of organic rental income growth, even during weaker periods for the Dutch property sector. • Operating stability supported by consistently high occupancy of above 95%, low tenant turnover (average stay of eight years), and limited exposure to development activities. • Full geographical focus on the Netherlands and therefore reliance on the performance of the Dutch economy.	• Low leverage for the real estate industry, with debt to debt plus equity of below 30%, supported by a conservative financial policy. • Moderate ratio of debt to EBITDA at approximately 8x. • Strong liquidity, underpinned by the absence of large upcoming debt maturities in the next 12 months as well as undrawn available revolving credit facilities.

Outlook: Stable

The stable outlook on Netherlands-based Vesteda Residential Fund FGR reflects S&P Global Ratings' view that the company should continue to benefit from stable rental income from its unregulated residential property portfolio in the mid-market segment.

We expect like-for-like rents to rise by about 2.0%-2.5%, in line with our forecast of increasing inflation in the Netherlands. We also forecast occupancy rates will remain broadly stable and Vesteda's portfolio revaluation will remain positive, based on the favorable condition of the Dutch housing market.

Over the next 12 months, we anticipate that Vesteda will continue to benefit from the low-interest-rate environment, reporting an EBITDA interest coverage ratio well above 4x and a debt-to-debt plus equity ratio of just below 30%. We also assume that the ratio of debt to EBITDA will remain stable at approximately 7.0x-9.0x for the next 12-24 months.

Downside scenario

We could lower the rating if Vesteda's debt-to-debt plus equity ratio increases to 40% or more, owing to a large debt-financed acquisition, or much higher renovation capital expenditures (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 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 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 higher rated peers.

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

Our Base-Case Scenario

Assumptions	Key Metrics

Assumptions

- About 2.5% like-for-like growth in rental income for 2018 and 2019, based on our assumptions of real GDP growth in the Netherlands of about 2%, a pickup in indexation of 1.5% in 2018 and 1.9% in 2019, and some uplift in renegotiated rents, while occupancy rates remain broadly stable.
- Relatively low maintenance capex of approximately €25 million annually on its owned portfolio, assuming no material renovation work on the existing portfolio.
- Capex for construction and development of together about €430 million-€450 million for the next 24 months, including the project development pipeline, as well as forward-funding and turnkey projects.
- Positive, mid-single-digit portfolio revaluation, underpinned by further house price growth on the Dutch housing market, with average house prices expected to rise 7.2% in 2018 and 5.3% in 2019.
- EBITDA margin to remain stable at around 65%-70%.

Key Metrics

	2017a	2018e	2019e
EBITDA interest coverage (x)	5.0	~6.0	~6.0
Debt to debt plus equity (%)	23.4	27.0-28.0	27.0-28.0
Debt to EBITDA (x)	7.6	9.0-9.5	8.5-9.0

a--Actual. e--Estimate

Company Description

Vesteda is one of the largest unlisted Dutch investment funds. It has a focus on residential properties in the mid-market unregulated sector (71% of portfolio value as of Dec. 31, 2017), and limited exposure to regulated rents (13%) and the higher rent segment (16%).

The company concentrates on the Randstad area (around Amsterdam, Rotterdam, The Hague and Utrecht, the four largest Dutch cities).

As of Dec. 31, 2017, the portfolio consists of 22,454 residential units, valued at €5.02 billion.

Business Risk: Strong

Vesteda's 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 27 years compares favorably with other rated residential real estate companies. Over 65% of Vesteda's portfolio is located in the Randstad conurbation, which we view as more resilient than smaller Dutch cities, given its stronger economic and demographic trends.

Our assessment of the business risk profile also reflects Vesteda's good track record of stable rental income, despite difficult conditions in the Dutch housing market between 2008 and 2013. The fund has been able to grow like-for-like rental revenues at an annual average rate of about 2% over the past few years, and to dispose of some noncore assets. We consider Vesteda to be well positioned to benefit from the current dynamics of the Dutch rental market, including low levels of new construction, an increasing number of households, and increasing housing prices. We view as positive Vesteda's main focus on the mid-market unregulated segment (71% of its portfolio at year-end 2017), where we expect demand to be strongest over the next few years. Of its total portfolio, 13% is in the regulated segment and 16% in the high-end unregulated segment.

In our view, Vesteda has a good operating performance track record. The average occupancy rate is high and stable, at 97.6% in 2017, and the average stay per tenant is close to eight years. Lastly, Vesteda has significantly reduced its pipeline of direct development activities in the past few years, in line with its strategy. We understand that the fund is committed to grow further by taking on only turnkey-development projects, which we expect to remain limited to less than 10% to its overall portfolio exposure.

The company's recent announcement of a potential portfolio acquisition of €1.4 billion supports our current business risk assessment. We view the underlying portfolio as complementary to Vesteda's current portfolio, supported by its focus on the mid-market rental segment within the Randstad area and high occupancy levels of above 95%. Therefore, the transaction would have a neutral impact on our rating assessment.

Peer comparison

Table 1

Vesteda Residential Fund FGR -- Peer Comparison

Industry Sector: Real Estate Investment Trust or Company

	Vesteda Residential Fund FGR	Deutsche Wohnen SE	Vonovia SE	Grand City Properties S.A.	Akelius Residential Property AB
	BBB+/Stable/--	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2
	--Fiscal year ended Dec. 31, 2017--				
(Mil. €)					
Revenues	247*	864.9	1,719.7	494.9*	419.5
EBITDA	154.0	552.6	1,128.3	248.0	225.9
Funds from operations (FFO)	123.0	400.6	809.9	167.6	80.7
Interest Expense	31.0	120.4	326.1	52.3	142.8
Net income from cont. oper.	682.0	1,717.9	2,410.7	534.6	785.8
Cash flow from operations	153.0	520.3	660.2	142.6	85.7
Capital expenditures	250.0	227.4	1,043.0	72.8	282.6
Dividends paid	206.0	268.1	314.1	112.5	835.1
Cash and short-term investments	13.9	363.7	229.9	401.5	15.8
Debt	1,164.1	6,931.2	14,799.7	2,758.1	5,079.5
Equity	3,819.0	10,211.0	16,541.2	3,516.7	4,606.0
Debt and equity	4,983.1	17,142.2	31,340.9	6,274.8	9,685.6

Table 1

Vesteda Residential Fund FGR -- Peer Comparison (cont.)					
Valuation of Investment Property	5,035.0	19,952.9	32,553.3	6,376.2	10,405.0
Adjusted ratios					
Annual revenue growth (%)	2.1	11.7	8.7	13.6	0.3
EBITDA margin (%)	62.3	63.9	65.6	50.1	53.9
Return on capital (%)	3.3	3.1	2.4	4.2	2.3
EBITDA interest coverage (x)	5.0	4.6	3.5	4.7	1.6
Debt/EBITDA (x)	7.6	12.5	13.1	11.1	22.5
Total debt/debt plus equity (%)	23.4	40.4	47.2	44.0	52.4

*gross rental income

Financial Risk: Intermediate

Vesteda's financial risk profile is supported by low leverage for the industry, with debt to debt plus equity of below 30%. Based on the fundś 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 because of increased investment activity. But recent capital structuring actions, such as the equity injections in 2015 and 2017, support our view that management's own conservative financial policies (loan-to-value ratio of maximum 30%) will remain intact. Furthermore, the company recently upsized its revolving credit facility (RCF) to €700 million from €600 million and extended the maturity to 2023.

The financial risk profile is furthermore supported by the ratio of debt to EBITDA of 7.6x and EBITDA interest coverage of well above 4x at the end of 2017, and we expect the company to benefit further in 2018 from its recent financing activities and its low average cost of debt of about 2.2% as of year-end 2017.

We expect Vesteda's credit metrics to remain stable in the next 12-24 months, including the recent announced potential portfolio acquisition of €1.4 billion. We understand the transaction would likely be funded 75% as a share deal and 25% cash.

Financial summary

Table 2

Vesteda Residential Fund FGR--Financial Summary				
	2017	**2016**	**2015**	**2014**
(Mil. €)				
Gross Rental Income	247.0	242.0	237.0	238.0
EBITDA	154.0	171.0	155.0	157.0
Funds from operations (FFO)	123.0	137.8	116.7	103.6
Interest Expense	31.0	33.2	38.3	53.4
Net income from continuing operations	682.0	533.0	291.0	136.0

Table 2

Vesteda Residential Fund FGR--Financial Summary (cont.)

	2017	2016	2015	2014
(Mil. €)				
Cash flow from operations	153.0	135.8	148.7	148.6
Capital expenditures	250.0	254.0	102.0	65.0
Dividends paid	206.0	121.0	107.0	100.0
Cash and short-term investments	13.9	16.8	19.8	34.8
Debt	1,165.5	1,223.7	1,086.6	1,245.7
Equity	3,819.0	3,045.0	2,629.0	2,262.0
Debt and equity	4,984.5	4,268.7	3,715.6	3,507.7
Valuation of Investment Property	5,035.0	4,342.0	3,803.0	3,606.0
Adjusted ratios				
Annual revenue growth (%)	2.1	2.1	(0.4)	(1.2)
EBITDA margin (%)	62.3	70.7	65.4	66.0
Return on capital (%)	3.3	4.2	4.2	4.3
EBITDA interest coverage (x)	5.0	5.2	4.0	2.9
Debt/EBITDA (x)	7.6	7.2	7.0	7.9
Debt/debt and equity (%)	23.4	28.7	29.2	35.5

Liquidity: Strong

We view Vesteda's liquidity as strong, based on our analysis, including a stress scenario under which EBITDA declines by 10%. We forecast that 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 12 months, and sufficient undrawn committed revolving facilities.

As of March 31, 2017, Vesteda had significant headroom (above 30%) under all its financial maintenance covenants.

Principal Liquidity Sources	Principal Liquidity Uses
• About €14 million of unrestricted cash and about €403 million available under the RCF agreement; and • Our forecast of about €160 million-€180 million of cash funds from operations.	• No debt maturities for the next 12 months; • Approximately €175 million of committed capex, including properties under construction; • Roughly €140 million of cash dividend payments in 2018.

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

Issue Ratings--Subordination Risk Analysis

Capital structure

As of March 31, 2018, the company's capital structure comprised solely unsecured debt. Unsecured bonds are issued under the company's financing entity, Vesteda Finance B.V. (BBB+/Stable/--)

Analytical conclusions

We assess the issue ratings on the company's senior unsecured bond at 'BBB+', in line with the issuer credit rating. This is because the company's exposure to secured debt is remote.

Reconciliation

Table 3

Reconciliation Of Vesteda Residential Fund FGR Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2017--					
Vesteda Residential Fund FGR reported amounts						
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**
Reported	1,172.0	167.0	725.0	43.0	167.0	184.0
S&P Global Ratings' adjustments						
Interest expense (reported)	--	--	--	--	(43.0)	--
Interest income (reported)	--	--	--	--	--	--
Current tax expense (reported)	--	--	--	--	--	--
Surplus cash	(12.5)	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(31.0)
Debt - Accrued interest not included in reported debt	5.0	--	--	--	--	--
Debt - Issuance cost	1.0	--	--	--	--	--
EBITDA - Gain/(Loss) on disposals of PP&E	--	(13.0)	(13.0)	--	(13.0)	--
D&A - Asset Valuation gains/(losses)	--	--	(559.0)	--	--	--
Interest expense - Derivatives	--	--	--	(12.0)	12.0	--
Total adjustments	(6.5)	(13.0)	(572.0)	(12.0)	(44.0)	(31.0)
S&P Global Ratings' adjusted amounts						
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	1,165.5	154.0	153.0	31.0	123.0	153.0

Related Criteria

- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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-

Additional Contact:
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