S&P Global
Ratings

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Vesteda Residential Fund FGR

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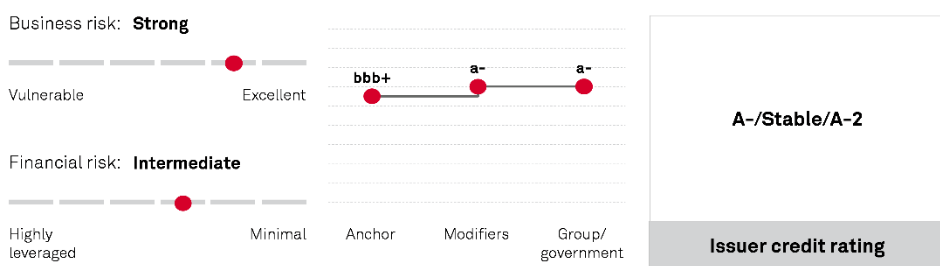
Ratings Score Snapshot



Credit Highlights

Overview

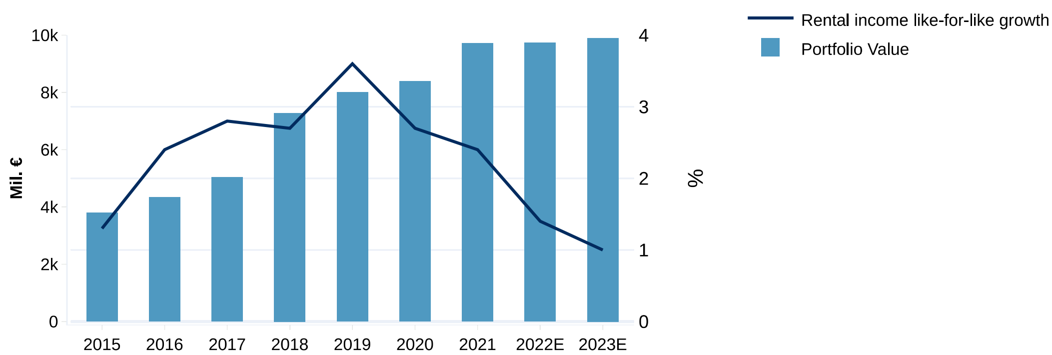
Key strengths	Key risks
Good market position as the Netherlands' largest single-fund institutional residential investor and well positioned in the Dutch midmarket unregulated sector, where property values continue to rise.	Sole geographical focus on the Netherlands leading to concentration and reliance on the performance of the Dutch economy.
Solid operational performance with very limited impact from the COVID-19 pandemic, maintaining positive like-for-like rental and value growth and high occupancy levels.	Moderate ratio of debt to EBITDA close to 9.5x, mainly reflecting the company's low-yield operational environment.
Strong financial discipline in the past few years, with sustained low leverage and S&P Global Ratings-adjusted debt to debt plus equity below 30% (21.9% as of Dec. 31, 2021) since 2015 and strong liquidity, underpinned by limited and well covered upcoming debt maturities in the next 24 months.	

Strong operating performance supported by the favorable fundamentals of the Dutch residential rental market. Like-for-like rental income increased by 2.4% in 2021, mainly supported by re-letting activities (0.6%) and an average annual rent increase for in-place tenants (2.4%). The rent increase was slightly lower than in previous years, mainly due to rent being capped at consumer price index

(CPI) plus 1% for existing tenants. As Vesteda expected, the government capped the rent increase in 2022 for the regulated segment at a CPI of 2.3% and for the liberalized segment at a maximum of CPI plus 1% in 2022 and 2023. We understand that the overall impact on Vesteda's portfolio from regulation should be limited for next two years as the company focuses on the mid-rental segment, where we understand regulatory caps will remain limited, as government may not apply caps to the full mid-rental segment of the portfolio and may implement rent caps starting in 2024. The majority of Vesteda's portfolio is located in Randstad, the region in the Netherlands with the most growth potential. We think moderately high inflation expectations and solid demand in this region will support rental growth of about 2%-3% over the next 12-24 months. The occupancy level reached 98.8%, mainly due to good demand trends and we expect it to remain at similar levels in coming years.

Strong like-for-like portfolio growth of €1.2 billion in 2021, however we expect flat like-for-like portfolio value growth in 2022-2023. The portfolio growth in 2021 was majorly related to huge positive portfolio revaluations of about €1.2 billion driven by strong market fundamentals and continued housing shortages. We understand that the gross yield compressed further and reached close to 3.8% in December 2021. As a result, the company's residential portfolio reached close to €9.8 billion--including €177 million of investment property under construction--at year-end 2021. This marks an increase of more than 15% from 2020 levels (€8.3 billion), and over 30% from €7.3 billion at end-2018.That said, we believe the portfolio value may remain flat given risk of increasing interest rate, which could stabilize the yields or may expand it slightly in next 12-18 months. However, some pressure on yields could be mitigated by expected positive rental growth.

Chart 1: Vesteda Residential Fund FGR--Constant Portfolio Growth



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

The financial policy is unchanged, with very low leverage, and ratios are in line with our expectations. For another year, the company's leverage, measured by S&P Global Ratings-adjusted ratio of debt to debt plus equity, was low at 21.9%, with a reported loan-to-value (LTV) ratio of 20.8%. The company targets a reported LTV ratio of 30% in its financial policy. Therefore, we believe the company has some headroom under its LTV target ratio. The net debt to EBITDA ratio was around 8.9x in 2021 and we expect the ratio to remain below 9.5x in 2022-2023 due to operating in low gross yield assets. Vesteda's cost of debt was 1.8% at year-end 2021 and given its relatively low refinancing needs for next two years, we believe the company should be able to withstand the current hikes in inflation and interest rates for next two years.

Outlook

The stable outlook reflects our view that Vesteda should continue benefiting from stable rental income thanks to its high occupancy levels and the favorable dynamics of the Dutch residential rental market. We anticipate that Vesteda will maintain its adjusted ratio of debt to debt plus equity at about 24%-25%, debt to EBITDA at about 9.0x-9.5x, and EBITDA interest coverage well above 5x, over the next 12-24 months.

Downside scenario

We could lower the rating if:

- Vesteda's debt to debt plus equity increases sustainably to 30% or above as part of a revised financial policy; or
- The company fails to maintain debt to annualized EBITDA below or close to 9.5x.

This could occur if the company considers large debt-financed acquisitions, or much higher capital expenditure (capex) than we anticipate. This could also occur if Vesteda experiences significant negative portfolio revaluations.

Upside scenario

Rating upside is currently limited unless Vesteda significantly expands its portfolio's scale and scope so that it becomes more aligned with higher-rated peers', while maintaining its current financial policy and credit metrics. Such an expansion would also result in stronger portfolio diversification to markets and regions with favorable demand-supply trends and solid demographic prospects.

Our Base-Case Scenario

Assumptions

- Real GDP growth in the Netherlands of 3.2% in 2022 and 2.1% in 2023. We expect overall CPI growth to reach close to 5.0% in 2022.
- Annual like-for-like growth in rental income of 2.0%-3.0% for 2022 and 2023 based on our assumptions of continued demand for Vesteda's assets.
- Stable EBITDA margin to remain at around 67%-69%, with increasing operating costs, due to inflation, being mostly offset by rental growth.
- Annual capex for its existing portfolio and new development of together €200 million-€225 million for the next 12-24 months. However, we understand that part of it is not committed.
- Limited asset rotation with no acquisitions, and disposals of about €100 million in next 12-24 months.
- Conservatively flat portfolio revaluation for next 12-24 months, mainly stemming from positive like for like rental growth and stable yields.
- Overall stable average cost of debt of 1.8%, supported by limited refinancing needs for next two-to-three years.
- Dividend payout in 2022 of about €200 million, in line with the company's strategy.

Key metrics

Vesteda Residential Fund FGR--Key Metrics*

	2020a	2021a	2022e	2023f	2024f

Debt to EBITDA (x)	9.0	8.9	9.0-9.5	9.0-9.5	9.0-9.5
EBITDA interest coverage (x)	5.6	6.0	6.0-6.5	6.5-7.0	6.5-7.0
Debt to debt plus equity (%)	24.7	21.9	22.0-24.0	22.0-24.0	23.0-25.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

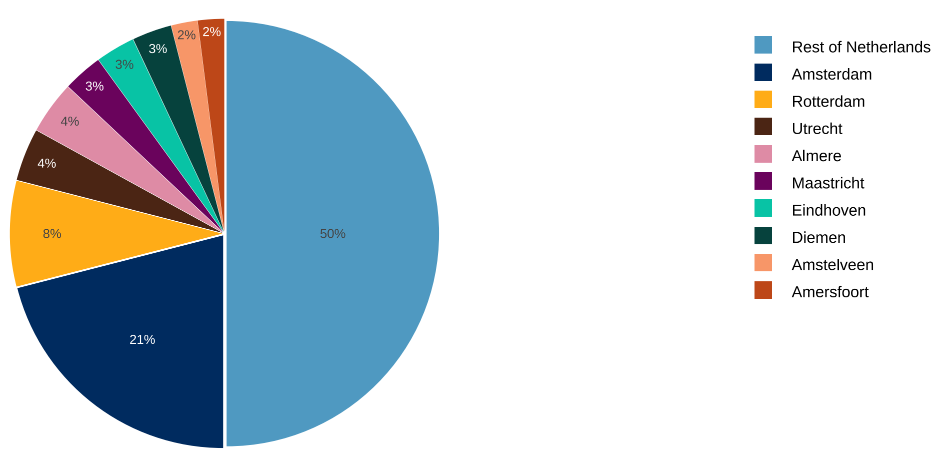
Company Description

Vesteda is one of the largest unlisted Dutch investment funds. It focuses on residential properties in the midmarket unregulated sector (65% of portfolio value as of Dec. 31, 2021), with limited exposure to the higher rent segment (29%) and regulated rents (6%). As of Dec. 31, 2021, the portfolio comprised 27,570 residential units, valued at €9.5 billion.

Vesteda Residential Fund FGR--Portfolio Summary	
Segment focus	Residential
Portfolio value	€9.5 billion
Units	27,570
Occupancy as of Dec 31, 2021	98.8%
Average monthly rent per unit	€1,042
Tenant turnover	14.5%
Gross initial yield	3.8%

*S&P Global Ratings view, based on December 2021 results.

Chart 2: Vesteda Residential Fund FGR--Geographic Diversity



Source: S&P Global Ratings. Company Report

Peer Comparison

EMEA REIT Peer Comparison

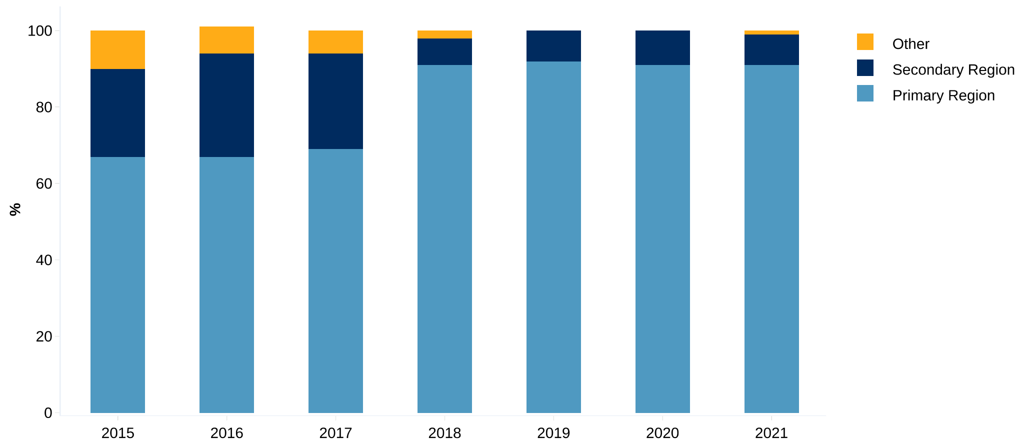
Vesteda Residential Fund FGR--Peer Comparisons

	Vesteda Residential Fund FGR	Vonovia SE	Grand City Properties S.A.	Akelius Residential Property AB	Gecina
Foreign currency issuer credit rating	A-/Stable/A-2	BBB+/Positive/A-2	BBB+/Stable/A-2	BBB/Negative/A-2	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2	BBB+/Positive/A-2	BBB+/Stable/A-2	BBB/Negative/A-2	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31	2021-12-31
Revenue	347	2,731	525	212	618
EBITDA	239	1,850	299	85	482
Funds from operations (FFO)	206	1,315	202	3	377
Interest expense	40.0	489.8	59.0	87.7	93.3
Operating cash flow (OCF)	199	1,394	158	124	386
Capital expenditure	204	1,730	71	367	356
Dividends paid	186.0	1516.2	53.7	987.3	391.3
Cash and short-term investments	109	1,315	1,107	1,193	15
Debt	2,121	47,186	4,026	0	7,091
Equity	7,553	36,545	5,178	7,535	12,983
Valuation of investment property	9717.0	95073.9	9339.5	6020.0	17983.5
Adjusted Ratios					
EBITDA margin (%)	68.9	67.8	56.9	40.1	78.1
EBITDA interest coverage (x)	6.0	3.8	5.1	1.0	5.2
FFO cash interest coverage (x)	7.4	4.0	4.4	1.0	4.9
Debt/EBITDA (x)	8.9	25.5	13.5	0.0	14.7
Debt/debt and equity (%)	21.9	56.4	43.7	0.0	35.3

Business Risk

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 localization of Vesteda's assets, which compares favorably with other rated residential real estate companies. Over 91% 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



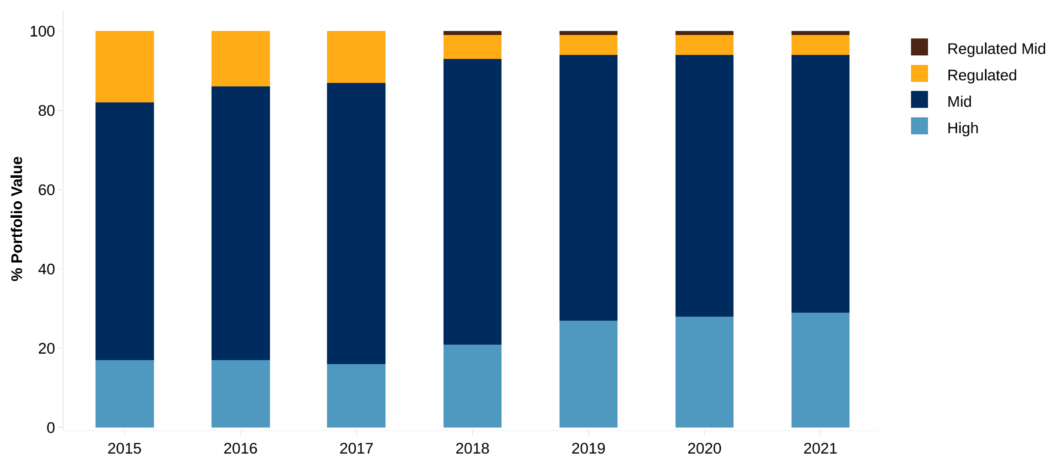
Source: S&P Global Ratings. Company Report

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 around 2.5%-3.0% annually on average over the past few years and disposed some non-core assets.

We consider Vesteda well-positioned to benefit from the current dynamics of the Dutch rental market, including low levels of new construction and large housing shortage. 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

Stacked bar chart subtitle



Source: S&P Global Ratings, Company Report.

Vesteda's portfolio reached close to €10 billion in 2021. The portfolio growth in 2021 was majorly related to huge positive portfolio revaluations of about €1.2 billion driven by strong market fundamentals and continued housing shortages. As a result, the company's residential portfolio reached close to €9.8 billion--including €177 million of investment property under construction--at year-end 2021. That said, we believe the portfolio value may remain flat given risk of increasing interest rate, which could stabilize the yields or may expand it slightly in next 12-18 months however, some pressure on yields could be mitigated by expected positive rental growth.

In our view, Vesteda has a sound operating performance track record. The average occupancy rate is high and stable, at 98.8% in 2021, supported by low tenant turnover. Further, 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 may expand further by taking on only turnkey-development projects, which we expect to remain limited to less than 10% to its overall portfolio exposure.

Financial Risk

Vesteda's financial risk profile is supported by low leverage for the industry, with debt to debt plus equity of below 30%. The fund's financial policy includes a LTV ratio (similar to our debt-to-debt plus equity ratio) of below 30%, belonging to the most conservative financial risk profile under our rated residential real estate portfolio in Europe. Given the company's strong track record of financial discipline with very low leverage over the past years, we expect the company will continue maintaining low leverage metrics. The company has a strong liquidity position with a syndicated RCF of €700 million available (fully undrawn at first-quarter 2022), maturing in 2025. In addition, Vesteda has a €1 billion commercial paper program, an EIB facility of €150 million, and a SMBC facility of €200 million, all fully undrawn.

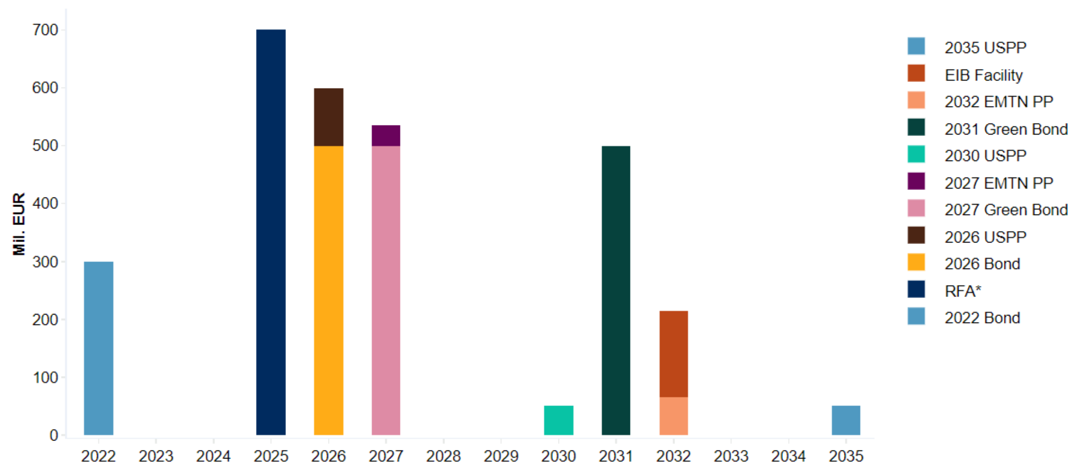
Our rating is further supported by the high ratio of S&P Global Ratings-adjusted EBITDA interest coverage of about 6x at year-end 2021. We expect the ratio to remain solid despite the current rise in interest rates, at well above 6x in 2022-2023, thanks to the company's low refinancing needs for the next two-to-three years and mainly fixed debt exposures (100% of total debt). Vesteda enjoys a low cost of debt of about 1.8% as of end 2021. This was further supported by the issuance of its second green bond of €500 million in October 2021, at a 0.75% coupon, maturing in 2031.

That said, the ratio of debt to EBITDA stood at 8.9x at year-end 2021, remaining broadly stable from 9.0x in 2020, which appears high for its leverage level and underscores mainly the low-yield environment in which the company operates. We expect the ratio to remain at 9.0x-9.5x in 2022-23.

Debt maturities

Vesteda has a weighted-average debt maturity of six years as of Dec. 31, 2021 (see chart 5).

Chart 5: Vesteda Residential Fund FGR--Debt Maturities As of Dec. 31, 2021



Source: S&P Global Ratings, Company Report. *Revolving Facility Agreement

EMEA REIT Financial Summary

Vesteda Residential Fund FGR--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	242	247	281	329	335	347
EBITDA	171	154	186	232	229	239
Funds from operations (FFO)	140	123	163	192	196	206
Interest expense	33	31	30	40	41	40
Operating cash flow (OCF)	136	153	165	196	168	199
Capital expenditure	254	250	185	192	138	204
Dividends paid	121	206	415	344	195	186
Cash and short-term investments	17	14	11	3	2	109
Debt	1,218	1,159	1,730	1,942	2,062	2,121
Common equity	3,045	3,819	5,517	6,022	6,294	7,553
Valuation of investment property	4,342	5,035	7,281	8,012	8,387	9,717

Vesteda Residential Fund FGR--Financial Summary

Adjusted ratios						
EBITDA margin (%)	70.7	62.3	66.2	70.5	68.4	68.9
EBITDA interest coverage (x)	5.2	5.0	6.2	5.8	5.6	6.0
Debt/EBITDA (x)	7.1	7.5	9.3	8.4	9.0	8.9
Debt/debt and equity (%)	28.6	23.3	23.9	24.4	24.7	21.9

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

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	2,084	7,553	347	255	1,484	40	239	232	186	204
Cash taxes paid	-	-	-	-	-	-	(1)	-	-	-
Cash interest paid	-	-	-	-	-	-	(32)	-	-	-
Lease liabilities	146	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(109)	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	1	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(32)	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(16)	(16)	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	(1,233)	-	-	-	-	-
OCF: Taxes	-	-	-	-	-	-	-	(1)	-	-
Total adjustments	37	-	-	(16)	(1,248)	-	(33)	(33)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	2,121	7,553	347	239	236	40	206	199	186	204

Liquidity

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 months and by 1.2x over another further 12 months.

The company benefits from sufficient undrawn committed revolving facilities along with limited debt maturities for next 12 months as of March 31, 2022.

Principal liquidity sources

- About €98 million of unrestricted cash and about €850 million available under the RCF and EIB agreement as of March 31, 2022; and
- Our forecast of €160 million-€170 million of cash funds from operations.

Principal liquidity uses

- €300 million of green bonds maturity in next 12 months;
- €150 million-€200 million of committed capex, including the project development pipeline; and
- Around €180 million-€200 million of cash dividend payments.

Covenant Analysis

Requirements

The company must comply with following financial covenants:

- LTV of 50% maximum (as of Dec. 31, 2021, this was 20.8%); and
- Interest coverage ratio of minimum 2.0x (as of Dec. 31, 2021, it was 7x).

Compliance expectations

As of March 31, 2022, Vesteda had significant headroom (above 30%) under all its financial maintenance covenants.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5		S-1	**S-2**	S-3	S-4	S-5		G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1 -5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors are an overall neutral consideration in our credit rating analysis of Vesteda Residential Fund. The company implemented a sustainability improvement strategy to ensure that by 2024 99% of properties achieve green energy labels. This will help the company to reduce greenhouse gas emissions and meet its target of cutting its carbon footprint by 49% by 2030 and 95% by 2050 compared with 1990 levels. Vesteda issued its first green bond in May 2019 and its second green bond in October 2021 under its green financing framework.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2021, the fund's capital structure comprised solely unsecured debt. Unsecured bonds are issued under the company's financing entity, Vesteda Finance B.V. (A-/Stable/A-2).

Analytical conclusions

We rate the senior unsecured bond 'A-', in line with the issuer credit rating. This is because the company's exposure to secured debt is low.

Rating Component Scores

Foreign currency issuer credit rating	**A-/Stable/A-2**
Local currency issuer credit rating	**A-/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+**
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	Positive (+1 notch)
Stand-alone credit profile	**a-**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of May 30, 2022)*

Vesteda Residential Fund FGR	
Issuer Credit Rating	A-/Stable/A-2
Issuer Credit Ratings History	
23-Apr-2021	A-/Stable/A-2
24-Jan-2019	BBB+/Stable/A-2
22-Apr-2016	BBB+/Stable/--
Related Entities	
Vesteda Finance B.V.	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-

*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.