

Tear Sheet:

Vesteda Residential Fund FGR

August 9, 2024

Vesteda Residential Fund FGR's (Vesteda's) first-half 2024 results reflect the stabilization of Dutch residential property prices and support the company's credit metrics. Vesteda published like-for-like valuation growth of 4% for the first six months of 2024 versus minus 8.9% in full-year 2023. We understand that yields remained stable and that, according to commercial real estate services and investment firm CBRE, the Dutch residential transaction market expanded by 70% in first-half 2024 versus the same period last year. Vesteda's total net rental income growth was about 2.8% in first-half 2024, while occupancy rates remained very high at 96.3%. The latter temporarily dropped from 99% at year-end 2023 due to the high inflow of newly built residential units that require time to be filled with new tenants. We continue to expect that Vesteda's operating performance will remain stable, underpinned by an expected like-for-like rental growth of 4.0%-4.5% in 2024 (4.7% in 2023). We believe the company will sustain like-for-like occupancy rates of 98%-99% as it expands its portfolio across major Dutch cities that enjoy healthy population growth, solid demand, and limited new supply. In our revised base case, we now assume valuation growth of about 4%-5% in 2024 versus minus 3% previously, following the reported results (+4% in first-half 2024). That said, we anticipate credit metrics will remain in line with our previous forecast of debt to debt plus equity close to 30%, EBITDA interest coverage of about 4x and debt to EBITDA of about 10x (with EBITDA not fully annualized yet from portfolio growth in the next 12 to 24 months).

We continue to anticipate that the effects of the Affordable Rent Act will be limited. The Dutch parliament approved the government's plan to extend the Home Valuation System (WWS) to the mid-rental segment by increasing the regulation threshold to 187 WWS points from 148 WWS. The act came into effect on July 1, 2024. Considering tenant churn, we understand that about 18% of Vesteda's property portfolio would fall under the new regulation. We expect its effects will be limited to a reduction of gross rental income to less than 1%. This is because we understand that the market rent levels of most units affected by the new regulation are below regulated rent levels.

We believe Vesteda's liquidity will remain adequate over the next 12-24 months. Apart from outstanding commercial paper of €95 million, which is fully backed by bank lines, major debt maturities do not exist until 2026. Vesteda has a robust liquidity position, including about €720 million available under its partially undrawn credit lines, which comprise a revolving credit facility (RCF) that matures in 2029 and the European Investment Bank (EIB) facility, which matures in 2033. Vesteda's short-term debt mainly comprises commercial paper, which we anticipate the company will continue to roll over on an ongoing basis. Furthermore, Vesteda has a solid average debt tenor of 5.4 years, with no major maturities until 2026 and 2027, when two €500 million bonds mature. We understand that the company plans to refinance these

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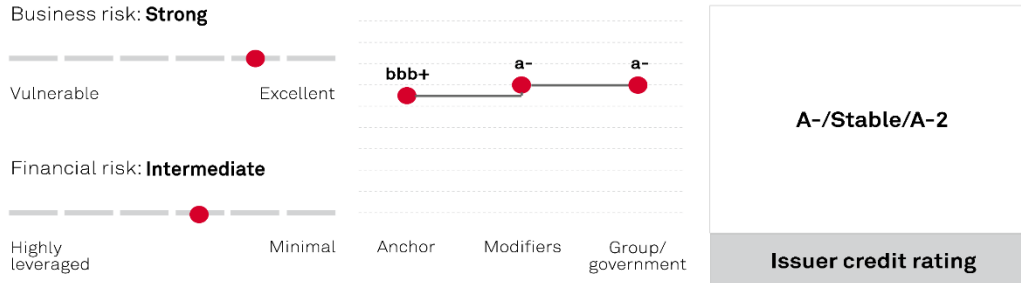
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maturities well in advance. We believe Vesteda has a good access to debt capital markets, as evidenced by the May 2024 issuance of its 4% €500 million green bond, which is due in 2032.

Ratings Score Snapshot



Recent Research

- Industry Credit Outlook Update Europe: Real Estate (REITs), July 18, 2024
- Most European REITs' Valuations Should Bottom Out In 2024, July 10, 2024
- Vesteda Residential Fund FGR, April 25, 2024

Company Description

Vesteda is an open-ended fund and one of the largest unlisted investment funds in the Netherlands. As of June 30, 2024, the portfolio comprised 28,280 residential units valued at €9.5 billion. The company focuses on residential properties in the Dutch midmarket unregulated sector (80% of the portfolio value as of June 30, 2024), with limited exposure to the upper-middle market rent segment (37%) and regulated rents (5%).

Outlook

The stable outlook reflects our view that Vesteda will continue benefiting from stable rental income, thanks to high occupancy rates and favorable demand trends for its Dutch residential assets. We anticipate the company will maintain S&P Global Ratings-adjusted debt to debt plus equity close to 30%, debt to EBITDA of about 10x, and EBITDA interest coverage of about 4x over the next 12-24 months.

Downside scenario

We could lower the rating on Vesteda if, on a prolonged basis:

- Debt to debt plus equity increases well beyond 30%;
- EBITDA interest coverage falls well below 3.8x; or
- Debt to annualized EBITDA increases above 9.5x.

Vesteda Residential Fund FGR

This could occur if the company undertakes large, debt-financed acquisitions, if capital expenditure (capex) exceeds our expectation, or if it experiences significant negative portfolio revaluations beyond our current base case.

A deterioration of the company's current liquidity cushion by more than we consider commensurate with an investment-grade rating could also prompt us to lower the rating.

Upside scenario

Rating upside is limited, unless Vesteda significantly expands its portfolio's scale and scope so that it is more aligned with that 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, implying a favorable operating environment and visibility of stable valuations.

Key Metrics

Vesteda Residential Fund FGR--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	335	347	363	378	402	417	429	436
EBITDA	229	239	247	258	267	284	294	299
Funds from operations (FFO)	196	206	210	209	200	216	223	224
Interest expense	41	40	42	56	67	67	70	74
Capital expenditure (capex)	138	204	196	302	237	194	111	111
Dividends	195	186	195	199	195	195	195	200
Debt	2,062	2,121	2,315	2,597	2,773	2,886	2,909	2,896
Equity	6,294	7,553	7,298	6,392	6,689	6,745	6,810	6,829
Adjusted ratios								
EBITDA margin (%)	68.4	68.9	68.0	68.3	66.5	68.0	68.5	68.5
EBITDA interest coverage (x)	5.6	6.0	5.9	4.6	4.0	4.2	4.2	4.0
Debt/EBITDA (x)	9.0	8.9	9.4	10.1	10.4	10.2	9.9	9.7
Debt/debt and equity (%)	24.7	21.9	24.1	28.9	29.3	30.0	29.9	29.8

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Financial Summary

Vesteda Residential Fund FGR--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	281	329	335	347	363	378

Vesteda Residential Fund FGR

Vesteda Residential Fund FGR--Financial Summary

EBITDA	186	232	229	239	247	258
Funds from operations (FFO)	163	192	196	206	210	209
Interest expense	30	40	41	40	42	56
Operating cash flow (OCF)	165	196	168	199	209	213
Capital expenditure	185	192	138	204	196	302
Dividends paid	415	344	195	186	195	199
Cash and short-term investments	11	3	2	109	11	4
Debt	1,730	1,942	2,062	2,121	2,315	2,597
Common equity	5,517	6,022	6,294	7,553	7,298	6,392
Valuation of investment property	7,281	8,012	8,387	9,717	9,448	8,674
Adjusted ratios						
EBITDA margin (%)	66.2	70.5	68.4	68.9	68.0	68.3
EBITDA interest coverage (x)	6.2	5.8	5.6	6.0	5.9	4.6
Debt/EBITDA (x)	9.3	8.4	9.0	8.9	9.4	10.1
Debt/debt and equity (%)	23.9	24.4	24.7	21.9	24.1	28.9

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+/Negative/A-2	BBB-/Stable/A-3
Local currency issuer credit rating	A-/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Negative/A-2	BBB-/Stable/A-3
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Revenue	378	669	3,427	606	333
EBITDA	258	541	2,303	318	156
Funds from operations (FFO)	209	442	1,429	217	90
Interest expense	56.0	98.0	754.3	98.8	64.1
Operating cash flow (OCF)	213	438	1,250	181	155
Capital expenditure	302	381	1,058	79	196
Dividends paid	199.0	392.4	413.4	0.0	1511.4
Cash and short-term investments	4	144	959	1,230	69
Debt	2,597	6,434	43,302	4,207	3,458
Equity	6,392	10,599	29,945	4,330	3,000
Valuation of investment property	8674.0	15153.5	83097.7	8629.1	5686.0
Adjusted Ratios					
EBITDA margin (%)	68.3	80.8	67.2	52.5	46.8
EBITDA interest coverage (x)	4.6	5.5	3.1	3.2	2.4

Vesteda Residential Fund FGR--Peer Comparisons

Debt/EBITDA (x)	10.1	11.9	18.8	13.2	22.2
Debt/debt and equity (%)	28.9	37.8	59.1	49.3	53.5

Environmental, Social, And Governance

ESG factors are a neutral consideration in our credit rating analysis of Vesteda. The company implemented a sustainability improvement strategy to ensure that 99% of its properties achieve green energy labels by year-end 2024. 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.

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	Adequate (no impact)
Management and governance	Neutral (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

Vesteda Residential Fund FGR

- 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: Principles Of Credit Ratings, Feb. 16, 2011
- Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024

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