Research Update:

Dutch Real Estate Fund Vesteda Affirmed At 'A-/A-2' As Liquidity Moves To Adequate On Higher Short-Term Financing

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PRIMARY CREDIT ANALYST

Teresa Stromberg
Stockholm
(46) 8-440-5922
teresa.stromberg
@spglobal.com

SECONDARY CONTACT

Nicole Reinhardt
Frankfurt
+ 49 693 399 9303
nicole.reinhardt
@spglobal.com

ADDITIONAL CONTACTS

Manish Kejriwal
Dublin
+ 353 (0)1 568 0609
manish.kejriwal
@spglobal.com

Corporate and IFR EMEA
RatingsCorpIFREMEA
@spglobal.com

Rating Action Overview

- Vesteda Residential Fund FGR made drawings on its credit lines during the second quarter of 2023, reducing the amount available under those credit lines to cover short-term liquidity needs.
- We have therefore revised our assessment of Vesteda's liquidity to adequate from strong.
- We affirmed our 'A-/A-2' ratings on Vesteda and our 'A-' ratings on the company's debt.
- The stable outlook reflects our view that Vesteda should 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.

Rating Action Rationale

We revised our liquidity assessment to adequate from strong because of the lower availability of committed credit lines to cover Vesteda's short-term financing needs. To optimize interest costs, Vesteda increased its use of short-term committed credit lines, which has reduced available liquidity sources to cover short-dated financing needs, and the headroom under our liquidity calculation. Moreover, the company has an approved commercial paper program of almost €1.0 billion, of which about €220 million was drawn as of June 30, 2023, and about €725 million of undrawn credit facilities available versus €850 million in the first quarter of 2023. In addition, the company has approximately €450 million of capital expenditure (capex) and dividend requirements for the next 12 months. We now forecast liquidity sources will exceed uses by at least 1.2x but by less than 1.5x over the next 12 months. We expect net sources will remain positive even with more than a 10% decline in forecast EBITDA, which is aligned with our adequate assessment. Our assessment is also supported by qualitative factors, such as Vesteda's generally prudent risk management and no encumbered assets, which give it further financial flexibility.

Principal liquidity sources as of June 30, 2023:

- About €2.4 million of unrestricted cash and about €725 million available under a revolving credit facility and European Investment Bank agreement; and
- Cash funds from operations that we forecast at €180 million-€190 million.

Principal liquidity uses as of the same date:

- About €292 million of commercial paper and an SMBC facility maturing in the next 12 months;
- About €230 million-€250 million of capex, including the project development pipeline, part of which is not fully committed; and
- €190 million-€200 million of cash dividend payments.

The revision of our assessment of Vesteda's liquidity has not changed our long-term issuer credit rating or outlook. We understand the company remains committed to maintaining adequate liquidity and sufficient headroom under its financial covenants in the future.

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 S&P Global Ratings-adjusted debt to debt plus equity of 27%-28%, debt to EBITDA of about 9.5x, and EBITDA interest coverage higher than 5x 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 increased well beyond 30%;
- EBITDA interest coverage fell to well below 3.8x; or
- Debt to annualized EBITDA increased above 9.5x.

This could occur if the company undertook large debt-financed acquisitions or much higher capex than we anticipate, or if it experienced 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 becomes 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.

Company Description

Vesteda is an open-ended fund and one of the largest unlisted investment funds in the Netherlands. 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.

Ratings Score Snapshot

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+
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile:	a-

ESG credit indicators: E-2, S-2, G-2

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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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

Related Research

- Vesteda Residential Fund FGR, May 11, 2023

Ratings List

Ratings Affirmed	
Vesteda Residential Fund FGR	
Vesteda Finance B.V.	
Issuer Credit Rating	A-/Stable/A-2
Vesteda Finance B.V.	
Senior Unsecured	A-