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Vesteda Residential Fund FGR

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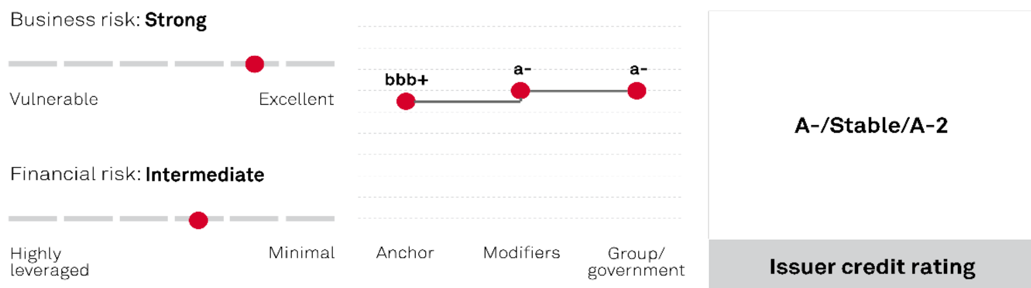
May 11, 2023

Ratings Score Snapshot



Credit Highlights

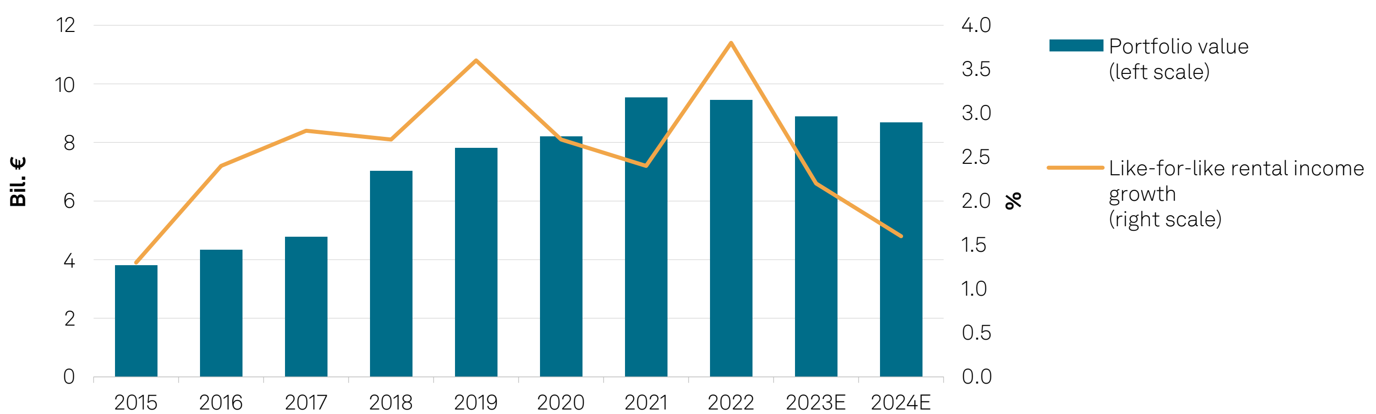
Overview

Key strengths	Key risks
Good market position as the Netherlands' largest single-fund institutional residential real estate investor, with a property portfolio value of €9.5 billion as of Dec. 31, 2022.	Sole geographical focus on the Netherlands, leading to concentration and reliance on the performance of the Dutch economy, as well as a risk of higher asset devaluations.

Solid operating performance, with positive like-for-like rental growth and high occupancy levels above 98%.	Increasing affordability risk in the Dutch residential market on the back of rising inflation and rents, which could lead to political pressure to tighten regulations further.
Strong financial discipline in the past few years, with low leverage and S&P Global Ratings-adjusted debt to debt plus equity below 30% (22.9% as of Dec. 31, 2022) and strong liquidity, underpinned by limited debt maturities in the next 24 months.	Further devaluations of assets beyond our expectations given recent trends of fair value adjustments in the residential sector in the first quarter of 2023.

We anticipate that proposed rental regulations will result in slowing revenue growth for Vesteda. We now expect annual like-for-like rental income of 2%-3% in 2023 and around 2% in 2024, compared to 3.8% in 2022. Vesteda continues to show a solid operating performance, supported by the favorable fundamentals of the Dutch residential rental market, where demand remains strong and new supply limited. Like-for-like rental income increased by 3.8% in 2022, mainly supported by re-letting (0.8%) and an average annual rent increase for existing tenants (2.8%). However, in late 2022, the government temporarily extended the regulations to include part of the mid-market rental segment (59% of Vesteda's portfolio) in the regulated category. This implies that around 30% of Vesteda's property portfolio will be reclassified in the regulated segment and become subject to a cap on rental growth. We understand there are also rental caps in the nonregulated segment. We foresee that this will entail a loss of gross rental income of around 1%. That said, we anticipate that Vesteda could mitigate some of the impact by investing in the quality and energy efficiency of the properties in order to exclude them from the new regulations. All in all, we think that moderately high inflation and continued solid demand in the Netherlands will support rental growth of about 2%-3% over the next 12 months and around 2% over the next 24 months. We anticipate an occupancy rate of 98%-99%, mainly due to good demand, as the majority of Vesteda's portfolio is in Randstad, the region in the Netherlands with the most growth potential.

Vesteda Residential Fund FGR--Constant portfolio growth



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

We anticipate that Vesteda's adjusted ratio of debt to debt plus equity will remain below 30%, and hence in line with the threshold for the current rating. This is despite our assumption of a negative fair value adjustment of about 10% in 2023. In line with previous years, the company's leverage was low in 2022, at 24.1% adjusted debt to debt plus equity, which corresponds to a reported loan-to-value (LTV) ratio of 22.9%. The company targets an LTV ratio of 30% in its financial policy, and therefore we believe that it has some headroom under its target, although it is declining. Net debt to EBITDA stood at 9.4x in 2022, and we expect it to remain around 9.5x in 2023-2024. This is slightly higher than in the past couple of years, primarily due to material investments in committed acquisitions of about 1,700 units, a near-term focus on investments in sustainability, and the low-gross-yield nature of the assets. Vesteda's cost of debt was 1.8% at year-end 2022, and, given its relatively low refinancing needs over the next few years, we believe that the company should be able to withstand the current interest rate hikes, allowing for only a moderate rise in funding costs. This should support an interest coverage ratio of 5.0x-5.5x over the next 24 months (5.9x in 2022). We anticipate that Vesteda's adjusted ratio of debt to debt plus equity will increase to 27%-28% in 2023-2024, assuming a negative fair value adjustment of around 10% in 2023 and a further devaluation of around 1% in 2024. However, we expect the ratio to remain below 30%, and hence in line with the threshold for the current rating, despite the possibility of some additional pressure should the valuation decline more than we expect.

Liquidity should remain strong over the next 12-24 months, and besides commercial paper, there are no debt maturities until 2026. Vesteda has a robust liquidity position, including €850 million of available credit lines maturing in 2025, versus €323 million of debt maturing over the next 12 months. Debt mainly comprises commercial paper, which we anticipate the company will continue to roll over on an ongoing basis. Furthermore, Vesteda has a long average debt tenor of 5.6 years, with no maturities until 2026 and 2027, when two €500 million bonds mature. This excludes outstanding commercial paper of €269 million as of Dec. 31, 2022. This is a comfortable cushion, especially as weaker perceptions of real estate players in the bond markets in recent months, along with a rise in the risk-free rate, are increasing the pressure on real estate companies with near-term refinancing needs.

Outlook

The stable outlook reflects our view that Vesteda should continue benefiting from stable rental income thanks to high occupancy levels and favorable demand trends for its Dutch residential assets. We anticipate that Vesteda will maintain its adjusted ratio of debt to debt plus equity at about 27%-28%, debt to EBITDA at about 9.5x, and EBITDA interest coverage 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
- Vesteda fails to maintain debt to annualized EBITDA below or close to 9.5x. This could occur if the company undertakes large debt-financed acquisitions or much higher capital expenditure (capex) than we anticipate. It could also occur if Vesteda experiences significant negative portfolio revaluations beyond our current base case.

Upside scenario

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

Our Base-Case Scenario

Assumptions

- Real GDP growth in the Netherlands of 0.9% in 2023 and 1.7% in 2024. We expect consumer price index (CPI) growth to remain at 4.8% in 2023 and 3.4% in 2024.
- Annual like-for-like growth in rental income of 2.0%-3.0% in 2023 and around 2.0% in 2024, based on our assumptions of continued demand for Vesteda's assets.
- A stable EBITDA margin of around 67%-69%, with increasing operating costs due to inflation mostly offset by rental growth.
- Annual capex for the existing portfolio and new development of €250 million-€300 million for the next 12-24 months. However, we understand that part of this is not committed.
- Moderate asset rotation, with €40 million-€50 million of acquisition spending each year in 2023 and 2024, and disposals of about €170 million-€180 million in 2023 and €200 million-€210 million in 2024, in line with the company’s strategy.
- A portfolio devaluation of 10% in 2023, slightly higher than that of peers due to a rise in rental yields and new legislation in the Netherlands, which no longer excludes real estate investment trust-like companies from real estate transfer taxes. We expect a further 3% decline in 2024.
- An annual redemption of €50 million, in line with the company’s forecast.
- Dividend payouts in 2023 of about €200 million-€210 million.
- A gradual increase in the average cost of debt from 1.8% currently toward 2.0%-2.2% in the coming 12-24 months.

Key metrics

Vesteda Residential Fund FGR--Key metrics*

	2021a	2022a	2023e	2024f	2025f
Revenue (€ mil.)	347	363	375-380	375-380	375-380
EBITDA margin (%)	68.9	67.8	66.0-68.0	66.0-68.0	66.0-68.0
Capital expenditure (€ mil.)	204	196	250-300	220-250	90-100
Dividends (€ mil.)	186	245	200-210	210-220	210-220
Debt to EBITDA (x)	8.9	9.4	9.4-9.8	9.4-9.9	9.3-9.6
EBITDA interest coverage (x)	6.0	5.9	5.5-6.0	5.0-5.5	5.0-5.5
Debt to debt plus equity (%)	21.9	24.1	26.0-28.0	27.0-29.0	27.0-29.0

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

Company Description

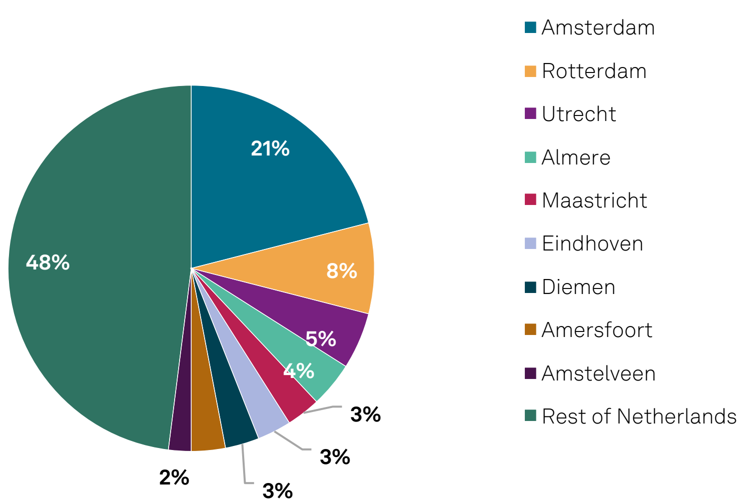
Vesteda is an open-ended fund and one of the largest unlisted Dutch investment funds. It focuses on residential properties in the Dutch midmarket unregulated sector (58% of the portfolio value as of Dec. 31, 2022), with limited exposure to the upper-middle-market rent segment (37%) and regulated rents (5%). As of Dec. 31, 2022, the portfolio comprised 27,661 residential units valued at €9.7 billion.

Vesteda Residential Fund FGR--Portfolio summary

Segment focus	Residential
Portfolio value	€9.5 bil.
Units	27,661
Occupancy as of Dec. 31, 2022	98.6%
Average monthly rent per unit	€1,081
Tenant turnover	13.0%
Gross initial yield	4.0%

*S&P Global Ratings' view, based on full-year 2022 results.

Vesteda Residential Fund FGR--Geographical diversity



Source: S&P Global Ratings, company report.

Peer Comparison

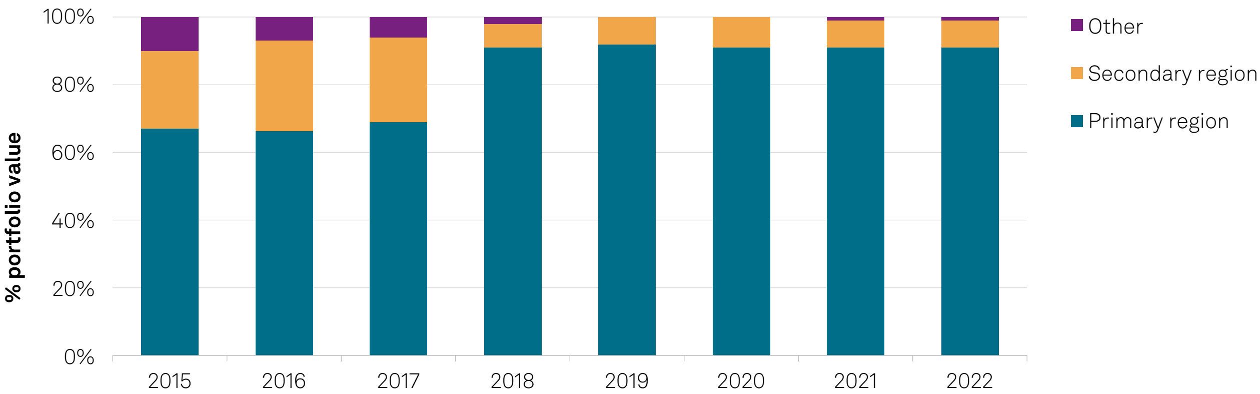
Vesteda Residential Fund FGR--Peer Comparisons

	Vesteda Residential Fund FGR	Gecina	Vonovia SE	Grand City Properties S.A.	Akelius Residential Property AB
Foreign currency issuer credit rating	A-/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Negative/A-2
Local currency issuer credit rating	A-/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Negative/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Revenue	363	625	3,595	583	303
EBITDA	246	498	2,274	308	135
Funds from operations (FFO)	210	411	1,542	218	56
Interest expense	42.0	88.4	609.0	64.3	80.1
Operating cash flow (OCF)	211	386	1,574	156	147
Capital expenditure	196	363	1,855	75	197
Dividends paid	245.0	392.0	714.0	56.4	6099.2
Cash and short-term investments	11	51	1,198	427	536
Debt	2,315	7,363	45,179	4,190	1,376
Equity	7,298	12,781	34,439	5,289	4,831
Valuation of investment property	9448.0	18131.2	94527.2	9529.6	6173.0
Adjusted Ratios					
EBITDA margin (%)	67.8	79.6	63.3	52.9	44.6
EBITDA interest coverage (x)	5.9	5.6	3.7	4.8	1.7
FFO cash interest coverage (x)	6.8	5.1	3.8	4.6	1.7
Debt/EBITDA (x)	9.4	14.8	19.9	13.6	10.2
Debt/debt and equity (%)	24.1	36.6	56.7	44.2	22.2

Business Risk

Vesteda's business risk profile reflects our view of the company's well-positioned portfolio of residential properties in the Netherlands. This is supported by the good location of Vesteda's assets, which compares favorably with other rated residential real estate companies in Europe. Over 95% of Vesteda's portfolio is in its primary region of the Netherlands, which we view as more resilient than the secondary regions, given the Netherlands' stronger economic and demographic trends.

Vesteda Residential Fund FGR--Portfolio by region



Source: S&P Global Ratings, company report.

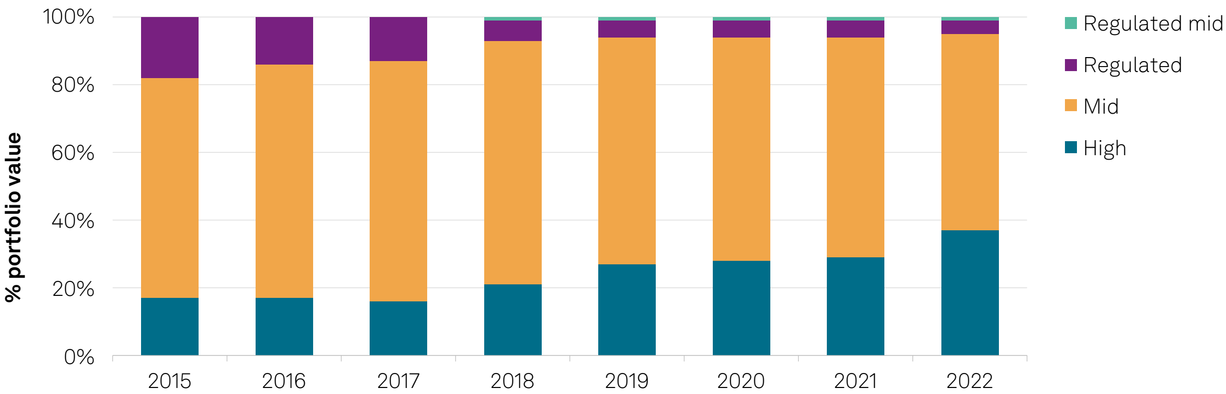
Over the past couple of years, Vesteda has mainly disposed of assets in its secondary regions and has followed its strategy of focusing on prime regions in the Netherlands. Our assessment of Vesteda's business risk profile also reflects the company's good track record of stable rental income. Vesteda has increased like-for-like rental revenues to an annual average of around 2.5%-3.8% over the past few years and has disposed of some noncore assets.

We consider Vesteda as being in a good position to benefit from the current dynamics of the Dutch rental market, including low levels of new construction and a large housing shortage. The market faces a substantial increase in construction costs, a labor shortage in the construction sector, and a reduction in new building permits increasing replacement costs and limiting new supply. This should support rental growth, especially in the mid-market unregulated segment, where we expect demand to be strongest in the coming years, and where 91% of Vesteda's assets are located.

However, the level of rental growth may be limited due to tightening tenancy regulations in the Netherlands. New regulations scheduled to come into effect from Jan. 1, 2024, will mean that all Vesteda's portfolio will be subject to indexation caps. The regulated mid-market segment (30% of the portfolio) will be limited to a rent increase equal to the Netherlands' annual wage development index plus 0.5%, with new tenancy rents capped at a rate proportionate to the housing quality assessment. As of July 1, 2023, the maximum rent indexation for these properties will be 3.1%. Rent indexation for properties in the unregulated segment (67% of the portfolio) will be capped at the lower of CPI plus 1% or the annual wage development index plus 1%, but there will be no legal cap on new tenancy rents. As of July 1, 2023, the maximum rent indexation for properties in the unregulated segment will be 4.1%. We believe that the new regulations will likely widen the imbalance between supply and demand.

Additionally, affordability may become an issue for tenants due to the recent high levels of inflation that we expect to continue into 2025. While electricity and gas prices are beginning to decline to pre-February 2022 levels, existing price contracts, alongside a slower pass-through of these reductions to consumers, may reduce affordability for tenants in 2023 and 2024. However, considering current rent levels, we do not see this as having a material impact on Vesteda.

Vesteda Residential Fund FGR--Investment portfolio by rental segment



Source: S&P Global Ratings, company report.

Vesteda's portfolio value of €9.5 billion in 2022 represents a drop compared to 2021. This was due to a negative fair value adjustment of 2.9% on a like-for-like basis, as a consequence of rising yields in the wake of higher interest rates. This negative revaluation occurred in the second half of 2022, after increasing in the first half of the year. In view of the current economic outlooks and ongoing negative revaluations across the real estate sector, we believe there is a strong risk of a further devaluation in 2023. We forecast a devaluation of Vesteda's portfolio of around 7.0% for this year. Additionally, Vesteda's negative revaluation is likely to exceed those of its non-Dutch peers due to an increase in the general real estate transfer tax rate to 10.4% from 8.0% on Jan. 1, 2023, and to the greater volatility in values evident in previous financial crises.

Overall, Vesteda has a track record of stable and sound operating performance. The average occupancy rate in 2022 was high and stable, at 98.6%, and tenant turnover has also fallen to pre-pandemic levels of 13.0% from 14.5% in 2021. In line with its strategy, the company has expanded by taking on turnkey development projects and reducing its direct development activities. The total committed pipeline had an estimated value of €602 million per year at end-2022. Vesteda will finance it with two European Investment Bank (EIB) loans of €150 million each, with the remainder coming from European commercial paper and a €700 million revolving credit facility (RCF). All projects are in line with Vesteda's strategy, as the majority are located on the urban expansion sites of larger cities in the Netherlands in terms of rental segments and energy efficiency. We expect Vesteda's project pipeline to remain limited to less than 10% of its overall portfolio, and we understand that the company can defer committed pipeline projects to future years to remain in line with its financial policy.

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 company's financial policy targets an LTV ratio (similar to our ratio of debt to debt plus equity) of below 30%, which is among the most conservative LTV targets in our portfolio of rated residential real estate companies in Europe. Last year, Vesteda received redemption requests that led to a paid redemption of €50 million. Redemption requests are increasing among European real estate funds due to investors rebalancing their portfolios and reducing their appetite for more cyclical sectors such as real estate. We understand that the maximum redemption Vesteda allows per year is €50 million, and we have included a €50 million redemption in our base case for Vesteda for the next 12-24 months. Considering management's strong track record of financial discipline, with very low leverage in previous years, we expect that the company will maintain low leverage metrics. Vesteda has a strong liquidity position, with a syndicated RCF of €700 million available, maturing in 2025. This RCF was fully undrawn in first-quarter 2023. In addition, Vesteda also has a €150 million EIB loan available to December 2025 that remains undrawn, although we expect the company to use it in 2023.

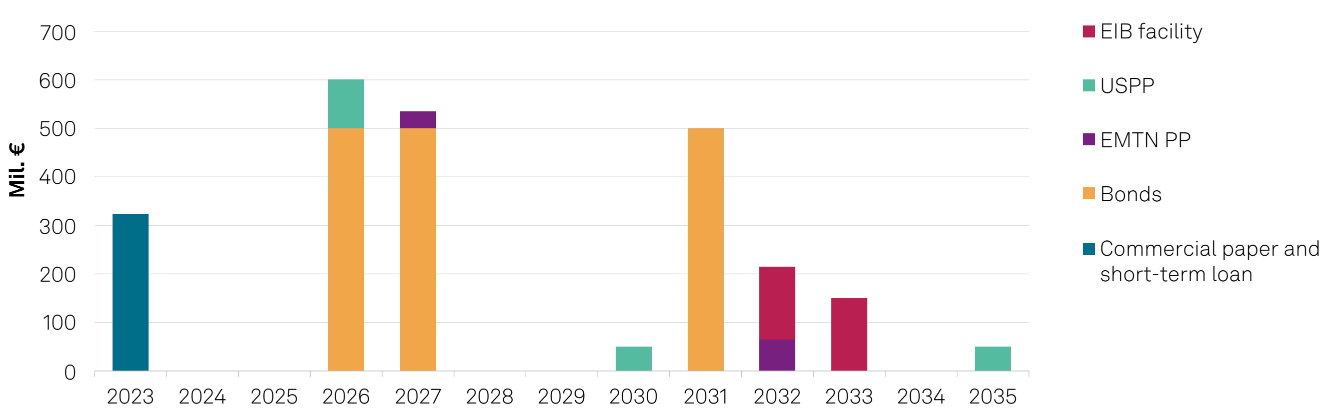
Our financial risk profile assessment is further supported by Vesteda's high adjusted EBITDA interest coverage of about 5.9x at year-end 2022, broadly unchanged from 6.0x in 2021. We expect this ratio to decline slightly with the rise in interest rates and higher margin requirements for new debt, but anticipate that it will remain solid and above 5x over the near term. This is thanks to the company's low refinancing needs until 2026 and 2027, and mainly fixed or hedged debt (83% of total debt as of December 2022). Vesteda enjoys a low cost of debt of about 1.8% as of end-2022, and we understand that it can refinance commercial paper at a rate of around 3%, implying a cost of debt of about 2%. The company has well-diversified funding sources, including unsecured bonds, private placements, a commercial paper program, an RCF and EIB loans.

Management's forecast of dividends and capex leads us to expect an increase in the debt-to-EBITDA ratio to between 9.5x and 9.7x in the next 24 months, reflecting the company's committed project development pipeline and investments in sustainability. However, we anticipate that management will balance development with disposals, meaning that debt could be lower than we forecast. This would improve the leverage ratio and bring it in line with historical levels.

Debt maturities

Vesteda has a weighted-average debt maturity of 5.6 years as of Dec. 31, 2022. Vesteda's next significant debt maturity does not occur until July 2026, when a €500 million bond and a €100 million U.S. private placement are set to mature.

Vesteda Residential Fund FGR--Debt maturities as of March 31, 2023



EIB--European Investment Bank. USPP--U.S. private placement. EMTN PP--Euro medium-term note private placement. Source: S&P Global Ratings, company report.

Vesteda Residential Fund FGR--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	247	281	329	335	347	363
EBITDA	154	186	232	229	239	246
Funds from operations (FFO)	123	163	192	196	206	210
Interest expense	31	30	40	41	40	42
Operating cash flow (OCF)	153	165	196	168	199	211
Capital expenditure	250	185	192	138	204	196
Dividends paid	206	415	344	195	186	245
Cash and short-term investments	14	11	3	2	109	11
Debt	1,159	1,730	1,942	2,062	2,121	2,315
Common equity	3,819	5,517	6,022	6,294	7,553	7,298
Valuation of investment property	5,035	7,281	8,012	8,387	9,717	9,448
Adjusted ratios						
EBITDA margin (%)	62.3	66.2	70.5	68.4	68.9	67.8
EBITDA interest coverage (x)	5.0	6.2	5.8	5.6	6.0	5.9
Debt/EBITDA (x)	7.5	9.3	8.4	9.0	8.9	9.4
Debt/debt and equity (%)	23.3	23.9	24.4	24.7	21.9	24.1

Liquidity

Our short-term rating on Vesteda is 'A-2'. We view the company's liquidity as strong, including in a stress scenario in which EBITDA declines by 15%. We forecast that liquidity sources will cover funding needs by about 1.5x over the next 12 months, and by at least 1x over the subsequent 12 months. Our assessment is also supported by qualitative factors such as Vesteda's generally prudent risk management and its track record of maintaining a high amount of principal liquidity sources and no encumbered assets, which gives it further financial flexibility. The company has debt maturities of about €320 million over the next 12 months, mostly commercial paper. However, Vesteda will have enough available in its committed RCF and limited debt maturities following the repayments.

Principal liquidity sources

- About €1 million of unrestricted cash and about €850 million available under the RCF and EIB agreement as of March 31, 2023; and
- Our forecast of €180 million-€190 million of cash funds from operations.

Principal liquidity uses

- About €320 million of commercial paper maturing in the next 12 months;
- About €250 million-€300 million of capex, including the project development pipeline;
- Around €200 million-€210 million of cash dividend payments; and
- About €50 million of equity redemption payments.

Covenant Analysis

Requirements

Vesteda must comply with the following financial maintenance covenants:

- An LTV ratio of a maximum of 50% (as of Dec. 31, 2022, this was 22.9%); and
- An interest coverage ratio of a minimum of 2.0x (as of Dec. 31, 2022, it was 7.1x).

Vesteda's LTV target of less than or equal to 30% is more conservative than the LTV covenant.

Compliance expectations

As of March 31, 2023, Vesteda had significant headroom of 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 a neutral consideration overall in our credit rating analysis of Vesteda. The company has implemented a sustainability-improvement strategy to ensure that by 2024, 99% of its properties achieve green energy labels. This will help the company reduce greenhouse gas emissions and cut its carbon footprint by 55% by 2030 and 95% by 2050 compared with 1990 levels. Vesteda issued its first green bond in May 2019 and its second in October 2021 under its green financing framework.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2022, the capital structure solely comprised unsecured debt. Unsecured bonds are issued by 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 0% as of Dec. 31, 2022.

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 11, 2023)*

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.