FitchRatings

Corporates
Property/Real Estate
Belgium

VGP N.V.

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB-	Stable	Affirmed 8 Sep 2022
Senior Unsecured	BBB-		Affirmed 8 Sep 2022

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The affirmation of VGP N.V.'s ratings reflect its continental Europe industrial and logistics real estate development activities and the regular transfer of completed, pre-let, income-producing assets to pre-funded bespoke joint ventures (JVs) with co-equity partner Allianz Real Estate. These JVs have their own non-recourse debt financing, so VGP's disposal receipts have been or are assured.

Given the uncertainty in valuation yields, Fitch Ratings calculates that a 50bp-60bp swing in the yield for the bulk of the end-2021 development programme would still result in VGP receiving net realisation proceeds from the JVs to cover its incurred cost-to-build outlay.

Key Rating Drivers

Development Risk Mitigation: VGP mitigates typical property development risks with, among other features, an in-house team sourcing land and managing development costs; projected development profit (typically 20%-30% above build-to-cost) headroom; land acquisition is mainly incurred with tenant pre-lets in place (at agreed rents) as evidenced by end-2021 under-construction developments 84% pre-let; and completed assets are transferred at value to established pre-funded JVs.

Valuation Yield Shift Vulnerabilities: There is some vulnerability for valuation change in the period between land purchase and construction start to the time of completion and transfer (monetisation) to the JV. The construction period for these types of buildings (the bulk of the cost) can take six to nine months or longer.

Stressing the current end-2021's development programme, using a 50bp-60bp adverse yield shift from an assumed 4.4% valuation yield to 5.0% (a 12% decrease in value), Fitch calculates that VGP can still repay its cost-to-build outlay from JV monetisation proceeds.

Sector Fundamentals: Fitch does not expect a significant change in logistics and heavy-industrial unit fundamentals because of underlying demand (ecommerce, enhanced distribution, on-shoring trends) for these units and limited supply in main markets, including scarcity of land. Furthermore, in an inflationary environment, many of these leases have annual CPI indexation.

Fitch has focussed its analysis on the longevity of rental income relative to long-term debt and interest rate fixing, as measured in net debt/rental-derived EBITDA. This partly reflects an inability to second guess future capital values. It also reflects VGP's focus on its annualised committed rents and end-2021 completed portfolio's 99% occupancy rate.

Interim Results Update: In the end-June 2022 results, management cited its decision to pull back on new developments in 2022, partly reflecting construction cost increases, thus ensuring higher under-construction pre-lets and optimising the occupancy rate.

Although ecommerce tenants have shifted their focus towards the take-up of new space in 2024 and beyond, industrial tenants are still seeking space and the energy crisis has focused tenants' attention on energy-efficient building and processes. VGP reports that increased construction costs have been mitigated by higher rental income and beneficial valuations.

Applicable Criteria

Corporate Rating Criteria (October 2021)

Sector Navigators - Addendum to the Corporate Rating Criteria (July 2022)

Corporates Recovery Ratings and Instrument Ratings Criteria (April 2021)

Related Research

Spotlight: VGP N.V. (September 2022)

EMEA Real Estate Updated Base Case (August 2022)

Real Estate and Property – Long-Term Climate Vulnerability Scores (June 2022)

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Bespoke Established JVs: VGP's main operating model is to monetise profits through selling completed continental Europe industrial and logistics properties to the VGP-Allianz JVs. From May 2016 to end-December 2021, VGP periodically sold completed assets to the Allianz JVs, monetising nearly EUR2.1 billion of properties at (independently assessed) market value and receiving 87% of value in cash, net of its share of cash equity injected/retained. Fitch calculates that VGP's gross cash receipts cover its build costs (land purchase, building construction) for these portfolios.

To date, management reports that no developed properties have been rejected by its JV partner under the JV agreements.

Investment Property Portfolio: The type of properties VGP has developed are as good as peers' portfolios. Properties are recently built (average age 3.5 years), pre-let on 10- to 15-year leases (end-2021 profile: average 8.6 years) with CPI-indexed rents. Continental European geographies are representative of industrial and logistics requirements (near workforce-available city conurbations, transport arteries, good access and power availability).

VGP has a 58% weighting in Germany, including the sizeable Munich (more than EUR600 million end-value), Giessen am Alten Flughafen, Magdeburg and Laatzen parks (each more than EUR200 million end-value).

Most Meaningful Financial Profile: Fitch has used VGP's annualised committed pre-let rental figures to compile a synthetic financial profile, calculating VGP's equivalent asset base and corresponding debt on adding projected capex to debt to achieve the annualised committed rental profile (VGP as HoldCo). To guide the rating, this resultant 'VGP as HoldCo' financial profile is comparable with recurring-rental income real estate peers (see Rating Derivation below).

We also compiled a financial profile on a proportionally consolidated basis using the approach, also representing a "fail-safe" profile, if completed developed assets are not transferred into the JVs. The resultant metrics would reflect VGP's assets' recurring rental income stream capacity, recurring fees from managing the existing JVs, and cash dividends received from them, relative to debt incurred by VGP.

Resultant Financial Metrics: Using the VGP as HoldCo analytical approach (increasing debt to match the contractual annualised rental income) Fitch calculates that VGP's net debt/EBITDA at end-2021, using dividend capacity from the JVs, was 9.7x (2020: 8.6x), and interest cover 3.0x (2020: 3.3x). This high leverage ratio reflects on-balance sheet funding for 2021's heavy capex, few 2021 monetisations to JVs and the sizeable VGP-funded Munich JV. Adjusting this ratio for 1H22 JV receipts, the ratio improves to 9.0x and will benefit further from monetisations from the Munich JV.

Governance Structure: VGP has an ESG relevance score of '4' for Governance Structure. which reflects a legacy "Alliance Event" clause in the JV agreements (mainly affecting JV II) concerning the continued active involvement of VGP's chief executive officer. This has a negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Strong Green Credentials: VGP benefits from strong green credentials, aided by a low average age of buildings and high standards for its new developments. In January 2022, VGP raised it bar for new projects and aims at BREEAM "Excellent" (January 2020: "Very Good"). Of its end-2021 properties, 54% are green-certified as "Very Good" or better, Additionally, VGP invests in renewable energy, smart energy management and offers electric or hydrogen charging infrastructure to its tenants.

Financial Summary

VGP as Holdco

(EURm)	FY21	FY20
Summary income statement		
Net rental income (NRI) – annualised rent	126.6	60.5
JV asset, facilities and development fees	21.3	14.7
Administration expenses[a]	-12.7	-6.1
Operating profit	135.2	69.2
Interest income from JVs and associates	12.3	9.3
Dividend capacity from JVs[b]	32.7	26.0
Add back depreciation	2.4	2.1
EBITDA: JV dividend capacity	182.7	106.6
Alternative: use actual dividends from JVs	20.6	6.9
EBITDA: actual cash dividends from JVs	170.6	87.5
Interest expense[c]	-61.7	-32.4
Summary balance sheet		
VGP opening net debt	1,162.8	546.7
Capex spend to achieve annualised rent	600.7	379.0
VGP closing net debt	1,763.5	925.7
VGP opening Investment Property (IP) and Held for Sale (H4S)	2,354.4	1,022.5
Capex spend to achieve annualised rent	600.7	379.0
VGP closing IP and H4S	2,955.1	1,401.5
Of which development land	434.6	297.1
Financial ratios using dividend capacity		
Gross interest cover ratio (x)	3.0x	3.3
Net debt/EBITDA (x)	9.7	8.7
Financial ratios using actual cash dividends from JVs		
Gross interest cover ratio (x)	2.8	2.7
Net debt/EBITDA (x)	10.3	10.6
Loan-to-value (excluding development land and JV equity stakes; including 40% (FY20: 20%) gain on incremental capex spent) (%)	67%	78

[a] Fitch assumes administration expenses at 10% of NRI
[b] Dividend capacity from JVs taken from JVs' EBITDA
[c] Interest expense at an average 3.5% cost of debt, including 40% revaluation uplift on incremental capex spend
Source: Fitch Ratings, VGP N.V.

Rating Derivation Relative to Peers

VGP is more of an industrial and logistics park developer compared with rated peers AXA Logistics Europe Master S.C.A (IDR: BBB+/Stable) and Tritax EuroBox plc (IDR: BBB-/Stable), which also have investment property assets across continental Europe. SELP Finance SARL (IDR: BBB/Stable) and UK peer SEGRO PLC (IDR: A-/Stable) have more development activity, which weighs on their financial profiles.

However, the assets that VGP completes have broadly comparable qualities in terms of net initial yield, mainly new-builds, long weighted-average lease length with CPI-indexation, but these companies' and fund's portfolios span different geographies and are of differing size.

The Fitch-created VGP HoldCo profile shows that VGP's development-heavy financial profile had net debt/EBITDA (using dividend capacity from JVs) of 9.7x in FYE21 (FY20 8.6x). On adjusting this ratio for 1H22 JV monetisation receipts, it improves to 9.0x and would further benefit from planned Munich JV receipts. This cash flow leverage ratio sits within Fitch's rating sensitivity for an upgrade to 'BBB' at 7x and a downgrade to 'BB+' of above 9x. Assuming regular monetisations into the JVs, Fitch's forecast ratios are also comfortably within this and other financial parameters such as interest cover.

VGP's average cost of debt, including the January 2022 EUR1 billion of bonds (blended 2% coupon) is around 2.3%. This compares with euro-denominated peers at below 2%.

VGP's rating sensitivities compares with Tritax EuroBox's (a non-developer) equivalent rating sensitivities of 9.5x and 10.5x, respectively, and SELP's downgrade to 'BBB-' guideline of above 10x. Given VGP's profile as an active developer, albeit with risk reductions, Fitch is expecting lower leverage for VGP's investment-grade rating.

The VGP proportionally consolidated profile (JVs at 50% share - a less development-activity-heavy profile) illustrates 10.5x net debt/EBITDA, similar to Tritax EuroBox, which does not undertake development and has similar yields on its newer assets. AXA LEM has far lower leverage than this grouping of peers.

VGP's Proportionally Consolidated Financial Profile

	FY21 VGP	FY21 JV at 50%	To achieve annualised rent	FY21 total annualised rent	FY20 total annualised rent
Summary income statement					
Gross rental income (GRI)		62.4		192.1	123.9
Property operating expense[a]		-7.1		-17.3	-10.9
Net rental income (NRI) – annualised rent		55.3		174.8	113.0
JV asset and facilities fee income	21.3			21.3	14.7
Administration expenses[b]				-17.5	-11.3
Interest income from JVs & Associates	12.3			12.3	9.3
JV Cash dividends	20.6			20.6	6.9
EBITDA		55.3		211.5	132.6
Interest expense[c]				-87.5	-58.8
Summary balance sheet					
Investment properties and held for sale assets	2,354.4,	1,746.8	+600.7	4,701.9	2,846.6
Net debt	1,385.0	515.4	+600.7	2,501.1	1,410.9
Net asset value	3,882.7	858.1	[d]240.3	4,981.1	2,958.3
EBITDA interest cover ratio (x)				2.4	2.3
Net debt/EBITDA (x)				10.5	10.6
Loan-to-value (excluding development land and JV equity stakes; including 40% (FY21: 20%) gain on incremental capex spent) (%)				51	56

[a] Property operating expense to achieve a representative almost 90% NRI margin
[b] Illustrative reversal of VGP development programme team's costs, but Fitch assumes administration expenses at 10% NRI
[c] Interest expense at an average of 3.5% cost of debt
[d] Including 40% revaluation uplift on incremental capex spend
Source: Fitch Ratings, VGP N.V.

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Property Portfolio	Rental Income Risk Profile	Asset-Liability Matching	Access to Capital	Profitability	Financial Structure	Financial Flexibility
AXA Logistics Europe Master S.C.A.	BBB+/Stable	aa	bbb	bbb+	bbb	bbb	bbb	bb+	bbb+	a-
SEGRO PLC	A-/Stable	aa	a	bbb+	a-	a-	a	bbb	a-	a-
SELP Finance SARL	BBB/Stable	aa	bbb	bbb+	bbb+	bbb	a-	bbb	bbb	a-
Tritax EuroBox plc	BBB-/Stable	aa	a-	bb+	bbb	bbb-	bbb	bb+	bbb-	a-
VGP N.V.	BBB-/Stable	aa	bbb	bbb	bbb+	bb+	bbb-	bb+	bb	bbb+

Source: Fitch Ratings

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

Using the VGP as HoldCo with annualised committed rental profile

- VGP EBITDA interest cover (including JV fees, JV cash dividends, shareholder loan interest income, excluding development activities' administration expenses, relative to interest expense) greater than 5.0x
- Net debt/EBITDA (including JV income and cash dividends) less than 7x
- Actual year-end unencumbered investment properties and held for sale assets greater than unsecured debt at all times
- Fitch liquidity score greater than 1.0x
- Maintaining a high percentage of pre-lets

Using the proportionally consolidated profile with annualised committed rental profile

- Loan-to-value (LTV) (excluding development land) less than 50%
- Investment properties plus held for sale assets, plus 50% JV investment properties greater than EUR1.5 billion

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

Using the VGP as HoldCo with annualised committed rental profile

- VGP EBITDA interest cover (including JV fees, JV cash dividends, shareholder loan interest income, excluding development activities' administration expenses, relative to interest expense less than 1.5x
- Net debt/EBITDA (including JV income and cash dividends) greater than 9x
- Actual year-end unencumbered investment properties and held for sale assets less than unsecured debt
- Fitch liquidity score less than 1.0x
- Not maintaining a high percentage of pre-lets

Using the proportionally consolidated profile with annualised committed rental profile

- LTV (excluding development land) more than 50%
- Investment properties plus held for sale assets, plus 50% JV investment properties less than EUR1.5 billion

Liquidity and Debt Structure

Ample Liquidity: At end-2021, VGP had readily available cash of EUR222 million, increased by the EUR1 billion of bonds raised in January 2022. At end-2021, undrawn committed revolving credit facilities totalled EUR200 million (increased to EUR300 million by end-June 2022). The 1H22 EUR1 billion of new unsecured bonds, at a timely blended 2% coupon, provides ample liquidity for prospective capex spend (1H22: EUR472 million) and the scheduled bond maturities (2022: EUR23 million, 2023: EUR375 million).

VGP's other source of liquidity is monetisations of completed developed assets into the JVs, which take place throughout the year (1H22 scheduled: EUR469 million of assets, initial EUR316 million of proceeds, excluding Munich). The Allianz Real Estate co-investor JVs are funded with non-recourse secured debt, initially funding 60%-65% of assets put into the JV with no re-leveraging thereafter. This is funded by various existing bank facilities whose debt maturities span mid-2026 to 2029.

ESG Considerations

VGP has an ESG relevance score of '4' for Governance Structure, which reflects a legacy "Alliance Event" clause in the JV agreements (which now mainly affects JV II) concerning the continued active involvement of the VGP CEO (see Fitch's Spotlight Report on VGP N.V. for more details). This has a negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg .

Liquidity and Debt Maturities

VGP N.V.

Liquidity Analysis

(EURm)	31 Dec 2022F	31 Dec 2023F
Available liquidity		
Beginning cash balance	222	1,081
Rating case FCF after acquisitions and divestitures	-118	82
January 2022 unsecured Eurobonds	*1,000*	
Total available liquidity (A)	**1,105**	**1,163**
Liquidity uses		
Debt maturities	-23	-375
Total liquidity uses (B)	**-23**	**-375**
Liquidity calculation		
Ending cash balance (A+B)	1,081	788
Revolver availability	200	200
Ending liquidity	**1,281**	**988**
Liquidity score (x)	13.0	3.6

F – Forecast
Source: Fitch Ratings, VGP N.V.

Scheduled debt maturities (EURm)	31 December 2021
2022	23
2023	375
2024	78
2025	80
2026	194
Thereafter	622
Total	**1,372**

Source: Fitch Ratings, VGP N.V.

Key Assumptions

Fitch's Key Assumptions within our Rating Case for the Issuer

- Continuation of VGP's operating model of acquiring land, developing pre-let properties, periodic monetisations of completed projects into bespoke JVs, and receiving cash proceeds representing a net 85% of valued assets transferred (which recovers VGP's spend on its costs)
- Annual capex of EUR700 million with resultant investment properties transferring to JVs a year later and repaying VGP's cost-to-build, plus a conservative 30% valuation rise on these new-builds
- Rental income representing 5.0% net initial yield, relative to VGP's retained year-end investment properties (end-2021: 4.6%)
- Fees from JVs include management fees based on each JVs' net asset value, facilities management fees, development management fees, shareholder loan interest income from expanding JV base
- JV I (and its successor) and JV II continue to raise up to an initial 60%-65% LTV non-recourse secured debt against new assets
- Munich JV cash inflows to, and scheduled outflows from, VGP as planned (FY22: minimum EUR73 million inflow); external debt in this JV during 1H23 raising additional cash proceeds for JV equity holders.
- Cost of debt at VGP and JVs average around 3.5% and 2% respectively; no interest receivable from large cash balances
- Fitch assumed annual cash dividends from JVs around EUR40 million
- VGP administration expenses at 10% of net rental income
- The resultant financial profile results in consolidated gearing above 30% (company's target of 30-40%)

Financial Data

VGP N.V.

(EURm)	Historical Dec 19	Dec 20	Dec 21	Forecast Dec 22F VGP as HoldCo	Dec 23F VGP as HoldCo
Summary income statement					
Gross revenue	12	12	18	111	121
Revenue growth (%)	-30.1	4.3	45.5	533.0	8.8
Operating EBITDA (before income from associates)	0	-8	-13	141	153
Operating EBITDA margin (%)	-3.4	-67.8	-73.9	126.7	125.8
Operating EBITDAR	0	-8	-13	141	153
Operating EBITDAR margin (%)	-3.4	-67.8	-73.9	126.7	125.8
Operating EBIT	-2	-10	-15	139	150
Operating EBIT margin (%)	-13.8	-85.1	-87.5	124.8	124.1
Gross interest expense	-24	-30	-34	-45	-47
Pre-tax income (including associate income/loss)	-20	-31	-28	108	116
Summary balance sheet					
Readily available cash and equivalents	176	222	222	1,081	788
Total debt with equity credit	775	774	1,372	2,349	1,974
Total adjusted debt with equity credit	775	774	1,372	2,349	1,974
Net debt with equity credit	599	551	1,150	1,268	1,186
Summary cash flow statement					
Operating EBITDA	0	-8	-13	141	153
Cash interest paid	-19	-25	-29	-45	-47
Cash tax	-1	-1	0	0	0
Dividends received less dividends paid to minorities (inflow/(out)flow)	0	7	21	40	40
Other items before funds flow from operations (FFO)	-5	-9	0	0	0
FFO	-20	-28	-21	137	145
FFO margin (%)	-173.3	-227.3	-121.0	122.5	119.7
Change in working capital	-9	-18	-41	0	0
Cash flow from operations (Fitch-defined)	-29	-45	-62	137	145
Total non-operating/non-recurring cash flow	0	0	0		
Capex	-454	-428	-680		
Capital intensity (capex/revenue) (%)	3,912.1	3,538.8	3,863.6		
Common dividends	-41	-60	-80		
Free cash flow (FCF)	-524	-534	-822		
Net acquisitions and divestitures	339	406	50		
Other investing and financing cash flow items	-3	-119	-116	0	0
Net debt proceeds	203	-1	593	977	-375
Net equity proceeds	0	295	295	0	0
Total change in cash	15	46	0	859	-293
Leverage ratios					
Total net debt with equity credit/operating EBITDA (x)	-1,497.0	-424.2	151.3	7.0	6.2
Total adjusted debt/operating EBITDAR (x)	-1,937.3	-595.2	180.6	13.0	10.3
FFO leverage (x)	-123.0	-67.3	185.5	13.0	10.3
FFO net leverage (x)	-95.0	-47.9	155.4	7.0	6.2
Calculations for forecast publication					
Capex, dividends, acquisitions and other items before FCF	-156	-83	-710	-254	-63
FCF after acquisitions and divestitures	-185	-128	-772	-118	82
FCF margin (after net acquisitions) (%)	-1,594.0	-1,059.5	-4,388.1	-105.6	67.7
Coverage ratios					
FFO interest coverage (x)	-0.3	-0.5	0.3	4.1	4.1
FFO fixed-charge coverage (x)	-0.3	-0.5	0.3	4.1	4.1
Operating EBITDAR/interest paid + rents (x)	0.0	-0.1	0.3	4.1	4.1
Operating EBITDA/interest paid (x)	0.0	-0.1	0.3	4.1	4.1
Additional metrics					
CFO capex/total debt with equity credit (%)	-62.3	-61.2	-54.1	-24.0	-28.1
CFO capex/total net debt with equity credit (%)	-80.7	-85.9	-64.5	-44.4	-46.8

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator

Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		⇧	Positive
■	Higher Importance	⇩	Negative
■	Average Importance	⇳	Evolving
■	Lower Importance	□	Stable

FitchRatings

VGP N.V.

Corporates Ratings Navigator
EMEA Real Estate and Property

Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer specific-funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

Management and Corporate Governance

a-	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
bbb+	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bbb	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
bbb-	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bb+			

Property Portfolio

a-	Portfolio Liquidity and Ability to Leverage Assets	bbb	Average institutional appetite (buyers/sellers/lenders) in strong markets, indicating liquidity and ability to leverage assets.
bbb+	Investment Granularity	bbb	High portfolio granularity. Top 10 assets comprise 20%-40% of net rental income or value.
bbb	Geographic Strategy	bbb	A strong and focused presence in a prime market; or focus on two to three markets with appropriate scale. Markets display different economic and business cycles.
bbb-	Asset Quality	bbb	Prime and good secondary.
bb+	Development Exposure	b	Committed development cost to complete of more than 20% of investment properties for average risk projects.

Rental Income Risk Profile

a	Occupancy	a	Limited occupancy volatility through cycles. Occupancy consistently above 95%. Track record of limited tenant defaults.
a-	Lease Duration, Renewal and NOI Volatility	a	Lease duration (or average tenure for residential) longer than eight years with large majority renewed, sustained net rental income growth and/or low volatility.
bbb+	Lease Expiry Schedule	a	Smoothed lease maturity profile with no large lease expiries in the medium term.
bbb	Tenant Concentration and Tenant Credit	bb	Top 10 tenants comprise more than 30% of annual base rent revenue; high tenant credit risk.
bbb-			

Liability Profile

bbb	Debt Maturity Profile	bb	Average debt tenor between three to five years. No year represents more than 25% of total debt.
bbb-	Fixed/Floating Interest Rate Liability Profile	bbb	Fixed or hedged debt 50%-75% of total debt. Evidence of consistent policy.
bb+			
bb			
bb-			

Access to Capital

bbb+	Sources of Capital	bbb	Solid access to all common and preferred equity, unsecured bonds/bank debt, secured debt, and/or joint ventures.
bbb	Unencumbered Asset Pool	bbb	Leveragable unencumbered pool with limited adverse selection.
bbb-	Absolute Scale	bbb	Rent-yielding property assets of at least EUR1.5bn.
bb+			
bb			

Profitability

bbb	FFO Dividend Cover	b	below 1.0x
bbb-	Asset Class Volatility	bb	Portfolio values change less than 40% peak to trough with a track record of recovery
bb+			
bb			
bb-			

Financial Structure

bbb	Loan-To-Value	b	65%
bbb-	Unencumbered Asset Cover	b	1.0x
bb+	Managing Balance Sheet Through the Cycle	bbb	Maintenance of a suitable LTV taking asset volatility into account.
bb	Net Debt/Recurring Operating EBITDA	bb	10.0x
bb-			

Financial Flexibility

a	Financial Discipline	bbb	Less conservative policy but generally applied consistently.
a-	Liquidity Coverage	a	1.25x
bbb+	Recurring Income EBITDA Interest Cover	a	2.5x
bbb	FX Exposure	a	Profitability potentially exposed to FX but efficient hedging. Debt and cash flow well matched.
bbb-			

Credit-Relevant ESG Derivation

VGP N.V. has 1 ESG rating driver and 6 ESG potential rating drivers

- Board independence and effectiveness; ownership concentration
- Sustainable building practices including Green building certificate credentials
- Portfolio's exposure to climate change-related risk including flooding
- Shift in market preferences
- Strategy development and implementation
- Complexity, transparency and related-party transactions

Showing top 6 issues

Overall ESG

key driver	0	issues	5
driver	1	issues	4
potential driver	6	issues	3
not a rating driver	2	issues	2
	5	issues	1

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	3	Sustainable building practices including Green building certificate credentials	Rental Income Risk Profile; Profitability; Financial Structure; Financial Flexibility
Exposure to Environmental Impacts	3	Portfolio's exposure to climate change-related risk including flooding	Property Portfolio; Profitability; Financial Structure; Financial Flexibility

E Scale

5	
4	
3	
2	
1	

How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.
Customer Welfare - Fair Messaging, Privacy & Data Security	2	Data security	Property Portfolio; Rental Income Risk Profile; Profitability; Financial Structure; Financial Flexibility
Labor Relations & Practices	2	Impact of labor negotiations and employee (dis)satisfaction	Rental Income Risk Profile; Profitability; Financial Flexibility
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	3	Shift in market preferences	Property Portfolio; Rental Income Risk Profile; Profitability; Financial Structure; Financial Flexibility

S Scale

5	
4	
3	
2	
1	

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	4	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

G Scale

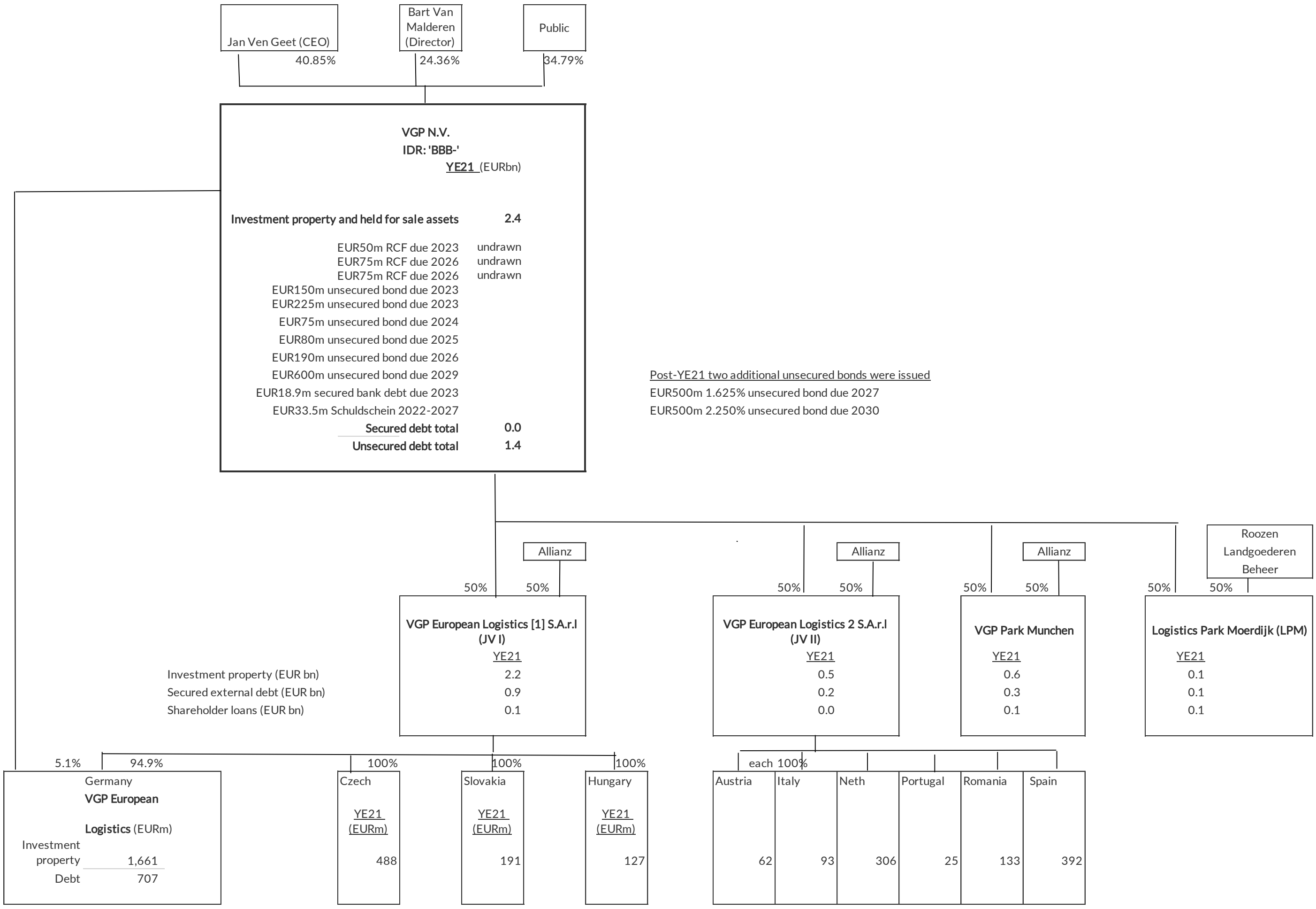
5	
4	
3	
2	
1	

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, VGP N.V.

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (EURm)	Operating EBITDA (before income from associates) (EURm)	Operating EBITDA margin (%)	Operating EBITDA/ interest Paid (x)	Total net debt with equity credit/ operating EBITDA (x)
VGP N.V.	BBB-						
	BBB-	2021	18	-13	n.m	0.3	151.3
		2020	12	-8	-67.8	-0.1	-424.2
		2019	12	0	-3.4	0.0	-1,497.0
		2018	17	7	44.0	0.3	58.0
SELP Finance SARL	BBB						
	BBB+	2021	243	201	82.6	9.7	10.0
	BBB+	2020	217	179	82.5	6.7	9.6
	BBB+	2019	190	157	82.8	8.4	10.2
	BBB+	2018	168	141	84.0	7.2	8.5
SEGRO PLC	A-						
	A-	2021	402	316	78.6	6.9	9.8
	BBB+	2020	355	275	77.6	6.2	7.6
	BBB+	2019	379	286	75.3	6.7	6.5
	BBB+	2018	335	269	80.4	4.8	8.2
Tritax EuroBox plc	BBB-						
	BBB-	2021	44	31	69.5	5.3	5.6
		2020	36	25	68.8	3.3	12.9
		2019	24	16	65.5	4.0	13.6
AXA Logistics Europe Master S.C.A.	BBB+						
		2020	113	92	81.0	4.7	3.2
		2019	55	41	74.5	0	8.7

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

Fitch Financial Adjustments

(EURm)	Notes and formulas	Reported values	Sum of adjustments	Fair value and other debt adjustments	Corp - lease treatment	Other adjustments	Adjusted values
31 December 2021							
Income statement summary							
Revenue		18					18
Operating EBITDAR		-18	5			5	-13
Operating EBITDAR after associates and minorities	(a)	-18	26		21	5	8
Operating lease expense	(b)	0					0
Operating EBITDA	(c)	-18	5			5	-13
Operating EBITDA after associates and minorities	(d) = (a-b)	-18	26		21	5	8
Operating EBIT	(e)	-20	5			5	-15
Debt and cash summary							
Total debt with equity credit	(f)	1,372		-13		13	1,372
Lease-equivalent debt	(g)	0					0
Other off balance sheet debt	(h)	0					0
Total adjusted debt with equity credit	(i) = (f+g+h)	1,372		-13		13	1,372
Readily available cash and equivalents	(j)	222					222
Not readily available cash and equivalents		0					0
Cash flow summary							
Operating EBITDA after associates and minorities	(d) = (a-b)	-18	26		21	5	8
Preferred dividends (paid)	(k)	0					0
Interest received	(l)	0					0
Interest (paid)	(m)	-29					-29
Cash tax (paid)		0					0
Other items before funds from operations (FFO)		0					0
FFO	(n)	-47	26		21	5	-21
Change in working capital (Fitch-defined)		-41					-41
Cash flow from operations (CFO)	(o)	-88	26		21	5	-62
Non-operating/non-recurring cash flow		0					0
Capital (expenditures)	(p)	-680					-680
Common dividends (paid)		-75	-5		-5		-80
Free cash flow (FCF)		-843	21		16	5	-822
Gross leverage (x)							
Total adjusted debt/operating EBITDAR[a]	(i/a)	-76.2					180.6
FFO adjusted leverage	(i/(n-m-l-k+b))	-75.4					185.5
FFO leverage	(i-g)/(n-m-l-k)	-75.4					185.5
Total debt with equity credit/operating EBITDA[a]	(i-g)/d	-76.2					180.6
(CFO capex)/total debt with equity credit (%)	(o+p)/(i-g)	-55.9%					-54.1%
Net leverage (x)							
Total adjusted net debt/operating EBITDAR[a]	(i-j)/a	-63.9					151.3
FFO adjusted net leverage	(i-j)/(n-m-l-k+b)	-63.2					155.4
FFO net leverage	(i-g-j)/(n-m-l-k)	-63.2					155.4
Total net debt with equity credit/operating EBITDA[a]	(i-g-j)/d	-63.9					151.3
(CFO capex)/total net debt with equity credit (%)	(o+p)/(i-g-j)	-66.7%					-64.5%
Coverage (x)							
Operating EBITDAR/(interest paid + lease expense)[a]	a/(-m+b)	-0.6					0.3
Operating EBITDA/interest paid[a]	d/(-m)	-0.6					0.3
FFO fixed-charge coverage	(n-l-m-k+b)/(-m-k+b)	-0.6					0.3
FFO interest coverage	(n-l-m-k)/(-m-k)	-0.6					0.3

[a] EBITDA/R after dividends to associates and minorities
Source: Fitch Ratings, Fitch Solutions, VGP N.V.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.