vesteda

half-year report 2019

At home with Vesteda

Our mission is to make sure that all our stakeholders feel at home with us. That is especially true for our tenants, the investors who invest in our fund and our employees.

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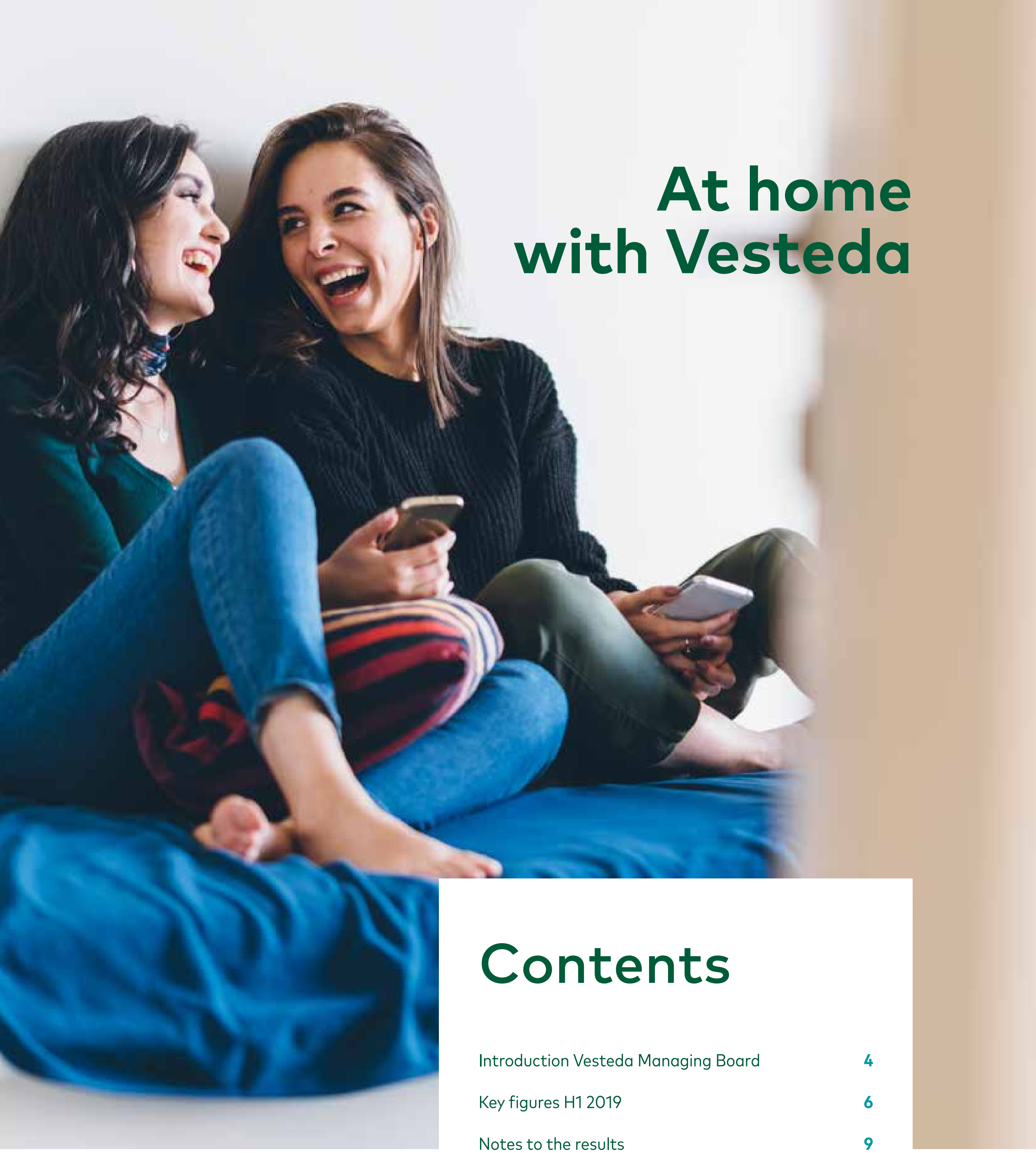
At home with Vesteda



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Vesteda Managing Board

Residential market more volatile, but still fundamentally strong

In the period under review, the developments on the Dutch housing market became more volatile than we have seen in recent years. The strong price rises of recent years are no longer just a given fact in every region of the country. Consumer confidence has fallen below zero for the first time in years and the Eigen Huis Market Indicator, which measures consumer confidence in the housing market, fell to the neutral value of 100. In the first quarter of this year, Vesteda's own Housing Market Indicator (HMI) recorded a decline for the first time in a year, to 7.3 in Q1 2019 from 8.0 in Q4 2018.

At the same time, there is no clear downward trend. Consumer confidence recovered slightly in the second quarter, while the HMI closed at 7.4 in Q2 2019. The fundamentals, such as economic growth, low interest rates, household growth and tendency to move house, remain strong for the time being and are acting as a solid foundation of developments in the Dutch housing market.

Focus on affordability

The flip side of the strong price rises in the housing market over the past few years is the increase in housing costs. Although a recent study by the Dutch Interior Ministry (Woon2018) showed that affordability was still not a major issue in the Netherlands, there are still households for which this is a significant problem. These are largely lower middle-income households that do not qualify for the government-regulated (social) rental sector and cannot afford to buy a home, and are therefore left with the limited offering on the liberalised rental sector.

Vesteda's main focus is on these households and on higher middle-income households. As a socially responsible investor with a long-term perspective, we believe it is important to serve this group as effectively as possible. As a result of the scarcity of homes in this segment, market rents have risen sharply in recent years, especially in the major cities. This is why for the past two years Vesteda has voluntarily capped rent increases for its liberalised rental contracts, at inflation plus a maximum of 2% in 2018 and inflation plus a maximum of 1.5% in 2019. On top of this, in 2019 we excluded almost all of our government-regulated rental contracts from income-related rent increases. This had a limited impact on Vesteda's returns, but had a potentially significant positive impact for individual households.

Emergency measures do not build homes

At the same time, we are now looking at potential solutions for the future. The only structural solution is to build more (affordable) homes in the mid-rental segment. However, right now there is a real danger that the government and local authorities will introduce emergency measures aimed at the liberalised mid-rental segment (the so-called 'noodknop'), whereby the rent is maximised on the basis of a percentage of the fiscal value (WOZ-value). We believe that taking emergency measures will result in both a very sharp reduction and slowdown in new-build production and a decline in investments in existing rental homes (in the likes of making these homes more sustainable). Regulating this segment of around 600,000 rental homes, something a number of large local authorities want to do, in our opinion is not a solution and will merely drive long-term investors away from this market. And it will do this precisely when we should be stimulating new-build projects for mid-rental segment homes, in cooperation with local authorities and housing corporations.

Increase supply in the mid-rental segment

In the period under review, Vesteda itself increased the share of mid-rental segment homes in its portfolio. In the first half of 2019, we added nine projects with a total of 577 homes to our residential portfolio from our acquisition pipeline. The vast majority of these homes are being offered in the mid-rental segment. Vesteda sold a total of 107 homes in the first half of the year.

At the end of the first half of 2019, Vesteda's residential portfolio consisted of a total of 28,279 homes, with more than three-quarters of these in the mid-rental segment. The total value of the portfolio stood at €7.7 billion at the end of the first half of 2019, compared with €7.0 billion at the end of 2018.

In the first half of this year, Vesteda acquired three projects with a total of 241 homes. Our committed acquisition pipeline stood at 1,097 homes with an indicative value on delivery of €333 million at the end of June 2019. Almost all of the homes in our acquisition pipeline will be added to the mid-rental segment.

Vesteda successfully issues green bond

Thanks to its focus on sustainability, Vesteda qualifies for financing in the form of green bonds. In May of this year, Vesteda was therefore the first residential real estate investor to issue a Euro green bond. We will use the proceeds of this green bond to finance our sustainability strategy. It has already helped us attract a broader group of investors, reduced our average interest rate and extended the average term of our financing facilities. Vesteda will use the €500 million proceeds from the bond issue to finance homes with a minimum A EPC energy label and to upgrade homes by at least two energy label steps to a minimum C EPC energy, as well as for the financing of its acquisition pipeline.

Back to normal levels?

The growth in the Dutch economy levelled off in the period under review. This was driven by a number of factors, including the deterioration in the outlook for Germany and the United Kingdom and the threat of an escalation in the trade war between the United States and China. The Dutch government's economic think tank CPB is forecasting economic growth of 1.7% for this year, followed by a slight decrease to 1.5% in 2020.

The demand for homes remains high, but building production is strongly lagging demand. The overall expectation is that the rise in house prices and rental prices in the liberalised rental sector will gradually return to more normal levels.

In the second half of this year, we will continue to focus strongly on improving the sustainability of our homes and the optimisation of our portfolio, together with the improvement of our services to our tenants.

Amsterdam, 2 August 2019

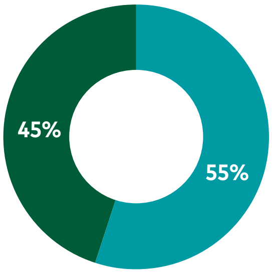
Gertjan van der Baan (CEO) and Frits Vervoort (CFO)

Key figures H1 2019

(these financial statements have not been audited)

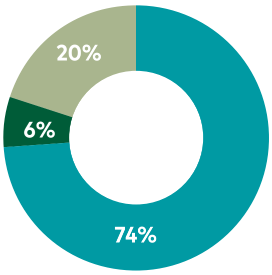
Number of homes	Value of portfolio	Physical occupancy rate	Gross rental income (in H1)
28,279	€ 7.7 bln	98.1%	€ 162 mln

Portfolio by type of home (in units)



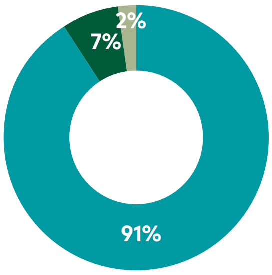
- Apartments
- Family houses

Portfolio by rental segment (in value)



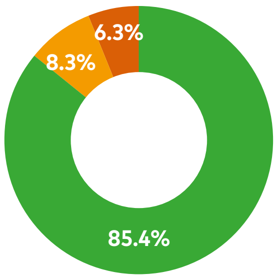
- Mid-rental segment
- Regulated rental segment
- Higher rental segment

Portfolio by region (in value)



- Primary [1]
- Secondary [1]
- Other

Portfolio by energy label (in units)



- A-C
- D
- E-F

1 Primary regions are areas that offer the highest market potential for the non-regulated (liberalised) rental sector. These areas are marked by high market potential and low market risks. Secondary regions score lower on a number of fronts but do have a positive economic and demographic outlook.

	H1 2019	H1 2018	FY 2018
Income (in € mln)			
Theoretical rent	168	128	290
Loss of rent	(6)	(4)	(9)
Gross rental income	**162**	**124**	**281**
Property operating expenses	(38)	(31)	(71)
Net rental income	**124**	**93**	**210**
Result on property sales	4	40	44
Management expenses	(11)	(8)	(18)
Interest expenses (including amortised fees)	(21)[1]	(12)	(29)
Realised result	**96**	**112**	**207**
Unrealised result	**324**	**445**	**825**
Total result	**420**	**557**	**1.032**
Revaluation of Property Plant and Equipment (PPE)	-	1	2
Other comprehensive result	(7)	-	-
Total comprehensive result	**413**	**558**	**1.034**

	30 June 2019	30 June 2018	31 December 2018
Statement of financial position (in € mln)			
Total assets	7,957	6,765	7,337
Equity	5,822	5,105	5,517
Debt capital	1,830	1,582	1,746
Leverage ratio (in %, excluding IFRS 16 effect)	23.5	23.4	23.7

	12 months prior to 30 June 2019	12 months prior to 30 June 2018	12 months prior to 31 December 2018
Interest coverage ratio			
EBITDA (in € mln, excluding result on property sales)	218	167	190
Interest expenses[2] (in € mln, excluding amortised fees)	32	25	27
Interest coverage ratio (ICR)	**6.9**	**6.7**	**6.9**

	H1 2019	H1 2018	FY 2018
Return on equity (in % of weighted average equity)			
Realised return	**1.7**	**3.0**	**4.6**
- from letting	1.7	1.9	3.6
- from property sales	0.1	1.0	1.0
Unrealised return	**5.7**	**11.8**	**18.4**
Total return	7.5	14.7	23.0
Other realised return	(0.1)	0	0
Total comprehensive return	**7.3**	**14.7**	**23.0**

1 The interest expenses excluding the effect of IFRS 16 (implementation since 1 January 2019) amounted to €17 million for the first half of 2019

2 Excluding IFRS 16 effect

	30 June 2019	30 June 2018	31 December 2018
Non-financial figures			
Number of residential units	28,279	26,852	27,809
- apartments	55%	57%	55%
- single family houses	45%	43%	45%
Physical occupancy rate (in % of units)	98.1%	97.8%	97.5

	H1 2019	H1 2018	FY 2018
Non-financial figures			
Number of units inflow	577	6,454	7,584
- from acquisition pipeline	577	471	1,601
- portfolio acquisition	-	5,983	5,983
Number of units outflow	107	2,022	2,229
- individual unit sales	107	150	322
- sale of complex buildings	-	-	35
- portfolio sale	-	1,872	1,872
Loss of rent	3.2%	3.3%	3.2%

Notes to the result

Gross rental income

The theoretical gross rent amounted to €168 million in the first half of 2019, an improvement of €40 million on the theoretical gross rent in the same period of last year. This increase was largely (€35 million) due to the acquisition of the former Delta Lloyd portfolio at the end of June 2018 and was partly offset by the portfolio sale of 1,872 homes in April 2018. In addition to this, the theoretical gross rent was slightly higher due to indexing and an increase in contract rents for new tenants as a result of the rise in market rents, and due to the addition of projects from Vesteda's acquisition pipeline.

The loss of rent stood at 3.2% in the half of 2019, which was slightly lower than the 3.3% in the same period of last year. Gross rental income amounted to €162 million in the first half of 2019, compared with €124 million in the first half of 2018.

Net rental income

Property operating expenses came in at €38 million in the first half of 2019, which was €7 million higher than property operating expenses of €31 million in the first half of 2018. This increase was largely due to the acquisition of the former Delta Lloyd portfolio.

Operating costs as a percentage of gross rental income, the so-called gross/net ratio, came in at 24.1% in the first half of 2019, compared with 24.9% in the same period of last year. The gross/net ratio for 2019 is expected to come in at around 25%.

Net rental income came in at €124 million in the first half of 2019, compared with €93 million in the first half of 2018.

Sales proceeds

In the first half of 2019, Vesteda sold a total of 107 homes from its investment portfolio, compared with the 2,022 homes sold in the same period of last year (1,872 homes in a portfolio sale). The result on property sales came in at a total of €4 million, compared with €40 million in 2018 (€35 million of which came from the portfolio sale).

Management expenses

Management expenses amounted to €11 million in the first half of 2019, compared with €8 million in the first half of 2018. The increase in management expenses was largely driven by lower recharged acquisition costs compared to 2018 and an increase in the number of FTEs.

Interest expenses

Interest expenses came in at €21 million in the first half of 2019, compared with €12 million in the first half of 2018. Excluding the impact of IFRS 16 (in force since 1 January 2019), interest expenses amounted to €17 million in the first half of 2019. The increase of €4 million was due to Vesteda's higher average debt position as a result of the increase in the size of its portfolio. The average interest rate stood at 2.0% (excluding IFRS 16) at the end of the first half, compared with 2.2% at the end of the first half of 2018.

In May of this year, Vesteda successfully issued its first ever green bond. This bond issue followed the issuance of a €500 million bond in July 2018. This made the latest bond the second benchmark bond in Vesteda's €2.5 billion EMTN programme, as well as the first Euro green bond issued by a residential real estate investor. The €500 million bond has a term of eight years and a coupon rate of 1.5%. The bond issue was more than six times oversubscribed.

Realised result

Vesteda recorded a realised result of €96 million in the first half of 2019, compared with €112 million in the first half of 2018. Excluding the results on property sales in both years, the realised result in the first half of this year improved by €20 million compared with the same period of last year. This was due to the contribution of the former Delta Lloyd portfolio to the results (€23 million including interest expenses) and a higher net rental income, compensated by higher management expenses and higher interest expenses mainly as a result of the impact of IFRS 16 on interest expenses (€3 million).

Unrealised result

The upward pressure on the housing market remains high and house prices continue to rise, both locally and at a national level. However, the rise in house prices has levelled off considerably when compared with the first half of 2018. The value of Vesteda's portfolio increased by 4.3% in the first six months of 2019, compared with a rise of 9.1% in the first half of 2018. Vesteda recorded an unrealised result of €324 million over the first half of 2019, compared with €445 million over the same period of last year.

Comprehensive result

Vesteda recorded a comprehensive result of €413 million in the first half of 2019, compared with €558 million in the same period of 2018. The other comprehensive result of €7 million negative in the first half of 2019 is the result of the settlement of two pre-hedge contracts related to the green bond issuance. The total return on equity came in at 7.3%, down from 14.7% in the first half of 2018. The difference was largely due to a lower unrealised return and a lower return on property sales in connection with the portfolio sale in the first half of 2018.

Balance sheet

As a result of the positive revaluation, Vesteda's balance sheet total increased to €7,957 million at end-June 2019, from €7,337 million at year-end 2018. The leverage ratio stood at 23.5% (excluding IFRS 16 effect) at the end of the first half, compared with 23.7% at the end of last year.

IFRS 16

IFRS 16[1] has been implemented as of 1 January 2019. This has an effect on both Vesteda's balance sheet and the profit and loss account. The effect on the balance sheet was €210 million in the first half of 2019, which includes land lease agreements of €207 million and car lease agreements and rental of offices of €3 million. On balance, the effect of the implementation of IFRS 16 on the profit and loss account is neutral. The effect on the realised result is a total of €2.4 million negative (positive effect of €0.7 million on property operating expenses and a negative effect of €3.1 million on interest expenses) and the effect on the unrealised result is €2.4 million positive.

1 For more information about IFRS 16, please visit our online annual report: https://vestedareport.com/annual-report/CSearch.@SUZSUyAxNg==/a1064_31-New-and-amended-standards-and-interpretations

Investment portfolio

Investment portfolio, changes in value (in € million)	H1 2019
Value investment portfolio at start of year	7,024
Inflow from pipeline	191
Capex	17
Outflow	(23)
Revaluation	299
Leasehold and other rights of use (IFRS 16)	207
Value investment portfolio ultimo H1 2019	**7,715**

Investment portfolio, changes in units	H1 2019
Number of residential units at start of year	27,809
Inflow from pipeline	577
Outflow	(107)
Number of residential units ultimo H1 2019	**28,279**

In the first half of 2019, a total of 577 homes entered the investment portfolio from the acquisition pipeline. It concerns nine projects, of which five partial deliveries. The rental levels of the homes added are mostly in the mid-rental segment. In the first half of 2019, a total of 107 homes were sold from the investment portfolio. On balance, the investment portfolio increased by 470 residential units to 28,279.

Additions to the investment portfolio H1 2019 from the Acquisition pipeline

Building	Location	Total number of homes	Apartment/ Family house	Region	Rental seg-ment	Completion/ delivery
LRC	Utrecht	209	Apartment	Primary	Mid	Q1
Koningsoord (phase 1)	Berkel-Enschot	33	Apartment	Primary	Mid	Q1
Parijsch	Culemborg	42	Family house	Secondary	Mid	Q1
Keijzershof	Pijnacker	26	Family house	Primary	Mid	Q1
Hooghkamer (phase 1)	Voorhout	45	Family house	Secondary	Regulated/Mid	Q1
De Enter (phase 2)	Amsterdam	96	Apartment	Primary	Higher	Q1
De Lanen (phase 1)	Rosmalen	30	Family house	Primary	Mid	Q2
Helenahof (phase 1)	Arnhem	20	Apartment/Family house	Primary	Mid	Q2
Willemstoren	Rotterdam	76	Apartment	Primary	Mid	Q2
Total inflow		**577**				

Acquisition pipeline

In the first half of 2019, Vesteda added three projects with a total of 241 homes to its committed pipeline. This concerns The Ox project in Amsterdam (168 homes), Zuidpoort project in Veenendaal (34 homes) and Onder de Linden project in Oosterhout (39 homes). A total of 577 homes were delivered in the first half of the year and added to the investment portfolio.

At the end of the first half of 2019, the acquisition pipeline comprised a total of 1,097 homes. All projects fit in perfectly with Vesteda's portfolio in terms of region, rental segment and energy label.

Building	Location	Total number of homes	Apartment/Family house	Region	Rental segment	Expected completion
De Lanen (phase 2)	Rosmalen	9	Family house	Primary	Mid	2019
Bensdorp	Bussum	40	Apartment	Primary	Mid	2019
De Draai	Heerhugowaard	31	Family house	Secondary	Mid	2019
Helenahof (phase 2)	Arnhem	35	Apartment/Family house	Primary	Mid	2019
Koningsoord (phase 2)	Berkel Enschot	32	Family house	Primary	Mid	2020
Kolenpark	Groningen	139	Apartment	Primary	Mid	2019
De Generaal	Rijswijk	120	Apartment	Primary	Mid	2019
Hooghkamer (phase 2)	Voorhout	10	Family house	Secondary	Regulated/Mid	2019
Hoog Dalem	Gorinchem	40	Family house	Primary	Mid	2020
Noorderhaven	Zutphen	126	Apartment/ Family house	Other	Mid	2020
De Toren	Hoorn	72	Apartment	Primary	Mid	2020
Punt Sniep	Diemen	202	Apartment	Primary	Mid	2020
Zuidpoort	Veenendaal	34	Family house	Primary	Mid	2020
Onder de Linden	Oosterhout	39	Family house	Primary	Mid	2020
The Ox	Amsterdam	168	Apartment	Primary	Regulated /Mid	2021
Total committed pipeline		**1,097**				


De Toren, Hoorn
Kolenpark, Groningen
De Draai, Heerhugowaard
Punt Sniep, Diemen
The Ox, Amsterdam
Zuidpoort, Veenendaal
De Generaal, Rijswijk
Bensdorp, Bussum
Helenahof, Arnhem
De Lanen, Rosmalen
Heijmans Portfolio
Onder de Linden, Oosterhout

About Vesteda

Vesteda is a Dutch residential investor that focuses primarily on the mid-rental segment. Vesteda invests funds for institutional investors, such as pension funds and insurers. Halfway through 2019, Vesteda had invested a total of almost €8 billion in Dutch residential real estate. The company's rental portfolio stands at a total of more than 28,000 residential units. Vesteda's homes are mainly located in economically strong regions and core urban regions.

For more information

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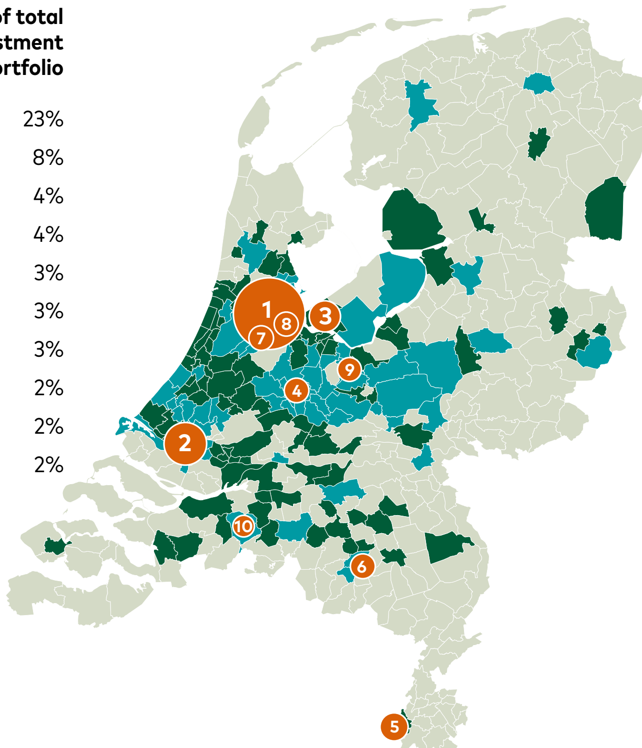
Portfolio distribution H1 2019

Value H1 2019	In € milion	% of total investment portfolio
1 Amsterdam (Primary)	1,707	23%
2 Rotterdam (Primary)	606	8%
3 Almere (Primary)	318	4%
4 Utrecht (Primary)	264	4%
5 Maastricht (Secondary)	249	3%
6 Eindhoven (Primary)	198	3%
7 Amstelveen (Primary)	194	3%
8 Diemen (Primary)	185	2%
9 Amersfoort (Primary)	181	2%
10 Breda (Primary)	146	2%

- Primary regions
- Secondary regions
- Other

€ 1,500 mln € 750 mln € 150 mln



Design

Cascade - visuele communicatie, Amsterdam

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