S&P Global
Ratings

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Summary:

Vesteda Residential Fund FGR

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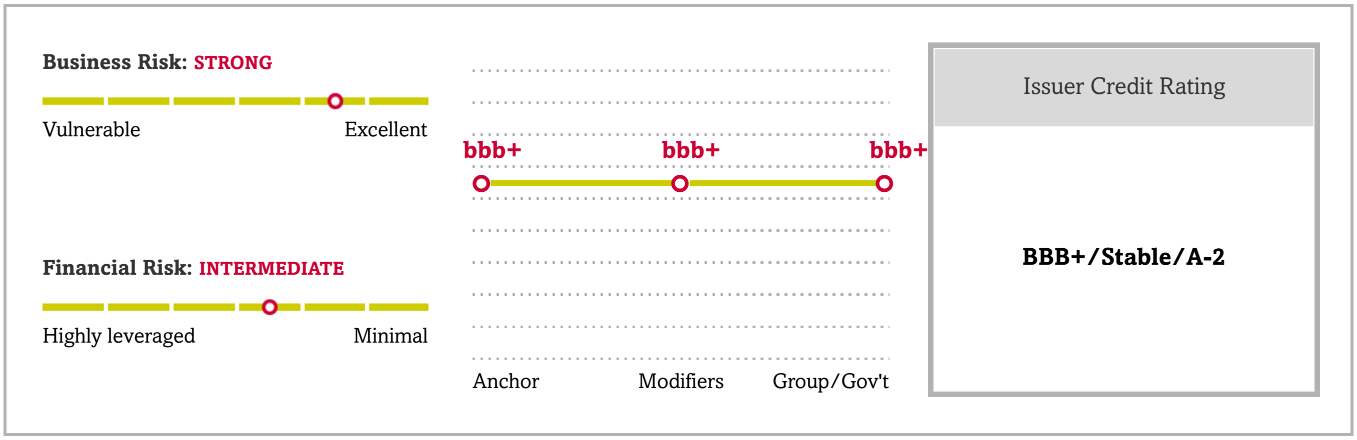

Credit Highlights

Overview

Key Strengths	Key Risks
Good market position as the largest single-fund Dutch institutional residential investor and well positioned in the Dutch mid-market unregulated sector, where property values are continuing to rise.	Sole geographical focus on the Netherlands leading to concentration and reliance on the performance of the Dutch economy.
Operating stability supported by consistently high occupancy of above 97%, low tenant turnover, and limited exposure to development activities.	Moderate ratio of debt to EBITDA at approximately 8.5x-9.0x, but in line with other rated residential peers at the same rating level.
Conservative financial policy and strong liquidity, underpinned by the limited upcoming debt maturities in the next 12 months as well as undrawn available revolving credit facilities (RCFs).	

Vesteda's portfolio grew by 47% in 2018 to €7.0 billion, comprising 27,809 residential units

The company's portfolio increased to €7.0 billion in December 2018 from €4.8 billion in December 2017, thanks to the acquisition of the Delta Llyod portfolio of 6,777 units for €1.5 billion. This transaction strengthened Vesteda's portfolio diversification and market position in the Dutch residential real estate market. In addition, the company reported significant unrealized revaluation gains of 13.5% (or €760 million) on its investment property portfolio.

Continued strong demand in Dutch housing market supports positive performance expectations from Vesteda's portfolio

Increasing population leads to strong demand for housing units in the Netherlands, especially in the Randstad area, where Vesteda's portfolio is focused. This, alongside limited supply due to low building permits, results in a subsequent increase in housing prices. We expect Vesteda to continue to organically increase rents by at least 2.0%-2.5% in the next 12-24 months, thanks to the favorable underlying fundamentals of the Dutch residential real estate market. We also expect occupancy levels to remain high, at above 97%.

Financial policy remains unchanged, despite very low leverage--providing some headroom for further operational growth.

For another year, the company's leverage, measured by S&P Global Ratings-adjusted ratio of debt to debt plus equity, was low at 23.9%, with a reported loan-to-value (LTV) ratio of 23.7%. The company successfully financed its acquisition with a well-balanced mix between equity and debt, and we expect Vesteda to keep its financial policy with a target LTV ratio of less than 30% going forward.

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 below 30%. We also assume that the ratio of debt to EBITDA will remain stable at approximately 8.0x-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.

We could also raise the rating 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

- About 2.0%-2.5% like-for-like growth in rental income for 2019 and 2020, based on our assumptions of real GDP growth in the Netherlands of about 1.5%-2.0%, a pickup in indexation of 2.3%-2.5% in 2019-2020, and some uplift in renegotiated rents, while occupancy rates remain broadly stable.
- Capex for construction and development, combined, of about €250 million-€300 million for the next 12 months, including the project development pipeline, as well as forward-funding and turnkey projects. We understand that most of it is not committed.
- Positive portfolio revaluation of 2.5%-3.0%, underpinned by further house price growth on the Dutch housing market, with average house prices expected to rise 6.3% in 2019 and 5.3% in 2020.
- EBITDA margin to remain stable at around 65%-70%.
- Redemption of its €300 million, in July 2019 maturing, senior unsecured debt temporarily with its undrawn RCF.
- Stable average cost of debt of around 2.1%

Key Metrics

	2018A	2019E	2020E
EBITDA interest coverage (x)	6.2	5.5-6.0	5.0-6.0
Debt to debt plus equity (%)	23.9	23-27	25-29
Debt to EBITDA (x)	9.3	8-8.5	8.5-9

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 (73% of portfolio value as of Dec. 31, 2018), and limited exposure to regulated rents (6%) and the higher rent segment (21%).

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

As of Dec. 31, 2018, the portfolio consists of 27,809 residential units, valued at €7.0 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, which compares favorably with other rated residential real estate companies. Over 90% of company's portfolio is located in the primary region of

Netherlands, which we view as more resilient than secondary location, 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 (73% of its portfolio at year-end 2018), where we expect demand to be strongest over the next few years. Of its total portfolio, 6% is in the regulated segment and 21% in the high-end unregulated segment.

In our view, Vesteda has a sound operating performance track record. The average occupancy rate is high and stable, at 97.5% in 2018, supported by low tenant turnover. 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 portfolio acquisition of Delta Lloyd for €1.5 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 and high occupancy levels of above 97%.

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
Rating as of May 3, 2019	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2
	--Fiscal year ended Dec. 31, 2018--				
(Mil. €)					
Revenues	281.0	920.8	1,958.1	545.0	482.0
EBITDA	186.0	619.8	1,293.6	275.5	236.0
FFO	162.9	433.6	801.6	176.5	85.5
Interest expense	30.1	124.3	379.6	61.1	154.5
Capital expenditures	185.0	313.5	1,358.8	81.9	349.0
Dividends paid	415.0	200.1	437.3	79.4	834.5
Cash and short-term investments	10.9	332.8	490.5	760.0	13.0
Debt	1,729.8	8,930.7	20,800.5	3,084.8	6,048.0
Equity	5,517.0	11,908.1	19,514.1	4,142.0	5,327.0
Debt and equity	7,246.8	20,838.8	40,314.6	7,226.8	11,375.0
Valuation of Investment Property	7,281.0	24,291.8	43,596.8	7,227.3	12,340.0

Table 1

Vesteda Residential Fund FGR -- Peer Comparison (cont.)

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
Adjusted ratios					
EBITDA margin (%)	66.2	67.3	66.1	50.6	49.0
Return on capital (%)	3.0	3.2	3.5	4.1	2.2
EBITDA interest coverage (x)	6.2	5.0	3.4	4.5	1.5
Debt/EBITDA (x)	9.3	14.4	16.1	11.2	25.6
Debt/debt and equity (%)	23.9	42.9	51.6	42.7	53.2

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 fund's financial policy of keeping its loan-to-value ratio (roughly equivalent to our debt-to-debt plus equity ratio) between 30%-40%, we believe leverage could increase somewhat because of increased investment activity. But recent capital structuring actions, such as the equity injections in 2015, 2017, and 2018, support our view that management's own conservative financial policies (LTV ratio of maximum 30%) will remain intact. Furthermore, in 2018 the company upsized its syndicated RCF to €700 million (undrawn €583 million at year-end 2018) from €600 million and extended the maturity to 2024. In addition to the syndicated RCF, the company has another €200 million (€130 million undrawn at 2018 year-end) of the SMBC facility with a maturity extension available until December 2020.

The financial risk profile is further supported by the ratio of EBITDA interest coverage of about 6.2x at the end of 2018, although we expect it to decrease to around 5.5x in 2019 and 4.6x in 2020 considering the full year interest impact for last year bond issuance and slightly higher debt to support future growth.

We see the ratio of debt to EBITDA of 9.3x increasing at the end of 2018 (from 7.5x in 2017) on the back of their recent acquisitions and investments in portfolio. However, we expect the ratio to remain moderate at 8.0x-8.5x in 2019, reflecting the full EBITDA contribution this year from 2018's acquisitions.

Overall, we expect Vesteda's credit metrics to remain stable in the next 12-24 months, supported by steady operating performance.

Financial summary

Table 2

Vesteda Residential Fund FGR -- Financial Summary					
Industry Sector: Real Estate Investment Trust or Company					
	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Rating history	BBB+/Stable/--	BBB+/Stable/--	BBB+/Stable/--	BBB/Stable/--	BBB/Stable/--
(Mil. €)					
Revenues	281.0	247.0	242.0	237.0	238.0
EBITDA	186.0	154.0	171.0	155.0	157.0
FFO	162.9	123.0	139.8	115.7	109.6
Interest expense	30.1	31.0	33.2	38.3	53.4
Cash flow from operations	164.9	153.0	135.8	148.7	148.6
Capital expenditures	185.0	250.0	254.0	102.0	65.0
Dividends paid	415.0	206.0	121.0	107.0	100.0
Cash and short-term investments	10.9	13.9	16.8	19.8	34.8
Debt	1,729.8	1,159.5	1,217.7	1,074.6	1,232.7
Equity	5,517.0	3,819.0	3,045.0	2,629.0	2,262.0
Debt and equity	7,246.8	4,978.5	4,262.7	3,703.6	3,494.7
Valuation of investment property	7,281.0	5,035.0	4,342.0	3,803.0	3,606.0
Adjusted ratios					
EBITDA margin (%)	66.2	62.3	70.7	65.4	66.0
Return on capital (%)	3.0	3.3	4.2	4.2	4.4
EBITDA interest coverage (x)	6.2	5.0	5.2	4.0	2.9
Debt/EBITDA (x)	9.3	7.5	7.1	6.9	7.9
Debt/debt and equity (%)	23.9	23.3	28.6	29.0	35.3

FFO--Funds from operations.

Liquidity: Strong

Vesteda's short-term rating is 'A-2'. 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 sufficient undrawn committed revolving facilities along with limited debt maturities in next 12 months.

As of March 31, 2019, Vesteda had significant headroom (above 30%) under all its financial maintenance covenants.

Principal Liquidity Sources	Principal Liquidity Uses
• About €10 million of unrestricted cash and about €713 million available under the RCF agreement, including €130 million under SMBC facility; and • Our forecast of about €170 million-€190 million of cash funds from operations.	• €468 million of maturity in next 12 months includes €300 million of bond maturing in July 2019 and €168 million of commercial paper; • Approximately €250 million-€300 million of capex for next 12 months including the project development pipeline, as well as forward-funding and turnkey projects. However, we understand most of it is noncommitted. • About €84 million of committed acquisitions; and • Roughly about €170 million-€190 million of cash dividend payments in 2019.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2019, 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/A-2).

Analytical conclusions

We rate 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, 2018--					
Vesteda Residential Fund FGR reported amounts						
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
	1,739.0	229.0	1,061.0	30.0	186.0	187.0
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	--	--
Cash taxes paid - Other	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(23.0)	--
Operating leases	1.7	1.0	0.1	0.1	(0.1)	0.9
Accessible cash & liquid investments	(10.9)	--	--	--	--	--

Table 3

Reconciliation Of Vesteda Residential Fund FGR Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)						
Nonoperating income (expense)	--	--	1.0	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(23.0)
EBITDA - Gain/(loss) on disposals of PP&E	--	(44.0)	(44.0)	--	--	--
D&A - Asset valuation gains/(losses)	--	--	(834.0)	--	--	--
Total adjustments	(9.2)	(43.0)	(876.9)	0.1	(23.1)	(22.1)
S&P Global Ratings' adjusted amounts						
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
	1,729.8	186.0	184.1	30.1	162.9	164.9

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/A-2

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)

Related Criteria

- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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: 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-

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