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Vesteda Residential Fund FGR

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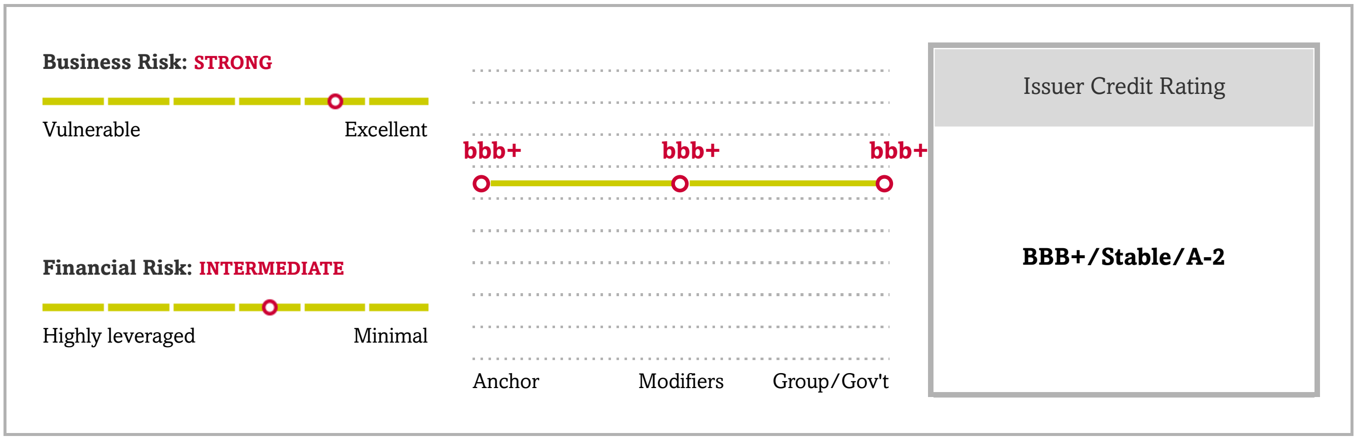


Credit Highlights

Overview

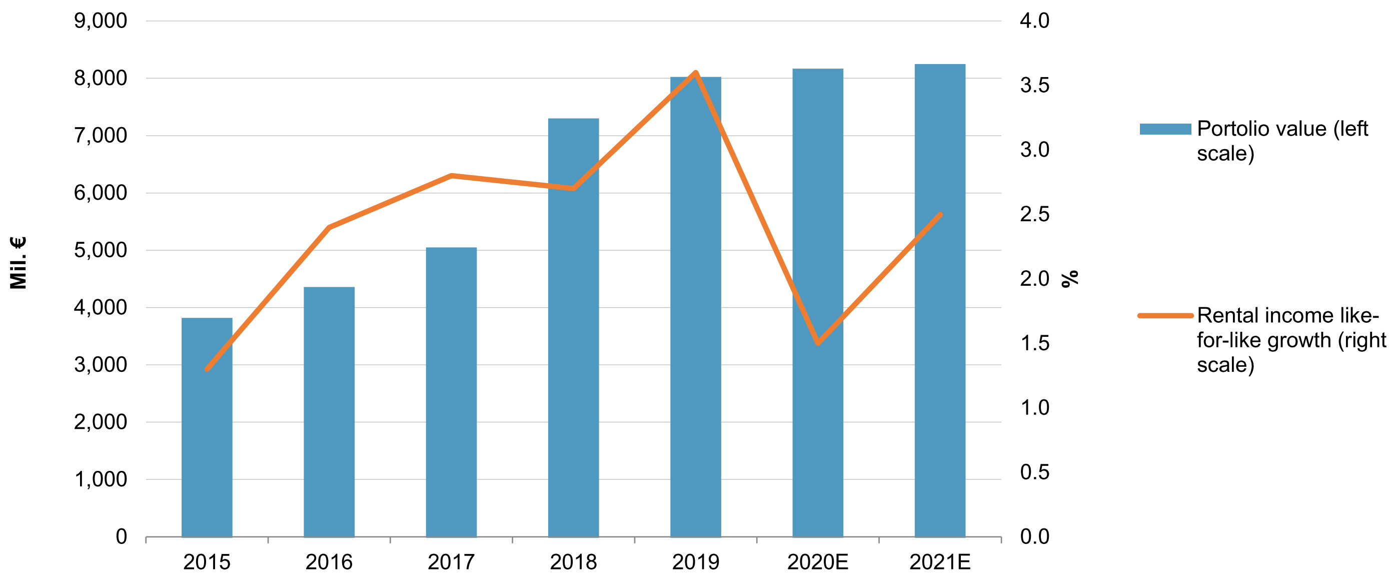
Key strengths	Key risks
Good market position as the Netherlands' largest single-fund institutional residential investor and well positioned in the Dutch midmarket unregulated sector, where property values continue to rise	Sole geographical focus on the Netherlands leading to concentration and reliance 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 of 8.5x-9.5x, but better compared with that of most rated residential peers
Conservative financial policy and strong liquidity, underpinned by the limited upcoming debt maturities in the next 12 months as well as large undrawn available revolving credit facilities (RCFs)	

S&P Global Ratings forecasts a global recession for 2020, with GDP contraction for the eurozone at 7.3%, due to the economic impact of COVID-19. The residential sector should remain more resilient to the impact compared with retail or even office real estate, and we currently forecast no material negative impact on Vesteda Residential Fund FGR's cash flow. The Netherlands has been affected by the pandemic and implemented, as did many other countries, the closing of shopping malls, retail stores, bars, and restaurants. We expect the GDP growth for the Netherlands to decline by 6.5%-7.0% in 2020, and also expect very low CPI but broadly a stable unemployment rate, remaining below 4%. While we believe that residential landlords are not directly affected by COVID-19, we could see an increase in the rent loss rate or tenants not being able to pay rents for several months, depending on how long the pandemic lasts and what impact it ultimately has on private financial situations.. Overall, for Vesteda, we assume marginal-but-positive like-for-like rental income growth for the next 12-24 months.

After a sustained period of growth, we expect the companyś portfolio to stabilize in next two years and continue benefiting from strong demand in the Dutch housing market. In the past four years, Vestada increased its portfolio significantly, mainly through acquisitions, property developments, and achieving solid property valuation gains on its portfolio (see chart 1). The portfolio value increased to €8.0 billion (including €194 million of property development) as of Dec. 31, 2019, from €4.3 billion in 2016. We assume a small numbers of acquisitions of €100 million-€120 million in next 12 months and capital expenditure (capex) of €50 million-€60 million each year for next two. We understand that the company will focus mainly on its own development pipeline and work on redevelopment opportunities within its existing portfolio for next 12-24 months.

Chart 1

Vesteda Residential Fund FGR--Constant Portfolio Growth



A--Actual. E--S&P Global Ratings' estimate.Source: S&P Global Ratings.

The financial policy is unchanged, with very low leverage and providing some financial flexibility. For another year, the company's leverage, measured by S&P Global Ratings-adjusted ratio of debt to debt plus equity, was low at 24.4%, with a reported loan-to-value (LTV) ratio of 23.1%. The company targets a reported LTV ratio of 30%-40% in its financial policy. Therefore, we believe the company has significant headroom under its LTV target ratio.

Outlook: Stable

The stable outlook on Vesteda 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 midmarket segment. We expect like-for-like rents to rise by about 1.0%-2.0%, 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 9.0x-9.5x 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%. This could occur if company undertook a large debt-financed acquisition, or much higher renovation capital expenditure (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 sustainably, with a better positioned business risk profile, such that we no longer considered it to be smaller, more concentrated, and somewhat more volatile than that of 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 stated financial policy.

Our Base-Case Scenario

Assumptions

- Like-for-like growth in rental income of 1.0%-2.0% for 2020, with some recovery in 2021 to 2.0%-3.0%, based on our assumptions of real GDP decline in the Netherlands of 6.5%-7.0% in 2020 due to the pandemic, with a pickup in 2021 of 6.0%-6.5%. We expect overall occupancy to remain above 96%, supported by favorable demand-supply dynamics of the Dutch residential real estate market
- EBITDA margin to remain at 68%-70%
- Capex for construction and development of €50 million-€60 million for the next 12 months, including the project development pipeline, as well as

Key Metrics

	2019A	2020E	2021F
EBITDA interest coverage (x)	5.6	4.5-5.5	4.5-5.5
Debt to debt plus equity (%)	24.4	26.0-28.0	26.0-28.0
Debt to EBITDA (x)	8.7	9.0-9.5	9.0-9.5

A--Actual. E--Estimate. F--Forecast.

forward-funding and turnkey projects

- Limited asset rotation with about net acquisitions of €100 million to €120 million in next 12 months. However, we understand that part of it is not committed
- Conservatively flat portfolio revaluation in 2020-2021
- Stable average cost of debt of about 2.0%
- Dividend payout in 2020 of €180 million-€200 million

Company Description

Table 1

Vesteda Residential Fund FGR--Portfolio Summary	
Segment focus	Residential
Portfolio value	€8.0 billion
Units	27,290
Average occupancy	98.4%
Average monthly rent per unit	€968
Tenant turnover	12.8%
Gross initial yield	4.3%

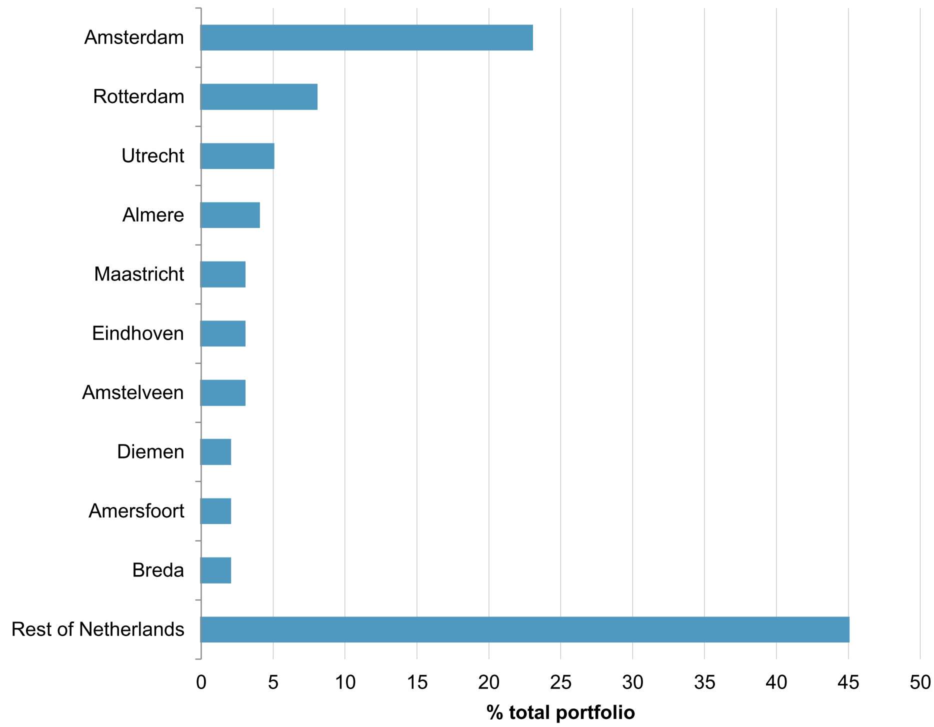
*S&P Global Ratings view, based on December 2019 results.

Vesteda is one of the largest unlisted Dutch investment funds. It has a focus on residential properties in the midmarket unregulated sector (67% of portfolio value as of Dec. 31, 2019), with limited exposure to regulated rents (6%) and the higher rent segment (27%). As of Dec. 31, 2019, the portfolio consisted of 27,290 residential units, valued at €8.0 billion, including €194 million property under development (see table 1).

The company concentrates on the Randstad area around Amsterdam, Rotterdam, The Hague, and Utrecht (the four largest Dutch cities) and the Brabant metropolitan area (see chart 2).

Chart 2

Vesteda Residential Fund FGR--Geographic Diversity



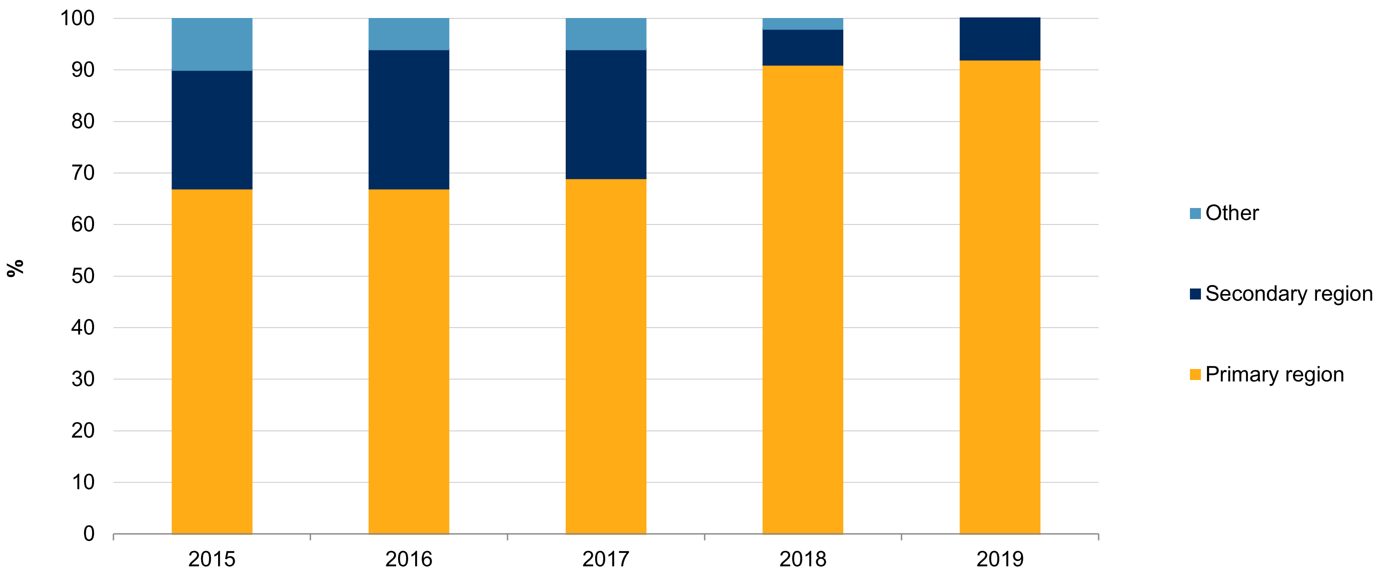
Source: S&P Global Ratings, company report.

Business Risk: Strong

Vesteda's business risk profile reflects our view of the fund's well-positioned portfolio of residential properties in the Netherlands (see chart 3). 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 the company's portfolio is in the primary region of the Netherlands, which we view as more resilient than secondary locations, given its stronger economic and demographic trends.

Chart 3

Vesteda Residential Fund FGR--Portfolio By Region



Source: S&P Global Ratings.Company Report

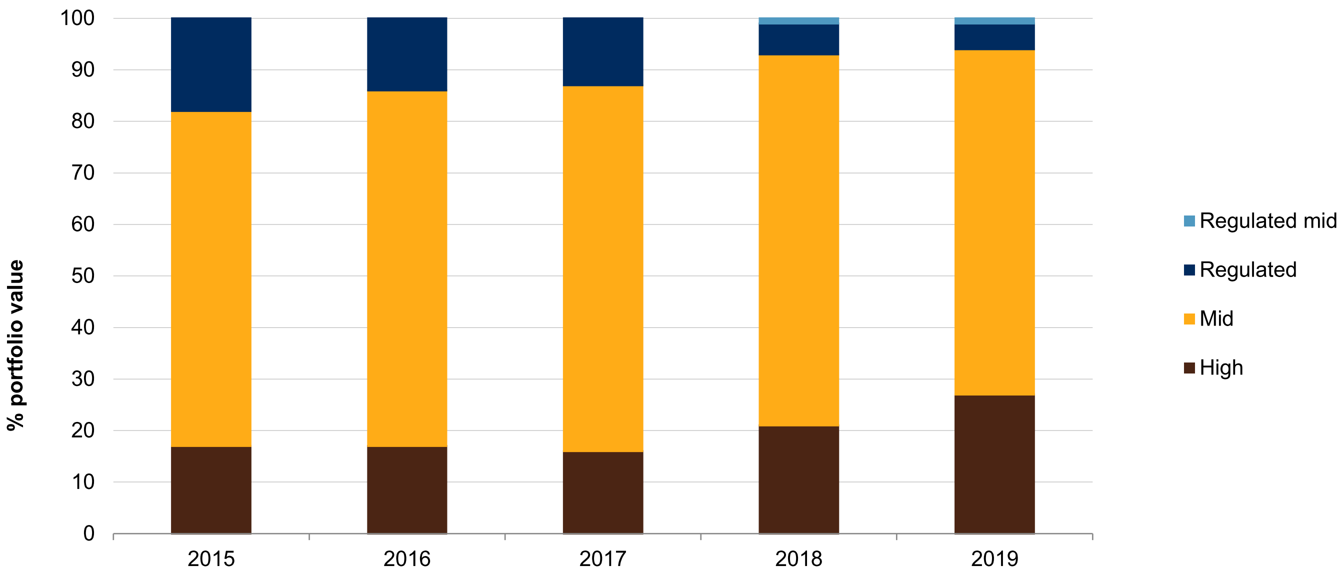
Over the past couple of years, Vesteda disposed assets mainly in secondary locations and followed its strategy to continue focusing on prime regions in the Netherlands.

Our assessment of the business risk profile also reflects the company's good track record of stable rental income, despite difficult conditions in the Dutch housing market between 2008 and 2013. The fund has increased like-for-like rental revenue at 2%-3% annually on average over the past few years, and disposed of some noncore assets.

We consider Vesteda well positioned to benefit from the current dynamics of the Dutch rental market, including low levels of new construction and an increasing number of households. We view as positive the fund's main focus on the midmarket unregulated segment (see chart 4), where we expect demand to be strongest over the next few years.

Chart 4

Vesteda Residential Fund FGR--Investment Portfolio By Rental Segment



Source: S&P Global Ratings, company report.

In our view, Vesteda has a sound operating performance track record. The average occupancy rate is high and stable, at 98.4% in 2019, supported by low tenant turnover. Also, the company 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 expand further by taking on only turnkey-development projects, which we expect to remain limited to less than 10% to its overall portfolio exposure.

Peer comparison

Table 2

Vesteda Residential Fund FGR--Peer Comparison

	Vesteda Residential Fund FGR	Deutsche Wohnen SE	Vonovia SE	Grand City Properties S.A.	Akelius Residential Property AB
Ratings as of April 27, 2020	BBB+/Stable/A-2	A-/Negative/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2
	--Fiscal year ended Dec. 31, 2019--				
(Mil. €)					
Revenue	329.0	1,107.9	2,147.8	560.3	496.0
EBITDA	224.0	715.2	1,421.6	297.7	226.0
Funds from operations (FFO)	184.0	496.4	1,056.7	218.1	64.5
Interest expense	40.0	165.7	405.9	61.5	141.5

Table 2

Vesteda Residential Fund FGR--Peer Comparison (cont.)					
	Vesteda Residential Fund FGR	**Deutsche Wohnen SE**	**Vonovia SE**	**Grand City Properties S.A.**	**Akelius Residential Property AB**
Cash flow from operations	196.0	454.4	1,149.7	183.5	34.5
Capital expenditure	192.0	366.7	1,662.2	83.1	478.0
Free operating cash flow (FOCF)	4.0	87.7	(512.6)	100.4	(443.5)
Dividends paid	344.0	230.5	441.8	105.0	25.5
Cash and short-term investments	2.9	685.6	403.4	1,062.8	19.0
Debt	1,942.1	9,569.8	24,783.8	3,272.5	5,103.0
Equity	6,022.0	13,107.3	20,569.7	4,441.6	5,776.0
Debt and equity	7,964.1	22,677.1	45,353.5	7,714.1	10,879.0
Valuation of investment property	8,012.0	26,473.4	53,229.0	7,956.0	11,891.0
Adjusted ratios					
Annual revenue growth (%)	17.1	20.3	9.7	2.8	2.9
EBITDA margin (%)	68.1	64.6	66.2	53.1	45.6
EBITDA interest coverage (x)	5.6	4.3	3.5	4.8	1.6
Debt/EBITDA (x)	8.7	13.4	17.4	11.0	22.6
FFO/debt (%)	9.5	5.2	4.3	6.7	1.3
Debt/debt and equity (%)	24.4	42.2	54.6	42.4	46.9

Financial Risk: Intermediate

Vesteda's intermediate 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 LTV ratio (about equivalent to our debt-to-debt plus equity ratio) of 30%-40%), we believe it provides Vesteda some financial flexibility to remain open on debt-financed investments or acquisitions. 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 (such as the LTV ratio of 40% maximum) will remain intact. Furthermore, the company has a syndicated RCF of €700 million available (€682 million were undrawn at first-quarter 2020) maturing in 2025. In addition, Vesteda established a €1 billion commercial paper program this year.

The financial risk profile is further supported by the high ratio of S&P Global Ratings-adjusted EBITDA interest coverage of about 5.6x at year-end 2019. We expect the ratio to remain solid, at well above 4x in 2020-2021 considering the limited impact on cash flow generation from COVID-19 and overall stable leverage. Vesteda enjoys low cost of debt of about 2.0% as of end of 2019. This was further supported by issuance of its first green bond of €500 million in May 2019, at a 1.5% coupon, maturing in 2027. The proceeds repaid a €300 million bond maturing in 2019. The company also improved its weighted average maturity to 5.9 years from 4.8 years in 2018.

The ratio of debt to EBITDA at 8.7x at year-end 2019 was down from 9.3x in 2018 on the back of improved EBITDA with the full-year impact flowing in from the Delta Llyod portfolio acquired in June 2018. We expect the ratio to remain at 9.0x-9.5x in 2020-21.

Financial summary

Table 3

Vesteda Residential Fund FGR--Financial Summary					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. €)					
Revenue	329.0	281.0	247.0	242.0	237.0
EBITDA	224.0	186.0	154.0	171.0	155.0
Funds from operations (FFO)	184.0	162.9	123.0	139.8	115.7
Interest expense	40.0	30.1	31.0	33.2	38.3
Cash flow from operations	196.0	164.9	153.0	135.8	148.7
Capital expenditure	192.0	185.0	250.0	254.0	102.0
Free operating cash flow (FOCF)	4.0	(20.1)	(97.0)	(118.2)	46.7
Dividends paid	344.0	415.0	206.0	121.0	107.0
Cash and short-term investments	2.9	10.9	13.9	16.8	19.8
Debt	1,942.1	1,729.8	1,159.5	1,217.7	1,074.6
Equity	6,022.0	5,517.0	3,819.0	3,045.0	2,629.0
Debt and equity	7,964.1	7,246.8	4,978.5	4,262.7	3,703.6
Valuation of investment property	8,012.0	7,281.0	5,035.0	4,342.0	3,803.0
Adjusted ratios					
Annual revenue growth (%)	17.1	13.8	2.1	2.1	(0.4)
EBITDA margin (%)	68.1	66.2	62.3	70.7	65.4
EBITDA interest coverage (x)	5.6	6.2	5.0	5.2	4.0
Debt/EBITDA (x)	8.7	9.3	7.5	7.1	6.9
FFO/debt (%)	9.5	9.4	10.6	11.5	10.8
Debt/debt and equity (%)	24.4	23.9	23.3	28.6	29.0

Liquidity: Strong

Our short-term rating on Vesteda is 'A-2'. We view the fund's liquidity as strong, based on our analysis, including a stress scenario under which EBITDA declines by 15%. 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 for next 12 months as of March 31, 2020.

Principal Liquidity Sources	Principal Liquidity Uses

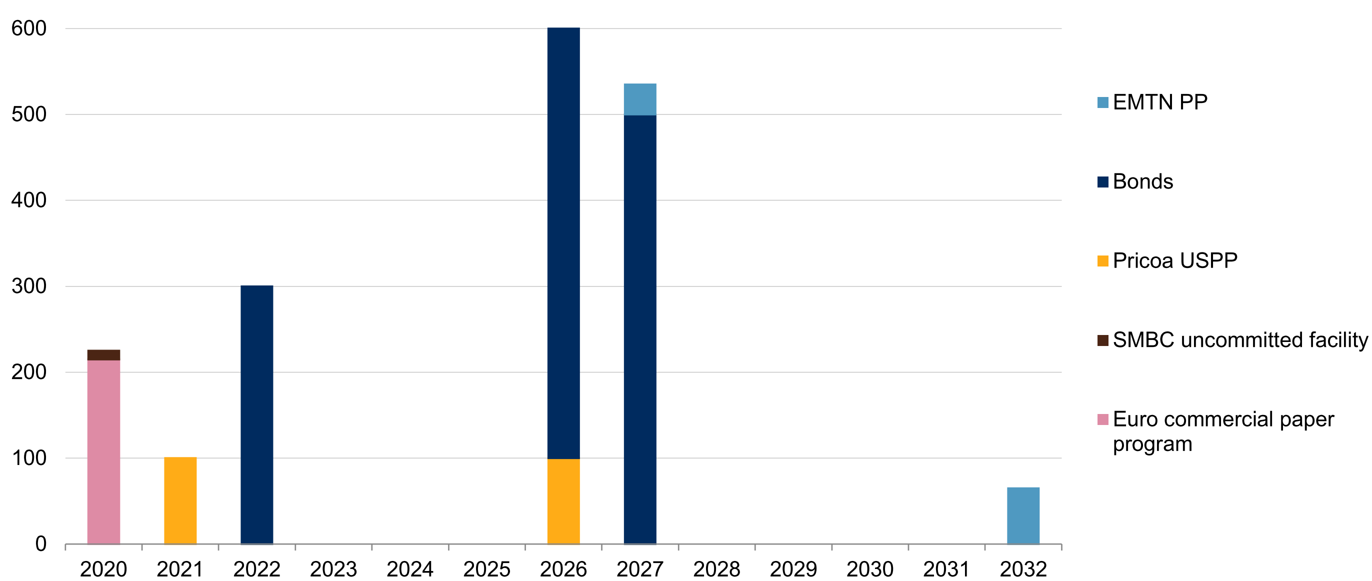
• About €1.4 million of unrestricted cash and about €682 million available under the RCF agreement as of March 31, 2020 • Our forecast of €180 million-€190 million of cash funds from operations	• €190 million of maturity in next 12 months for commercial paper • €30 million-€40 million of committed capex for next 12 months including the project development pipeline • Asset acquisitions of €100 million-€120 million in next 12 months. However, we understand that part of it is not committed • €180 million-€200 million of cash dividend payments in next 12 months

Debt maturities

Vesteda has a weighted average debt maturity of 5.9 years as of Dec. 31, 2019.

Chart 5

Vesteda Residential Fund FGR--Debt Maturities As Of Dec. 31, 2019



Source: S&P Global Ratings. Company Report

Covenant Analysis

Compliance expectations

As of March 31, 2020, Vesteda had significant headroom (above 30%) under all its financial maintenance covenants.

Requirements

The company must comply with following financial covenants:

- LTV of 50% maximum (as of March 31, 2020, this was 22.4%)
- Interest coverage ratio of minimum 2.0x (As of March 31, it was 7.1x)

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2020, the fund'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 senior unsecured bond 'BBB+', in line with the issuer credit rating. This is because the company's exposure to secured debt is remote.

Reconciliation

Table 4

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

	--Fiscal year ended Dec. 31, 2019--				
Vesteda Residential Fund FGR reported amounts					
	Debt	**EBITDA**	**Operating income**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Reported	1,815.0	237.0	895.0	224.0	236.0
S&P Global Ratings' adjustments					
Cash interest paid	--	--	--	(40.0)	--
Reported lease liabilities	130.0	--	--	--	--
Accessible cash and liquid investments	(2.9)	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	(40.0)
EBITDA: Gain (loss) on disposals of PP&E	--	(13.0)	(13.0)	--	--
Depreciation and amortization: Asset valuation gains (losses)	--	--	(659.0)	--	--
Total adjustments	127.1	(13.0)	(672.0)	(40.0)	(40.0)

Table 4

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

S&P Global Ratings' adjusted amounts

	Debt	EBITDA	EBIT	Funds from operations	Cash flow from operations
Adjusted	1,942.1	224.0	223.0	184.0	196.0

PP&E--Property, plant, and equipment.

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

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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

- 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-

Ratings Detail (As Of May 15, 2020)*

Vesteda Residential Fund FGR	
Issuer Credit Rating	BBB+/Stable/A-2
Issuer Credit Ratings History	
24-Jan-2019	BBB+/Stable/A-2
22-Apr-2016	BBB+/Stable/--
02-Jul-2014	BBB/Stable/--
Related Entities	
Vesteda Finance B.V.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.