vesteda

Vesteda Update FY 2015

"Vesteda doubles total return to 14.0% and focuses on sustainability"

In Q1 2015, Vesteda signed a turnkey agreement covering all 192 apartments in the 100-metre (328 ft) high Amstel Tower building adjacent to the Amsterdam Amstel Dutch railway station.

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CEO Foreword

2015 rocked the house. We saw the total return more than double to 14.0% and we raised €600 million in equity; an exceptionally high return for a low-risk core residential fund and a record amount of funding.

CONSIDERABLE INCREASE IN OCCUPANCY RATE

Lifted by the positive market conditions and a constant focus on fund optimisation, the total return was boosted by both the realised and the unrealised return. The occupancy rate at the end of 2015 had risen to 97.9%, a sizeable increase of 1.3% compared to the occupancy rate at year-end 2014.

INVESTOR BASE BROADENED BY ADDITION OF TWO LEADING INTERNATIONAL INVESTORS

In April 2015, we raised €600 million in equity. Two leading international investors, Allianz Real Estate and an Asian investor, invested a total of €415 million directly in Vesteda, of which €160 million is intended for acquisitions and €255 million was used to fully meet the redemption requests of existing participants. Additionally, the new investors committed a further €185 million for investment. This transaction is one of the most significant foreign investments in Dutch residential real estate in recent years. Furthermore, two existing participants increased their interest in Vesteda, both through a secondary transaction.

OPTIMISATION FINANCING STRUCTURE

Interest expenses declined considerably as a result of Vesteda's continued optimisation of its financing structure. The year 2015 marked the end of Vesteda's reliance on funding via CMBS notes and the completion of the transition to corporate unsecured funding initiated in 2011. Vesteda managed to successfully source €900 million in new debt capital during 2015 in the form of bank facilities and capital market issuance. At the beginning of the last quarter in 2015, we issued a second bond in the market, which further optimised our financing structure, reduced our future interest expenses and considerably extended the duration of our debt capital.

LIMITED NUMBER OF ACQUISITIONS, BUT ALL SPOT ON

The competition for the acquisition of rental homes increased once again last year. In addition to our usual Dutch competitors, an ever increasing number of foreign investors are now showing interest in the Dutch residential market. Until recently, this interest was limited to mainly existing residential real estate, but now we are seeing foreign investors entering the market for new-build homes. As a result of low interest rates, increased competition on the residential investment market and the somewhat lagging supply, initial yields have been under pressure for some time. This is also putting pressure on the pace at which Vesteda is able to increase its portfolio in a controlled manner. Despite this pressure, we were able to add eight projects with a total of 550 homes to our pipeline in 2015. All of these projects were acquired at acceptable conditions and are fully in line with our strategy of expansion in the mid-rental segment in economically strong regions and have energy label A or higher.

INCREASED ATTENTION FOR CSR

Vesteda paid insufficient attention to sustainability in recent years, with the result that we have fallen to the last position in the GRESB benchmark for the Netherlands in 2014, from a leading position in 2011. This was clearly disappointing, though was taken very seriously and has prompted Vesteda to update its CSR policy. CSR is fundamental to achieving Vesteda's strategic goals and our CSR (ESG) objectives contribute directly to our other business goals. Increasing the sustainability of the residential portfolio is one of the six strategic projects in Vesteda's newly-tightened CSR strategy. At the end of 2015, Vesteda's participants unanimously approved a proposal to invest an additional sum of over €20 million in the coming years to boost the sustainability of the residential portfolio. With these investments, Vesteda will be able to surpass the agreements laid down in the Dutch government's Energy Agreement in 2020. Our strengthened CSR strategy gives us a clear road map for the creation of a more sustainable Vesteda in the years ahead.

PROPERTY MANAGEMENT ORGANISATION IN PLACE

In 2015, we successfully completed the restructuring of our in-house property management organisation. This restructuring has structurally increased tenant focus and reduced the cost level of the Vesteda organisation. The restructuring also included the investment in our client portal, a web-based solution for client interaction. This new portal was well received by the vast majority of our tenants.

OUTLOOK 2016

The outlook for 2016 is favourable. The anticipated economic growth and increase in financial resources will make the residential market even more dynamic in 2016. The number of residential transactions will continue to increase and the prices of existing owner-occupier homes are expected to increase by some four percent. We also expect to see a continued increase in the demand for rental homes, which will in turn lead to higher rent levels. These developments will be most visible in the economically strong regions of the Netherlands.

However, the Dutch housing market also suffers from structural issues such as the ongoing shortage of mid-market rental housing, particularly in the big cities. And then of course there is the refugee crisis. More than a million migrants and refugees crossed into Europe in 2015, sparking a crisis as countries struggle to cope with the influx, and creating division in the EU and within the European countries over how best to deal with resettling people and providing (temporary) accommodation.

At the same time, the investment appetite for the Dutch residential rental market among institutional investors is large. The supply, however, of both new-build and existing residential units is insufficient, resulting in increasing competition and lower initial yields. The solution of the shortage of mid-market rental housing therefore largely seems to lie in the hands of municipalities and the Dutch government, who can influence their tender processes by introducing more qualitative criteria rather than price alone. At too high land prices, investors in rental housing cannot compete against developers for the owner-occupied housing market, which is often reality now.

The biggest challenge for Vesteda in 2016 will be to further optimise our portfolio, both organically and through acquisitions. We are still fully committed to high-quality growth against reasonable returns, which enables us to continue to offer our tenants good quality and affordable living.

Amsterdam, April, 2016

Gertjan van der Baan
(CEO)

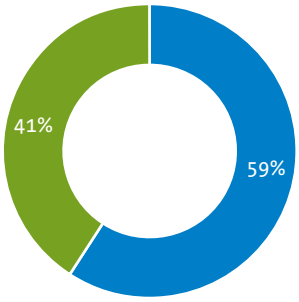
Key Figures FY 2015

(audited)

KEY PORTFOLIO CHARACTERISTICS (YEAR-END 2015)

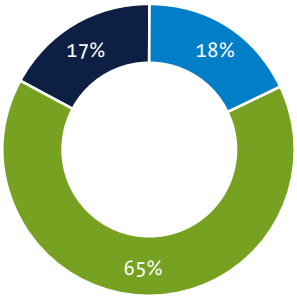
NUMBER OF RESIDENTIAL UNITS	INVESTMENT PORTFOLIO VALUE	PHYSICAL OCCUPANCY RATE	GROSS RENTAL INCOME (FOR 2015)
22,599	€3.7 bln	97.9%	€237 mln

Portfolio by type of residential unit
(IN UNITS)



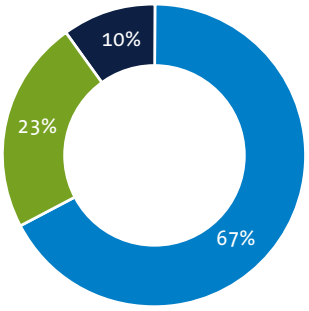
- Apartment
- Single family home

Portfolio by rental segment
(WEIGHT IN VALUE)



- Regulated segment
- Mid-segment
- Higher segment

Portfolio by region
(WEIGHT IN VALUE)



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

1 Primary regions are regions that offer the highest market potential for the non-regulated rental sector. These regions are characterised by a high market potential and low market risks. Secondary regions score less in some respects but have a positive economic and demographic outlook.

	FY 2015	FY 2014
Income (in € million)		
Theoretical rent	245	248
Loss of rent	(8)	(11)
Gross rental income	**237**	**237**
Property operating expenses	(60)	(62)
Other income	(1)	1
Net rental income	**176**	**176**
Result on projects in progress	-	4
Result on property sales	14	20
Management expenses	(16)	(21)
Interest expenses (including amortised fees)	(38)	(53)
Unwind derivative position	(14)	(12)
Realised result (before tax)	**122**	**114**
Unrealised result	**169**	**22**
Total operating result	291	136
Revaluation of derivatives	25	(4)
Total comprehensive result	**316**	**132**

	31 December 2015	31 December 2014
Balance sheet (in € million)		
Total assets	3,839	3,667
Equity	2,629	2,262
Debt capital	1,098	1,265
Leverage ratio (in %)	28.6	34.5

	FY 2015	FY 2014
Debt capital (in € million)		
Interest expenses	36	47
EBITDA	160	156

	FY 2015	FY 2014
Return on Equity (in % of opening equity)		
Realised return	**5.4**	**5.0**
- return from letting	5.4	4.6
- return from property sales	0.6	0.9
- return from unwind transaction derivatives	(0.6)	(0.5)
Unrealised return	**7.5**	**1.0**
Total return excluding revaluation on derivatives	12.9	6.0
Revaluation on derivatives (including unwind transaction derivatives)	1.1	(0.2)
Total comprehensive return	14.0	5.8
Total return (in € per participation)	**12.24**	**5.48**
Proposed distribution to investors	4.6	4.7
Proposed distribution to investors (in € per participation)	4.71	4.43

	31 December 2015	31 December 2014
Non-Financial Figures		
Number of residential units managed	22,599	22,990
- apartments	13,387 (59%)	13,574 (59%)
- single family homes	9,212 (41%)	9,416 (41%)
Number of residential units inflow	118	169
Number of units outflow	520	1,012
- individual unit sales	520	746
- residential building sales	-	266
Occupancy rate (in % of units)	97.9	96.6
Number of employees (in FTEs)	179	189

	2015	2014
Loss of rent (in % of theoretical rent)	3.2	4.4
Tenant satisfaction (rating out of 10)	6.9	6.9

Notes to the result

LOWER VACANCIES

The theoretical rent came in at €245 million, down slightly from €248 million recorded in 2014. This decline was due to the slightly smaller size of the portfolio. Average monthly rent increased to €856 at year-end 2015, from €843 at year-end 2014. On a like-for-like basis, the increase was 1.3%, well above the average inflation rate for the same period (0.7%). The lower theoretical rent was offset by a reduction in the loss of rent, which came in at €8 million, compared to €11 million in 2014. Improved market conditions, the swift letting of the inflow of new residential buildings in the portfolio, continuous mark-to-market of letting prices and a strong focus on immediate re-letting of upcoming vacancies all contributed to these positive occupancy results. Average occupancy in 2015 was 97.3%, almost a percentage point above the 2014 figure (96.4%). This resulted in gross rental income of €237 million, the same amount as 2014, despite the smaller portfolio.

LOWER PROPERTY OPERATING EXPENSES

The property operating expenses came in at €60 million, slightly lower than the property operating expenses in 2014 (€62 million). Lower fixed costs due to lower taxes and lower non-recoverable service charges thanks to lower vacancies and cost savings on the maintenance programmes all helped to reduce costs compared to 2014. This effect was partly offset by slightly higher maintenance cost following the ending of the favourable VAT treatment of the labour component in mid-2015. Other cost was lower due to one off corrections for previous year cost.

This is also reflected in the gross/net ratio (including landlord levy), which was 25.5% compared to 25.9% in 2014. Excluding the landlord levy, the gross/net ratio came in at 23.6%.

OTHER INCOME

Other income came in at €1 million negative due to a provision for the possible settlement of a contingent liability related to one of the residential buildings. Of the total provision of €6 million, €2 million is charged to other income, while the remainder has been accounted for as unrealised result (loss).

RESULT ON PROPERTY SALES

In 2015, Vesteda sold a total of 520 residential units. These were all individual unit sales. In 2014, Vesteda sold a total of 1,012 residential units, of which 746 were individual unit sales and the remaining 266 part of residential building sales. In 2015, Vesteda reconsidered its sales strategy and moderated its sales volume targets in the light of the strongly improving market conditions and the value growth of the portfolio.

Due to the reduced number of residential units sold, the income from these sales, which came in at €14 million, was lower than in 2014 (€20 million). The net sales margin on property sales improved to 18.0% in 2015, from 16.9% in 2014.

MANAGEMENT EXPENSES

Management expenses came in at €16 million, significantly lower than the €21 million recorded in 2014. This reduction was primarily due to the positive impact of the completed reorganisation at property management, which resulted in a structural downward adjustment of expenses.

INTEREST EXPENSES

The improved cost of funding as a result of the corporate refinancing programme for Vesteda, combined with a net debt repayment of in total €170 million in 2015, resulted in a decline in interest expenses including amortised fees to €38 million in 2015, from €53 million in 2014. The average interest rate was reduced to 3.3% from 4.1% in 2014.

UNWIND OF DERIVATIVE POSITION

The fixed rate refinancing and deleveraging activities required Vesteda to adjust its hedging position. We decided to reduce the notional of the €490 million Interest Rate Swap by €150 million at an unwinding cost of €14 million. This transaction took place in October and had a neutral impact on the fund's net asset value.

REALISED RESULT

Vesteda recorded a realised result of €122 million in 2015, compared with €114 million in 2014. This improved result was primarily driven by lower management expenses, lower property operating expenses, and lower interest charges.

UNREALISED RESULT

Due to a positive revaluation of 4.7%, Vesteda's unrealised result came in at €169 million, compared with €22 million in 2014. Value growth accelerated in 2015, mainly due to the improved market conditions, with rising vacant value growth expectations and lower discount rates.

TOTAL COMPREHENSIVE RESULT

The total comprehensive result amounted to €316 million, compared with €132 million in 2014. The total return on equity (ROE) came in at 14.0%, compared with 5.8% in 2014. The difference of 8.2% in the ROE was due to a slightly higher realised result (+0.4%), a considerably higher unrealised result (+6.5%), plus a positive revaluation of Vesteda's interest derivatives position (+1.1% compared to -0.2% in 2014).

Investment portfolio

Investment portfolio, changes in value

(in € million)

Value at start of year	3,593
Capex	20
Inflow	23
Outflow	(75)
Revaluation	165
Value of investment portfolio at YE 2015	**3,726**

Investment portfolio, changes in units

Number of units beginning of year	22,990
Inflow	118
Outflow	(509)
Number of units at YE 2015	**22,599**

In 2015, we added a total of 118 residential units to the investment portfolio. In the first quarter, we added a total of 72 apartments to the portfolio, including 30 apartments following the acquisition of the existing residential building De Ooievaar in Purmerend from housing association Wooncompagnie. The remaining 42 apartments are part of the development project De Amazones in Den Bosch. In the second quarter, we added a total of 29 family homes from the Helioshof project in Arnhem. All three projects are located in the primary region and have rents in the mid-rental segment.

Additions to the investment portfolio FY 2015

Residential building, location	Total number of units	Apartment / Family home	Region	Rental segment
De Amazones, Den Bosch	42	Apartment	Primary	Mid/Higher
De Ooievaar, Purmerend	30	Apartment	Primary	Mid
Helioshof, Arnhem	29	Family home	Primary	Mid
Reclassifications to regular apartments	17	Apartment	Primary	Mid / Higher
Total inflow	**118**			

De Ooievaar, Purmerend

Helioshof, Arnhem

De Amazones, Den Bosch

Pipeline year-end 2015

In 2015, Vesteda added a total of eight projects, totalling 550 residential units, to its pipeline. Four of these projects are located in (larger) Amsterdam. All projects are an excellent fit for Vesteda's portfolio in terms of region, rental range and energy label. In the first quarter, Vesteda signed a turnkey agreement covering all 192 apartments in the 100-metre high Amstel Tower building adjacent to the Amsterdam Amstel Dutch railway station. In the second quarter, Vesteda successfully completed a number of exclusive negotiations, including the acquisition of 25 family homes in the Nieuw Princenhof project in Leusden, 98 apartments in the De Diemer project in Diemen and 56 apartments in the De Generaal project in Amsterdam. In the third quarter, Vesteda bought two residential towers that are still under construction from housing association AlleeWonen. These are located on the centre side of the new 'Public Transport Terminal' railway station in Breda. The towers called De Wachters consist of 75 apartments. In the fourth quarter Vesteda signed two more contracts. The first of these was a turnkey agreement for the construction of 31 family homes in the urban expansion neighbourhood of Schuytgraaf in Arnhem (Lunahof). The second was a contract for the realisation of 73 mid-rental segment homes in the New-West area of Amsterdam (Dunantstraat). Vesteda acquired the project from housing association de Alliantie.

Pipeline year-end 2015

Building location	Total number of units	Apartment / Family home	Region	Rental segment	Expected completion/ into operation
New residential development					
CZAN 14noord, Amsterdam	14	Apartment	Primary	Mid	2016
Nieuw Princenhof, Leusden	25	Family home	Primary	Mid	2016
Lunahof, Arnhem	31	Family home	Primary	Mid	2016
CZAN De Hagen, Amsterdam	64	Apartment	Primary	Mid	2016
De Wachters, Breda	75	Apartment	Primary	Mid	2016
De Diemer, Diemen	98	Apartment	Primary	Mid	2017
Dunantstraat, phase I Amsterdam	45	Apartment and family home	Primary	Mid	2017
De Generaal, Amsterdam	56	Apartment	Primary	Mid	2017
Dunantstraat, phase II Amsterdam	28	Apartment	Primary	Mid	2017
Seattle Boston, Rotterdam	48	Apartment	Primary	Mid	2017
Leidsche Rijn Centrumplan, Utrecht [1)]	466	Apartment	Primary	Mid	2017/2018
Amstel Tower, Amsterdam	192	Apartment	Primary	Mid	2017/2018
Existing units					
De Boel, Amsterdam	154	Apartment	Primary	Mid	2016
Total	**1,296**				

1 A total of 251 apartments will be added to the investment portfolio, 215 apartments will be sold.

CZAN De Hagen, Amsterdam

De Boel, Amsterdam

De Diemer, Diemen

CZAN 14noord, Amsterdam

Nieuw Princenhof, Leusden

Dunantstraat, phase I Amsterdam

Lunahof, Arnhem

Dunantstraat, phase II Amsterdam

Leidsche Rijn Centrumplan, Utrecht

Amstel Tower, Amsterdam

Seattle Boston, Rotterdam

De Generaal, Amsterdam

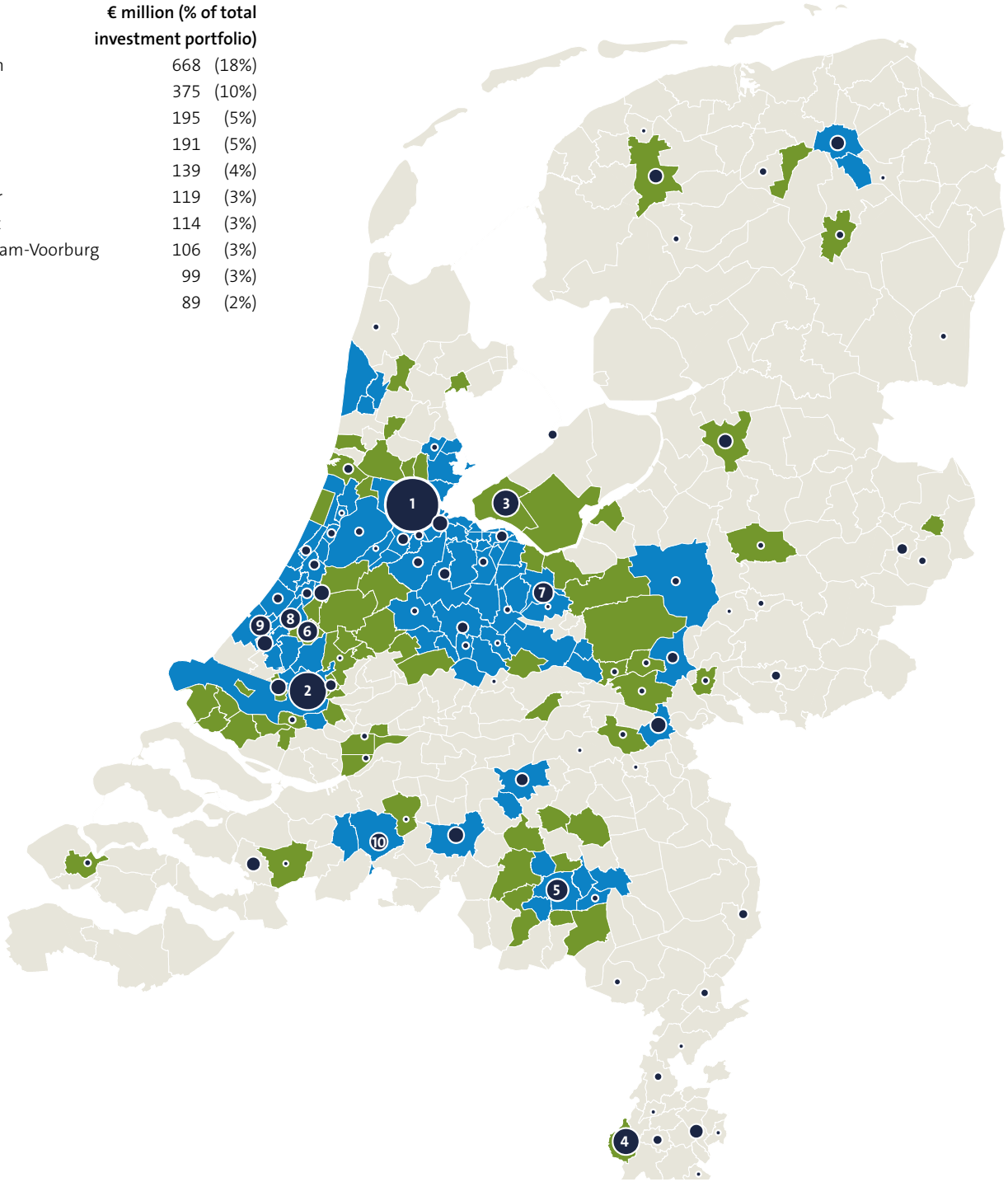
De Wachters, Breda

Portfolio distribution (year-end 2015)

Primary regions [1)]
Secondary regions [1)]
Other

€700 mln
€350 mln
€70 mln

		Value YE 2015 in € million (% of total investment portfolio)	
1	Amsterdam	668	(18%)
2	Rotterdam	375	(10%)
3	Almere	195	(5%)
4	Maastricht	191	(5%)
5	Eindhoven	139	(4%)
6	Zoetermeer	119	(3%)
7	Amersfoort	114	(3%)
8	Leidschendam-Voorburg	106	(3%)
9	The Hague	99	(3%)
10	Breda	89	(2%)



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About Vesteda

Vesteda is an investor with a clear focus on the Dutch residential real estate market. Vesteda invests funds for institutional investors, including pension funds and insurers. Vesteda has total capital of approx. €3.7 billion invested in real estate. The company's rental portfolio stands at a total of around 23,000 units. Vesteda's key investment regions are the Randstad and the Brabantine City Row. In 2015, Vesteda generated a net result of €316 million, with approx. 200 employees.

FOR ADDITIONAL INFORMATION

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