

VESTEDA
GROUP
ANNUAL
REPORT

2016

PORTFOLIO REDUCED TO 28,000 UNITS

AND INCREASE IN VALUE TO SOME €4

STRATEGY FURTHER REFINED, MODEL

RESULT 14.7% ON SHAREHOLDERS' EQUITY

SIX YEARS

TS, IMPROVEMENT IN QUALITY

.5 BILLION

PORTFOLIO REVISED

QUITY, THE HIGHEST IN LAST

VESTEDA GROUP 2006 ANNUAL REPORT

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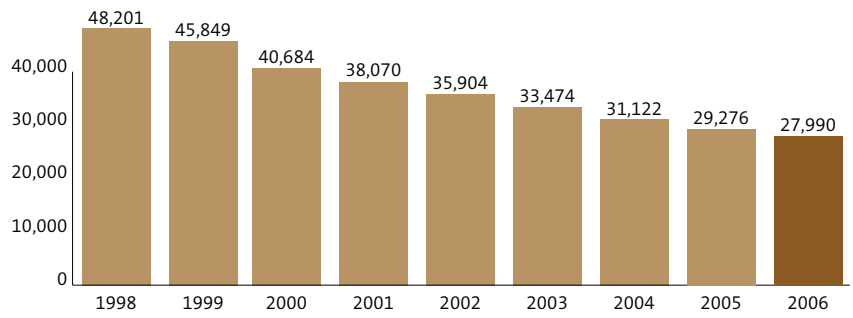
VESTEDA PROJECT BV 2006 REPORT (ANNEX)

The Vesteda Project bv 2006 Report has been included in the Vesteda Group 2006 Annual Report. It gives information on the company's objectives, strategy and activities during the financial year.

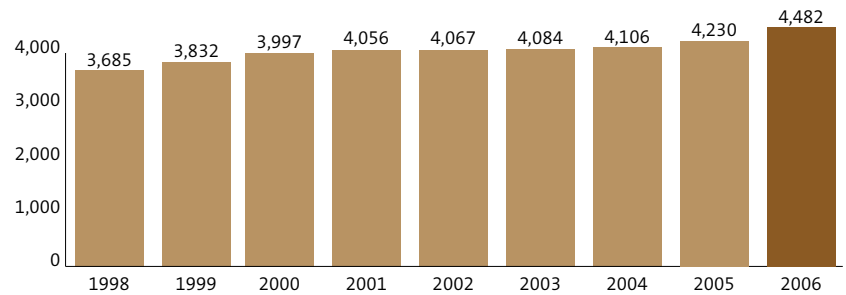
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Quality to rent | 46

Residential properties
units, year end

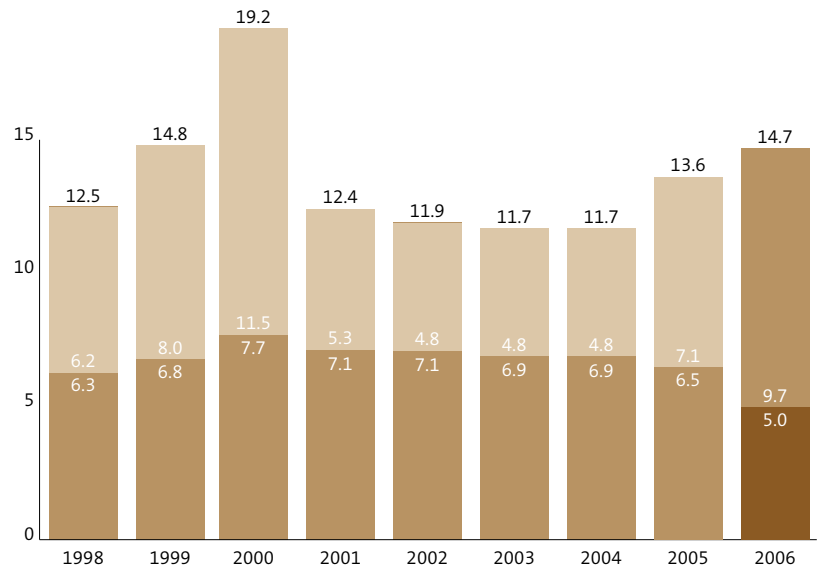


Total portfolio
amounts in millions of euros, year end



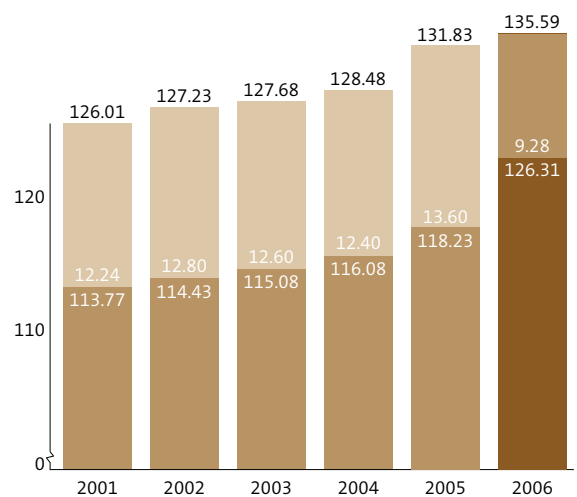
Result on shareholders' equity
as % of opening shareholders' equity

- realised result
- unrealised result



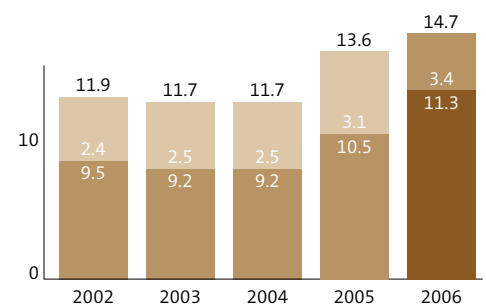
Net asset value
per share/unit, €

- distribution to investors
- after distribution to investors (year end)



Effect of financing on result
See page 57 for notes

- leverage
- total result without leverage



Key figures

	2006	2005	2004	2003	2002	2001	2000	1999	1998
Units									
year end letting portfolio									
residential properties	27,990	29,276	31,122	33,474	35,904	38,070	40,684	45,849	48,201
commercial m ²	41,725	36,098	40,791	36,960	37,266	34,594	35,630	35,587	35,394

Balance sheet

year end, amounts in millions	€	€	€	€	€	€	€	€	€
total portfolio	4,482	4,230	4,106	4,084	4,067	4,056	3,997	3,832	3,685
shareholders' equity	3,158	2,956	2,902	2,892	2,861	2,845	4,006	3,849	4,021
balance sheet total	4,619	4,356	4,323	4,288	4,250	4,204	4,110	3,966	4,126

Occupancy rate

year end, calculated on the number of residential properties	%	%	%	%	%	%	%	%	%
letting portfolio	96.8	96.4	97.4	98.4	98.7	98.7	99.0	98.6	97.3

Result

amounts in millions	€	€	€	€	€	€	€	€	€
realised result	149	188	197	196	201	199	297	274	235
unrealised result	285	206	138	137	136	149	441	321	231
total result	434	394	335	333	337	348	738	595	466

Result on shareholders' equity

as % opening shareholders' equity	%	%	%	%	%	%	%	%	%
realised result	5.0	6.5	6.9	6.9	7.1	7.1	7.7	6.8	6.3
unrealised result	9.7	7.1	4.8	4.8	4.8	5.3	11.5	8.0	6.2
total result	14.7	13.6	11.7	11.7	11.9	12.4	19.2	14.8	12.5

Result per share

per share/unit	€	€	€	€	€	€
realised result	5.95	7.50	7.88	7.84	8.05	7.96
unrealised result	11.41	8.24	5.52	5.48	5.42	5.96
total result	17.36	15.74	13.40	13.32	13.47	13.92

Net asset value

per share per share/unit	€	€	€	€	€	€
beginning of year	118.23	116.08	115.08	114.43	113.77	112.09
year end, before distribution	135.59	131.83	128.48	127.68	127.23	126.01
distribution to investors	-9.28*	-13.60	-12.40	-12.60	-12.80	-12.24
year end, after distribution	126.31	118.23	116.08	115.08	114.43	113.77

These key figures relate to Vesteda Group. There was a restructuring at the end of 2001 with retroactive effect to the beginning of 2001. The key figures for Vesteda Group to 2000 are the combination of Holding Vesteda bv and the portfolio it managed. From 2001, Vesteda Group has been Vesteda Groep bv, the portfolio it manages and Vesteda Project bv.

* allocated, including € 4.08 per share/unit payable in April 2007

Profile

Vesteda develops, finances, lets, manages and sells homes and residential concepts. Vesteda is continually raising the quality of its residential portfolio, which is held by its investment fund with which Vesteda offer property investors access to the Dutch housing market. Vesteda offers households comfortable and luxurious homes to meet their qualitative residential requirements. Vesteda is thus an enterprising property investment fund operating in the residential property sector. With about 28,000 residential properties and a value of some € 4.5 billion, Vesteda is the largest residential property investment fund in the Netherlands.

[Residential property investment fund](#)

Vesteda focuses on the higher-rent sector which starts at rents of € 600 per month. Vesteda's customers are chiefly small households: people over 50 and single-person and dual-income households. Vesteda offer them comfortable, carefree housing with an eye for detail and design. To this end, Vesteda is developing modern, sustainable apartments and houses in and around Dutch towns.

[Higher-rent sector](#)

A distinctive feature of Vesteda as an organisation is that it has project development under its own management. These activities are performed by Vesteda Project bv, Vesteda Group's project development company. Vesteda Project bv carries out both area developments and projects. By participating in area developments, Vesteda can influence the quality of public spaces and urban development. As a developer, Vesteda controls the functionality, profitability and design of projects. This allows Vesteda Project bv to ensure ongoing construction of high-quality homes and residential concepts, largely for Vesteda Group's property portfolio but also, to a limited extent, for the owner-occupied market.

[Own project development](#)

Another distinctive feature of Vesteda is that it performs its own property management. Vesteda has its own property letting and management organisation. Vesteda's six offices in central locations in major urban areas, known as Woongalleries, handle letting, personal customer contacts during the tenancy and brand promotion.

[Own property management](#)

Vesteda is not listed on the stock exchange. Vesteda's shareholders are institutional investors: banks, insurance companies and pension funds. They invest in Vesteda's residential property fund and are proportionate owners of Vesteda Groep bv and Vesteda Project bv. By integrating project development with property management, Vesteda presents an enterprising nature for an investor. Investing in residential properties is attractive because of the low volatility in values, the attractive and almost risk-free cash yield and the low correlation with other investment categories. The annual indexation of leases is protection against inflation. Vesteda uses loan capital to optimise the yield for its shareholders. Vesteda thus ensures long-term out-performance of the ROZ/IPD benchmark, while retaining the defensive and diversified nature of direct property.

[For institutional investors](#)

Vesteda Group employs more than 350 people in a young and dynamic organisation. Surveys and market research underlie the investment, sale and purchase policies. The organisation is results-driven, focusing on customer satisfaction and returns.

[Results-driven organisation](#)



Vesteda



Supervisory Board

F.H.J. (Frans) Boons (66), chairman (to June 2006)

Dutch nationality. Former President of the Managing Board of Vado Beheer. Appointed member and chairman of the Supervisory Board in 1998. Stood down as chairman and retired on 1 July 2006 after two four-year periods in office.

W.F.T. (Frans) Corpeleijn (58), chairman (from July 2006)

Dutch nationality. Lawyer with law firm Stibbe. Appointed from January 2002. Reappointed from January 2006. Appointed as chairman from July 2006.

P.S. (Pieter) van den Berg (60)

Dutch nationality. Former consultant to the Board of PGGM. Appointed from April 2002. Reappointed from April 2006.

D.J. (Dick) de Beus (60)

Dutch nationality. Former chairman of the Managing Board of PGGM. Appointed from July 2006.

J.D. (Jan) Doets (62)

Dutch nationality. Former CEO of ING Real Estate. Appointed from January 2002. Reappointed from January 2006.

There was one vacancy on the Supervisory Board at the end of the year.

Managing Board

The management model for the Managing Board of Vesteda Group was changed in August 2006, with the chairman of the Managing Board taking on final responsibility – in line with the CEO model.

H.C.F. (Huub) Smeets (59), Chairman/CEO

*Dutch nationality. Member of the Managing Board since January 2000. Chairman since November 2003. CEO from August 2006. Focusing on strategy, project and urban development, personnel and organisation, corporate communications, investor relations and foreign orientation.**

O. (Onno) Breur (56)

*Dutch nationality. Member of the Managing Board since July 2004. Focusing on asset management, disposals, product development, customer relations, facilities and foreign orientation.**

F.H. (Frits) van der Togt (54)

*Dutch nationality. Member of the Managing Board since February 2000. Focusing on finance, ICT, legal affairs, property management and investor relations.**

*Focus of members of the Managing Board: the areas of responsibility of the members of the Managing Board has been reallocated from 1 January 2007. All three directors are responsible for strategy and investor relations. The other areas are reallocated as follows: Huub Smeets: acquisitions and project development, corporate communications, personnel and organisation, legal affairs; Frits van der Togt: asset management, business development, finance and administration, controlling, funding, information provision, tax; Onno Breur: property management, project marketing, surveys/market research, product development, facilities, disposals, foreign orientation.

Legal structure

Vesteda Groep bv, which is responsible for managing Vesteda, holds a central position in Vesteda Group. Investors participate directly in Vesteda Groep bv, where control is consolidated. Vesteda Groep bv has a three-member Managing Board and a Supervisory Board.

Vesteda Groep bv

Vesteda Project bv carries out Vesteda Group's project development activities. Fiscal investment institutions are not permitted to perform these activities under Section 28 of the Corporation Tax Act 1969. Vesteda Groep bv is a director of Vesteda Project bv.

Vesteda Project bv

Part of Vesteda Group is a fiscal investment institution. Holding DRF bv (Dutch Residential Fund) and its four subsidiaries, DRF I bv, DRF II bv, DRF III bv and DRF IV bv form a tax group for corporation tax purposes and have been regarded as a fiscal investment institution pursuant to Section 28 of the Corporation Tax Act 1969 since 1 January 2002.* Such institutions are subject to a zero rate of corporation tax. The Managing Boards of Holding DRF bv and Vesteda Groep bv comprise the same individuals, responsible for the same tasks.

Investment institution

The let property and associated rights and obligations are held by Vesteda Woningen, a common fund that is not independently liable for corporation tax. A common fund is not a legal entity but a vehicle in which property is brought together for collective investment in order for the unit-holders to share in the proceeds. A common fund has one or more custodians and a manager. Vesteda Groep bv is manager of Vesteda Woningen. DRF I bv, DRF II bv and DRF III bv are the custodians and entitled to manage the assets of Vesteda Woningen for the unit-holders. Consequently, in their capacity as custodians, they are legally entitled to all assets belonging to Vesteda Woningen on behalf of the unit-holders. Holding DRF bv and DRF IV bv are, along with the unit-holders themselves, owners of Vesteda Woningen and have beneficial entitlement to those assets.

Vesteda Woningen

Investors** are offered two different ways of participating in Vesteda Woningen: as 'unit-holder' or as 'shareholder'. In the first case, investors acquire a direct interest in the fund, in the second case they have a shareholding in Holding DRF bv which then acts as a unit-holder in the fund. In both variants, investors own a proportionate number of shares in Vesteda Groep bv and Vesteda Project bv.

Shareholders and unit-holders

Vesteda Group has raised finance by issuing bonds on the capital market.*** A private limited liability company, Vesteda Residential Funding I bv, was incorporated in 2002 to issue the bonds. There was a complete refinancing during 2005, and Vesteda Residential Funding II bv was incorporated for this. Subsequently, Vesteda Residential Funding I bv was wound up in early 2006.

Loan capital

* As this annual report went to press, the Lower House of the Dutch Parliament was debating legislation that would allow fiscal investment institutions to develop property for their own portfolios.

** See page 61 for a list of shareholders and unit-holders

*** See page 57 for further information on the bonds

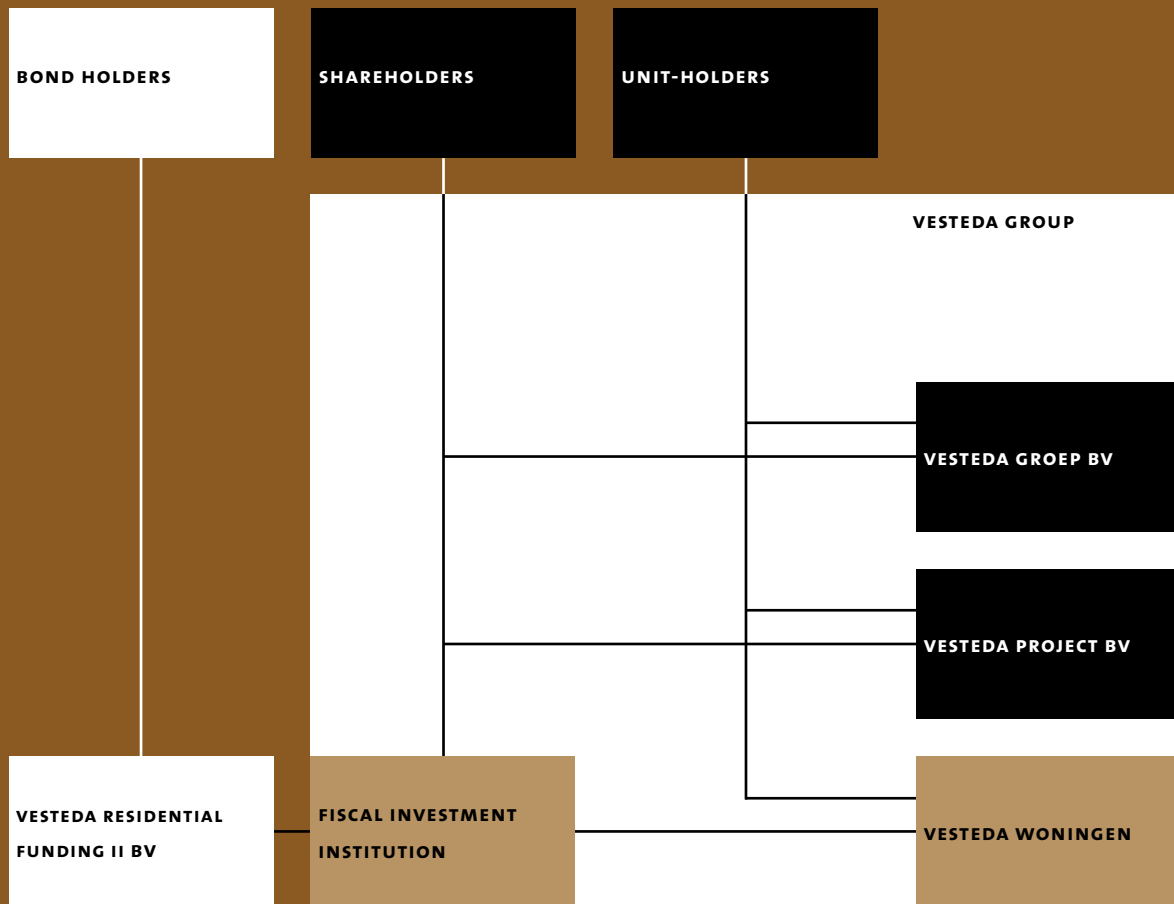


Diagram of the legal structure of Vesteda Group

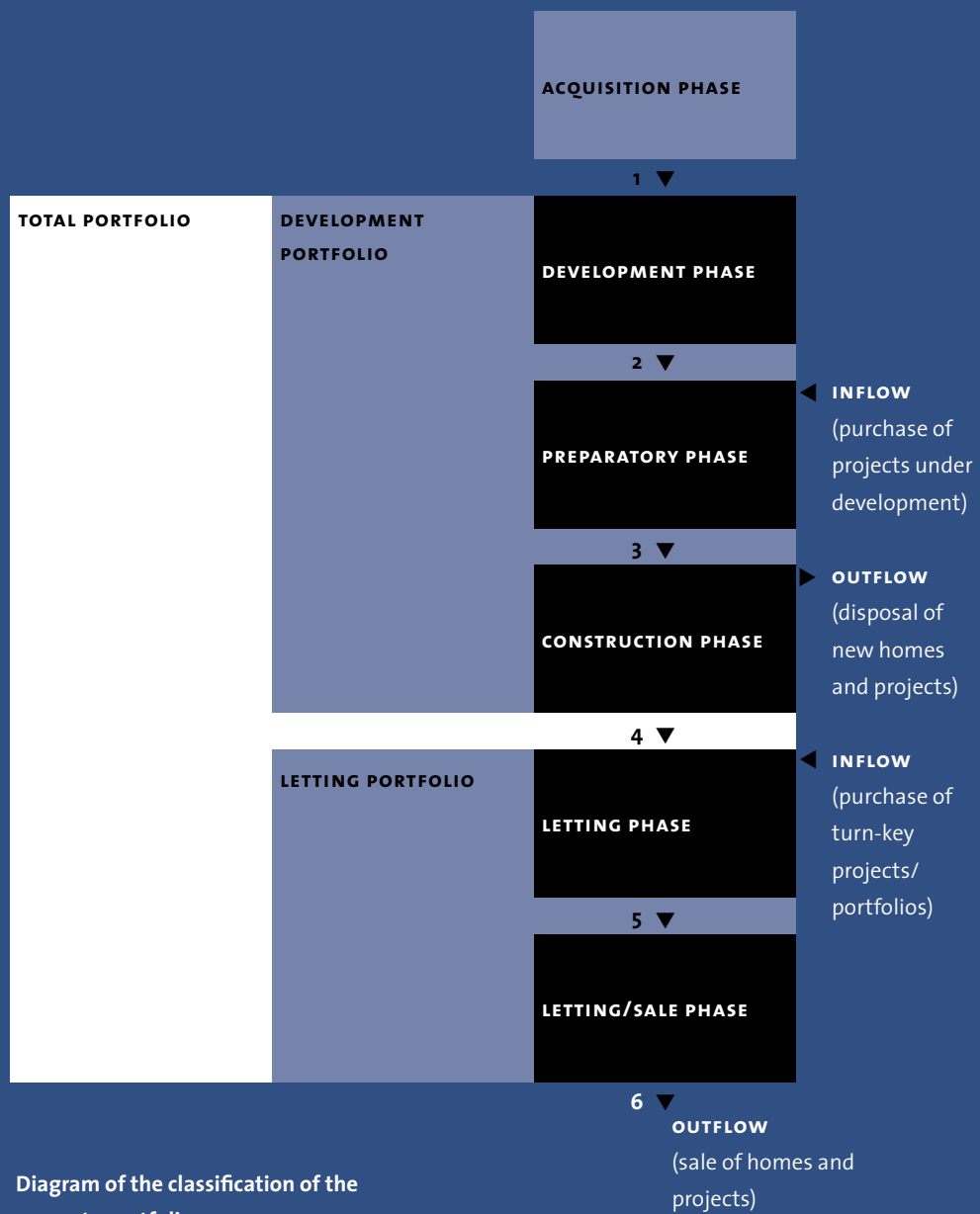


Diagram of the classification of the property portfolio

- 1 acquisition contract
- 2 development decision
- 3 start of construction
- 4 handed over and ready for letting
- 5 decision to dispose
- 6 disposal

Classification of the portfolio

All properties and property developments are referred to jointly as the total portfolio. The total portfolio is subdivided into the development portfolio and the letting portfolio.

Development portfolio In the development portfolio there are projects in the development, preparatory and construction phases. The development phase is for projects where there is an acquisition agreement or contract for an area development or other types of venture or acquisition and for which Vesteda is or will be preparing a development decision. As soon as a development decision has been taken on a project, it moves to the preparatory phase. The project transfers to the construction phase when building work starts. As soon as a project is both ready for letting and handed over, it is transferred to the letting portfolio. A project may be transferred in phases.

Letting portfolio In the letting portfolio there are projects in the letting phase and projects in the letting/sale phase. As soon as a decision is taken to dispose of a project, it becomes part of the letting/sale phase. The projects in the letting portfolio are listed in annex 1 'properties in the letting portfolio' on page 73.

Disposals There are regular disposals of individual residential properties and projects from the letting portfolio.

Transfer from Vesteda Project bv to Vesteda Woningen Under the long-term plan, based on analyses of the ideal and actual portfolios, Vesteda Groep bv determines its need for new projects, which is then passed on to Vesteda Project bv. Suitable projects are placed in the development portfolio with the aim of including them in Vesteda Woningen, a common fund for collective investment. As soon as an investment decision has been taken and projects have been developed, they can be transferred to Vesteda Woningen. The date when these conditions are met and the transfer can be made depends on the type of project and ranges from before the start of construction to the hand-over date.

The classification of the portfolio was changed in 2006 when the core letting portfolio and the disposals portfolio were merged into the letting portfolio.

Report of the Supervisory Board

TO THE GENERAL MEETING OF SHAREHOLDERS OF VESTEDA GROEP BV

We hereby present the 2006 financial statements, incorporating the proposed dividend distribution, as drawn up by the Managing Board and discussed by this Board, for adoption by the General Meeting. Pursuant to the Articles of Association, adoption of the financial statements will serve to ratify the actions of the Managing Board in respect of its management and those of the Supervisory Board in respect of its supervision in the past year.

The financial statements of Vesteda Groep bv have been audited by Ernst & Young Accountants who issued an unqualified report which is included in the financial statements in 'Other information' on page 114. Ernst & Young Accountants also issued unqualified auditors' reports on the financial statements of Vesteda Group and Vesteda Woningen, which can be found on pages 96 and 128.

The Supervisory Board met eight times last year, including one meeting, when the Managing Board was not present, to evaluate its own operation. As usual, some meetings were held on location to increase the Supervisory Board's involvement with Vesteda's projects and operating units. The principal subjects discussed by the Supervisory Board in 2006 were:

Governance & management

- the way in which Vesteda implements risk management as meant by the Tabaksblat Code. Progress on risk management was discussed during the year. The aim is to have an 'in control' statement by mid-2007;
- the chairmanship of the Supervisory Board. Following two four-year periods of office to the end of 2005, Mr Boons served as chairman until 1 July 2006 at the request of shareholders, unit-holders and the other members of the Supervisory Board. This ensured continuity in light of the unfilled vacancy on the Supervisory Board. From 1995, Mr Boons was involved in the hiving off of the ABP property funds. As chairman of the supervisory boards of those funds and thus also of the legal predecessor of Vesteda, he has contributed considerable effort and demonstrated great involvement over many years. He was able to act as a dependable mediator when this was required. We marked Mr Boons' departure in a suitable way during a farewell symposium offered by the Managing Board in July. On a nomination of the Board, the shareholders resolved to appoint Mr Corpeleijn, who has been a member of the Supervisory Board for five years, as his successor;
- other vacancies on the Supervisory Board. Using the profile it had prepared earlier, the Supervisory Board resolved to nominate Mr de Beus. This nomination was accepted by the General Meeting of Shareholders. The shareholder, Stichting pensioenfondsen ABP, will nominate a supervisory director in 2007 to fill the final vacancy on the Board;
- the risk management system for preventing legionella bacteria contamination. This system provides the Board with reports on maintenance, checks and treatment of occasional incidents;

Investor relations

- Stichting pensioenfondsen ABP sold part of its shareholding, thus meeting its policy set out in the memorandum of information in 2001 to move to a minority holding. A Placement Memorandum was prepared for the sale, and the valuation and governance were discussed and commented on by the Board. There was also discussion of the transfer of an interest to Loyalis with the agreement of other shareholders and unit-holders;

Strategy

- the 2007–2009 business plan prepared by the Managing Board;
- the relationship between the view of the market in the business plan and the uncertainty relating to the continuation of the new letting policy;
- analysis of the marketing and letting strategy;
- the 2006 sales plan;
- Vesteda Project bv's disposal of a 60% holding in IRS Holding bv, including IRS Systems bv and IRS Services bv, to Fifthplay Nederland nv, a subsidiary of Niko nv, a Belgian company;

Financial

- setting the required yield for the year and introducing regional differentiation during the first meeting of 2006. This is a response to the different regional market conditions under which projects are acquired. In the following meeting, the standardised computational model that underlies the yield calculations was discussed in more detail;
- phases of the disposal plans, partly in connection with building up the portfolio and forecast distributions in line with the Memorandum of Information;
- the 2007 budget was, as usual, discussed and adopted during the autumn meeting. Particular attention was given to controlling management expenses, expanding the organisation, especially of Vesteda Project bv, and the dividend plans in relation to the Memorandum of Information and the proposed new financing in 2007;

Market and portfolio developments

- the consequences of the proposed letting policy, in relation to restrictions on project development, future rent rises, the affordability levy and future yields. There was also discussion of how Vesteda could put forward its views to possibly influence the development of the letting policy;
- the on-going evaluation of development and investment proposals approved by the Supervisory Board, once the properties have been let for a full year;
- progress on dealing with rent arrears;
- discussion and approval of investment proposals and purchases by Vesteda Project bv and transfers from Vesteda Project bv to Vesteda Groep bv, to the extent that they were not covered by the mandate of the Managing Board;
- progress on large projects, including changes to the framework agreement with the Municipality of Amsterdam;
- the valuation of the portfolio, in relation to market developments and the government's proposed letting policy, and with respect to the Placement Memorandum;
- Vesteda's participation in the Stichting LNP (Landelijk Nieuwbouw Portaal);

Organisation

- progress on the culture change started by the Managing Board and management in 2005, focusing on customer-orientation and other competences, which will be extended to other members of staff in 2007;
- the change of management model for the Managing Board, with the Managing Board chairman taking on final responsibility in line with the CEO model;
- the reallocation of duties among members of the Managing Board, implemented from 2007;
- the further expansion of the organisation, in relation to the business plan;

Remuneration

- the remuneration of the Managing Board, based on the previous year's results and the third-party competitiveness review performed in 2006;

Foreign orientation

- investing abroad. It was decided to carry out an orientation during 2006 and to discuss it in 2007.

In conclusion, the Supervisory Board would like to express its appreciation of the efforts and commitment of the Managing Board and employees during the year.

Maastricht, 15 February 2007

Supervisory Board of Vesteda Groep bv

W.F.T. Corpeleijn, *chairman*

P.S. van den Berg

D.J. de Beus

J.D. Doets

Corporate Governance

Overall responsibility The Supervisory Board and Managing Board of Vesteda Groep bv have overall responsibility, generally with a view to ensuring the continuity of the enterprise, for weighing up the interests of stakeholders – the groups and individuals who directly or indirectly influence (or are influenced by) the achievement of the aims of the company: employees, shareholders, unit-holders and other providers of capital, suppliers and customers, but also the government and society at large. The Supervisory Board and the Managing Board take account of the interests of the various stakeholders, endeavouring to create long-term shareholder value.

Shareholders and unit-holders The Supervisory Board and the Managing Board regard the current legal structure as a way of continuing the good relationship with all Vesteda's shareholders and unit-holders. Vesteda Groep bv has a central position in the organisation. The Management Board of Vesteda Groep bv holds regular formal and informal meetings with the Supervisory Board on the policy of the Vesteda organisation as a whole. Vesteda Groep bv is a director of Vesteda Project bv and manager of Vesteda Woningen. The Managing Board and Supervisory Board are accountable to Vesteda Group's shareholders and unit-holders and other stakeholders. Decisions are taken on the basis of the Participation Agreement signed by all shareholders and unit-holders. The Participation Agreement can be compared with the articles of association of a legal entity.

Code of best practice The Corporate Governance Committee, chaired by Mr M. Tabaksblat, published a revised 'code of best practice' on corporate governance on 9 December 2003. The code has been mandatory for listed companies since 2004. Although the code does not apply to Vesteda Group, which has a closed nature in the sense that only institutions can become shareholders or unit-holders, the Supervisory Board and Managing Board of Vesteda Groep bv subscribe to the value of the best-practice provisions for the company. As the code has been written for companies listed on the stock exchange, certain of its provisions do not directly apply to Vesteda Groep bv. The 2004 and 2005 annual reports set out the parts of the Code which can be complied with and those for which there will be a statement of departure. Overall application is evaluated regularly and there was no reason to make changes during the year under review. For these reasons, the notes below on possible departures from the code are very similar to last year's.

APPLICATION OF THE CODE

Supervisory Board Under the Articles of Association of Vesteda Groep bv, the supervisory directors' period of office is four years, with one reappointment of four years, and so the code is being followed. The retirement schedule is in line with this. In a departure from the code, the shareholders agreed during the year to extend Mr Boons' chairmanship until mid-2006. The Supervisory Board, Managing Board and shareholders were unanimous in their belief that this best served the company's interests. The vacancy covered by the right of nomination by Stichting pensioenfonds ABP will be filled in 2007, now that the share placement has been successful. Regulations have been drawn up on other principles in the code on the composition of the board, decision-making and appointment of supervisory directors. These specify that the Supervisory Board discusses its own functioning at least once a year. Strategy, risks and internal risk management are also discussed at least once a year. The Supervisory Board has no separate committees as it has decided that the full Board should make recommendations and take decisions. The requirement in the code on the availability of sound financial knowledge is, of course, being followed. The annual report does not list other supervisory directorships and other positions. This information is exchanged between supervisory directors and is also known by shareholders and unit-holders and by the company. The total remuneration

of the supervisory directors is reported on page 110. Shareholders and unit-holders are not aware of any conflicts of interest between the company and the members of the Supervisory Board.

The company has a code of conduct and, during the year, the Supervisory Board monitored that staff were complying with its principles. As required by the code, reports are made to the management and, if necessary, to the chairman of the Supervisory Board.

Code of conduct

Appointments to the Managing Board do not follow the time limits required by the code. It has been decided not to implement such a restriction as this is not logical given the company's nature as a long-term investor. The company attaches importance to the long-term involvement of the management. The members of the Managing Board meet the other requirements in the code on other supervisory directorships, shareholdings, personal loans and guarantees. Remuneration has a fixed component and a variable element. In a departure from the code, the amount of dismissal pay depends in part on the variable element of the salary. The total remuneration is set out on page 110 of the report. The Supervisory Board is not aware of any conflicts of interest between the company and the members of the Managing Board.

Managing Board

A comprehensive list of risks was drawn up during 2005 based on interviews and company-wide analyses. The various risks were documented in a standard way and prioritised in 2006. A structured risk management system is being set up and maintained according to the priorities and is expected to lead to an 'in control' statement in 2007.

Comprehensive approach to risk management

Following the improvement in the quality of reporting to shareholders in 2005, the quality of reporting to bond holders was improved in 2006.

Reporting

Shareholders, unit-holders and bond holders have access to a restricted part of the Vesteda website where they are kept up to date through publication of quarterly and other reports.

Website

In 2005, the Association of Institutional Property Investors in the Netherlands, the IVBN, drew up a large number of practical recommendations to enhance the transparency of annual reports.¹ IVBN members, including Vesteda, have incorporated the recommendations in their annual reports since 2005. For this reason, several tables in the Report of the Managing Board start in 2005, rather than providing the normal five-year view. The IVBN carried out an evaluation in 2006 which led to the publication of an addendum in January 2007.² Although the additional recommendations set out in the addendum only apply from 2007, Vesteda has adopted them in this Annual Report.

IVBN transparency



Report of the Managing Board

INTRODUCTION

2006 was a year of strategic and operational refinement for Vesteda. Strategy was refocused on several fronts, the required yield was differentiated by region, the 2007-2009 business plan was drawn up and the asset mix – which determines the proportions of the different segments in the investment portfolio – was revised. There was also a refinement of responsibilities and authorities: between the members of the Managing Board, between Vesteda as investor and developer and between the various units in the organisation.

A significant external development during 2006 was the modernisation of the letting policy, prepared over the past years by the then Minister of Housing, Spatial Planning and Environment, Sybilla Dekker. The Lower House of Parliament approved the bill in September 2006 but it was eventually declared 'controversial' by the Upper House in the last few days of December. Consequently, the letting policy is unchanged, the future is uncertain and the vitally-needed modernisation will be a task for the new government.

Financially, Vesteda performed well during 2006. Vesteda's total yield on shareholders' equity of 14.7% was the highest in the past six years. In 2006, as in 2005, there was a substantially higher increase in the value of the portfolio compared with earlier years. This led to a relatively high unrealised result.

During the final quarter of the year, Stichting pensioenfondsen ABP reduced its majority shareholding in Vesteda to a minority holding. Almost all of the shares were sold to the other shareholders in Vesteda for a price slightly above the net asset value.

Demand for investments in the Dutch housing market is expected to increase during the next few years. This will strengthen Vesteda's position as an established player, with in-house development and property management.

HOUSING MARKET DEVELOPMENTS

This section discusses the Dutch housing market. It is affected by economic trends and these are discussed first, followed by an explanation of how the housing market operates, discussing developments in the light of population and household size trends, with specific attention to the higher-rent sector. Certain developments which affect the housing market, the task of the new government to develop a new letting policy and the future role of housing associations, are then considered. Finally, we report on house price trends and developments in the property investment market.

Economic trends

2006 was a good year for the Netherlands. Businesses benefited from the fact that neighbouring countries' economies started to improve earlier. The chemical industry in particular did extremely well during the year, but the Dutch farming and food industries also prospered. Export figures were boosted not only in traditional products such as plants and flowers, but also thanks to product categories such as food, drink and light engineering. The Dutch economy grew by 2.9% in 2006, almost twice as fast as in 2005 compared with a year earlier.³ Exports continued to be the cornerstone of growth in volume of the gross domestic product (GDP). Dutch manufacturers' confidence was very high at the end of 2006.

Dutch commerce is climbing
out of a dip

← Wiebengahal, home to Vesteda's Maastricht Woongalerie, back office and call centre, the Netherlands Architecture Institute (NAI Maastricht) and Stichting Restauratieatelier Limburg (SRAL), in the Céramique district of Maastricht, let during 2006.

Dutch household expenditure was higher in 2006; in fact, the highest since 2000. Most spending was on consumer durables such as refrigerators, washing machines and televisions. Sales of motor cars were less strong, but in contrast spending on clothing was higher. Many more kitchens were also sold. The reason for the increase in expenditure was higher disposable income, which went up 2% during the year.

Higher consumer expenditure

On balance, consumer confidence and the economic climate – as an indicator of consumer confidence – rose in 2006. At the end of the year, for the first time since 2000, there were more optimists than pessimists about the economy in the coming twelve months.

Consumer confidence up

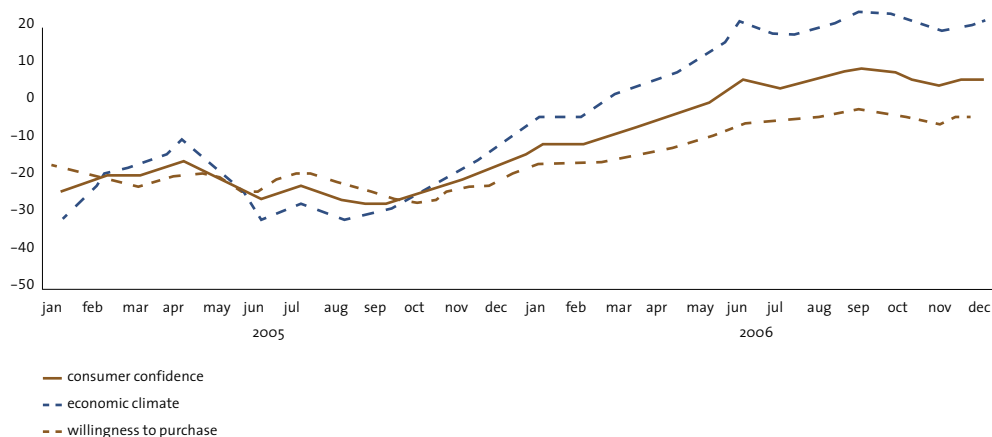
Consumers' willingness to purchase is based on whether the time is right to make major purchases and the household's view of its financial situation. Purchasing willingness rose considerably during 2006, as shown in the chart below.

Rise in willingness to purchase

Consumer confidence, economic climate and willingness to purchase 2005 to 2006

2005-2006

Source: Statistics Netherlands



Inflation in the Netherlands during 2006 was 1.1%, the lowest figure since 1989.⁴ The low inflation in 2006 was due mainly to lower government charges and lower increases in energy prices than in 2005, when inflation had been 1.7%. Dutch inflation was below the average for the eurozone but the Netherlands is no longer among the euro countries with the lowest inflation. Measured by the European harmonised method, Luxembourg and Finland had the lowest inflation in October.⁵ Since the introduction of the euro, inflation in the Netherlands has been well under control: prices rose by 11% in the five years between 2002 and 2006, which represents 2.1% per year. Between 1997 and 2001 (the five years before the euro) prices rose by 14%, or 2.7% annually.⁶

Low inflation

At the end of 2006, there were 110,000 more jobs in the Netherlands than at the beginning of the year. It is some time since there has been such an increase. Job numbers grew by 200,000 annually in the years 1995-1996, but the Netherlands was doing extremely well at the time. This came to an end in 2000 with an exceptional year when a million extra jobs were created.

Labour market growing

Unemployment fell sharply in 2006. At the end of the year, unemployment was 400,000 in the Netherlands: 70,000 lower than a year earlier.⁷ The number of vacancies rose substantially and it

Unemployment falls further

was noticeable that the chance of work increases with education. At the end of 2006, there were 300,000 vacancies. The labour market was dynamic in 2006: more people changed job.

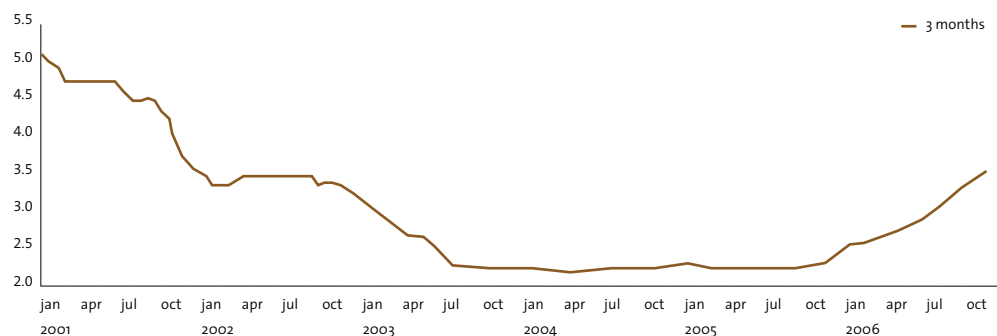
The unemployment rate was 7.6% in the eurozone at the end of November 2006,⁸ which is the lowest level since European unemployment statistics started to be collected in 1993. The increase in employment and fall in unemployment were due mainly to the strong economy. Cyclical unemployment has disappeared almost completely. Current unemployment is mainly structural and thus much more difficult to reduce.

Higher interest rates

Long-term eurozone interest rates rose during the year for the first time in five years, because of the promising outlook for economic growth. The latest 10-year government bonds were issued at the start of the year at 3.5%. Despite a rise, interest rates came under pressure again during the year; the rate at the end of 2006 was 4%.

Short-term interest rates were raised six times during the year. Three-month Euribor started 2006 at 2.49% and ended it at 3.73% and so the yield curve became marginal.

Three-month Euribor 2001 to 2006
2005-2006
Source: DNB



As a result of relatively low interest rates and increases in value, many Dutch people are refinancing their homes and so overall household debt rose by tens of billions of euros during 2006 and house buyers are opting more often for interest-only financing.

Interest rate outlook

A further increase in long-term interest rates is expected in 2007.

Opinions differ on the trend in short-term interest rates in 2007: some parties think that the European Central Bank (ECB) has reached the end of a series of interest rate rises, partly because of slower growth in the United States, which will soon become apparent in the eurozone. There are others who think that the European economy has become 'decoupled' from America and will grow further in 2007. They expect that the ECB will continue to raise rates until the level of 4.25% has been reached.

ECB president, Jean-Claude Trichet, has stopped giving signals on the direction he wants to follow. There is no indicator of interest rate policy as the ECB is not guided by inflation forecasts alone. A second point of concern is the rapidly-growing money supply. Partly because of low interest rates,

the money supply grew by 9% during 2006, twice the target rate. One reason for higher stock market prices was the large amount of money in the market. The ECB fears that excessive money supply growth will eventually lead to inflation and falls in share and house prices.

Conclusion

2006 was, as expected, a year of strong economic growth. It also appears that the European economy will enjoy a peak year in 2007; more significantly for the Netherlands, the German economy will do even better than the European average. Economic forecasts are positive. Nevertheless, inflation and collectively agreed wage rises will be limited during the coming year. In short, the Netherlands started 2007 in good economic shape and is likely to end the year in the same way.

Economy flourishing; outlook positive

Households and residential properties in 2006

The number of rental residential properties has fallen and the number of owner-occupied properties has increased in recent years. The Dutch housing stock was 7.0 million units at the beginning of 2006, 43% of which were rented.

Dutch housing stock

At beginning of year 2006

	2006	
Source: ABF Socrates/Statistics Netherlands, Vesteda's calculation millions %	× 1 mln.	%
Owner-occupied	3,973	57
Rental	3,025	43
	6,998	100

Little trading up in the Dutch housing market; need for deregulation, market forces and sector neutrality

The housing market is a stock market. The Dutch housing stock changes from year to year as a result of new building work and demolition.

Current supply

Trading up in the housing market is a very important factor in providing adequate supply each year, along with the properties coming onto the market as a result of new construction. On average, people move several times in their lives, to bring their accommodation in line with their stage of family life and new requirements. When they move, the homes they leave are available on the market for families who are looking for such a property. This is known as trading up.

Demand

On the demand side, population growth and declining household size are creating a rise in the number of households and so there is a quantitative demand for homes and pressure on the housing stock. As well as this numerical demand, there is also qualitative demand, i.e. for a certain type and quality of home. There is demand for a different composition of the stock as incomes rise and because of the changed household and age structure of the population.

Need for deregulation and greater market forces

Only 4% of the Dutch rental housing market is not regulated by the government. Regulation creates lower rents and, therefore, is a form of subsidy on top of the rent allowance. As it is not a means-tested subsidy, a substantial proportion of households are living too cheaply in the rental market and so they remain in place, as the major step involved makes trading up to a more expensive rental home or an owner-occupied home unattractive. This means that there are not enough homes for new entrants to the market.

Level playing field

Increasingly, housing associations are developing projects in the higher-rent sector as this means they can reach a target group beyond the area of social housing. The development and investment conditions are often not competitive. Vesteda believes that

all associations with developments in the higher-rent sector should meet certain standards: they should keep separate records, transfer projects at market values and apply competitive financing charges and yields.

The Association of Institutional Property Investors in the Netherlands, the IVBN, has asked the Netherlands Competition Authority (NMA) to take action against the Dutch housing associations under the Competition Act. In breach of section 25b of the Act, Dutch housing associations do not keep separate records. According to the Act, associations have to properly separate income and expenses for 'services of general public interest' they offer with state aid from those for other activities. In January 2007, AEDES, the associations' umbrella body, reached an agreement with the tax authorities which governs separation for tax purposes. It does not, however, guarantee the application of competitive yields and financing charges.

Sector neutrality

Sector neutrality is a key requirement for a balanced housing market. Financially, the owner-occupied and rental sectors should be treated equally: the rental sector should be allowed to let at market rents and the owner-occupied sector should not enjoy tax advantages such as mortgage interest relief. Equivalence between the rental and owner-occupied sectors also requires qualitative differences to be reduced by building more higher-rent properties and mobility in the owner-occupied sector should be increased by scrapping property transfer tax.

Depoliticisation

The housing market is complex and subjects such as mortgage interest relief, subsidies, associations' access to the non-social segment, encouraging trading up and making affordable housing available for everyone in their own town or village are interrelated and so cannot be approached separately. Vesteda subscribes to the view of certain housing-market experts, who have for example looked abroad (including to the UK) and who believe that the housing market needs to be taken off the political agenda and should be fully examined by an independent commission.

Growing demand for residential property means the housing stock will have to increase in the next few years. The growth of about 55,000 in the number of households in 2006 was the net result of an increase of 71,000 in single-person households and a decline of 20,000 in two-person households. The number of households with more than two persons has barely changed. Two-thirds of the Dutch households consisted of two persons at the end of 2006.

More households, higher demand for homes

Dutch households by size

Year end, thousands

Source: Statistics Netherlands 2006 2005

	2006		2005		increase	
		%		%		%
1-person	2,520	35	2,449	34	71	+2.9
2-persons	2,299	32	2,318	33	-19	-1.4
families (3 or more persons)	2,327	33	2,324	33	3	+0.1
	7,146	100	7,091	100	55	+0.8

New building in 2006

At about 67,000 units, new house building in 2005 was not much higher than the historic low of 60,000 units in 2003. A further increase was expected for 2006, but it is not possible to conclude from the figures to October that this will be met. Even if the forecast were to be achieved, it would still be too low to accommodate growth in households, make up for demolition and provide qualitative change in the housing stock.

New building too low

New house building in the Netherlands

Units, 2006 to October

Source: Statistics Netherlands

	2006 to Oct		2005	
	thousands	% thousands	thousands	%
owner-occupied	34.3	74	50.1	75
rental	12.2	26	16.9	25
	46.5	100	67.0	100

Population trends in the coming decades

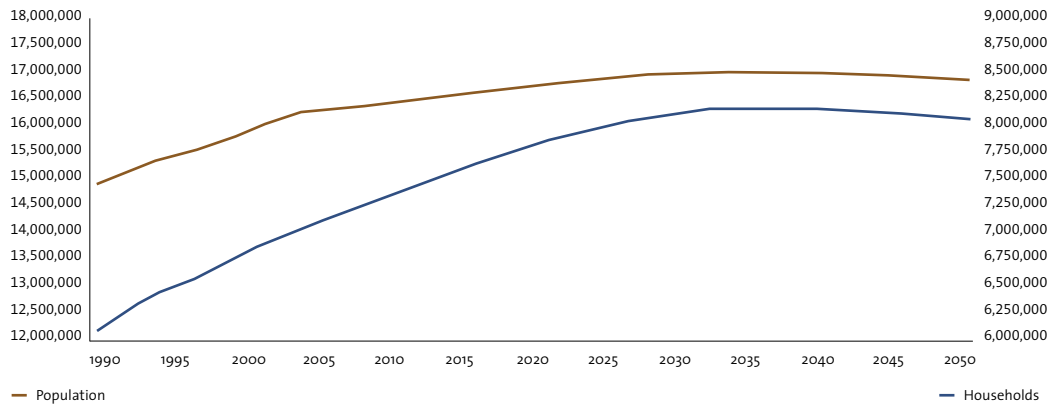
The population of the Netherlands was 16.3 million in mid-2006. Population growth is flattening off. In the first half of 2006, the population of the Netherlands grew by less than 2,000. In the same period in 2005, growth had been 7,000. A sharp increase in emigration in particular is putting a brake on population growth. Many more people left the Netherlands than migrated to it.

Minimum population growth during 2006

Forecasts indicate modest population growth for the next few years. The Dutch population will be 16.4 million by 2010 and 16.8 million by 2025. Forecasts assume that the population will peak at slightly more than 17 million people in 2035 and then decline marginally to 16.9 million by 2050.

Maximum population reached around 2035

This trend is not spread equally throughout the country or happening at the same time. Analysis of population trends to 2020 shows that expected growth differs between provinces. Flevoland – as a result of its home-building targets – will grow fastest and Noord-Brabant the least. Limburg comes last with a fall in population.



Households becoming smaller

Average household size has fallen in recent years. An average household at the end of 2006 was 2.28 persons. This will have fallen to 2.24 in 2010 and to 2.11 in 2025.

Increasing number of households, need for more homes

With marginal growth in the population and a decline in the average household size, the number of households in the Netherlands is increasing. The need for residential properties is, therefore, rising. Eight million homes will be needed by 2025.

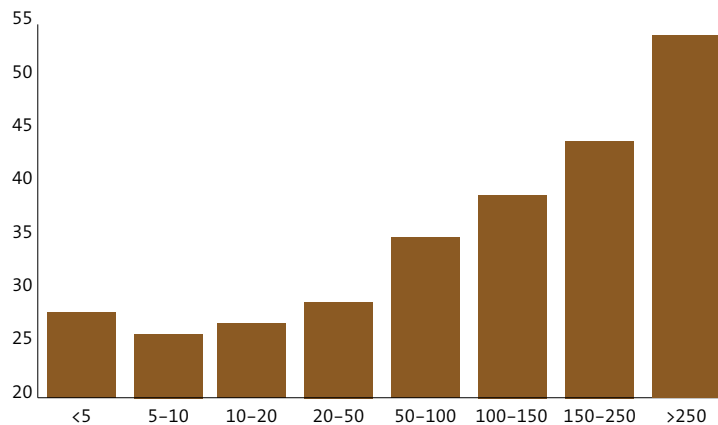
Small households, especially in towns

The proportions of single-person and two-person households (couples or one-parent families) will move in the next few years towards the single-person. We are already seeing a trend that the larger the town the higher the proportion of single-person households. The smaller the town, the higher the proportion of couples and families with children. This trend will increase in the next few years.

Single-person households as a percentage of total households, by size of municipality.

Percent Municipal population in thousands.

Source: ABF Research, Primos 2005



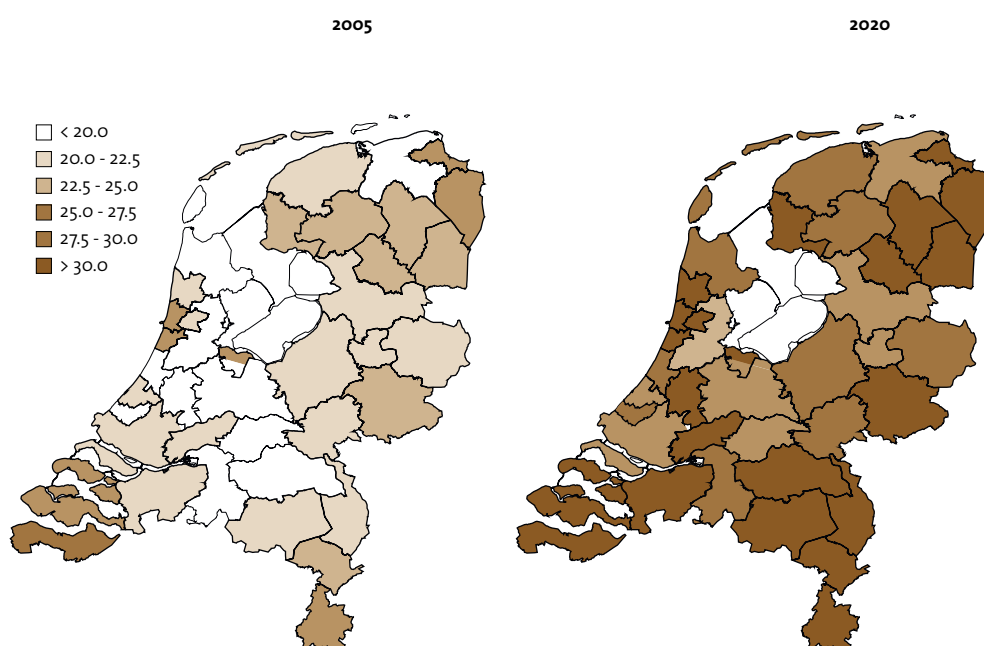
On 1 January 2006, there were 2.5 million single people in the Netherlands. One in five women and one in six men over 15 years old live alone. There are now almost 400,000 more single people than 10 years ago. Part of the increase has been caused by population growth and part because relationships are failing more often and more young people are living alone and cohabiting later. In the 55-74 age group, women frequently live alone after their husbands have died, while for men, divorce is a significant cause for living alone.

The Netherlands has more elderly and fewer young people. The average age is rising. The main reason for this is that people born in the post-war baby boom are growing older. Life expectancy is also rising. In addition, the number of children per family is falling, and so the number of young people is declining.

Sharply ageing population

'Grey pressure', the proportion of people over 65 compared with the working population (15-64 years of age), is increasing. Here too there are regional differences, with the Randstad conurbation ageing less than the more peripheral regions. The effects of the welfare state are also leading to longer life expectancy, and so the population is growing older. 'Double ageing', the increase in the share of people over 75, will accelerate in the next decade.

'Grey pressure': people over 65 as a percentage of those between 15 and 64



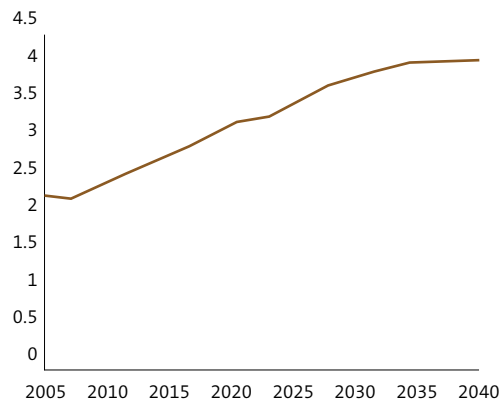
Forecasts assume a near doubling of the number of people over 65 during the next forty years. There were 2.4 million people over 65 at the end of 2006, while there will be 4.0 million in 2040.9 As well as the increase in the group over 65, the number of people over 75 will also grow during the next few decades. The number of very old people will increase sharply after 2020. There were 1.1 million people over 75 at the end of 2006, and there will be 2.3 million in 2050. The difference between people over 65 and those over 75 is important for investors as very old people have different residential requirements and often also need services or care.

Doubling of people over 65 and over 75 in the next forty years

Number of people over 65

2005-2040, millions

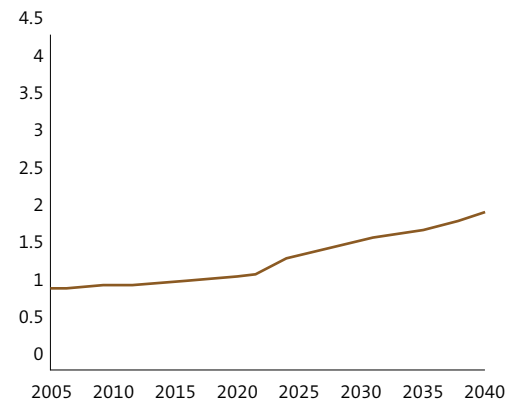
Source: ABF Research, Primos 2005



Number of people over 75

2005-2040, millions

Source: ABF Research, Primos 2005



Older people growing richer

Based on information in 2006, it is expected that the average old person's income will increase in the next few years.¹⁰ This is partly a result of greater purchasing power and to a similar extent as a result of the improvement in income caused by a structural effect: new generations of old people have higher supplementary pensions and older generations are dying out. The income of older people is also growing compared with the younger generations. Older people are, on average, actually richer than younger generations.

Conclusion on population trends

The population will grow minimally during the next few decades, but its composition will change. As the share of single-person households increases, the number of households is rising faster than the population and so more residential properties are needed. As a result of the ageing population and improved welfare of old people and because more young people are living alone longer, especially in towns, there is also a change in the type of home needed. Smaller and more luxurious are the key words.

The higher-rent sector

Residential properties with a monthly rent over about € 600 are classified as the higher-rent sector. In total there are about 165,000 such properties in the Netherlands, representing about 2.4% of the overall housing stock.

Residential Tenancies (Rent) Act and Housing Evaluation System

The Residential Tenancies (Rent) Act (*Huurprijzenwet Woonruimte*) stipulates that the maximum rent for a home in the Netherlands depends on a points score. The Housing Evaluation System sets the way the score is calculated. The better the quality of the home, the more points it gets. And the higher the number of points, the higher the maximum rent. Points are allocated on various criteria, such as floor area, facilities, type of accommodation and equipment. If the rent under the Housing Evaluation System is higher than the deregulation threshold, the lease is deregulated. The deregulation threshold since 1 July 2006 has been a monthly rent, excluding service charges, of € 615.01. If a lease is deregulated, it is in the free or deregulated sector. Rental homes below the deregulation threshold are known as *HPW* (*Huurprijswet*) homes.

Higher-rent sector as a proportion of the Dutch housing stock

At beginning of year 2006, units

Source: ABF Socrates/Statistics Netherlands, Vesteda's calculations

	thousands	%	thousands	%
Owner-occupied	3,973	57		
Rental	3,025	43		
low and medium rents (hpw sector)			2,860	95
higher rents (deregulated sector)			165	5
	6,998	100	3,025	100

Almost all the 165,000 homes that make up the higher-rent sector are owned by institutional investors and housing associations which serve this segment of the market. They are a marginal part of the property portfolios of the more than 500 housing associations; roughly 1% of their properties: about 25,000 homes out of a total of some 2.3 million. The situation is completely different for institutional investors as about one-third of the capital they invest in homes is in the deregulated sector. Institutional investors and, increasingly, housing associations are focusing on the higher-rent sector.

Mainly owned by institutional investors

Demand for higher-rent residential properties is more than twice the annual supply. The annual demand for single-unit homes is 28,000 units, while only 11,000 are available and so the excess demand factor is 2.55. Demand for multiple-residency properties is also 28,000 units but only 12,000 are available and so the demand factor is 2.33. Consequently, the highest demand factor in the Dutch housing market is for higher-rent homes.

Higher-rent homes in short supply

Annual demand and supply by housing type and price

Units

Source: Housing Demand Survey (WBO) 2002, ABF Research, 2004

	supply	demands	shortfall	stock*	shortfall	excess demand
Single-unit higher-rent	11,000	28,000	17,000	80,600	21%	2.55
Multiple-residency units higher-rent	12,000	28,000	16,000	70,900	23%	2.33
Total higher-rent	23,000	56,000	33,000	151,500	22%	2.43

* These figures differ from those published earlier as the model has been revised to exclude the 'serviced properties' category.

Letting policy

Almost the entire Dutch housing market is regulated by the Rent Act (*Huurprijswet*). Only 4% of rental homes, 1.8% of the total housing stock, are currently at or above the deregulation threshold.

In November 2004, the then Minister of Housing, Spatial Planning and Environment, Sybilla Dekker presented a far-reaching plan to modernise the letting policy. The changes proposed linking letting policy, house building and the rent allowance (the subsidy for tenants with a low income). The thinking behind the new policy was that landlords should build more residential properties and contribute to the affordability of the rent allowance. In exchange, they were given scope to raise rents. If sufficient residential properties were built in future years, the rents of a proportion of the homes would be deregulated. In due course, 25% of all rental properties would be deregulated. At the moment this figure is only 4%. The rental homes to be deregulated could be identified from their market value, expressed as the wo_z value (value under the Valuation of Immovable Property Act). The residential properties with a high market value would be eligible for deregulation.

Proposals for modernising the letting policy

Developments in the letting policy during 2006: expectations crushed*

Ms Dekker's letting plans created increasing disquiet among tenants, landlords, municipalities and various interest groups during 2006. The developments were as follows:

There was very little support for the plans during the general debate in the Lower House of Parliament on 22 February 2006. The minister had to accept many criticisms.

Further to the debate on the affordability levy on 9 March, the minister decided to ask the House to postpone debate for a while to co-ordinate with the government parties. On Friday, 17 March, the cabinet agreed to changes to the minister's plans. The changes meant that tenants in currently low rent homes would be excluded from rent rises, while the minister could still make a start on her deregulation plans. The agreement also stated that the introduction of the woz value as the basis for the rent of deregulated residential properties would start six months later, on 1 January 2007. As a result of these commitments, the minister received sufficient support from the government parties during the general debate in the Housing, Spatial Planning and Environment standing committee on 28 March.

Almost all of the fourteen motions submitted during the plenary session of the Lower House on Thursday, 6 April were rejected. Three were passed, on:

- monitoring new construction of residential properties in the transitional area and combating undesirable developments in new building;
- arrangements between municipalities and associations on the supply of different types of home in neighbourhoods;
- arrangements on dividing the rental market, so that municipalities can differentiate between neighbourhoods.

With these amendments, the definitive bill could be submitted to the Lower House of Parliament as the cabinet and the government parties, CDA and VVD, wanted to pilot the deregulation of the letting policy through the House before the general election.

Parts of the bill were amended during the debate in the House:

- the woz value bands in the transitional area were altered to allow regional and municipal modifications;
- commercial landlords were given the opportunity of deregulated letting of new properties;
- additional scope to object to the 2005-6 woz value was created;
- the construction of small self-contained units was (in consultation with the Centraal Fonds Volkshuisvesting) given financial support, in order to subsidise that part of the investment made unprofitable by changes in the Housing Evaluation System.

The modernisation of the letting policy lost importance when the government became a 'caretaker' administration in June. The uncertainty reached a peak after the summer recess and in the run-up to the election on 22 November, as Mr Winsemius (who had succeeded Ms Dekker, after her resignation) and the government parties still wanted the Lower House to debate the plans for modernising the letting policy during the government's time in office.

The bill was passed by the Lower House of Parliament on 31 October 2006 by 72 votes to 63. A preparatory review was planned by the Upper House's Housing, Spatial Planning and Environment Committee on 5 December 2006. This did not take place as the House declared the measure controversial that day, after the vote in connection with the Balkenende III government's caretaker status following the early Lower House parliamentary elections on 22 November 2006. By declaring the letting policy controversial, the legislation will not, in any event, take effect from 1 January 2007.

The government decided to set these bills aside at the end of December 2006 and so in practice the bills, which had been introduced by the VVD and the CDA, are no longer on the table.

* Drawn in part from www.huurbeleid.nl, Quintis, 2006

As the proposed letting policy has been declared controversial, policy continues under the existing legislation. During the first quarter of 2007, the minister will set the percentage rent rise from 1 July 2007. The current Housing Evaluation System will be retained. For the time being, the woz value will not affect the valuation of the properties and so will not affect the rent. The following elements of the bills will, therefore, not be implemented from 1 January 2007:

Letting policy in force at the end of 2006

- The woz value will not be converted into Housing Valuation System points;
- An extra 0.5% rent increase may not be charged from 1 January 2007. This had been reported in the MG 2006-2 but it was noted that the statutory basis still had to be settled; that did not happen;
- The duty to justify rent rises lapsed 1 July 2006 but this remains in force;
- The changes on levying rent committee charges and reminder procedures remain in force;
- The relaxation of the objections procedure for the woz valuation is not implemented;
- No register of deregulated residential properties (and new building plans) has to be drawn up;
- Leases do not have to state the rental area and associated regime;
- Receipt of rent allowance remains dependent on income and rent and so the woz value will not play a role as a boundary of the transitional area;
- The affordability levy will not be implemented for 2007.

The maximum rent rise on 1 July 2007 and the maximum increase in rent for 2007 and beyond are now unclear. While the government formation is still ongoing, Mr Winsemius will probably opt to continue the 2006 policy.

After three years of political discussion and work, there is still no new letting policy. This is disappointing and not good for the housing market. The decision of the Upper House was, however, to be expected, given the discussion of this subject in the final weeks of the election campaign.

Vesteda's view on modernising the letting policy

Not modernising the letting policy also offers new opportunities. The many compromises made the letting policy very complex and some points of it contradicted the policy objective of easing the housing market through greater new building. Commercial new building was threatened by rent ceilings and the gradual deregulation of (eligible) rental homes has actually stopped. Vesteda is also happy that the rent levy on commercial landlords is not going ahead. Vesteda has always rejected this on principle, despite the approved 35% discount. The levy would have obstructed institutional investors from making a contribution to the better operation of the housing market. The levy would also reinforce maximising rent rises.

Given all the available reports, recommendations and comments, the politicians can no longer get round the fact that more market forces must be permitted, especially in the commercial sector of the rental housing market. There is a gulf with the owner-occupied housing market which has to be bridged. Almost no entrants can get into either the owner-occupied or the rental market. The interests of sitting tenants clearly weigh more heavily. The quality of a rental home is not adequately reflected in its price and there is a large degree of 'skewing' in the bigger cities which is obstructing trading up.

A number of basic criteria for a properly operating housing market are shared by almost all parties: aiming for unified regions and neighbourhoods, sufficient affordable homes for people with low and medium incomes, young people and old people in outlying municipalities and in the countryside being able to find an affordable home in their own areas, and more market forces and less regulation in the housing market.

Vesteda supports the frequently heard call for an independent expert commission to make recommendations on bridging the gap between renting and owning, and exposing the commercial segment from about € 500 rent a month to more market forces. The recommendations can and must be made within a few months, however, as the need to formulate specific measures to tackle the locked up residential market has now been clearly demonstrated.

It is clear that there is an increasingly wide political wish to make firm agreements with the associations on the availability and affordability of social rental homes and the rent allowance. The Association of Institutional Property Investors in the Netherlands, the IVBN, also wants the demarcation line between social and commercial rental homes to be properly drawn in the near future. This is a condition for fair competition between market parties and the commercial subsidiaries of associations. The level playing field has to be guaranteed. The hope is, therefore, that Mr Winsemius will work on the file and prepare it for his successor. The solution is complex but, for Vesteda, the route to it is clear: the housing market must leave the political arena and be soon studied by an independent commission.

Healing the housing market requires sector neutrality between owner-occupation and renting and a comprehensive, gradual approach

Quotation from 'Dancing on the volcano', a lecture by professor Johan Conijn of the Amsterdam School of Real Estate

'The longer the wait, the trickier it will be to get the housing market functioning properly again. The cohesion and order of the measures should be based on good insight into the functioning of the housing market. Better operation of market forces in the rental sector can only be achieved if there is a reduction in the tax benefits to the owner-occupied sector. The changes should be implemented at the same time in each sector. This must be done very gradually because of the major financial interests of many parties in the current situation.'

Level playing field and the role of housing associations

There are more than 500 housing associations in the Netherlands. Their number has fallen sharply in recent years as a result of mergers. There are great differences in the size, operations, views and ambitions of associations. The largest association has 75,000 rental units, while there are also associations with fewer than 1,000 residential properties. In total, housing associations manage 2.4 million social rental homes, representing 35% of the Dutch housing stock. For comparison, this is almost twice the proportion in other western European countries.

35% of the social rental homes are in the low-rent stock, with rents below € 307.50. About 60% are in the affordable stock with rents between € 307.50 and € 471.67. The majority were built shortly after the war in response to the then housing shortage. Their quality and affordability are above average by international standards.

About 35% of social tenants receive a rent allowance. This represents about € 1.5 billion that the government pays annually to tenants entitled to it based on their income (in relation to their rent).

The functioning of the social sector is under discussion. The housing associations have a key role in the housing market; developments at associations are often contrary to the aim of deregulation.

The arrangement between the government and associations must lead to better performance by associations and at the same time offer them the greatest scope for social enterprise. This requires agreements with municipalities, tenants and other stakeholders. The mission of associations is broad attention to housing: good accommodation and tackling neighbourhoods.

Mission and objectives of associations

Mr Winsemius wants to create a 'level playing field' for associations, commercial landlords and investors. Partly because of European regulation on state aid, all associations have to separate social activities supported by state aid from market activities financed without state aid. In effect, state aid may only be used for activities relating to the stock of regulated rental residential property and social real estate. They have to pay corporation tax on commercial activities from 2006. The associations' umbrella body, AEDES, has reached agreement with the tax authorities on this on their behalf.

Structure of the association, partly as a result of European regulation

These developments will bring major changes to the rental sector. Associations will have to reconsider their duties and structure. This may lead to new forms of co-operation among associations, but also between associations and commercial businesses. Associations' portfolios may also become available for acquisition. In short, these regulations will lead to major changes in the ownership and management structure of a substantial portion of the Dutch housing stock.

Opportunities for market parties

Price trends in the housing market

According to land registry information, owner-occupied properties in the Netherlands rose in price by an average of 5.1% in 2006 compared with 2005.¹¹ The average price of an owner-occupied home was about € 238,000 in December 2006, compared with € 226,000 a year earlier. Terraced houses increased least at 2.6%, detached houses increased the most at 5.3%.

The NVM, the Dutch estate agents' association whose members handle about 70% of sales in the Netherlands, reported an increase of 3.7% in the price of the average house sold.¹² The rise was lower than in 2005 (5.1%) but higher than in 2004 (3.0%).

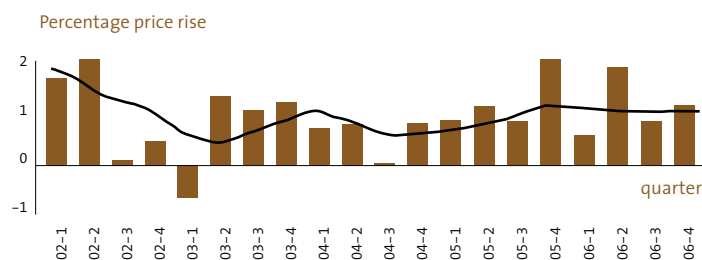
Compared with 2005, the average purchase price during the year rose in almost every province.¹³ Average prices only fell in Zeeland, and marginally, by 0.2%. After Zeeland, the lowest rise, at 1.4%, was in Limburg. Friesland rose the most by 9.6%. The number of sales fell during the year in ten provinces and rose in two. The number of sales fell the most in Friesland by 15.46% and rose most in Zeeland by 1.11%.

Average price increased, number of sales decreased

House price rises per quarter

2002 to 2006

Source: NVM



THE PROPERTY INVESTMENT MARKET

Property investment market continues to grow

The amount of money available for property investment around the world increased by over 30% during 2006 compared with 2005, continuing the trend of recent years. More and more institutional and private capital is searching for property which is, by definition, scarce. This means that initial yields fell and the development of new investment products was encouraged. The phenomenon of 'financial engineering' that originated in America is becoming commonplace in the European market: both equity and financing are split into sectors with different yield/risk profiles and, thus, target investor groups.

Smaller differences between sectors

As well as the general trend of a falling direct yield, a feature of the European markets is that differences between sectors and regions are declining rapidly. The question is whether the differences in risk between residential properties, offices, retail and commercial space have fallen as fast.

Transaction size in direct property at a record high

A consequence of increasing liquidity and financial engineering is that there is almost no limit to the size of individual transactions. There were transactions with a value over € 1 billion on a number of continents during 2006.

Commercial property in the Netherlands: mainly offices

At € 6.6 billion, the volume of investment transactions in direct commercial property in the Netherlands in 2006 was well above that of 2005 (€ 5.6 billion). Offices took the lion's share at € 4.6 billion, and the retail and other commercial sectors made up the rest at € 1.0 billion each. Both institutional and private investors were more active and the buying and selling activity of German investors was notable.

High interest for residential investment

Investors continued to have a considerable interest in rental homes in 2006. As well as sales by tender, many transactions were concluded privately. Vesteda estimates the sales volume at over € 1 billion.

Expected yield developments

As in 2005, gross initial yields for residential properties were keen in 2006: for better locations these ranged, depending on the region, between 4.25 and 5.50%.¹⁴

In future years, the indirect yield will have to come from an increase in value with vacant possession (the price that the final resident pays) or from a fall in the initial yield used by the investor. From the investor's viewpoint, the current yields offer little scope for a further reduction. For the time being, however, the value with vacant possession may rise further. Although it is becoming more difficult for purchasers and first-time buyers to raise the average price of a home and lending standards applied by mortgage providers have been tightened from 1 January 2007, there is a con-

sensus that prices will rise in the Netherlands in 2007. The strain on affordability is, therefore, increasing. The scarcity and low risk in residential investments mean there is only a small chance of a fall in values and the remaining shortages of residential properties and economic growth will continue to form a solid foundation for the market in 2007.

Sadly, the initiatives for self-regulation in the corporate property owners market started by providers and unit-holders in 2005 and encouraged by the government did not make sufficient progress. In December 2006, the Netherlands Authority for the Financial Markets announced that it would grant the industry a further year to set up effective and substantive measures. A uniform code of conduct, complaints procedure and effective enforcement policy have been set as the minimum outcome. The importance of transparent proposals and good screening of providers are the basis of continuing confidence of the private investor.

Self-regulation of corporate property owners not adequate

VESTEDA GROUP'S STRATEGY

Investment strategy

Vesteda's investment strategy focuses on performing better than the market average over the long term. Vesteda compares its performance against a benchmark that expresses the participants' average return on all Dutch residential property investments. The benchmark is computed by ROZ/IPD and known as the ROZ/IPD All Residentials index. It is important for achieving Vesteda's investment strategy that its specific nature, distinguishing direct property from other investment categories, is maintained.

Vesteda focuses on the higher-rent sector, which has the highest level of demand and is expected to increase further in the next few years. Vesteda meets the wishes of its target groups for spacious and luxurious homes for one and two-person households, mainly apartments but also houses.

The higher-rent sector

Vesteda's target groups include people over 50 and younger single-person and dual-income households with above-average incomes. As these target groups want to live mainly in and around large and medium-sized towns, these are also the locations of Vesteda's portfolio of residential properties and concepts.

People over 50 and young people in and around towns

A model property portfolio has been drawn up using internal and external studies to set a framework for the investment policy until 2015. In due course, the greatest proportion of the capital invested will be in housing in the rent band from about € 600 to € 1,200. Vesteda is also looking to expand in the higher price categories, where there is a structural shortfall in supply and where there will also be a sharp increase in demand. Vesteda is opting for a portfolio in the deregulated sector above € 600, where government influence is limited and where market forces work best. Vesteda still has a large number of residential properties below the deregulation threshold, but this sector is not being expanded and will be run down further in the future through disposals.

Model portfolio

All purchases and sales will be measured against the model portfolio framework. The assumptions in the model portfolio are also the basis for product development. The model portfolio is based on an explicit selection of specific target groups and regional markets. The parameters are evaluated and, if necessary, adjusted each year. The criteria for the ideal composition of the portfolio in due course are the structure of the market and the selection of sectors expected to perform better than average, set against the relative strength of the Vesteda organisation in its regional presence, innovation and acquisitive strength.

Model portfolio

Price sector	current portfolio year end 2006 % of value	model portfolio range % of value
to € 800	77	45-55
from € 800 to € 1.200	15	30-40
more than € 1.200	8	10-15
total	100	100

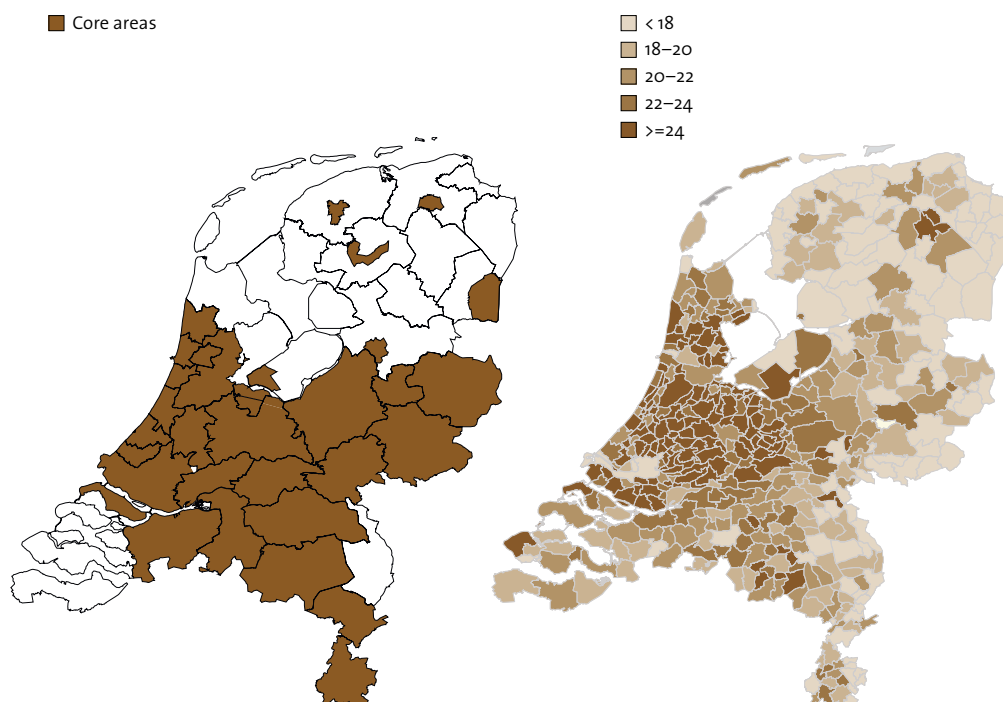
Regional approach

Vesteda has identified a number of core areas, based on the model portfolio and demographic and economic market analysis of the Corop regions and urban conurbations. The results of this analysis show that it is not possible to refer to a single national housing market, but that regional differences clearly affect the functioning of the market. The investment potential of some regions is more attractive than others. There are also considerable differences within regions. The conclusion is that Vesteda's target group is structurally resident in the larger urban conurbations. These are also the areas where there is permanent demand in the higher rent sector: the Randstad conurbation, in Noord-Brabant, the Arnhem-Nijmegen area and parts of Limburg. Outside these regions, the towns of Groningen, Leeuwarden, Heerenveen, Emmen and Alkmaar are also part of the core area. The map below shows the core areas. For comparison, the areas with the highest 20% of incomes are also shown.

Core areas 2006-2010

Source: Statistics Netherlands
Regional Income Survey Below threshold

Percentage of households in the highest income quintile



The differences in regional economic and demographic prospects are expressed in the weighting in the model portfolio and the requirements for initial and life-time yields. In line with market evidence, Vesteda uses a lower required yield for single-unit homes than for multiple-residency properties. Three investment scenarios are prepared for each potential purchase: optimistic, pessimistic and most probable. The aim of the scenario approach is to make the most realistic possible estimate of the result and insight into the risk.

Differentiated approach and standards

A key element of Vesteda's investment strategy is the annual rejuvenation of the portfolio in order to emulate the model portfolio as closely as possible. About 3% to 4% of the portfolio is sold each year, up to the size of the inflow of new residential properties, so that sales are linked to a similar number of residential properties being added to the portfolio each year, so that the portfolio does not fall below the set minimum figure of 27,000 residential properties. This ongoing rejuvenation of some 1,000 residential properties per year contributes to achieving and maintaining the desired geographical and qualitative composition of the portfolio, and consolidating capital gains.

Roll-over strategy

Vesteda offers its tenants contractual protection and has voluntarily moderated its rents in the deregulated sector. For some years, leases have stipulated that the annual rent rise will be no more than 2% above inflation. Vesteda can compare rents against market rents once every five years. If market rents are at least 10% higher, Vesteda may increase the annual rent rise to 4% in real terms. Vesteda applies this voluntary rent restraint to all residential leases, irrespective of whether rent protection is included in the contract and this demonstrates Vesteda's long-term involvement and social role to tenants and municipalities.

Maximum annual increase in the deregulated sector

Features of Vesteda

Tax efficient fund structure

Depending on their tax situation, investors can participate as a shareholder in the fiscal investment institution or directly as a unit-holders in the residential property fund.

Effect of leverage

Conservative financing of up to 40% ensures a substantial improvement in the yield on shareholders' equity. Issuing bonds directly on the capital market means borrowing at an interest rate that, depending on expectations, can be fixed in the long or short term, so that the interest rate on the bond financing is very low. Very low financing rates can also be obtained as a result of the triple-A rating granted to the financing by Moody's, Standard & Poor's and Fitch Ratings rating agencies.

Geographical spread within the Netherlands

With invested capital of over € 4 billion, Vesteda is the largest Dutch residential investment fund. Its size means that capital investments can be well distributed geographically in the Netherlands. The scale ensures good diversification, so the risk within the portfolio is well moderated.

Roll-over strategy

The numerically even inflow and outflow of investment properties means the portfolio is managed dynamically, growth in net asset value is consolidated and there is a minimum portfolio of some 27,000 residential properties.

In-house property management

Vesteda manages its property in house. The added value of in-house property management is clear from the high quality of service to customers, resulting in better customer satisfaction and the generation of higher income (rent rise). The Woon-galleries also provide good support to the Vesteda brand as

representing quality in local housing markets. Direct customer contacts and participation in local networks also ensure market and project knowledge, which is used strategically in asset management and project development.

In-house project development

Experience shows that only in-house project development can offer long-term assurance of a sufficient inflow that meets Vesteda's quality standards and yield objectives. Consequently, Vesteda is expanding its fully-fledged project development organisation. As well as the need for high quality rental homes for Vesteda Group, Vesteda Project bv will start more developments for the owner-occupied market in future years. This will increase Vesteda's flexibility to respond to market and economic developments. This also enhances Project bv's attractiveness as a developer and partner to municipalities.

Product differentiation

Vesteda offers its tenants more than just luxurious residential properties and apartments. Where possible, facilities such as fitness centres, saunas, swimming pools, lounges and guest accommodation and shopping and meal services, cleaning and medical services are integrated into the overall product. Vesteda also differentiates its products for certain niche markets. Vesteda Serviced Apartments (furnished) meet the temporary accommodation requirements of expats and people who need temporary accommodation for family reasons. Vesteda Office Apartments offer combined accommodation to tenants and their businesses.

Professional, research-based organisation

Vesteda's size allows a cost-efficient, broad and deep professional organisation to be maintained, where investment and sale and purchase policies are based on studies and market research.

Development strategy

Vesteda carries out its own area and project development through Vesteda Project bv, which was incorporated in 2001, ensuring a permanent inflow of high-quality residential projects. Vesteda Project bv has the role of commissioning authority in acquiring and developing residential construction projects which are built by third parties. As well as the demand for high-quality rental homes for Vesteda Group, Vesteda Project bv has small-scale developments for the owner-occupied market.

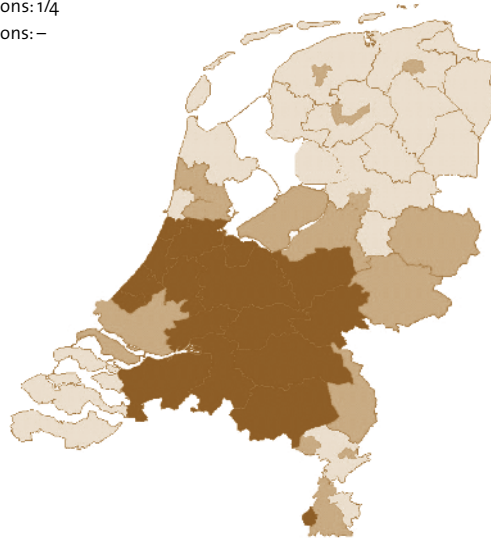
In-house project development

The map below shows Vesteda's acquisition priorities for the next few years. The acquisition policy is set by analysing economic growth indicators, volatility in that growth, the distribution of Vesteda's target groups in the regions, the existing portfolio, the expected availability of acquisition opportunities and developments in the housing stock. In broad terms, a band from the west of the Randstad conurbation to the south east of the country offers the best prospects; potential flattens off to a greater or lesser extent outside that band. Looking at the regional distribution, most of the expansion of the portfolio in the next few years will be in region 1. As the residential properties to be sold are also to a relatively large extent in regions 1 and 2, the distribution of the number of residential properties will be less. Thanks to this approach Vesteda is reinforcing its share in the higher-rent sector (> € 600) in regions 1 and 2. The share in region 3 remains relatively limited.

Acquisition objectives

Acquisition objective

- Region 1, Share of acquisitions: 3/4
- Region 2, Share of acquisitions: 1/4
- Region 3, Share of acquisitions: –



Longer preparation processes for projects and spatial planning procedures are making it more difficult than expected to get to the intended level of completions quickly. It is expected that 700 homes will be handed over in 2007, and 2008 will be the first year in which more than 1,000 residential properties (owner-occupied and rental homes) are handed over. The annual inflow of in-house developments and acquisitions for Vesteda Group is, therefore, equal to the outflow of residential properties. To achieve future production volumes, Vesteda Project bv needs to have filled a pipeline with 10,000 to 15,000 residential properties.

Pipeline

Acquisition & area developments	A feature of Vesteda is long-term involvement in its own projects. This makes it attractive for municipalities to work with Vesteda Project bv. Town-planning proposals aimed at sustainability, urban quality and high-quality architecture, offer long-term solutions for housing issues and meet the relevant yield criteria. In this, Vesteda looks beyond just the homes: the public spaces, infrastructure and location with respect to the town centre and facilities also determine the quality of life of future tenants.
Co-operation with municipalities	Objectives can be set jointly, as Vesteda Project bv is in a position to become involved in projects and redevelopments at an early stage. Different municipalities' experience shows that Vesteda's specific knowledge of tenants and their wishes can contribute to municipal policy frameworks. For this, Vesteda has databases to quantify future demand for medium and higher-rental residential properties and the effects of local municipal objectives. Construction plans are input for housing market simulations. Early participation is important for Vesteda as it can then jointly determine the new development. Early participation is also helpful to the municipality as it can work with the same party during the area and development planning, development and letting, and can transfer some of its tasks to a market player. By offering an exclusive residential environment, Vesteda is fulfilling a part of municipal policy.
Vesteda's view of living	Vesteda believes that living is much more than just a good building with an attractive living space. Vesteda's starting point is the tenant's experience. According to Vesteda there are six elements central to residential enjoyment: location, surroundings, architecture, interior, art and added value. These elements are integrated into every new project so that Vesteda's tenants can have attractive and exclusive homes without devoting energy to maintenance or other concerns. The central elements are:
Location	Vesteda finds sites with potential and creates locations which are or will become attractive. The projects are often on the water, an urban planning axis or other prominent site where a view and spaciousness can be combined with the quality of urban life.
Surroundings	Vesteda has a strong professional background in urban development. The criterion: you don't just live in your home. Vesteda makes considerable efforts to optimise the surroundings. Vesteda Project bv is involved very early, via area development, and does everything to optimise the quality of the surroundings. Cultural and leisure facilities are among the features built into projects.
Architecture	Vesteda ensures its projects and buildings boost the town; buildings with character and distinctive architecture, buildings that mean something to tenants and local people. The best Dutch and foreign architects are selected. They give Vesteda's buildings a distinctiveness that residents can identify with and that make a good impression.
Interior	Vesteda also offers tenants special interior and exterior designs. With an eye for detail. The unassuming, quality style of life of Vesteda's target group is reflected in the use of the materials and the design of the common spaces and homes.



16	3	2	13
5	10	11	8
9	6	7	12
4	15	14	1

Art Vesteda is investing in art to reinforce the identity of projects for the residents and the surroundings. The artworks are usually placed in public spaces in the building, such as the entrance hall, but some art is outside (as at La Fenêtre in The Hague) or even built in (as at the Vesteda Toren in Eindhoven). An artistic adviser is engaged to make recommendations on an appropriate selection for the target group.

Added value Vesteda offers added value in its projects and services. Luxury, quality, comfort, convenience and care are key.

Over 1,000 households enjoy the services of a Vesteda Health Club, in the Detroit (Amsterdam), La Fenêtre (The Hague), Céramique (Maastricht), De Hoge Heren and Montevideo (Rotterdam) projects. Health clubs are being built in the Side-by-Side (Almere) and Mahler (Amsterdam) projects. The health clubs include an indoor swimming pool, sauna and fitness centre.

Many projects have guest accommodation for residents' visitors.

Tenants can use the digital Woonbode, installed in thousands of Vesteda homes, to order shopping, laundry services, odd jobs, taxis and other services.

Some products are aimed at specific target groups, offering them added value. The residents of Vesteda Serviced Apartments are mainly expats based in a town for a few months or a few years. These apartments are decorated and furnished and offer every convenience. At the end of the year, Vesteda had Serviced Apartments in Amsterdam, The Hague, Rotterdam, Eindhoven and Maastricht. Vesteda Office Apartments, under development in Amsterdam and Maastricht, offer an apartment with an office/work space accessible by an internal door, and which also have a separate entrance and pantry.

Property management

Vesteda has its own in-house property management for the administrative, technical and commercial management of residential properties. The six Woongalleries and their satellite offices handle letting, personal contacts with tenants and possible sales of projects. They are supported in this by a centralised call centre, where tenants make maintenance enquiries and which co-ordinates and gives feedback on maintenance. The centralised back office manages the financial flows.

Unique in Europe It is usual in the property sector to work with external property management organisations. In Vesteda's view, and given its chosen market sector and the associated growing demand for service, this is not the most effective way of safeguarding customer orientation and high levels of service into the future. Consequently, Vesteda has phased property management into its organisation. The biggest step in this long-term organisational growth was taken in 2003. As an investor, Vesteda is able to perform its own property management as a result of a combination of its size and the geographical concentration of the portfolio in and around towns. Vesteda is the only property fund of this size in Europe that performs its own property management.

← During the year, Vesteda's Eindhoven Woon-galerie moved to the Vesteda Toren in the Smalle Haven planning area in the centre of Eindhoven; letting started in 2006

In-house property management offers great added value. More manageability leads to improved control of costs and the result, and high levels of service to improve customer satisfaction and offer a pleasanter quality of life. The Woongaleries also provide good support to the Vesteda brand as a quality name in local housing markets. Direct customer contacts also ensure market and project knowledge, which is used strategically in asset management and project development.

Great added value

The www.vesteda.com website is central to communication with potential tenants. It contains the entire range of properties presenting the homes, projects and surroundings with photographs and plans. The registration module can be used by people wishing to register an interest. The customer information goes automatically to the letting planner, a method developed by Vesteda to record potential tenants, so that vacant residential properties can quickly be relet.

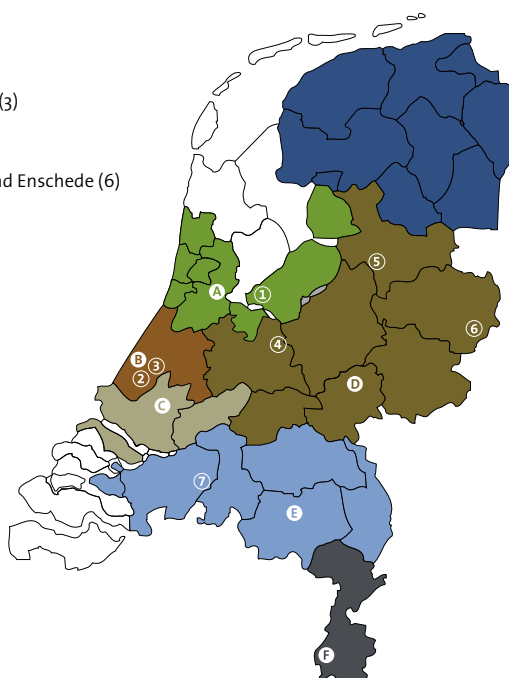
Internet

Vesteda has six regions with a Woongalerie in each, as shown on the map below.

Locations

Vesteda Woongaleries and their areas of operation

- Area covered by Woongalerie Amsterdam (A), with its front office in Almere (1)
- Area covered by Woongalerie The Hague (B), with its front offices in Rijswijk (2) and Zoetermeer (3)
- Area covered by Woongalerie Rotterdam (C)
- Area covered by Woongalerie Arnhem (D), with its front offices in Amersfoort (4), Zwolle (5) and Enschede (6)
- Area covered by Woongalerie Eindhoven (E) with its front office in Breda (7)
- Area covered by Woongalerie Maastricht (F), the location of Vesteda's head office
- External property management



IMPLEMENTATION OF STRATEGY DURING THE YEAR

Over 50% of the letting portfolio was appraised by external valuers in 2006. The valuation of the remaining properties was updated by external valuers. The discounted cash flow (DCF) method is used for each type of valuation allowing for transfer and other selling expenses. The external appraisals were performed at regular intervals through the year.

Appraisal and valuation policies

Different valuation policies are used for the different portfolios. Projects in the development portfolio are stated at fair value, being the higher of market value with sitting tenants and net realisable value on disposal of complete complexes to organisations specialising in selling individual units. Newly added projects are exceptions to the general rule and are stated at the lower of cost and market value for the first two years after completion.

Credit management There was greater effort on debt collection in 2006. This cut arrears further. Arrears of rent and other charges had been 28% of monthly rents in December 2005 but had been reduced to 19% in 2006. Expressed in annual rents this is a fall from 2.4% to 1.6%.

Rent rise Vesteda rents increased by an average of 2.8% from 1 July 2006. The average for single-unit homes was 3.1%, and for multiple-residency properties 2.6%.

After the rent rise notices had been sent on time to all tenants during the second quarter, the political decision-making on letting policy and, in particular, the activities of the Woonbond created unnecessary disquiet and prompted letters of objection to the rises. As a result of an omission in the regulations, the Lower House of Parliament had to pass remedial legislation on the 'duty to justify' rent rises. Landlords had previously been required to add a points score to the property if they wanted to apply a rent rise above the average inflation in the previous five years. Landlords also had to enclose notes on the maintenance and letting policy for stand-alone properties. The remedial legislation was published in the *Staatsblad* (Bulletin of Acts, Orders and Decrees) on 30 June, the very last day that amendment was possible, and so the duty to justify the increases lapsed from 1 July 2006.

Disposals In 2006, 1,758 residential properties were sold, about half of them to sitting tenants or individual third parties. There were two tenders under which three complexes were sold to investors. The disposal targets were adjusted downwards during the year because of the attractiveness of individual sales compared with sale by tender.

Internet The www.vesteda.com website was completely renewed during the year. The site is linked to the interest registration module, where people can register for a Vesteda home on-line. Prospective tenants can simply indicate their preferences from the portfolio. All registrations go to the letting planner used by the housing consultants. The software allows easy contact with prospective tenants and identifies the demand for each project. During 2006, Vesteda recorded more than 30,000 applications from over 10,000 households. During the year, a project group addressed future internet developments and the integration of the internet in the letting process.

www.niki.nl, portal for new residential properties, set up

In 2005, Vesteda joined the group which formed the Stichting LNP (Landelijk Nieuwbouw Portaal) later in the year. The objective of this group of large property developers in the Netherlands and their two industry bodies, Neprom and NVB, was to develop an internet search engine that offers customers the most complete and up-to-date view of new residential properties for owner-occupation or rent in the Netherlands.

The plans were implemented in 2006 and the search engine for the new building market was developed with the name: www.niki.nl. Niki is an abbreviation for 'choosing a new home' in Dutch. All registrations for Vesteda residential properties on Niki go automatically into Vesteda's letting planner. The [niki.nl](http://www.niki.nl) site went live on 18 September 2006 with the properties offered by the original members. The official launch was in October and it was followed by a publicity campaign. Over 1,300 rental homes were available on Niki at the end of 2006.

Vesteda's aim of good substantive consultations in 2006 with the 100 or so tenants' associations was met in most cases. Vesteda attaches importance to sound discussion with its customers, even without the statutory framework of, say, the Leemhuis committee.

Tenants' associations

The Woongalleries hold formal meetings with tenants' associations twice a year and there are usually frequent informal contacts between the spring and autumn meetings. These contacts were strengthened and deepened in 2006. The subjects discussed are proposed maintenance, settlement of service costs, the annual rent rises, reletting and in some cases the possible sale of a project. There are some 100 tenants' associations, and most of them are members of the Vesteda Platform, the umbrella organisation for Vesteda's tenants.

The Vesteda Platform was set up over five years ago to consult tenants on subjects at a national level. Tenants' associations may join the Platform. Subjects discussed include the service costs policy, the wording of Vesteda's leases and the sales policy. Vesteda regards the co-operation with the Vesteda Platform as extremely constructive. Several meetings were held in 2006.

Tenants' platform

An IVBN tenants' platform is being formed, partly on the initiative of the chairman of the Vesteda Platform, with representatives of the boards of the platforms of ING, Delta Lloyd, Amvest and Stenstra. One of the key points arising from this was the new IVBN Sales Code which sets out clear guidelines for landlords when rental homes are sold individually or as a complex.

Ongoing customer survey

Vesteda has carried out an ongoing survey, the Vesteda Tenants' Monitor, since 1997. It provides information on the characteristics, views, wishes and opinions of the various groups of tenants. There are three types of questionnaire. After a few weeks, every new tenant is asked in the intake module about why they are renting, the orientation and decision-making process and their findings as a new customer. The stay module asks a sample of sitting tenants about matters such as satisfaction with the home, surroundings and the service from the offices, and measures interest for new services. Exit surveys ask every departing tenant why they are moving and for suggestions for improvement of products and services.

Since the survey started in 2003, about 10,000 completed questionnaires have been received. The response rate is a solid 40% which is a good figure as the average for such extensive written surveys is substantially lower. The various disciplines at Vesteda are provided with an extensive report each quarter. The reports have a solid place in the primary operating processes and are a factor in determining the variable pay of commercial staff.

Tenants have been satisfied with their homes through the years, giving them an average 7.4. New tenants are the most satisfied and rate their homes at 7.7; departing and sitting tenants are equal at 7.3. The assessment of the surroundings has also been fairly constant over the years at an average of 7.3. Accessibility and the level of facilities get good ratings.

General satisfaction

→ Boston, on the Piet Heinkade in Amsterdam, let during 2006





- New tenants** In 2006, slightly more new tenants gave rapid availability as a reason for taking a lease. Just as significant was the attractiveness of the property. New tenants are making greater use of the internet in their search for a new home. They were particularly satisfied with the service of the Woongalleries on intake, giving them an average of 7.5 in 2006. The average score for customer friendliness is over 8.
- Sitting tenants** Sitting tenants awarded the Woongalleries half a point more for service in 2006 than in 2005 putting them at 7.1, due mainly to an improvement in complying with agreements and better communications. The call-centre service was rated 7.5 by sitting tenants, a slight increase on earlier years. Satisfaction with the response time to requests for repair work is going up. The rating of the service from companies carrying out work for Vesteda in the rental home has been steady at 7.3 over the years.
- Departing tenants** Significant reasons for leaving a home are the wish to become an owner-occupier or a more attractive new home. Departing tenants were also satisfied with the service of the Woongalleries, giving them an average figure of 7.4. Repair work just managed to rate a 7.
- Potential tenants** As an extension to the intake, stay and exit questionnaires, a new leads questionnaire was developed at the end of 2006. Potential customers are asked about the initial stage of the letting process. The results will give Vesteda better insight into why someone decided to rent or not to rent from Vesteda.

MOVEMENTS IN PROPERTY PORTFOLIO

This section describes the movements in the portfolio during 2006. Please see annex 4 on page 80 for definitions of the terms used.

Total portfolio

The value of the total portfolio was € 4,482 million at year end 2006, about 6% higher than at the beginning of the year.

Total portfolio, value

excluding acquisition investments, year end
(millions of euros)

2006	2005	2004	2003	2002
4,482	4,230	4,106	4,084	4,067

Development portfolio

The value of the development portfolio was € 176 million at year end 2006, which was a fall of 9% in value during the year.

Development portfolio, value

excluding acquisition investments, year end
(millions of euros)

2006	2005	2004	2003	2002
176	196	256	218	169

The table below shows the annual investment in the development portfolio. Vesteda Project bv did not achieve its project development targets in 2006. Longer preparation processes for projects and spatial planning procedures meant that the start of construction work on several projects was moved from 2006 to 2007. A total of € 169 million, including VAT, was invested against a target of € 220-€ 250 million.

Development portfolio, investment

excluding acquisition investments, incl. VAT

(millions of euros)	2006	2005	2004	2003	2002
Target	220-250	230	200	140	114
Actual	169	184	206	153	117

There is a description of Vesteda Project bv and its activities in a separate annex to this Annual Report.

Letting portfolio

The table below shows the value of the letting portfolio.

Value and size

Letting portfolio, value

at year end

(millions of euros)	2006	2005	2004	2003	2002
Single-unit residential properties*	1,794	1,734	1,804	1,964	2,084
Multiple-residency residential properties*	2,512	2,300	2,046	1,902	1,814
Total	4,306	4,034	3,850	3,866	3,898

*including value of associated parking/garage spaces and commercial space in projects

The value of the letting portfolio was € 4,306 million at the end of 2006. The value of both single-unit and multiple-residency properties was higher than at the start of the year. The trend in recent years has been a decline in the value of single-unit residential properties and an increase in the value of multiple-residency properties.

Despite the marked increase in value, the size of the portfolio fell by 5% during 2006 to 27,990 units. This was in line with the strategy of reducing the size of the portfolio while maintaining its value, continuing the trend of recent years. As well as the residential properties, Vesteda owned over 40,000 m² of commercial space and over 8,000 parking spaces at the year end.

Size

Letting portfolio at year end (units)

at year end

numbers	2006	2005	2004	2003	2002
Single-unit residential properties	11,476	12,244	13,624	15,775	17,628
Multiple-residency properties	16,514	17,032	17,498	17,699	18,276
Total residential properties	27,990	29,276	31,122	33,474	35,904
Parking/garage spaces	8,185	7,203	7,146	6,928	7,420
commercial space m ²	41,725	36,098	40,791	36,960	37,266
of which offices	29,341	23,470			
retail	12,384	12,628			

Overall 1,758 residential properties were sold and 477 added in 2006. At the end of the year, about 27,500 of the 28,000 units in the portfolio had been let for at least one year.

Movements in letting portfolio, size

	2006	2005	2004	2003	2002
number of residential properties					
1 January	29,276	31,122	33,474	35,904	38,070
sold during the year	1,758	2,515	2,756	2,892	2,625
movements in year as a result of change in layout	5				
31 December let for at least one year	27,513	28,607	30,718	33,012	35,445
added during year	477	669	404	462	459
31 December	27,990	29,276	31,122	33,474	35,904

Value with vacant possession

The value with vacant possession of the letting portfolio was € 5,355 million at the end of 2006.

Exploitatieportefeuille, leegwaarde

at year end (millions of euros)	2006	2005	2004	2003	2002
Value with vacant possession	5,355	5,181	5,117	5,230	5,257

Average value per home

The average value per home rose by 11% as a result of inflow, outflow and value increases. At the end of 2006, the average value of the residential units was about € 151,000, compared with about € 136,000 a year earlier.

Letting portfolio, average value per home at year end

(thousands of euros)	2006	2005	2004	2003	2002
Average value per home	151	136	127	115	108

Market rental value and theoretical rental income

Rental income and occupancy

At the end of 2006, the annual market rental value of the letting portfolio was € 247 million and the theoretical annual gross rent was € 233 million.

Letting portfolio, Market rental value and theoretical gross rental income

(millions of euros)	2006	2005
Year end		
Market rental value	247	245
Theoretical gross rental income	233	232

Occupancy rate

There was a rise in the occupancy rate of the letting portfolio during 2006 to 96.8% at the end of the year. Vesteda regards the first year of letting as the initial letting phase. If the 477 residential properties which were added less than a year ago are ignored, the occupancy rate of the letting portfolio is 97.5%.

Letting portfolio, occupancy rate

Calculated on the number of residential properties percentages, year end	2006	2005	2004	2003	2002
Occupancy rate of letting portfolio	96.8	96.4	97.4	98.4	98.7
of which let for at least a year	97.5	97.8			

Letting portfolio, tenancy turnover

Calculated on the number of residential properties percentages	2006	2005
tenancy turnover	12.7	11.5

Total gross rental income receivable during the year rose by 1% compared with 2005 to € 221 million. Of the total gross rental, 97,5% is attributable to residential properties. Net annual rent as a proportion of gross annual rent fell slightly to 72% in 2006.

Rental income

Letting portfolio, rental income received

(millions of euros)	2006	2005	2004	2003	2002
Gross annual rent	221	219	230	238	245
Net annual rent	159	162	173	178	190
Net/gross annual rent	72%	74%	75%	75%	78%

The gross yield on the letting portfolio, defined as the theoretical rent at year end divided by the value of the portfolio at year end, was 5.4%.

Gross yield

Letting portfolio, Gross yield

(percentages)	2006	2005
Gross yield	5.4	5.8

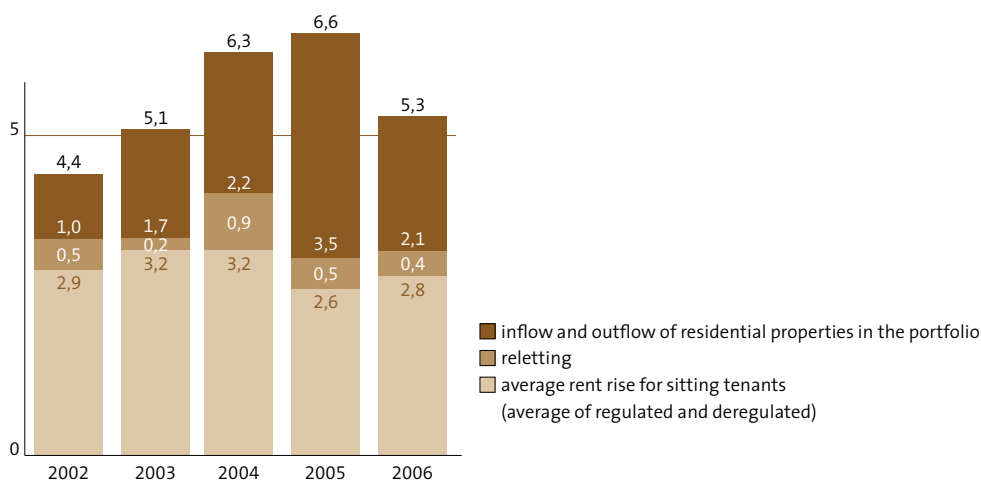
The average monthly rent per residential unit at the end of 2006 was € 661, compared with € 628 in 2005. This represents an increase of 5.3% which came from three sources. The first is the inflow and outflow of residential properties in the portfolio, which contributed 2.1%, because of the outflow of cheaper properties to make way for more expensive ones. The second source is reletting. Residential properties are let at market rents after being vacated. Reletting, when the rent is raised marginally, contributed 0.4%. The final source is the annual rent rise for sitting tenants from 1 July which accounted for a rise of 2.8% in the average rent.

Rent trends

Letting portfolio, average monthly rent

Year end	2006	2005	2004	2003	2002
(€)	661	628	589	554	528
Average monthly rent					

Letting portfolio, average rent rise by source percentage points



Segmentation of the letting portfolio into single-unit and multiple-residency properties

Segmentation

The next pages set out key figures for the letting portfolio, by sub-portfolio. In line with IVBN definitions, Vesteda breaks this into single-unit and multiple-residency properties.

Letting portfolio properties

A list of the properties in the letting portfolio is set out in annex 1 on page 73.

Disposals

Part of the strategy is regular sales of residential properties, with the aim of rejuvenating the portfolio, bringing the portfolio into line with changing market conditions and consolidating capital gains.

Preference for individual sales

Disposals, or the sale of residential properties, are by separate sales to tenants or individual purchasers at the price with vacant possession, or through sales of complexes – disposal of all or part of a complex to a professional party. Preference is given to separate sales to tenants. Strictly regulated and transparent tender procedures are used for sales of complexes, including careful screening of the parties invited to tender. The good reputation of potential tender candidates counts heavily in this. The sales conditions incorporate the IVBN Sales Code and anti-speculation provisions.

Substantial results on sale per home

A total of 1,758 residential properties were sold in 2006, including 808 to sitting tenants or individual third parties. There were two tenders under which 17 complexes with a total of 950 residential properties were sold to investors. The sales of 504 residential properties under transactions started at the end of 2005 were completed in early 2006. A book profit of € 45 million was made on the sales in 2006.¹⁵ The book profit was, therefore, down from about € 30,000 per property in 2005 to about € 26,000 in 2006.

Letting portfolio, result on disposals

2006 (millions of euros)	2006	2005	2004	2003	2002
Result on disposals	45	76	71	65	67

Letting portfolio, result on disposals per residential property

2006 (thousands of euros)	2006	2005	2004	2003	2002
result on disposals per residential property	26	30	26	22	26

Outflow linked to inflow

The sales programme is aligned as far as possible to the volume of additions to the portfolio and the desired contribution to the direct yield. This led to the objectives of the sales plan during the year being adjusted downwards. The planned result was, therefore, achieved.

Letting portfolio, by sub-portfolio

Letting portfolio, movements in value*

2006 (millions of euros)	single-unit residential properties	multiple- residency properties	total
Value, at beginning of year	1,734	2,300	4,034
Additions	17	168	185
Disposals	-95	-103	-198
Transfers	-7	7	0
Revaluation	145	140	285
Value at year end	1,794	2,512	4,306

* including value of associated parking/garage spaces and commercial space in projects

Letting portfolio

2006, ultimo jaar (in units)	residential properties	multiple- residency properties	total
number of residential properties	11,476	16,514	27,990

Letting portfolio, value with vacant possession, market rental value and theoretical gross rent

2006 (millions of euros)	single-unit residential properties	multiple- residency properties	total
Value with vacant possession	2,260	3,095	5,355
Market rental value	92	155	247
Theoretical gross rent	92	141	233

Letting portfolio, occupancy rate

2006, year end Calculated on number of residential properties (percentages)	single-unit residential properties	multiple- residency properties	total
Letting portfolio	98.2	95.9	96.8
of which let for at least one year	98.3	96.9	97.5

Letting portfolio, realised rental income

2006 (millions of euros)	single-unit residential properties	multiple- residency properties	total
Gross annual rent	91	130	221
Net annual rent	69	90	159
Net/gross annual rent	76%	69%	72%

Letting portfolio, gross yield

2006 (percentages)	single-unit residential properties	multiple- residency properties	total
Gross yield	5.1	5.6	5.4

Letting portfolio, average monthly rent

2006 (in €)	single-unit residential properties	multiple- residency properties	total
beginning of year	642	618	628
year end	668	657	661

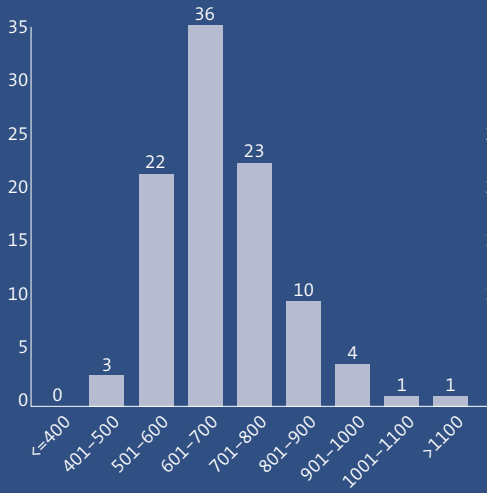
Letting portfolio, result on disposals

2006 (millions of euros)	single-unit residential properties	multiple- residency properties	total
Result on disposals	23	22	45

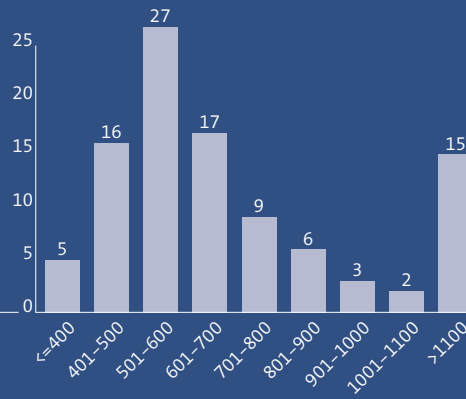
Letting portfolio, by rent

Percentage of theoretical gross rent, year end

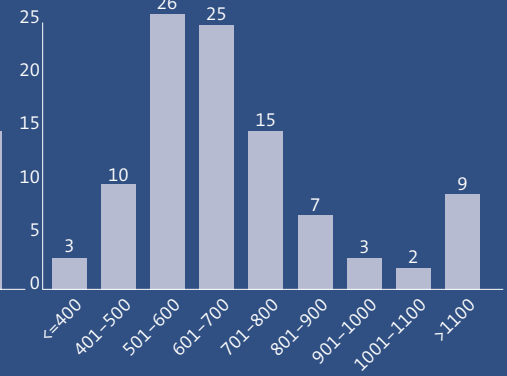
single-unit residential properties



multiple-residency properties



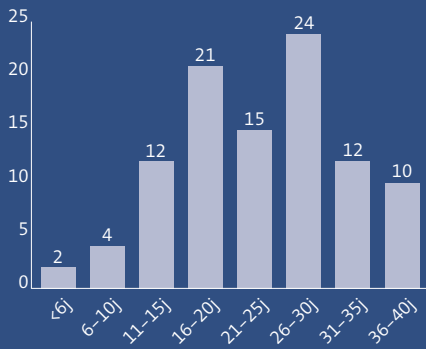
total



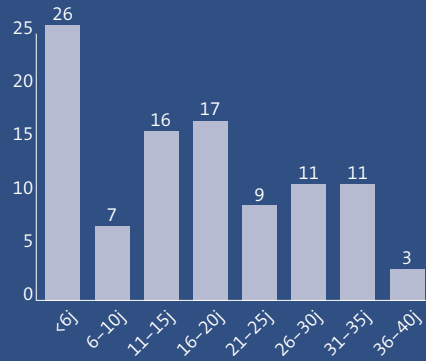
Letting portfolio, by age

Percentage of value at year end

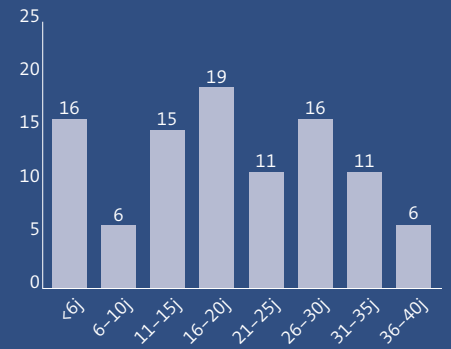
single-unit residential properties



multiple-residency properties



total



LETTING AND MANAGEMENT EXPENSES

Letting expenses consist of maintenance costs, reletting, property management, brokers' fees and fixed costs (including taxes). These amounted to 27.9% of gross letting revenue in 2006.

Vesteda Woningen's management expenses amounted to 37 basis points of the portfolio value, the same as in 2005. In view of its wide range of activities, Vesteda regards this as a competitive expense level.

Letting expenses of Vesteda Woningen

As a percentage of gross letting revenue	2006	2005	2004	2003	2002
	%	%	%	%	%
Letting	27.9	26.0	24.9	25.4	23.8

Management expenses of Vesteda Woningen

In basis points of the portfolio value at the beginning of the year	2006	2005	2004	2003	2002
	bp	bp	bp	bp	bp
Management*	37	37	38	36	32

* See page 80 for definitions

EXTERNAL FINANCING

During 2006, the interest rate for the external financing was based entirely on the three-month Euribor rate. The risk of a sharp increase in interest rates was hedged by interest rate caps with a ceiling of 4.5%.

During 2006, Euribor rose from 2.488% at the beginning of year to over 3.725% by its end. This resulted in a considerably higher interest charge than in 2005. Nevertheless the leverage effect, the contribution of external financing to the total result on shareholders' equity, rose to 3.4% as a result of the increase in values during 2006.

Leverage effect increased

Vesteda completely refinanced its loan capital in 2005 when hedging using forward-swap contracts was introduced in addition to hedging interest rate increases by caps. The swap contracts will be phased in from April 2007, as the current caps expire. The pure interest rate costs of the forward-swap contracts, excluding spreads and transaction costs, are on average 3.4%. As a result of introducing the forward-swap contracts, interest expense will no longer be affected by fluctuations in Euribor, but will be fixed for the full term.

From short-term to long-term interest rates

Based on interest rates at 31 December 2006, the current value of the caps and the forward-swap contracts at the year end was over € 22 million. This is about € 10 million higher than the book value of € 12 million in the financial statements based on historical cost.

The external financing by Secured Floating Rate Notes was built up of bonds of different sizes and terms, as set out in the table below. The bonds have a nominal value of € 500,000 each, are listed on the Euronext Amsterdam stock exchange and were issued by Vesteda Residential Funding II B.V. The average spread on these bonds is about 19 basis points. The remaining average term at the end of the year was about five years. The bonds have been given a triple-A rating by Moody's, Standard & Poor's and Fitch Ratings rating agencies.

Bonds

Amounts in millions of euros

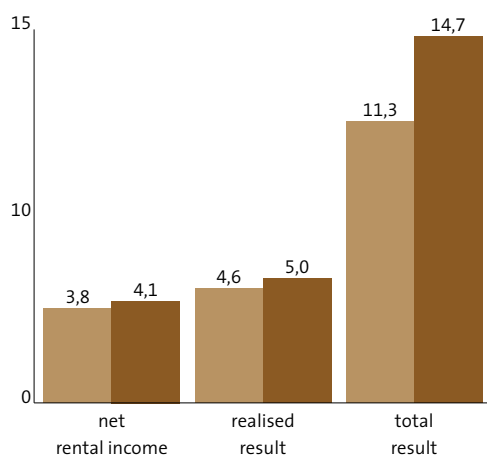
	start	original		value	value	value	value	value
		value	matures	y/e	y/e	y/e	y/e	y/e
	year	€	year	2006	2005	2004	2003	2002
				€	€	€	€	€
Bonds								
A1	2005	200	2008	200	200	-	-	-
A2	2005	400	2010	400	400	-	-	-
A3	2005	400	2012	400	400	-	-	-
A4	2005	300	2015	300	300	-	-	-
Redeemed						1,300	1,237	1,213
Total				1,300	1,300	1,300	1,237	1,213
Property portfolio (Vesteda Woningen)				4,366	4,113	4,013	3,918	3,960
Leverage				30%	32%	32%	32%	31%

Financing improves the result on shareholders' equity

The ratios which have to be met for the triple-A rating have been more than met since the introduction of the bonds in July 2002. The diagram below shows the effect of leverage on yield. In 2006, financing contributed 3.4 percentage points to the net result, raising the yield by more than 30%.

Effect of fund strategy on result

The bar charts show how the fund strategy works.



- Net rental income (€ 159 million)

Without leverage: € 159 million/value of portfolio at beginning of year (€ 4,231 m) = 3.8%

With leverage: (€ 159 million - proportionate net interest (€ 159 million/(€ 159 million + other income (€ 10 million) - management expenses (€ 19 million) + profit on disposals (€ 45 million)) x net interest (€ 46 million))/shareholders' equity (€ 2,956 million) = 4.1%
- Realised result = net letting revenue (€ 159 million) + other income (€ 10 million) - management expenses (€ 19 million) + profit on disposals (€ 45 million) - net interest (€ 46 million) = € 149 million

Without leverage: (€ 149 million + net interest (€ 46 million))/value of portfolio at beginning of year (€ 4,231 million) = 4.6%

With leverage: € 149 million/shareholders' equity (€ 2,956 million) = 5.0%
- Total result = realised result (€ 149 million) + capital gain (€ 285 million) = € 434 million

Without leverage: (€ 434 million + net interest (€ 46 million))/value of portfolio at beginning of year (€ 4,231 million) = 11.3%

With leverage: € 434 million/shareholders' equity (€ 2,956 million) = 14.7%

RESULTS

The total result comprises the realised result (net rental income and book profits realised on disposals) and the unrealised result (revaluations).

The realised result for the year was € 149 million, or 5.0% of opening shareholders' equity. The unrealised result was € 285 million, or 9.7% of shareholders' equity. The realised result thus fell in absolute terms compared with 2005, while the unrealised result rose further. The total result for the year was € 434 million, or 14.7% of opening shareholders' equity. Consequently, Vesteda's results this year were its best in both percentage and absolute terms in the past six years.

Its ninth year of existence was, therefore, the ninth occasion when Vesteda achieved a return on shareholders' equity and a ROZ/IPD benchmark yield of over 10%.

Portfolio result

In millions of euros	2006	2005	2004	2003	2002
Realised result	149	188	197	196	201
Unrealised result	285	206	138	137	136
Total result	434	394	335	333	337

Portfolio result

Percentage of opening shareholders' equity	2006	2005	2004	2003	2002
Realised result	5.0	6.5	6.9	6.9	7.1
Unrealised result	9.7	7.1	4.8	4.8	4.8
Total result	14.7	13.6	11.7	11.7	11.9

Most of the forecasts were met during the year.

Forecast against actual

The realised result on shareholders' equity was less than forecast. The forecast was 5.5% but the actual result was 5.0%. The main reasons for this were the higher percentage of letting expenses, the higher financial vacancy rate, the decision to adjust the level of sales and the higher interest rates during the year, so that the leverage effect on the realised result was smaller.

The rent rise was forecast at between 2.5% and 3.0%. This forecast was met with the increase of 2.8% from 1 July.

The occupancy rate of the letting portfolio was 96.8% at year end. The occupancy rate of projects in the letting portfolio let for more than one year was 97.5% and, therefore, exactly as forecast.

Gross and net income rose slightly, by 5.5% and 2.7% respectively. Here too, the forecast was met.

Letting expenses were 27.9%, thus exceeding the forecast of 27.0%. As a result of the above-inflation rise in expenses during the year and the catch-up exercise in 2006 to increase customer satisfaction at specific projects, the targets for the percentages of letting expenses and gross rental income were not achieved. At 37 basis points, management expenses remained below 40 basis points, and so that forecast was achieved.

The target for the number of residential properties to sell was not achieved during 2006 as the strategy was revised on this point putting a greater accent on individual sales to tenants.

The unrealised result was well above forecast. This can be explained by several factors. Firstly the increase in the value of the property portfolio was higher than expected. Compared with a value increase of 2% to 6%, expected by Vesteda, the actual increase was 7%. The leverage effect on the value increase was 3.0%, and so the unrealised result came out at 9.7%. This leverage effect was also greater than expected. The forecast had allowed for rising interest rates during the year when it was set. The historically low rate at the beginning of year, uncertainty about the extent to which interest rates would rise and the high sensitivity of an interest rate rise on values in the housing market were the basis of the 2006 forecast.

The forecasts for total result and allocated distribution level to investors were both achieved.

Finally, the acquisition targets were not achieved. The investment level and number of hand-overs continued to be low. The main reasons for this were delays in starting up projects, as a result of longer preparation processes and spatial planning procedures before building could start. The realised investment was € 169 million (incl. VAT). 477 projects were handed over and let.

Result: forecast against actual

In respect of	indicator	2006 forecast	2006 actual
realised result	realised result on shareholders' equity	stable, about 5.5%	5.0%
	annual rent rise	between 2.5 and 3.0%	2.8%
	occupancy rate:		
	letting portfolio	about 97.0%	96.8%
	of which let >1 year	about 97.5%	97.5%
	gross revenue per property	limited increase	increase of 5.5%
	letting expenses	about 27%	27.9%
	management expenses	under 40 basis points	37 basis points
net revenue per property	limited increase	increase of 2.7%	
sales	about 2,000 properties	1,758 properties	
unrealised result	unrealised result on shareholders' equity	well above inflation	9.7%
total result	total result on shareholders' equity	above 10%	14.7%
allocated distribution		about 8%	7.8%
new construction	investment incl. VAT	€ 220 - € 250 million	€ 169 million
	hand-overs to Vesteda Group	about 750 properties	477 properties

Vesteda uses the ROZ/IPD Residential Properties Benchmark (‘All comparable properties’ category) to compare the performance of properties against that of other residential property investors. This benchmark presents the market average actual results for residential investments of all participants (including Vesteda Woningen) and, in addition to standing investments, allows for partial sales and purchases and developments and redevelopments.

Benchmark

In recent years, Vesteda has always beaten the benchmark. The benchmark for the year under review is not yet known but Vesteda expects to earn a yield of 12.3% for 2006 calculated using the ROZ/IPD method.

Vesteda Woningen versus benchmark

ROZ/IPD Residential Properties Benchmark, ‘All comparable properties’

	2006	2005	2004	2003	2002
Annual yield					
ROZ/IPD benchmark	*	10.6	8.6	8.2	9.0
Vesteda Woningen	12.3**	11.6	10.7	10.4	10.3
Three-year yield					
ROZ/IPD benchmark	*	9.1			
Vesteda Woningen	*	10.9			
Five-year yield					
ROZ/IPD benchmark	*	9.9			
Vesteda Woningen	*	11.6			

* not available at the date of publication

** company forecast using the ROZ/IPD methodology, not provided by ROZ/IPD

DISTRIBUTION TO INVESTORS

Under the participation agreement, Articles of Association and fund rules, there has to be an annual distribution to investors. This meets the distribution requirements for a fiscal investment institution. During the year, a total of € 232 million was allocated and a total of € 130 million was paid out. The remaining € 102 million will be paid out in April 2007. The allocated distribution is € 9.28, or 7.8% of the net asset value, per share/unit at the beginning of the year.

Distribution and net asset value

Amounts per share/unit, in €	2006	2005	2004	2003	2002
Distribution to investors	9.28*	13.60	12.40	12.60	12.80
Net asset value at beginning of year	118.23	116.08	115.08	114.43	113.77
Distribution to investors	7.8%	11.7%	10.8%	11.0%	11.3%

* allocated, including € 4.08 per share/unit payable in April 2007

INVESTOR RELATIONS

On the restructuring of Vesteda in 2001, Stichting pensioenfondsen ABP expressed its intention to move in due course to a large minority shareholding. After a total of five transactions in 2006, together involving € 450 million, Stichting pensioenfondsen ABP was able to reduce its holding in Vesteda from 60.1% to 46.7%.

In total, 13.4% of the shares changed hands. The shares were sold to other shareholders. All shareholders and unit-holders also concurred with the sale of a limited holding by ABP to Loyalis. The total purchase price was some € 450 million which was slightly above book value.

Investors in Vesteda Group

At the end of 2006, the following investors (or a business unit) held shares/units in Vesteda (in alphabetical order):

- Bedrijfstakpensioenfonds voor de Media PNO
- Delta Lloyd
- ING Real Estate
- Loyalis
- Pensioenfonds voor de Grafische Bedrijven
- PGGM
- Stichting pensioenfonds ABP
- Stichting TKP Pensioen Real Estate Fonds

PARTICIPATING INTERESTS

During the year, Fifthplay Nederland nv, a subsidiary of a Belgian company, Niko nv, acquired a 60% holding in IRS Holding bv and its operating companies, IRS Systems bv and IRS Services bv. IRS develops and supplies domotic applications for security, comfort and care and also provides product-related services.

This majority holding is seen as a major step in the international growth strategy of the Niko Group. The sale of this majority holding by Vesteda Project bv is entirely in line with the intention to transfer the delivery of technology and services addressing the comfort and security of residents, to third parties.

STAFF AND ORGANISATION

As part of the further professionalisation, much attention was given during the year to reinforcing the organisational culture we want. In 2006, Vesteda identified key criteria and core values for the policy to be implemented.

Tight labour market

Vesteda was affected by the ever tighter labour market but thanks to more intensive recruitment activities, the number of vacancies that remained unfilled was limited. A start was made on raising Vesteda's position as a brand name in the labour market. In total, 56 vacancies were filled. Eight vacancies were still open at the end of 2006.

Personnel

At the end of 2005, Vesteda Groep employed 327 people; by the end of 2006, this had risen to 353. The workforce was increased by 24 FTEs; 322 (2006) compared with 298 (2005). This met the objective of controlled growth in our staff level. The expansion was mainly in the property management department, as a result of the increase in letting in the Randstad conurbation.

Vesteda Group staff numbers

FTE	year end 2005	net movement in the year	year end 2006
Total Vesteda Group	298	24	322

Personnel of Vesteda Group

year end 2006	FTE	number of staff
Head office	105	113
Property management	191	214
Vesteda Groep bv	296	327
Vesteda Project bv	26	26
Total Vesteda Group	322	353

Absenteeism fell in recent years, to a low of 4.0% in 2005. Unfortunately, Vesteda could not continue the downward trend during 2006, when sick leave was 4.8%. If the figure is adjusted to exclude long-term sick leave (employees ill for more than one year), the rate falls to 4.6%. Vesteda has a policy of taking swift action on work-related illness. In the context of health-promoting measures, a preventive health check was introduced during the year. About 30 employees took part in the check in 2006, and it will be continued in 2007.

Sick leave

Customer orientation is a company-wide competence at Vesteda. The heart of this is anticipating and acting according to the wishes and needs of customers. The success of Vesteda's commercial activities is determined by the skill and attitude of the employees who perform them. A programme on the company-wide customer-oriented culture was worked on during 2006.

Culture

The core of the HR policy for 2006 was reinforcing the culture and leadership within the organisation. During the year, Vesteda identified a number of core values/criteria to guide further development. Firstly, the Managing Board reallocated the responsibilities of its members, each of whom then translated them into the duties of operational managers. During 2006, a start was made on the company-wide allocation of responsibilities, centring on the concept of 'ownership'. Frequent attention was given to culture and leadership in publications and staff meetings. Activities were deployed in various departments, focusing on operational improvements, co-operation and customer-focus. At the end of 2006, the Managing Board and other managers at Vesteda considered the question of how further content could be given to these criteria. The results will be used to guide the further roll out of the desired and defined culture in 2007. The agreed values and criteria – customer-focus, results-focus, personal responsibility, transparency, co-operation and trust – will have a specific role in Vesteda's HR tool kit in future years.

A further boost was given to strengthening leadership. Thirty managers followed a leadership course. A follow-up programme was rolled out at the end of November, with each manager at Vesteda having an individual interview with an external coach and presenting an individual development programme at the end of 2006 or in early 2007.

Leadership

In the third quarter of 2006, there was a market comparison of the remuneration of employees not covered by the Vesteda collective bargaining agreement. It was also agreed that this comparison would be repeated on a three-year cycle. The legislative changes on employment conditions that took effect on 1 January were implemented successfully.

Employment conditions

A new system was introduced in 2005 to manage, appraise and reward employees appropriately. A competence profile has been drawn up for every job, as the basis for employee development and appraisal. In a cycle of three or four interviews per year, the manager and employee discuss the targets which are set out on a specially developed chart. This forms a clear relationship between setting targets, measuring results and establishing the related pay level. The HR department

Performance management

encouraged and facilitated the implementation of this programme to the greatest extent in 2006. Following an evaluation, suggestions for improvement were implemented and an action plan was drawn up for further improvements in 2007.

Staff council As in previous years, there were constructive discussions with the Works Council. The entire commercial policy was discussed. New terms and conditions were set and existing regulations revised. The Works Council's report is on the next page

Works Council's report

During 2006, the Works Council was operating for the second year with its current membership.

Works Council meetings

The Works Council held six meetings in 2006: two at the head office and four on site, in the Woongalleries in Amsterdam, The Hague, Eindhoven and Maastricht. By meeting in the different locations, employees were able to meet the Council members. New employees in particular took up this opportunity. The agenda of the consultative meetings (the meetings between the Council and Managing Board) were always discussed in the Council's meetings. Requests for opinions and consent from the Managing Board were discussed. Other subjects discussed in Council meetings were the 2006 budget, the 2005 Annual Report, the Council website, the creation of a national works council platform, the accessibility facilities of Vesteda, the target pay for staff, the competitiveness of staff pay, the results of employee experience surveys, the health check and the new 2007-2009 business plan.

Discussions with the Managing Board

There were four consultative meetings with the Managing Board during 2006; three in Maastricht and one in Eindhoven. Opinions to be issued were discussed at length with the Managing Board during the consultative meetings. There was also consideration of the work experience surveys, the health and safety policy, absenteeism, the target-pay appraisal, the 2006 budget and the 2005 annual report, progress on and the desired approach to the culture change process started by the Managing Board and Vesteda's plans for the Wiebengahal.

Meeting with the chairman of the Supervisory Board

The annual meeting with Mr Boons, the chairman of the Supervisory Board, was held on 27 April. During that meeting, there was a review of the formation of Vesteda, Mr Boons' role in it and the creation of the Council. Detailed comments were given on Mr Boons' succession. After the meeting, the Works Council presented an appropriate farewell gift to Mr Boons, who had been chairman of the Supervisory Board since the formation of Vesteda. The Council thanked him and emphasised that he had acted towards the Council conscientiously and in a friendly manner. Mr Boons appreciated this very much.

Formal opinion and right of consent

The Works Council used its rights of formal opinion and consent on several occasions in 2006. Firstly, an opinion was issued on Vesteda's sale of 60% of the shares in IRS Holding bv to a Belgian company, Niko nv. External legal opinion was obtained for this. The issue was whether, in such a situation, the Council's right of opinion went further than the share transaction itself. That proved not to be the case. Nevertheless, the Council took the initiative to issue an opinion to the Managing Board on the employment law consequences of this transaction for the employees of IRS Holding bv and its participating interests.

Opinions were also issued on the appointment of a new supervisory director, the change in the organisation of the credit department in the back office and the 2005 annual health and safety report.

The Council used its right of consent on the car lease scheme, life-cycle scheme, leave for older employees, child care and

healthcare expenses. At the Council's request, there were staff information meetings on the life-cycle and health care schemes. The Council complimented the Managing Board and HRM department on the way these were organised.

New business plan

In the autumn, there was extensive discussion with the Managing Board on the 2007-2009 business plan. There was a constructive discussion on implementing the strategy in the planning period and its possible effects on employees. The assumptions for the business plan, drawn up in 2005 and which the Council discussed at that time with the Managing Board, state that Vesteda should move further from a management organisation towards being a commercial business. During the discussion, the Council and the Managing Board agreed that Vesteda performs management processes well and that this should remain the case. In respect of commercial activities, more attention needs to be given to letting new residential properties in the medium and higher-rent sectors and to the commercial skills needed for this.

Works Council reports

The Council keeps the staff up to date through VestedaNet, the company-wide intranet. There was extensive information to the staff in four Works Council Reports. Reactions, mostly favourable, were received from a number of employees in different departments. The reports ask staff to send questions to the Council, make proposals or highlight problems. This is happening much more often than in previous years. Where possible, the questions are answered or, if this is not possible, a route to resolve the matter is suggested. A number of questions proved to be of an individual nature and could not be dealt with by the Council. In

one case the problem concerned a specific department. The Council discussed it with the employees of that department and the issue was then reported to the Managing Board who handled the matter.

2006–2007 collective bargaining agreement

In 2005, the АВВАКАВО and the Unie trade unions reached an agreement with the Managing Board on a two-year collective bargaining agreement for 2006 and 2007. The agreement applied to about 300 employees during 2006. As the Council did not play a role in this, it noted the agreement.

Platform of works councils in the property industry

An action point that the Council set itself in 2005 was to take the initiative to set up a platform for works councils of all parties in the residential property industry. A meeting was held during the year on the initiative of the Vesteda Works Council and attended by a number of other works councils. The initial reactions were favourable and will be followed up in 2007.

Outlook

The three-year term of the Works Council members runs until October 2007 when elections will be held.

In 2007, the cultural changes implemented by the Managing Board will continue throughout the organisation; the Works Council sees this as an important development for the company and will make a critical contribution to its substance.

OUTLOOK

Economy

The prospects for 2007 are wholly positive. The good economic situation, which started last year, is proof of this. The European Union is doing well and the prospects for Germany – a major influence on the Dutch economy – are in fact above the European average. 2007 is expected to see economic growth of 3%.¹⁶ This growth is broadly based; household consumer spending, investment by companies and exports are growing rapidly. The pressure on the labour market is rising, and so there will be more vacancies. Nevertheless inflation and collectively agreed wage rises will also be moderate in the coming year. The government has its books more or less back in order; as in 2006, the budget will be close to balanced. The formation of a government will also put an end to political uncertainty.

The risks to this favourable outlook for economic growth come from energy prices and interest rates, but the outlook in this area is not a concern.

As a result of sharp increases in value in recent years, there has been a gradual shift from direct to indirect returns on residential property investment. This can also be seen in retail investments, which have also enjoyed good results in recent years. Fierce competition among investors is depressing the direct return. Unlike the office sector, the risk in residential investment is low. The risk to the direct return is minimal thanks to the better spread. The risk to the indirect return is moderated by the alternative sales opportunities that the private owner-occupied market offers investors.

Property investment market

Housing market

The Dutch housing market continues to be tight. New construction is still well below demand. It currently looks as if new construction will be inadequate to relieve this shortage. A further increase in values is expected next year. Along with a slight increase in interest rates, this will lead to less affordability of owner-occupied properties.

It is generally assumed that house prices will rise again in real terms in 2007. Forecasts by various banks, research institutions and industry associations range between 4% and 6%. The structural scarcity on the housing market is and will remain a solid foundation underlying the value trend in the foreseeable future. Only an unexpected and strong increase in long-term interest rates could disrupt this. The chance of this is, however, small.

Demand for rental homes is structurally high. Fundamental factors such as household and income trends and an ageing population create a demand for quality.

Demand for rental homes

Letting in the higher-rent sectors will benefit from the economic situation and the recovery of the higher end of the owner-occupied market in recent years.

There will continue to be strong demand for residential properties as an investment in 2007. A very large amount of private money is available, partly for tax reasons. Alternative investments in the equity and fixed-income categories have a higher risk profile.

Investment in residential properties

Formation of the government ignores housing market

On Thursday 8 February 2007, the cDA, PvdA and ChristenUnie parties agreed the draft coalition agreement drawn up by their negotiators. To the great disappointment of institutional investors, including Vesteda, the housing market was used as a political pawn. The political parties decided to leave mortgage interest relief intact, not to deregulate rents and to limit rent rises to inflation during the government's period of office. The new house building required will rely heavily on the housing associations: in the next few years they will have to build a substantial proportion of the total of 80,000 residential properties per year. Instead of the deregulation of the housing market implemented in recent years, the opposite will apply: the government will actively intervene to increase the differences between the rental and owner-occupied sectors and thus harm the trading up needed and market forces.

Conclusion on the market and economic outlook

The government's actions are counter-productive and it has opted for short-term objectives rather than a structural approach to the 'forgotten file' on the housing market. In contrast, market and economic developments are completely positive. Demand for products for small households in the higher-rent sector will increase in the next few years, while the supply lags far behind.

Developments at Vesteda Groep

Project development	Vesteda Project bv's project development activities will expand. The investment level to be achieved in 2007 is expected to be € 250 million including VAT. Vesteda Project bv's organisation will have a clearer profile as a separate organisation. More developments will be started for the owner-occupied market. The organisation will expand considerably, with most jobs being based in the Randstad conurbation.
Asset management	Management of the investment portfolio will centre on expanding the € 800 to € 1,200 segment. New residential concepts will also be invested in, especially in residential care. New, innovative types of contract are being developed with a mixture of rental and owner-occupation.
Property management	<p>The efficiency and cost of property management must remain competitive. This will be studied and measures implemented in 2007. The changing composition of the portfolio and experience in letting to date will be the starting point for this. Property management will enter a new phase during the plan period. The commercial activities will move physically closer to the customer and be more closely supported by the internet, back office and callcentre. Experience with satellite offices in medium-sized towns where there is no Woongalerie (such as Zwolle and Enschede) and experience with letting from the project/neighbourhood itself (such as IJburg) serve as models. There will also be a study of whether more benefits can be obtained from concentration and specialisation.</p> <p>The internet letting process will be adjusted in 2007, with the current range being made available on the Vesteda website. This applies to both new and existing residential properties.</p>
HR policy	The further implementation of the cultural values referred to above is central to the HR policy. Vesteda Project bv's expansion in the reviving labour market will also need much energy.

Stichting pensioenfondsvesteda, a substantial shareholder, will nominate a supervisory director in the spring of 2007.

Board membership

Forecasts for Vesteda Group

Interest rates strongly influence the forecasts for 2007. As a result of the fall in the realised result in recent years and the rise in interest rates in 2006, the role of interest rates as a determinant of the total result has increased. The increase in property values in 2007 will thus have a greater weight in the annual result.

The new government faces the task of developing a new letting policy. The extent to which the legislation can facilitate the vitally-needed expansion of market forces, will determine developments for investors such as Vesteda. Progress on the approach of housing associations which currently compete unfairly with developers, using public money and without a commercial required yield, will determine the opportunities for a high quality inflow into the investment portfolio.

Another factor of importance to the forecast is the state of the economy. This affects the rate at which newly completed projects can be let, and thus the occupancy rate of the portfolio.

All in all, Vesteda expects the following results in 2007:

Vesteda Project bv's investment level will rise further in 2007. It is expected that the acquisition volume will be € 250 million. The number of residential properties to be completed will also rise to an expected figure of about 700 residential properties handed over and let by Vesteda Group.

Project development

Rental income is expected to rise between 1.5% and 2% from 1 July 2007, allowing for a maximum increase equal to inflation for 2006 in the regulated segment.

Annual rent rise

As a result of the increase in the number of projects in the first year of letting, it is expected that the occupancy rate of the letting portfolio will fall by two in a thousand residential properties from 96.8% at the end of 2006 to 96.6% at the end of 2007. The occupancy rate for residential properties let for more than a year is expected to remain the same at 97.5%.

Occupancy rate

Despite the expected above-inflation rise in costs, letting expenses will remain stable at about 28% of gross rental income. Management expenses are expected to remain below 40 basis points.

Letting and management expenses

Vesteda expects to sell about 1,000 residential properties in 2007. Given the expected inflow of about 700 residential properties, this will lead to a marginal net fall in the size of the letting portfolio in 2007, but the minimum figure of 27,000 residential properties will not be breached.

Disposals

Vesteda expects to expand external financing to about 37% of the balance sheet total in the second quarter of 2007.

External financing

Based on the above forecasts, the realised result on shareholders' equity for 2007 is expected to be about 4%.

Realised result

Capital gains For the forecast, Vesteda is assuming an average increase in value in the portfolio of 3.5% to 4.0%, based on stable or slightly rising mortgage interest rates and so the unrealised result on shareholders' equity (including leverage effect) is expected to be between 5% and 6%.

Total result In summary, it is expected that the total result on shareholders' equity will be between 9% and 10% and the related distribution to investors will then be about 7%.

Outlook for Vesteda for 2007

in respect of	indicator	2007 forecast
realised result	realised result on shareholders' equity annual rent rise occupancy rate: letting portfolio of which let for >1 year gross revenue per property letting expenses management expenses net revenue per property disposals	about 4% between 1.5% and 2.0% about 96.6% about 97.5% limited increase about 28% below 40 basis points limited increase about 1,000 residential properties
unrealised result	unrealised result on shareholders' equity	between 5% and 6%
total result	total result on shareholders' equity	9% to 10%
allocated distribution		about 7%
new construction volume	investment level incl. VAT hand-overs to Vesteda Group	€ 250 million about 700 residential properties

Finally

At € 434 million, the financial result for 2006 was better than expected. Capital gains in the portfolio made a major contribution to this result and, because of this in particular, the total result in 2006 was 14.7% which is the highest in the past six years when the average return has been 12.7%, varying between 11.7% and 14.7%. With the combination of such a stable and high result and a financing risk assessed as minimal, Vesteda is confirming to its shareholders and bond holders that the quality of the portfolio and organisation are a good foundation for the results for the coming years.

The inflow of new projects, and thus the efforts required for marketing and letting, will again increase. On the other hand, further experience was built up in marketing and letting new properties in the higher-rent sector in 2006.

As a result of the increase in value over time, we see a clear shift from realised to unrealised return over the next few years. The trends in rental income and operating expenses will, therefore, be under greater pressure. As a result of the fall in the realised result, interest rates and value trends in the property market will be a major influence on the total result. The new government's job of developing a new letting policy seems to offer little chance for a substantial increase in net rental income for the time being.

Vesteda will propose a possible expansion abroad to its shareholders in 2007. The tax considerations and market opportunities were investigated during 2006.

The large amount of money available to invest in property in Europe will lead to an increase of scarcity in funds such as Vesteda. This increases Vesteda's attractiveness as an established player, with in-house development and management.

We conclude by thanking our employees for their efforts and involvement.

Maastricht, 15 February 2007
Managing Board

H.C.F. Smeets, *CEO*
O. Breur
F.H. van der Togt

Notes

- 1 'Recommendations for Annual Reporting' report, IVBN transparency working group, January 2005
- 2 Addendum to 'Recommendations for Annual Reporting' report, IVBN transparency working group, February 2007
- 3 CBS, 13 February 2007
- 4 Statistics Netherlands, January 2007, Consumer price index (CPI)
- 5 Eurostat, January 2007, Dutch inflation was 1.6% against 1.9% on average in the eurozone, measured by the European harmonised method (HICP)
- 6 Statistics Netherlands, January 2007, Consumer price index (CPI)
- 7 Statistics Netherlands, January 2007
- 8 Eurostat, January 2007
- 9 Statistics Netherlands population forecasts 2006-2050
- 10 'Future income position of old people', Ministry of Social Affairs and Employment, December 2006
- 11 Land Registry, January 2007
- 12 NVM, quarterly figures 2006-4, January 2007
- 13 Land Registry, January 2007
- 14 Study by DTZ Zadelhoff, 2006
- 15 From 2005, the result on disposals is calculated according to IVBN guidelines
- 16 CPB Netherlands Bureau for Economic Policy Analysis, Press release on the most recent short-term projections, December 2006

Annex 1: Properties in the letting portfolio

The list below sets out the properties in the letting portfolio. In line with the ROZ/ROD definition, all properties are allocated to the Residential properties sector, as the residential share of the gross market rental value is greater than 50%. The units and values given for properties are fully owned.

Key:

Project: municipality, street name or name of first street (in alphabetical order), name of investment property

Year: year of construction (the year before the first year of full letting)

Land: percentage owned (versus leased)

U: number of residential properties (units)

FH: number of single-unit residential properties (units)

MO: number of multiple-residency properties (units)

UA: useable area of the residential properties (m² × 1000)

Office: office space (m²)

Retail: retail space (m²)

Park: parking and garage spaces (units)

Rent: theoretical gross annual rent (as at 31 December 2006, € thousands)

project	year	land	U	FH	MO	UA	office	retail	park	rent
Aalsmeer, Edisonstraat, Proosdij	1983	100%	48	48		53				408
Abcoude, Ereprijs, Fluitekruid	1989	100%	75	50	25	68				576
Abcoude, Fluitekruid, Fluitekruid	1989	100%	54	31	23	52				412
Alkmaar, Lekerwaard, Huiswaard	1976	100%	21	21		20				142
Alkmaar, Louise Henriëttestraat, Henriëttestraat	2000	100%	31		31	25				153
Almere, Dek, Noorderplassen	2004	100%	31	31		47	181			316
Almere, Dijkmeent, De Meenten	1981	100%	145		145	121				898
Almere, Gleditsiastraat, Parkwijk	1995	100%	62	62		85				482
Almere, Harderwijkoever, Boulevardflat	1984	100%	450		450	375				3,027
Almere, Havenhoofd, Havenhoofd	1986	100%	66		66	64				494
Almere, Jacques Tatilaan, Filmwijk	1998	100%	132	90	42	157				1,085
Almere, Jarenweg, Seizoenenbuurt	1999	100%	40	40		45				282
Almere, Lotusbloemweg, Bloemenbuurt	1990	100%	59	59		67				463
Almere, Marktmeesterstraat, Centrum	1988	100%	240		240	215			83	1,557
Almere, Messiaenplantsoen, Muziekwijk	1990	100%	132		132	109				872
Almere, Nova Zemblastraat, Eilandenbuurt	2003	100%	43	43		49				362
Almere, Preludeweg, Muziekwijk	1994	100%	115	115		145				936
Almere, Raaigrasstraat, Kruidenwijk	1988	100%	110	110		128				809
Almere, Rondostraat, Muziekwijk	1992	100%	48	48		63	146			423
Almere, Simon Vestdijkstraat, Literatuurwijk	1998	100%	38	38		47				289
Almere, Slagbaai, Waterwijk	1983	100%	45	45		48				302
Almere, Terpmeent, De Meenten	1981	100%	48		48	42				311
Almere, Vrije Zeestraat, Oostvaardersbuurt	2001	100%	42	42		55				311
Almere-Stad, Quickstepstraat, Danswijk	1999	100%	54	54		60				386
Amersfoort, Blekerssingel, Willem III	1988	100%	36		36	31				270
Amersfoort, Bombardonstraat, Zielhorst H	1990	100%	36		36	29				259
Amersfoort, Bombardonstraat, Zielhorst M	1990	100%	42	42		42				322
Amersfoort, Bruggensingel-Zuid, Kattenbroek	1991	100%	134	79	55	158				1,121
Amersfoort, Groote Kreek, Kattenbroek Eiland	1993	100%	101	101		139				1,000
Amersfoort, Grote Koppel, Zeven Provinciën	2004	100%	58		58	66				837
Amersfoort, Parelvisserpad, Schuilenburg	1969	100%	116	116		142			50	983
Amstelveen, Doctor W. Dreesweg, Middenhove	1989	100%	21	21		23				194
Amstelveen, Groenhof, Groenhof	1972	100%	220		220	184			31	1,487
Amstelveen, Westelijk Halfroond, Groenelaan	1974	100%	281		281	227	923		64	1,917
Amsterdam, Bonhoeffersingel, M. Akerveldsepolder	1989	lease	208	160	48	220				1,848
Amsterdam, Diopter, Jeugdland	1998	lease	53	53		66				507
Amsterdam, IJburglaan, Blok 4	2003	lease	40		40	64			40	728
Amsterdam, IJburglaan, De Uitkijk (Blok 34)	2005	lease	42		42	49			42	656
Amsterdam, Jan Puntstraat, Huizingalaan	1990	lease	167		167	149			128	1,535
Amsterdam, Joris Ivensstraat, De Waterlinie	2004	100%	41		41	44	419			628
Amsterdam, Leusdenhof, Nellestein	1980	lease	358		358	324	507		116	2,327
Amsterdam, Mijndenhof, Mijndenhof	1984	lease	109	109		102				890
Amsterdam, Pieter Calandlaan, Calandtoren	2004	lease	84		84	79	1,614			1,045
Amsterdam, Pieter Postpad, De Drie Bouwm. fase A	2006	lease	65	19	46	71			48	686
Amsterdam, Purperhoedenveem, Boston	2006	lease	90		90	95			90	1,937
Amsterdam, Schagerlaan, Julianapark	1991	lease	226	40	186	206			16	2,244
Amsterdam, Snellveldstraat, Reigersbos	1984	lease	153	153		144		51		1,241

project	year	land	U	FH	MO	UA	office	retail	park	rent
Amsterdam, Veemkade, Detroit	2004	lease	81		81	107		2,268	107	2,542
Amsterdam, Weth. Abrahamspad, Wethouderbuurt	1986	lease	178	178		191	59			1,410
Amsterdam, Weth. Driessenstraat, Wethouderbuurt	1987	lease	155	155		179				1,297
Amsterdam, Willy la Croihstraat, M. Akerveldsepolder	1990	lease	230	182	48	268				1,985
Amsterdam, Withoedenveem, Park. Nieuw Amerika	2006	lease	0			0			75	45
Amsterdam, Wolbrantskerkweg, Wolbrantskerkweg	2005	lease	108		108	75			60	648
Amsterdam, Zuid. Wandelweg, Mirandalaan	1998	100%	90		90	91	3,400		92	1,218
Arnhem, Ginnekenstraat, Kroonse Wal	1988	100%	30		30	26				208
Arnhem, Hooghalensingel, Vredenburg	1974	100%	199	199		251			12	1,511
Arnhem, Hoogvliethof, Elderveld 231	1976	100%	100	100		116			30	677
Assen, Aardbeihof, Kloosterhoven	2004	100%	39	39		58				392
Assen, Groenkampen, Peelo	1986	100%	73	73		89				461
Assen, Roegoorn, Marsdijk	1990	100%	51	51		51				387
Assen, Zuidhaege, Zuidhaege	1997	100%	60		60	57			15	532
Beek, Kastanjelaan, Beatrixlaan	1983	100%	28	28		31				195
Bergen op Zoom, Agger, Bergse Plaat Fa II	1993	100%	58	58		70				494
Bergen op Zoom, Agger, Bergse Plaat Fa V	1995	100%	30	30		41				270
Bergen op Zoom, Ansjovislaan, De Weer	1994	100%	130		130	143			54	1,197
Bergen op Zoom, Bloemendaal, Residentie Meilust	1978	100%	166	27	139	134			32	1,260
Bergen op Zoom, Duvenee, Bergse Plaat Fa I	1991	100%	92	92		111				707
Bergen op Zoom, Huijbergsestraat, Parade fase A	2006	100%	31		31	35				346
Bergen op Zoom, Statietjalk, Landmark	2004	100%	36		36	42			36	473
Bergen op Zoom, Zandstraat, Leemberg	1975	100%	36	36		32				221
Bergen, Hallstein-Nes, De Nessen	1968	100%	9	9		11			1	99
Bergen, Rougemont-Nes, De Nessen	1968	100%	14	14		16			9	150
Blaricum, Dam, De Byvanck 1975		100%	102	102		108				861
Breda, Argusvlinder, Argusvlinder	1999	100%	64		64	42				327
Breda, Blauwtjes, Waterjuffer	1999	100%	36		36	33			5	305
Breda, Lachappellestraat, Lachappellestraat	1961	100%	72		72	47			18	455
Breda, Lovensdijkstraat, Vredenbergh	2001	100%	0			160				194
Breda, Nonnenveld, Paleis	2005	100%	86		86	112			76	1,419
Brummen, Buizerdstraat, De Enk	1974	100%	66	66		79			7	480
Bunnik, Esdoorn, Dalenoord VII	1989	100%	46	30	16	41				338
Capelle/IJssel, Rigoletto, Louvre & Rigoletto	1983	100%	101		101	76				634
Capelle/IJssel, Sint Helenabaai, IJsselzicht	1978	100%	217		217	136				1,400
Capelle/IJssel, Slotplein, Slotplein	1997	100%	80		80	86				703
Culemborg, Akelei, Voorkoop	1985	100%	56	56		68				442
Culemborg, Zaanweg, Dijkzicht	1990	100%	24	24		29				193
De Bilt, Hugo vd Goeslaan, De Leyen	1989	100%	48		48	33				348
Den Bosch, Bordeslaan, Paleiskwartier	2004	100%	27		27	35			34	419
Den Bosch, Kruiskampsingel, Meanderflat	1968	100%	180		180	155			55	1,263
Den Bosch, Natewischstede, Maaspoort	1987	100%	55	55		52				408
Den Bosch, Pisastraat, Pisastaete	1989	100%	72		72	31				550
Den Bosch, Statenkwartier, Kwartierstaete	1983	100%	49		49	36				303
Den Haag, Prins W. Alexanderweg, La Fenêtre	2005	lease	115		115	141			118	2,121
Den Haag, Laakweg, Piazza	1998	lease	73		73	69			58	541
Den Haag, De Brink, Kraayenstein I	1975	100%	173	12	161	137			148	1,175
Den Haag, Domburglaan, Deltaplein	1972	100%	156		156	115			39	1,184
Den Haag, Noorderbrink, Kraayenstein II	1975	100%	224	224		270				2,340
Deurne, Appeldijk, Den Heiakker	1983	100%	16	16		19				110
Deventer, Bitterzoet, Colmschate	1984	100%	100	100		115				676
Diemen, Biesbosch, Biesbosch	1978	100%	148	148		192				1,409
Diemen, Polderland, Diemen Zuid	1986	100%	169	169		183				1,390
Doetinchem, Boekweidreef, De Huet	1983	100%	115	115		128				742
Doetinchem, Lorentzlaan, Boerhaavelaan	1973	100%	209	209		270				1,420
Dordrecht, Van Ravesteyn-erf, Groene Oever	1995	100%	84		84	77				740
Duiven, Thuvinestraat, Eltingerhof	1975	100%	118	118		133				738
Eindhoven, Bisschopsmolen, Woenselse Watermolen	1988	100%	220	202	18	251				1,821
Eindhoven, Gen. v Merlenstraat, Rapenland	1984	100%	134	37	97	106			9	934
Eindhoven, Opwettensemolen, Opwettensemolen	1986	100%	178		178	133			110	1,312
Eindhoven, Smalle Haven, Vestedatoren fase A	2006	100%	2		2	2	600		110	193
Eindhoven, Tesselschadelaan, Granida	2004	100%	30		30	39			44	519
Eindhoven, Tongelresestraat, Picushof	2001	100%	58	22	36	60				561
Eindhoven, Venbergsemolen, Venbergsemolen	1989	100%	134		134	112				1,006

project	year	land	U	FH	MO	UA	office	retail	park	rent
Emmen, Eidereend, Eendenveld	1990	100%	33	33		32				246
Emmen, Klepel, Ermerstede	1990	100%	40		40	36			45	347
Enschede, Bontweverij, Carre	1990	100%	76		76	55				514
Enschede, Boulevard 1945, T Marquant	1989	100%	71		71	53			71	512
Enschede, Mooienhof, Mooienhof	2003	100%	87		87	90		876		879
Enschede, Walkottelanden, Stroinkslanden	1982	100%	56	56		61				402
Geldrop, Herdersveld, Grote Bos	1978	100%	95	95		97				717
Geleen, Dassenkuillaan, Dassenkuil II	1988	100%	18	18		19				128
Geleen, Schrynwerkersd, Dassenkuil I	1987	100%	18	18		19				130
Gorinchem, Kalkhaven, Dalempoort	1978	100%	25		25	17		582	2	182
Grave, Estersveldlaan, Estersveld	1972	100%	57	57		68			33	393
Groningen, Amethisstraat, Vinkhuizen	1969	100%	69	69		86				448
Groningen, Bloemersmaborg, Klein Martijn	1997	100%	28		28	29				280
Groningen, Brillantstraat, Vinkhuizen I	1969	100%	59	59		74			32	384
Groningen, Goudlaan, Vinkhuizen II	1972	100%	32	32		40				214
Groningen, Steenhouwerskade, Zuiderhavenring	1982	100%	53		53	47			92	485
Groningen, Steenhouwerskade, Zuiderhavenring	1983	100%	70		70	56				500
Groningen, Van Goghstraat, Waterrand	1994	100%	72		72	59			80	589
Groningen, Zuiderweg, Hoogkerk	1976	100%	153	153		158			42	953
Haarlemmermeer, Boekestraat, Jacob, Warande	1969	100%	67	67		77			47	604
Heemskerk, Mozartstraat, Mozartstraat	1969	100%	157	157		176			158	1,259
Heemstede, Floradreef, Prinseneiland	1990	100%	38	38		43				312
Heerenveen, Barten, Nye Haske	1987	100%	69	69		80				483
Heerenveen, Poststraat, Poststraat	1995	100%	52		52	49				422
Heerenveen, Valerielaan, Valeriaan	1973	100%	44	44		53			2	271
Heerlen, Dillegaard, Douve Weien	1983	100%	117		117	84			23	669
Heerlen, Drieoortspunt pp, Douve Weien 2	1979	100%	84		84	51			73	410
Heerlen, Marjoleingaard, Douve Weien	1982	100%	60	60		65				418
Heerlen, Palestinastraat, Giesen-Bautsch	1980	100%	59	59		63				412
Heerlen, Peschstraat, Douve Weien 3	1978	100%	13		13	9				73
Heerlen, Poelmanstraat, Douve Weien 1	1978	100%	161	161		174				1,200
Heerlen, Putgraaf, Putgraaf Residentie	1982	100%	93		93	71			175	732
Heerlen, Putgraaf, Putgraaf Residentie	1989	100%	66		66	59	76		56	576
Heerlen, Sint Pietershof, Klein Vaticaan	2004	100%	36		36	42			40	445
Heerlen, Vruschemigerweg, Douve Weien 3	1978	100%	26		26	19				147
Helmond, Diamantstraat, Ashorst	1989	100%	24	24		25				179
Hengelo, 't Swafert, 't Swafert	2000	100%	417		417	233				1,962
Hengelo, Algonquin, Thiemsland	2004	100%	34		34	40				406
Hengelo, Jan van Galenstraat, Gerarduspark	1995	100%	44		44	35				351
Heumen, Dravik, Maldensveld	1985	100%	23	23		24				175
Hilversum, Loosdrechtse Bos, Resort Zonnestraal	2004	100%	42		42	62				1,045
Hoogezand-Sapp., Gerbrandyhof, Drevenborg	1991	100%	44		44	37				313
Huis ter Heide, Onbekend, De Horst	2003	100%	51		51	28				762
Huizen, Herik, Huizermaat-West	1976	100%	199	199		186			29	1,671
Kerkrade, Mynwg, Straterweg	1987	100%	61	61		63				434
Leeuwarden, Frittemastate, Camminghaburen	1989	100%	46	46		46				355
Leeuwarden, Frittemastate, Groene Hart	1986	100%	134	134		155			4	881
Leeuwarden, Krommezijl, Zuiderburen	2005	100%	36		36	44				419
Leeuwarden, Stizenflora, Aldlan Oost	1977	100%	160	160		165			11	1,063
Leeuwarden, Ubbemastins, Parkflat	1987	100%	62		62	54				414
Leiden, Parkzicht, Merenwijk	1979	100%	262		262	194			3	1,692
Leiden, Zust, Meijboomstraat, Stevenshof	1991	lease	99		99	81				770
Leiderdorp, Ln v Berendrecht, Parkprom. Berendrecht	2004	100%	72		72	102		527		1,083
Leiderdorp, Lokhorst, De Horsten	1970	100%	131		131	127			42	958
Leiderdorp, Roodborststraat, Vogelwijk	1972	100%	246		246	210			71	1,679
Leiderdorp, Waterleliekreek, Voorhof	1978	100%	240	120	120	245			9	1,834
Leidschendam, Schadeken, 't Lien	1985	100%	127	127		135				1,251
Lelystad, Tjalk, Gebied 243	1981	100%	186	186		187				1,086
Leusden, Hertenhoeve, Centrum	1979	100%	40	40		37			14	318
Maastricht, Akerstraat, Ceramique	1993	100%	182		182	168	207		147	1,498
Maastricht, Avenue Ceramique, Toren van Siza	2001	100%	40		40	47	714			734
Maastricht, Avenue Ceramique, Wiebengahal	2006	100%	0			0	3,192	171		349
Maastricht, Bellefroidlunet, Stoa	2002	100%	66		66	104	95		89	1,525
Maastricht, Ellecuylgard, Eyldegaard	1982	100%	42	42		50				333

project	year	land	U	FH	MO	UA	office	retail	park	rent
Maastricht, Erasmusdomein, Randwijck	1986	100%	109		109	85			20	773
Maastricht, Heerderweg, Heerderweg	1985	100%	202		202	145			107	1,285
Maastricht, Heugemerweg, Cortile	1999	100%	30		30	29				908
Maastricht, Heugemerweg, Cortile Health Club	1999	100%	0			0		68		22
Maastricht, Kasteel Caestertstraat, Nazareth	1987	100%	32	10	22	25			28	196
Maastricht, Plein 1992, Ceramique НК	2000	100%	0			0	3,344			567
Maastricht, Plein 1992, Residence	2000	100%	33		33	36			8	379
Maastricht, Savelsbosch, Vroendaal	2003	100%	15	15		26				210
Maastricht, Sphinxlunet, Cortile	1999	100%	39		39	42	205			434
Maastricht, Sphinxlunet, Cortile	2002	100%	120		120	126				1,266
Maastricht, Sphinxlunet, Cortile Parking	1999	100%	0			0			222	193
Maastricht, Via Regia, Via Regia	1977	100%	86		86	55			90	430
Middelburg, Stationsstraat, Blauwe Dijk	1987	100%	24		24	14		850		220
Middelburg, Touwbaan, Maisbaai Fase I	1990	100%	65		65	66			63	554
Nieuwegein, Hermesburg, Batau Noordrand	1988	100%	56	56		57				448
Nieuwerkerk/IJssel, Bladmos, Zuidplaspolder	1979	100%	75	75		80				568
Nieuw-Vennep, Haendelplein, Getsewoud	2002	100%	76		76	57				536
Nijmegen, Lankforst, Lankforst	1969	100%	96	96		123			29	717
Nijmegen, Nw marktstraat, Kronenburger	1991	100%	148		148	141	323		7	1,382
Nijmegen, Rode kruislaan, Park Heyendaal	1996	100%	92		92	95				944
Nijmegen, Weezenhof, Weezenhof	1972	100%	145	145		357			43	1,165
Oosterhout, Beethovenlaan, Oosterheide 2	1971	100%	39	39		55			18	305
Oosterhout, Verdijkstraat, Oosterheide 1	1969	100%	40	40		51			20	293
Oss, Kerkstraat, Boschpoort	1982	100%	38		38	26		955	59	294
Ouder-Amstel, Clarissenhof, Clarissenhof	1977	100%	101	101		101			8	895
Papendrecht, Pontonniersweg, Buitenwaard	1991	100%	68		68	76			27	688
Purmerend, Cocqgracht, De Purmer	1983	lease	120	120		107				802
Purmerend, Fonteinkruid, De Gors	1977	100%	33	33		38				248
Renkum, Gr v Rechterenweg, Rechterenberg	1993	100%	62		62	57			39	572
Rijswijk, Beatrixlaan, Prinses, Prinses Beatrixlaan	1975	100%	369		369	305		130	332	2,609
Rijswijk, Churchillaan, Churchillaan	1969	100%	215		215	241			19	1,875
Rijswijk, Clavecimbellaan, Clavecimbellaan	1974	100%	160		160	172			57	1,331
Rijswijk, Hilvoordestraat, Over De Boogaard	1979	100%	122		122	63				719
Roermond, Ambachtsingel, Hoogvonderen	1981	100%	72	72		83				458
Roermond, Dionisiusstraat, Ursula	1986	100%	290		290	217	4,962		341	2,245
Roosendaal, Dolomietdijk, Kortendijk Oost 1	1981	100%	31	31		36				210
Roosendaal, Past. van Akenstraat, Molenbeekstraat	1970	100%	32	32		42			13	240
Rotterdam, Adm. de Ruyterweg, Linker Rottekade	1985	lease	246		246	149		276	159	1,487
Rotterdam, Admiraliteitskade, Oostmolenwerf	1994	lease	86		86	77		490	68	940
Rotterdam, Boompjes, De Boompjes 1	1988	lease	336		336	230	5,036	1,565	284	3,481
Rotterdam, Bottelroos, Heydnahof	1983	lease	161	161		175				1,423
Rotterdam, Buitenbassinweg, Buitenbassinweg	1991	lease	124		124	103				903
Rotterdam, Burg. van Walsumweg, Walsumweg	1989	lease	270		270	219		1,729	206	2,328
Rotterdam, Cromme Meth, Cromme Meth	1987	lease	34	34		34				247
Rotterdam, De Boompjes, De Boompjes II	2001	lease	0			0	1,479			179
Rotterdam, Den Uylsingel, Dosiatoren	1989	lease	92		92	72				615
Rotterdam, G. Terlouwstraat, Ringvaartplasbuurt	1990	lease	64	64		69				571
Rotterdam, G. Terlouwstraat, Ringvaartplasbuurt	1991	lease	42	42		47				395
Rotterdam, Gedempte Zalmhaven, De Hoge Heren	2000	lease	160		160	191	482		330	2,513
Rotterdam, Gedempte Zalmhaven, De Hoge Heren, sa	2001	100%	51		51	61				1,414
Rotterdam, Hamelpad, Sneevlietstraat	1984	lease	52	52		50				373
Rotterdam, Kouwenbergzoom, Loreleiflat	1992	lease	69		69	60				570
Rotterdam, Landverhuizersplein, Montevideo	2005	lease	68		68	84			68	1,323
Rotterdam, Nieuwehaven, Nieuwehaven	1991	lease	89		89	79		601	40	892
Rotterdam, Stekelbrem, Brembuurt	1973	100%	211	211		274			51	2,167
Rotterdam, Strevelsweg, Poort Van Zuid	1994	lease	128		128	116	231		105	1,024
Rotterdam, Ton Wijkampstraat, Zevenkamp	1988	lease	49	49		79				415
Rotterdam, Watertorenweg, Watertorenweg	1990	lease	122		122	112				882
Schiedam, Chopinplein, Groenoord	1971	100%	520		520	463	105		48	3,324
Schiedam, Huis Te Merwestraat, Woudhoek	1984	lease	184	184		195				1,575
Sittard, Blijdestein garage, Kollenbergerhof 1	1986	100%	78		78	56			28	505
Sittard, Kleine Steeg, Wilhelminastraat	1993	100%	63		63	66	465		67	589
Sittard, Kollenberg, Kollenbergerhof 111	1988	100%	63	63		70				460
Sittard, Ruttenlaan, Kollenbergerhof 11	1987	100%	52		52	38			43	336

project	year	land	U	FH	MO	UA	office	retail	park	rent
Stiens, St. Vitusplein, Sint Vitusplein	1999	100%	30		30	22				158
Susteren, Raadhuispln, Middelveld	1983	100%	15	15		13				99
Tegelen, Waterloostraat, Domein Moubis	2004	100%	16		16	21			22	213
Tilburg, Anna Paulownahof, Anna Paulonahof	1989	100%	230		230	162	94		54	1,463
Tilburg, Friezenlaan, Friezenlaan	1982	100%	54		54	50			38	456
Tilburg, Hillegomlaan, Reeshof	1990	100%	56	56		73				418
Tilburg, Schoolstraat, Elegance	1989	100%	174		174	140			45	1,198
Vaals, Bloemendalstraat, Bloemendal	1998	100%	52		52	47			12	443
Valkenburg (L), Oranje Nassau, Nassauflat	1982	100%	88		88	59			110	539
Valkenburg (L), Spoorlaan, De Valk/Spoorlaan	1994	100%	34		34	34			28	267
Velsen, Maanbastion, Maanbastion	1990	100%	128		128	93			44	995
Velsen, Sterbastion, Sterbastion	2001	100%	71		71	66				542
Venlo, Gebr. Daelstraat, Groeneveld II	1991	100%	97	21	76	94				648
Venlo, Ginkelstraat, De Lunet	2003	100%	11		11	13	330		11	164
Venlo, Gruttostraat, Centrum-Zuid	1995	100%	32	32		43				270
Venlo, Gruttostraat, Centrum-Zuid	1997	100%	31		31	32			43	208
Venlo, Harry Hollastraat, Groeneveld	1989	100%	53	53		64				407
Venlo, Harry Hollastraat, Groeneveld IV	1993	100%	52	52		63				438
Venlo, Klingerbergsingel, Klingerberg	1984	100%	55	55		63				383
Venlo, Morion, Centrum-Zuid	2000	100%	31	31		36				230
Venlo, Seinstraat, Maaswaardstaete	1998	100%	32		32	36			4	351
Vleuten, Molenpolder, Meiborg	2003	100%	28		28	43			14	491
Vleuten, Molenpolder, Weideborg	2003	100%	32		32	33	152			392
Vleuten-De Meern, Ridderhoflaan, Secr.Versteeglaan	1969	100%	236	236		282			14	2,078
Vlissingen, Schutterijstraat, Lange Zelke	1994	100%	14		14	13				100
Voorburg, Distelweide, Distelweide	1974	100%	40	40		45			14	474
Voorburg, J.D. Zocherstraat, Nw Park Leeuwensteijn	2006	100%	112		112	117			114	1,764
Voorburg, Kersengaarde, Kersengaarde	1976	100%	256	256		309				2,823
Voorburg, Populierendreef, Populierendreef	1975	100%	272		272	205			130	2,007
Voorburg, Populierendreef, Populierenlaan	1975	100%	149		149	105			170	953
Voorburg, Rodelaan, Rodelaan	1976	100%	160		160	115			82	1,071
Wassenaar, Dirk de Raetlaan, Dirk De Raetlaan	1974	100%	126		126	86			9	735
Wassenaar, Professor Molenaarlaan, Zijlwatering	1972	100%	113	113		150				1,189
Wassenaar, Van Polanenpark, Zijlwatering	1972	100%	94	94		131			63	1,065
Wassenaar, van Wassenaer Obdamlaan, Zijlwatering	1992	100%	32	32		43				461
Weert, Houtduif, Graswinkel 2	1988	100%	21	21		20				131
Westervoort, Het gilde, Hoogeind	1986	100%	27	27		25				166
Wijchen, Abersland, Abersland	1987	100%	98	98		100				712
Wijchen, Abersland, Abersland	1988	100%	36	36		40				255
Zoetermeer, Bordeauxstraat, Frankrijklaan	1987	100%	67	67		69				567
Zoetermeer, Bunuelstrook, De Leyens	1979	100%	386	347	39	447		125	11	3,065
Zoetermeer, Dunantstraat, Blankaard	1973	100%	160		160	104		315		884
Zoetermeer, Dunantstraat, Molenvijk	1973	100%	234		234	200		805	205	1,502
Zoetermeer, Gaardedreef, Seghwaert	1978	100%	72	72		85				595
Zoetermeer, Heijermanshove, De Leyens	1979	100%	180	65	115	162				1,247
Zoetermeer, Pruiengaard, Seghwaert	1978	100%	60		60	55				409
Zoetermeer, Reimsstraat, Reimsstraat	1987	100%	108		108	82			108	878
Zoetermeer, Zilverberg, Meerzicht	1975	100%	107	107		127			158	951
Zwolle, Monteverdilaan, Monteverdilaan	1969	100%	122		122	101			56	760
Zwolle, Schie, AA Landen	1969	100%	210	210		256			122	1,696
Zwolle, Stadhouderslaan, Oldenelerlanden	1988	100%	134	134		155				997
Zwolle, Tak v Poortvlietware, Ittersumerlanden	1987	100%	39	39		40			5	280
Zwolle, Van bosseware, Ittersumerlanden	1984	100%	239	239		284				1,671
			27,990	11,476	16,514	27,670	29,341	12,384	8,185	233,103

Annex 2: Vesteda's history

Vesteda was created as a result of the reorganisation of ABP's property portfolio. For several years, Stichting pensioenfonds ABP had been pursuing a strategy designed to spread its property investments more widely and increase the liquidity of its property portfolio. ABP consequently decided to convert its direct investments in property into minority interests in property funds investing in specific sectors. The hiving-off of ABP's residential property portfolio resulted in the establishment of Vesteda in 1998. The years before 2006 are summarised below.

1998 Vesteda was created as a result of the reorganisation of ABP's property portfolio in 1998.

1999 Vesteda refocused its strategy in 1999. The decision to specialise in the higher-rent sector marked the start of the changes in product development and organisation.

2000 In 2000, customer information combined with social and demographic projections resulted in the portfolio being divided into a core portfolio and a disposals portfolio. The disposals portfolio contained about 30% of the properties. A steering group was also formed in 2000, in which the Vesteda Managing Board and the shareholder, ABP, shaped the strategy which led to the reduction of ABP's full interest to a participating interest. It was ultimately decided to place unlisted shares with institutional investors.

2001 2001 was dominated by preparations for a series of transactions. A memorandum of information was issued to enable a group of large institutional investors to acquire an interest in Vesteda. There were also legal and fiscal restructurings to allow new investors to participate. Approximately 30% of shareholders' equity was converted into loan capital before ultimately being financed externally. An internal restructuring was implemented in line with the strategy.

2002 ING Real Estate acquired an interest of 25% in Vesteda during 2002. Soon afterwards, agreements were signed with six other institutional investors who acquired a total interest of 13%. ABP's interest was then 62%. The loan capital was refinanced by three to seven year bonds. Vesteda raised €1.4 billion on the capital market. Vesteda was granted triple-A rating by the three main credit rating agencies.

2003 Delta Lloyd acquired an interest of about 2% from ABP in 2003. Vesteda Group took a major step in its long-term organisational growth, with property management – which was previously subcontracted – being brought into the company's own management. In 2003, about 100 people joined the company, increasing the workforce significantly. At the end of 2003, over 90% of Vesteda's portfolio was served by in-house property management.

2004 2004 was a year of further organisational consolidation, after years of growth. Vesteda Project bv started property hand-overs, meaning that substantially more homes were let for the first time. A partial refinancing of €400 million was carried out in April.

2005 The organisational consolidation continued during 2005. The number of homes being let for the first time increased. The entire capital was refinanced in July.

Annex 3: IVBN transparency guidelines

The Association of Institutional Property Investors in the Netherlands, the IVBN, has drawn up a large number of practical recommendations for annual reporting, with the aim of considerably enhancing transparency in annual reports in the property industry. The recommendations were published in the 'Recommendations for Annual Reporting' report (Aanbevelingen voor de Jaarverslaglegging) in January 2005 and apply from the financial year 2005 and to IVBN members which are responsible for at least one specific, independent property fund with more than one shareholder and/or which publish an annual report on a property fund.

Vesteda adopted the recommendations from 2005 and so the report of the Managing Board now includes new tables which include figures on only two years.

In 2006, IVBN carried out an evaluation which resulted in the publication of an addendum in January 2007. The table below shows how Vesteda is applying the guidelines. Vesteda has adopted the recommendations in the addendum from 2006.

Application of IVBN guidelines

Recommendations for annual reporting, January 2005
Addendum to 'Recommendations for annual reporting', January 2007

IVBN portfolio definition	level	Vesteda definition
letting portfolio	portfolio sub-portfolio	letting portfolio single-unit and multiple-residency properties
pipeline portfolio	portfolio sub-portfolio	development portfolio in acquisition phase, in preparation & under construction

Vesteda's definitions are explained in more detail in annex 4 on page 80. If it is decided to follow the IVBN recommendations and this has been stated, the annual report has to note any departures from them. Vesteda is following the recommendations in the report and the addendum and its only departure is information on the pipeline portfolio which is reported in less detail.

Annex 4: Definitions

Asset management Management of assets, with responsibility for the risk/return profile of the investments in the medium term as well as for annual performance.

Occupancy rate The number of residential properties actually generating rental income compared with the number that could generate rental income.

Letting portfolio, letting phase All fully-completed and let property complexes owned by Vesteda entities and on which no decision to dispose has been taken. See also the Classification of the portfolio on page 12.

Letting portfolio, selling/letting phase All fully-completed and let property complexes owned by Vesteda entities and on which a decision to dispose has been taken. See also the Classification of the portfolio on page 12.

HBV Tenants' Association.

More expensive/higher-rent sector Residential property market for rental properties with a net monthly rent of over € 600, excluding service charges. Some sources use figures between € 478 and € 600.

Memorandum of information The memorandum of information dated 6 November 2001 providing information on Vesteda in the context of professional investors' possible participation in Vesteda.

Investment level The unit in which Vesteda Project bv's new construction targets and achievements are measured, consisting of investing on a cash basis and actual new construction where cash expenditure occurs at the end of the work.

Core areas Housing market areas that Vesteda focuses on.

Management expenses of Vesteda Woningen Expenses which are incurred by the management organisation for the management of Vesteda Woningen.

Development portfolio All properties in which Vesteda has decided to invest, or is or will be preparing an investment decision, but which are not fully available for letting or handed over.

Development portfolio, development phase Projects based on acquisition agreements or other contracts for area developments or other forms of alliances or acquisitions where Vesteda is or will be preparing a development decision. See also the Classification of the portfolio on page 12.

Development portfolio, preparation phase Projects on which Vesteda has taken a development decision, which are being prepared for construction and on which building work has not yet started. See also the Classification of the portfolio on page 12.

Development portfolio, construction phase Projects on which Vesteda has taken a development decision and where building work has started, but which have not yet been let or handed over. See also the Classification of the portfolio on page 12.

Participation Agreement Decisions are taken on the basis of an agreement (the Participation Agreement) between shareholders and unit-holders. The Participation Agreement can be compared with the articles of association of a legal entity.

Property management Local commercial, administrative and technical management of properties.

Roll-over strategy Vesteda's fund strategy, which results in optimum asset management of its residential property investments. The strategy involves annual disposals of a limited number of properties in order to maintain the high quality of the portfolio and consolidate capital gains on a regular basis. It also involves the group's own area and project development activities, which are designed to ensure the required portfolio growth.

Total portfolio The development portfolio and the letting portfolio. See also the Classification of the portfolio on page 12.

Vesteda Group See the legal structure on page 11.

Vesteda Groep bv See the legal structure on page 11.

Vesteda Project bv See the legal structure on page 11.

Vesteda Woningen See the legal structure on page 11.



FINANCIAL STATEMENTS

VESTEDA GROUP



Introduction

The Vesteda Group is divided into three organisationally-associated units: one responsible for ownership, one for property management and one for property development. The legal owners of the property are Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv. Dutch Residential Fund IV bv has embodied the beneficial ownership of the property portfolio in units in Vesteda Woningen, a common fund. Vesteda Woningen is a closed-end common fund, pursuant to the Corporation Tax Act 1969.

A common fund is not a legal entity but a vehicle in which property is brought together for collective investment in order for the unit-holders to share in the proceeds. A common fund has one or more custodians and a manager. The custodians have title to manage the property of Vesteda Woningen on behalf of the unit-holders.

In their capacity as custodians, Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv are legally entitled to all the property belonging to Vesteda Woningen on behalf of the unit-holders. The unit-holders have the beneficial entitlement to these assets.

Participation in Vesteda Woningen may be either direct (units) or through Holding Dutch Residential Fund bv, but participation also involves an obligation to invest to an equal percentage in Vesteda Groep bv (management) and Vesteda Project bv. Vesteda Groep bv has the mandate to enter into rights and obligations with respect to the properties.

The rights and obligations of the holders of units in Vesteda Woningen are set out in the Participation Agreement. Vesteda Groep bv has been appointed as manager of the fund.

Please see the 2006 Annual Report of Vesteda Group for a diagram of the structure as at 31 December 2006.

Participation Agreement

A Participation Agreement has been drawn up to record the arrangements and it is also binding on new unit-holders. The agreement governs a wide range of matters relating to the operation of the Vesteda Group, including:

- the powers of the Managing Board and Supervisory Board;
- strategy;
- information provision;
- policy on distributing profits.

The agreement has been entered into for an indefinite period. It may be amended with the agreement of the unit-holders subject to there being a certain quorum depending on the nature of the change.

Accounting policies

REPORTING

The structure of Vesteda Group means that it does not have the legal status of an investment fund and is therefore not subject to the Investment Institutions (Supervision) Act. However, since its activities (management of and investment in residential property) are similar in nature to those of an investment institution, an effort has been made to present the financial statements in accordance with the reporting standards applicable to investment institutions.

Vesteda Group is not a legal entity but a combination of Vesteda Groep bv, Holding Dutch Residential Fund bv and Vesteda Project bv. As Vesteda Group has similarities to a company, the financial statements below use terminology customarily used in financial statements.

BASIS FOR COMBINING FINANCIAL INFORMATION

The combined balance sheet and profit and loss account of Vesteda Group include the financial information of the following companies (including Vesteda Woningen):

	Established in	Holding
Vesteda Groep bv	Maastricht	-
• Vesteda Maastricht bv	Maastricht	100%
Holding Dutch Residential Fund bv	Maastricht	-
• Dutch Residential Fund I bv	Maastricht	100%
• Dutch Residential Fund II bv	Maastricht	100%
• Dutch Residential Fund III bv	Maastricht	100%
• Dutch Residential Fund IV bv	Maastricht	100%
Vesteda Project bv	Maastricht	-
• HOG Heerlen Onroerend Goed bv	Heerlen	100%
• Gordiaan Vastgoed bv	Heerlen	100%

Vesteda Heerlen bv and vGA Nederland bv, both wholly-owned subsidiaries of Vesteda Groep bv, were wound up during the financial year.

ACCOUNTING POLICIES FOR VALUING ASSETS AND LIABILITIES

Property

The Development Portfolio is stated at the lower of cost and market value. On completion of a project, the complex is included in the Letting Portfolio or disposed of.

The Letting Portfolio is stated at current value. Pursuant to Guideline 213 'Investment properties', the complexes in this portfolio are stated at fair value, being the higher of market value with sitting tenants and net realisable value on disposal of complete complexes to organisations specialising in the selling of individual units. A condition when establishing the current value is that if the market value with sitting tenants is higher, the current value will be no more than 110% of the net realisable value in the case of disposals of complete complexes to organisations specialising in the selling of individual units. New properties are valued at the lower of cost and market value for the first two years after completion. At the end of 2006, complexes which were fully available for letting before 2005 were stated at current value. The market value with sitting tenants and the appraised net realisable value in the case of disposals of complete complexes to organisations specialising in the selling of individual units are determined by the discounted cash flow method.

At least 50% of the portfolio is appraised during the year by external valuers and the valuation of the remaining portfolio is updated by a valuer. Conveyancing charges and other selling costs are taken into account in determining both the net realisable value in the case of disposals of complete complexes to organisations specialising in the selling of individual units and the market value with sitting tenants.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation based on the expected useful economic lives of the assets concerned.

Financial fixed assets

If controlling or significant influence is exercised on the commercial and financial policy of participating interests, those interests are accounted for using the equity method based on net asset value. Other participating interests are stated at historical cost.

Loans receivable are stated at face value. Where necessary there is a write-down for doubtful debts.

The deferred tax asset relating to corporation tax on the possible offset of losses for tax purposes is stated at current tax rates.

The interest-rate caps are stated at historical cost less amortisation based on the period for which they have been concluded, in relation to the outstanding principal sums of the loans.

Stocks

Work in progress is stated at the cost incurred less instalments billed. Losses are recognised as soon as they become foreseeable. Cost incurred consists of costs directly attributable to the work plus a mark-up for general expenses. No interest is allocated to work in progress. Profit is taken when the project is delivered. Acquisition projects are stated at the cost incurred.

Receivables

Receivables are shown at face value less individual provisions for doubtful debts where necessary.

Other long-term liabilities

This is the ДКРН grant equalisation account. Grants received in connection with the grossing-up operation not already taken into account in the value of the investments as at 1 January 1998 are included in this equalisation account and are being released to income over a period of ten years. Grants are taken directly to the profit and loss account upon the sale of property for which grants have been received.

Other

Unless otherwise mentioned, valuation is according to the historical cost convention. Amounts are shown at face value.

ACCOUNTING POLICIES FOR THE DETERMINATION OF RESULTS

General

Operating expenses are stated at historical cost. Income is recognised when realised, expenses are recognised as soon as they become known. Income and expenses are allocated to the year to which they relate.

Rental income

Rental income is the total rent invoiced to tenants in respect of the financial year. The amount shown, therefore, takes account of rent lost due to vacancies and discounts. Rental income does not include service charges paid in advance by tenants.

Letting expenses

Letting expenses comprise costs directly attributable to a specific complex. These costs are mainly maintenance costs, property tax and other levies, insurance premiums, management and letting fees and service costs not chargeable to tenants. There is no equalisation provision for major maintenance.

Grants and other income

This includes releases from the DKPH grant.

Property management expenses

Any operating expenses that cannot be allocated directly to the various properties are treated as property management expenses.

Interest income and expense

Interest income and expense are stated at face value. Interest expense includes the amortisation of the interest-rate caps.

Realised result

The realised result is the sum of the net letting income and other income less property management expenses and net interest charges, plus the results realised on property disposals. The result on disposals is the proceeds from sales (less any facilitation costs) less the most recent value of the properties sold, established each quarter.

Unrealised result

The unrealised indirect result is made up of the total of unrealised revaluations as a consequence of external and internal appraisals.

Tax

Tax on the result is calculated by applying the standard rate of tax to the taxable amount.

Tax status

Holding Dutch Residential Fund bv, Dutch Residential Fund I bv, Dutch Residential Fund II bv, Dutch Residential Fund III bv and Dutch Residential Fund IV bv form a tax group for corporation tax purposes. The Holding Dutch Residential Fund bv tax group has been regarded as a Fiscal Investment Institution since 2002. On this basis, providing a number of conditions are met, a tax rate of 0% applies. The most important condition to be met is that the profit, calculated in accordance with fiscal principles, is distributed in the form of dividend within a specified period. The 'Vesteda Woningen' common fund is transparent for corporation tax purposes. Vesteda Groep bv, Vesteda Project bv and Vesteda Woningen form a tax group for VAT purposes and so no VAT is levied on supplies between these entities.

Combined balance sheet as at 31 December 2006

(after appropriation of result)

Amounts in millions of euros	31-12-2006	31-12-2005
ASSETS		
Fixed Assets		
Property (1)	4,366	4,113
Tangible fixed assets (2)	4	4
Financial fixed assets (3)	48	67
	4,418	4,184
Current Assets		
Stocks (4)	120	120
Receivables	25	17
Cash (5)	56	35
	201	172
Total Assets	4,619	4,356
EQUITY AND LIABILITIES		
Group equity (6)	3,158	2,956
Long-term Liabilities		
Loans from credit institutions (7)	1,300	1,300
Accruals and deferred income (8)	-	9
	1,300	1,309
Current Liabilities		
Tax and social security charges	2	24
Other current liabilities	12	14
Accruals and deferred income	147	53
	161	91
Total Equity and Liabilities	4,619	4,356

Combined profit and loss account for 2006

Amounts in millions of euros	2006	2005
Income		
Rental income	221	219
Less: Letting expenses	62	57
Net letting income	159	162
Grants and other income	11	4
Total operating income	170	166
Expenses		
Property management expenses	19	18
Interest income	4	5
Interest expense	50	42
Operating result	105	111
Result on disposals	45	76
Realised result before taxation	150	187
Taxation	1-	1
Realised result after taxation	149	188
Unrealised result	285	206
Net result	434	394

Combined cash flow statement for 2006

Amounts in millions of euros	2006	2005
Realised direct result after tax	149	188
Release of DKPH grant	5-	6-
Transfer of DKPH to current liabilities	4-	-
Deferred tax	-	2-
Depreciation of tangible fixed assets	2	3
Amortisation of financial fixed assets	9	9
Movement in working capital	40-	27-
Cash flow from operating activities	111	165
Investments in property	166-	179-
Investments/Disposals of financial fixed assets	-	1-
Transfer of investments/disposals of ffa to current assets	5	-
Movement in loans	6	23
Investments/Disposals of participating interests	1-	1-
Investments/Disposals of tangible fixed assets	2-	1-
Disposals of property (excluding result on sale)	198	285
Cash flow from investment activities	40	126
Movements in class A notes 2002-2004	-	1,300-
Movements in class A notes 2005	-	1,300
Distribution to shareholders/unit-holders	130-	340-
Cash flow from financing activities	130-	340-
Total cash flow	21	49-
Cash at end of year	56	35
Cash at beginning of year	35	84
	21	49-

NOTES TO THE CASH FLOW STATEMENT

The cash flow statement has been prepared using the indirect method. The funds in the cash flow statement consist exclusively of cash and cash equivalents. Receipts and expenditure in connection with interest and tax on profit are included in the cash flow from operating activities. Dividends paid are included in the cash flow from financing activities.

Notes to the combined financial statements

PROPERTY INVESTMENTS (1)

Amounts in millions of euros	Letting portfolio			Total
	Development portfolio	Letting phase	Letting/sale phase	
Value as at 1 January 2006	325	3,079	709	4,113
Additions	120	35	11	166
Disposals	-	-	198-	198-
Internal transfers	357-	-	357	-
Subtotal	88	3,114	879	4,081
Revaluations during financial year	-	231	54	285
Value as at 31 December 2006	88	3,345	933	4,366

TANGIBLE FIXED ASSETS (2)

Amounts in millions of euros	1-1-06	additions and		31-12-06
		disposals	depreciation	
Fixtures and fittings	2	1	1	2
Other fixed assets	2	1	1	2
Total	4	2	2	4

Accumulated depreciation on tangible fixed assets at 31 December 2006 was € 8.1 million.

FINANCIAL FIXED ASSETS (3)

Amounts in millions of euros	01-01-06	additions	disposals	to current	31-12-06
Participating interests	2	1	-	-	3
Loans receivable	41	2	8	5	30
Deferred tax	2	-	-	-	2
Interest-rate caps	20	-	8	-	12
Financing charges	2	-	1	-	1
	67	3	17	5	48

Part (60%) of IRS (IRS Holding bv, IRS Systems bv and IRS Services bv) was disposed of in 2006.

Vesteda has entered into four interest-rate-cap agreements with a finance institution with the intention of hedging interest-rate risks. This limits the risks of rising interest rates on the external financing. Swap agreements were concluded in July 2005 which will take effect on the expiry of the interest-rate-cap agreements. The terms of the agreements are in line with the remaining terms of the bond loans concluded in 2005. These agreements fully hedge the risk of fluctuations in interest rates.

At year end 2006, the interest-rate caps had a current value of € 0.8 million (2005: € 0.8 million) and the swap agreements had a current value of € 21.9 million (2005: -€ 7.0 million).

STOCKS (4)

Amounts in millions of euros	01-01-06	increase	decrease	31-12-06
Work in progress	118	3	5	116
Acquisition projects	2	2	-	4
	120	5	5	120

CASH (5)

The cash is at the free disposal of the company.

MOVEMENTS IN GROUP EQUITY (6)

Amounts in millions of euros	issued share capital	share premium	revaluation reserve	other reserve	total
Balance as at					
1 January 2006	50	2,088	600	218	2,956
2006 dividend	-	65-	-	167-	232-
Result for 2006	-	2	285	147	434
Realised from sales	-	-	21-	21	-
Balance as at	50	2,025	864	219	3,158

31 December 2006

* allocated, including € 102 million payable in April 2007 and included in accruals and deferred income

MOVEMENTS IN LOANS FROM CREDIT INSTITUTIONS (7)

Amounts in millions of euros	01-01-06	additions	repayments	31-12-06
Vesteda Residential Funding II bv for				
A1 notes	200	-	-	200
A2 notes	400	-	-	400
A3 notes	400	-	-	400
A4 notes	300	-	-	300
	1,300	-	-	1,300

OTHER LONG-TERM LIABILITIES (8)

As 2007 is the final year of the release of DKPH grant equalisation account, this item is classified as a current liability.

In 2005, Vesteda Residential Funding II bv issued a total of € 1,300 million of new variable-rate bonds consisting of:

- € 200 million class A1 secured floating-rate notes;
- € 400 million class A2 secured floating-rate notes;
- € 400 million class A3 secured floating-rate notes;
- € 300 million class A4 secured floating-rate notes.

Vesteda Residential Funding II bv is a company specially incorporated to manage the financing for Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv under agreements between these parties, Vesteda Group and the Security Trustee. Vesteda Residential Funding II bv also has the duty of providing security in connection with the financing. All the shares in Vesteda Residential Funding II bv are owned by the Stichting Vesteda Residential Funding II. The manager of the Stichting is ATC Management bv.

The proceeds of the issue by Vesteda Residential Funding II bv have been lent to Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv. As a result of the above activities, the Vesteda Group had the following facilities as at the balance sheet date:

- Term A1 Facility of € 200 million with an intended remaining term of 1.55 years;
- Term A2 Facility of € 400 million with an intended remaining term of 3.55 years;
- Term A3 Facility of € 400 million with an intended remaining term of 5.55 years;
- Term A4 Facility of € 300 million with an intended remaining term of 8.55 years.

The borrowers are Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv in their capacity as custodians of Vesteda Woningen. The borrowers have made the funds available to Vesteda Woningen. Interest is due quarterly and is based on the 3-month Euribor rate plus a mark-up which is different for each type. The mark-ups for the Term A1, Term A2, Term A3 and Term A4 are 0.12%, 0.15%, 0.20% and 0.28% respectively. The Term A notes are listed on the Euronext Amsterdam stock exchange. The legal term of the loans at the time of issue was twelve years. If, however, the intended term is exceeded there are sanctions relating in particular to distributions to those entitled to the results of the Vesteda Group. Early repayment is permitted, with limited penalty clauses applying to the A2, A3 and A4 bond loans.

The loans carry considerable reporting and information obligations. The following consequences arise if interest is not paid on time or other obligations are not met:

- payment of dividends and similar distributions are no longer permitted;
- a pledge is established on the bank accounts which receive the rents;
- the voting rights on the shares of Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv are transferred to the Security Trustee;
- a mortgage right is established in favour of the Security Trustee on the property up to an amount of 150% of the outstanding amount of the loans;
- liabilities may only be met out of the residential portfolio. Creditors have no right of recovery against the other assets (other than Vesteda Woningen) of the unit-holders.

If certain financial conditions (ratios) are not met, further sanctions are applicable. In addition to the above measures, the management's power to dispose of property is considerably restricted.

Number of employees

On average, the group employed 340 people (2005: 323) during the year; this was an average of 311.4 FTEs (2005: 294.4).

Liabilities not shown in the balance sheet

The total liabilities for obligations entered into for building contracts, rental and lease instalments are some € 322 million. The company has not provided security for these liabilities. The liabilities are made up as follows:

Amounts in millions of euros	building contracts	property leases	car leases
due:			
within 1 year	77	-	1
between 1 and 5 years	241	1	2
	318	1	3

Proposed distribution to investors

The various companies in the Vesteda Group distributed the following amounts to shareholders and unit-holders for the financial year 2006:

(amounts in millions of euros)	total
direct result	149
distribution as a result of disposals of property	83
total allocated for the financial year 2006, including € 102 million payable in April 2007	232

In view of the distributions already allocated, it is not proposed to make a final distribution.

Maastricht, 15 February 2007

The Management Board of Vesteda Groep bv:

H.C.F. Smeets, *chairman*

F.H. van der Togt

O. Breur

Auditor's report

We have audited the 'Financial statements Vesteda Group' for the year 2006, as set out on pages 83 to 95 of the Annual accounts of Vesteda Groep B.V., Maastricht, which comprise the balance sheet as at 31 December 2006, the profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the 'Financial statements Vesteda Group' and for the preparation of the management board report, both in accordance with the accounting principles as set out on pages 84 to 87. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the 'Financial statements Vesteda Group' that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the 'Financial statements Vesteda Group' based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 'Financial statements Vesteda Group' are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 'Financial statements Vesteda Group'. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 'Financial statements Vesteda Group',

whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 'Financial statements Vesteda Group' in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Vesteda Group. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 'Financial statements Vesteda Group'.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 'Financial statements Vesteda Group' give a true and fair view of the financial position of Vesteda Group as at 31 December 2006, and of its result for the year then ended as required in the given circumstances in accordance with the accounting principles as set out on pages 84 to 87.

Furthermore we have established to the extent of our competence that the report of the managing board is consistent with the 'Financial statements Vesteda Group'.

Maastricht, 15 February 2007

for Ernst & Young Accountants

was signed by J.G.K. van der Zanden



FINANCIAL STATEMENTS

VESTEDA GROEP BV

2016

Introduction

The Vesteda Group is divided into three organisationally-associated units: one responsible for ownership, one for property management and one for property development. Management and control are exercised by Vesteda Groep bv.

Accounting policies

GENERAL

These accounting policies apply to both the company financial statements and the consolidated financial statements of Vesteda Groep bv.

BASIS OF CONSOLIDATION

Vesteda Groep bv is at the head of a group of companies. The consolidated statements include the financial information of the following companies:

	Established in	Interest
Vesteda Groep bv	Maastricht	-
Vesteda Maastricht bv	Maastricht	100%

Vesteda Heerlen bv and vGA Nederland bv, both wholly-owned subsidiaries of Vesteda Groep bv were wound up during the financial year.

Consolidation has been performed by the integral method, under which assets and liabilities are included in full in the consolidated balance sheet. Income and expenditure are also accounted for in full.

As permitted by Section 402 of Book 2 of the Netherlands Civil Code, the company financial statements include a profit and loss account in abridged form.

ACCOUNTING POLICIES FOR VALUING ASSETS AND LIABILITIES

General

Unless otherwise mentioned, valuation is according to the historical cost convention. Amounts are shown at face value.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation based on the expected useful economic lives of the assets concerned.

Financial fixed assets

If controlling or significant influence is exercised on the commercial and financial policy of participating interests, those interests are accounted for using the equity method based on net asset value.

Receivables

Receivables are shown at face value less individual provisions for doubtful debts where necessary.

Provisions

Provisions are stated at face value.

ACCOUNTING POLICIES FOR THE DETERMINATION OF RESULTS

General

Operating expenses are stated at historical cost. Income is recognised when realised, expenses are recognised as soon as they become known. Income and expenses are allocated to the year to which they relate.

Management fee

The management fee relates to the amounts invoiced to companies in the Vesteda Group with respect to work performed. The cost-plus arrangements at Vesteda Groep bv are grossed up and, like the management expenses, included in full in the management fee.

Depreciation of tangible fixed assets

Depreciation is calculated using the straight-line method over the estimated useful economic lives of the assets concerned.

Share in results of participating interests

The share in the results is calculated in accordance with the accounting policies applied in these financial statements in proportion to the interest held.

Tax status

Vesteda Groep bv and Vesteda Maastricht bv are members of a tax group for corporate income tax purposes. The accounting policies for tax purposes do not differ from those for reporting purposes.

Consolidated balance sheet as at 31 December 2006

(after appropriation of result)

Amounts in thousands of euros	31-12-2006	31-12-2005
ASSETS		
Fixed Assets		
Tangible fixed assets (1)	4,115	4,030
Financial fixed assets (2)	52	-
	4,167	4,030
Current assets		
Receivables	1,154	915
Amounts receivable from group companies	1,934	3,483
Tax and social security charges	-	162
Cash (3)	6,083	442
	9,171	5,002
Total Assets	13,338	9,032
EQUITY AND LIABILITIES		
Group equity (4)	5,201	3,476
Current Liabilities		
Creditors	247	326
Tax and social security charges	2,268	-
Accruals and deferred income	5,622	5,230
	8,137	5,556
Total Equity and Liabilities	13,338	9,032

Consolidated profit and loss account for 2006

Amounts in thousands of euros	2006	2005
Total operating income	17,572	17,189
Expenses		
Subcontracted work	4,143	3,842
Salaries	5,875	4,767
Social security charges	621	437
Pension charges	1,031	1,176
Depreciation of tangible fixed assets	1,887	2,383
Other operating expenses	1,572	2,262
Total operating expenses	15,129	14,867
Result before tax	2,443	2,322
Tax	718	702
Result after tax	1,725	1,620

Consolidated cash flow statement for 2006

Amounts in thousands of euros	2006	2005
Realised result	1,725	1,620
Depreciation	1,887	2,384
Movement in working capital	4,053	4,296-
Cash flow from operating activities	7,665	292-
Investments in tangible fixed assets	1,972-	896-
Investments in financial fixed assets	52-	-
Cash flow from investment activities	2,024-	896-
Total cash flow	5,641	1,188-
Cash at end of year	6,083	442
Cash at beginning of year	442	1,630
	5,641	1,188-

NOTES TO THE CASH FLOW STATEMENT

The cash flow statement is prepared using the direct method. The funds in the cash flow statement consist exclusively of cash and cash equivalents.

Notes to the consolidated statements

TANGIBLE FIXED ASSETS (1)

Please see the notes to the company financial statements for further information on the tangible fixed assets.

FINANCIAL FIXED ASSETS (2)

Amounts in thousands of euros	1-1-2006	grants	repayments	31-12-2006
Loans receivable	-	52	-	52
Total	-	52	-	52

CASH (3)

The cash is at the free disposal of the company.

GROUP EQUITY (4)

Please see the notes to the company financial statements for further information on the group equity.

TRANSACTIONS WITH RELATED PARTIES

As the members of the Managing Boards of Vesteda Groep bv, Vesteda Project bv and Holding DRF bv are the same natural persons, these companies are regarded as related parties.

In 2006, there were transactions between Vesteda Groep bv and Vesteda Project bv for management fees recharged by Vesteda Groep bv to Vesteda Project bv amounting to € 2.5 million.

There were transactions between Vesteda Groep bv and Holding DRF bv (in this case, Vesteda Woningen) for management fees (including corporation tax and grossing up of corporation tax) recharged by Vesteda Groep bv to Holding DRF bv amounting to € 17.6 million.

The recharged amounts are at full absorption cost.

NUMBER OF EMPLOYEES

On average, the group employed 315 people (2005: 300) during the year; this was an average of 287.3 FTEs (2005: 232.3).

PENSIONS

Vesteda's pension scheme is classified as a defined-benefit scheme. There is insufficient information available from the pension fund for the required calculations to be made. Vesteda has no obligation to make additional payments in the event of a shortfall at the industry-wide pension fund other than higher future contributions. Vesteda is, therefore, treating the defined-benefit scheme as if it were a defined-contribution scheme.

LIABILITIES NOT SHOWN IN THE BALANCE SHEET

The total liabilities for obligations entered into for rental and lease instalments are some € 3,8 million.

The company has not provided security for these liabilities. The liabilities are made up as follows:

Amounts in thousands of euros	property leases	car leases
due:		
within 1 year	364	1,215
between 1 and 5 years	471	1,708
	835	2,923

Company balance sheet as at 31 December 2006

(after appropriation of result)

Amounts in thousands of euros	31-12-2006	31-12-2005
ASSETS		
Fixed Assets		
Tangible fixed assets (1)	4,115	4,030
Financial fixed assets (2)	64	58
	4,179	4,088
Current Assets		
Receivables	1,154	915
Amounts receivable from group companies	1,934	3,483
Tax and social security charges	-	162
Cash	6,070	381
	9,158	4,941
Total Assets	13,337	9,029
EQUITY AND LIABILITIES		
Shareholders equity (3)	5,201	3,476
Current Liabilities		
Creditors	247	326
Tax and social security charges	2,268	-
Accrued liabilities	5,621	5,227
	8,136	5,553
Total Equity and Liabilities	13,337	9,029

Company profit and loss account for 2006

Amounts in thousands of euros	2006	2005
Company result after tax	1,727	1,624
Result of participating interests after tax	2-	4-
Result after tax	1,725	1,620

Notes to the company financial statements

TANGIBLE FIXED ASSETS (1)

Amounts in thousands of euros	book value 1-1-2006	additions/ disposals	depreciation	book value 31-12-2006
Fixtures and fittings	2,593	1,115	885	2,823
Other fixed assets	1,437	857	1,002	1,292
Total	4,030	1,972	1,887	4,115

Accumulated depreciation on tangible fixed assets at 31 December 2006 was € 8.1 million.

FINANCIAL FIXED ASSETS (2)

Amounts in thousands of euros	book value 1-1-2006	grants	result of part. interest	disposals	book value 31-12-2006
Participating interests	58	-	2-	44	12
Loans receivable	-	52	-	-	52
Total	58	52	2-	44	64

SHAREHOLDERS EQUITY (3)

The company's authorised share capital is € 1,250,000 divided into 125,000,000 shares of € 0.01 nominal value each. The issued and paid up capital was € 250,000.

Amounts in thousands of euros	Issued share capital	Share premium	Total
Group equity as at 1 January 2006	250	3.226	3.476
Result for 2006	-	1.725	1.725
Group equity as at 31 December 2006	250	4.951	5.201

NUMBER OF EMPLOYEES

On average, the company employed 315 people (2005: 300) during the year; this was an average of 287.3 FTEs (2005: 272.3).

DIRECTORS REMUNERATION

The amount charged to the company for the remuneration of directors and former directors was € 1,382,000 (2005: € 1,412,000). This included social security charges and pension contributions of € 201,000 (2005: € 425,000).

The four supervisory directors' remuneration was € 130,488 (2005: € 133,000).

Maastricht, 15 February 2007

Managing Board:

H.C.F. Smeets, *chairman*

F.H. van der Togt

O. Breur

Supervisory Board:

W.F.T. Corpeleijn, *chairman*

P.S. van den Berg

D.J. de Beus

J.D. Doets



OTHER INFORMATION

VESTEDA GROEP BV

2016

Appropriation of profit

ARTICLES OF ASSOCIATION PROVISIONS GOVERNING THE APPROPRIATION OF PROFIT

Article 37 of the Articles of Association of Vesteda Groep bv reads:

- 37.1 No distribution of profits pursuant to the provisions of this article shall be made until financial statements showing that such distribution is permissible have been adopted.
- 37.2 The profit shall be at the disposal of the general meeting of shareholders.
- 37.3 The company may only make distributions to shareholders and to others entitled to receive a share of the profits insofar as its shareholders' equity exceeds the amount of the issued capital plus the reserves required to be held by law.
- 37.4 Deficits may only be offset against the statutory reserves to the extent permitted by law.

PROPOSED APPROPRIATION OF RESULT

The Managing Board proposes that the profit for the year of € 1,725,165 be added to the reserves. This proposal has been incorporated in the financial statements.

Auditor's report

Report on the financial statements

We have audited the financial statements 2006 of Vesteda Groep bv, Maastricht, which comprise the balance sheet as at 31 December 2006, the profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the management board report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal

control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Vesteda Groep bv as at 31 December 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the management board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Maastricht, 15 February 2007

for Ernst & Young Accountants

was signed by J.G.K. van der Zanden



Introduction

The Vesteda Group is divided into three organisationally-associated units: one responsible for ownership, one for property management and one for property development. The legal owners of the property are Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv. Dutch Residential Fund IV bv has embodied the beneficial ownership of the property portfolio in units in Vesteda Woningen, a common fund. Vesteda Woningen is a closed-end common fund, pursuant to the Corporation Tax Act 1969.

A common fund is not a legal entity but a vehicle in which property is brought together for collective investment in order for the unit-holders to share in the proceeds. A common fund has one or more custodians and a manager. The custodians have title to manage the property of Vesteda Woningen on behalf of the unit-holders.

In their capacity as custodians, Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv are legally entitled to all the property belonging to Vesteda Woningen on behalf of the unit-holders. The unit-holders have the beneficial entitlement to these assets.

Participation in Vesteda Woningen may be either direct (units) or through Holding Dutch Residential Fund bv, but participation also involves an obligation to invest to an equal percentage in Vesteda Groep bv (management) and Vesteda Project bv. Vesteda Groep bv has the mandate to enter into rights and obligations with respect to the properties.

The rights and obligations of the holders of units in Vesteda Woningen are set out in the Participation Agreement. Vesteda Groep bv has been appointed as manager of the fund.

Accounting policies

Vesteda Woningen is not a legal entity. It is the summation of all the rights and obligations associated with the properties. The rights and obligations are shared among the unit-holders. A unit reflects the rights and obligations as applicable to a unit-holder and set out in the conditions for management and custody.

As Vesteda Woningen has similarities to a company, the financial statements below use terminology customarily used in financial statements.

ACCOUNTING POLICIES FOR VALUING ASSETS AND LIABILITIES

Property

The Development Portfolio is stated at the lower of cost and market value. On completion of a project, the complex is included in the Letting Portfolio or disposed of.

The Letting Portfolio is stated at current value. Pursuant to Guideline 213 'Investment properties', the complexes in this portfolio are stated at fair value, being the higher of market value with sitting tenants and net realisable value on disposal of complete complexes to organisations specialising in the selling of individual units. A condition when establishing the current value is that if the market value with sitting tenants is higher, the current value will be no more than 110% of the net realisable value in the case of disposals of complete complexes to organisations specialising in the selling of individual units. New properties are valued at the lower of cost and market value for the first two years after completion. At the end of 2006, all complexes which were fully available for letting before 2005 were stated at current value. The market value with sitting tenants and the appraised net realisable value in the case of disposals of complete complexes to organisations specialising in the selling of individual units are determined by the discounted cash flow method. At least 50% of the portfolio is appraised during the year by external valuers and the valuation of the remaining portfolio is updated by a valuer. Conveyancing charges and other selling costs are taken into account in determining both the net realisable value in the case of disposals of complete complexes to organisations specialising in the selling of individual units and the market value with sitting tenants.

Financial fixed assets

The interest-rate caps are stated at historical cost less amortisation based on the period for which they have been concluded, in relation to the outstanding principal sums of the loans.

Loans receivable are stated at face value. Where necessary there is a write-down for doubtful debts.

Receivables

Receivables are shown at face value less individual provisions for doubtful debts where necessary.

Other long-term liabilities

This is the DCPH grant equalisation account. Grants received in connection with the grossing-up operation not already taken into account in the value of the investments as at 1 January 1998 are included in this equalisation account and are being released to income over a period of ten years. Grants are taken directly to the profit and loss account upon the sale of property for which grants have been received.

Other

Unless otherwise mentioned, valuation is according to the historical cost convention. Amounts are shown at face value.

ACCOUNTING POLICIES FOR THE DETERMINATION OF RESULTS

General

Operating expenses are stated at historical cost. Income is recognised when realised, expenses are recognised as soon as they become known. Income and expenses are allocated to the year to which they relate.

Rental income

This item includes the total rents invoiced to tenants in respect of the financial year. The amount shown, therefore, takes account of rent lost due to vacancies and discounts. Rental income does not include service charges paid in advance by tenants.

Letting expenses

Letting expenses comprise costs directly attributable to a specific complex. These costs are mainly maintenance costs, property tax and other levies, insurance premiums, management and letting fees and service costs not chargeable to tenants. There is no equalisation provision for major maintenance.

Grants and other income

This includes releases from the DCPH grant.

Property management expenses

Any operating expenses that cannot be allocated directly to the various properties are regarded as property management expenses. Property management expenses relate mainly to expenses recharged by Vesteda Groep bv. In addition, the Participation Agreement specifies that Holding Dutch Residential Fund bv and subsidiaries attribute expenses and liabilities to Vesteda Woningen.

The cost-plus arrangements at Vesteda Groep bv are grossed up and, like the management expenses, recharged in full to Vesteda Woningen.

Interest income and expense

Interest income and expense are stated at face value. Interest expense includes the amortisation of the interest-rate caps.

Realised result

The realised result is the sum of the net letting income and other income less property management expenses and net interest charges, plus the results realised on property disposals. The result on disposals is the proceeds from sales (less any facilitation costs) less the most recent value of the properties sold, established each quarter.

Unrealised result

The unrealised indirect result is made up of the total of unrealised revaluations as a consequence of external and internal appraisals.

Tax status

Vesteda Woningen is a closed-end common fund, meaning that it is transparent for corporation tax and capital tax purposes. For tax purposes, the assets and liabilities and income and expenses of Vesteda Woningen are attributed directly to the investors holding units in Vesteda Woningen.

Balance sheet as at 31 December 2006

(after appropriation of result)

Amounts in millions of euros	31-12-2006	31-12-2005
ASSETS		
Fixed Assets		
Property (1)	4,366	4,113
Financial fixed assets (2)	31	49
	<u>4,397</u>	<u>4,162</u>
Current Assets		
Amounts receivable from group companies	1	-
Receivables	22	15
Cash (3)	33	1
	<u>56</u>	<u>16</u>
Total Assets	4,453	4,178
EQUITY AND LIABILITIES		
Fund capital (4)	3,005	2,806
Long-term Liabilities		
Amounts owed to group companies (5)	1,300	1,300
Other long-term liabilities (6)	-	9
	<u>1,300</u>	<u>1,309</u>
Current Liabilities		
Amounts owed to group companies	-	3
Tax and social security charges	3	6
Other current liabilities	6	9
Accruals and deferred income	139	45
	<u>148</u>	<u>63</u>
Total Equity and Liabilities	4,453	4,178

Profit and loss account for 2006

Amounts in millions of euros	2006	2005
Income		
Rental income	221	219
Less: Letting expenses	62	57
Net letting income	159	162
Grants and other income	6	6
Total operating income	165	168
Expenses		
Property management expenses	17	17
Interest income	3	4
Interest expense	50	42
Operating result	101	113
Result on disposals	45	76
Realised result	146	189
Unrealised result	285	206
Result	431	395

Cash flow statement for 2006

Amounts in millions of euros	2006	2005
Realised result	146	189
Release of DKPH grant	5-	6-
Amortisation of financial fixed assets	9	9
Movement in working capital	29-	8
Cash flow from operating activities	121	200
Investments in property	166-	179-
Disposals/investments in financial fixed assets	4	24
Transfer of disposals/investments in ffa to current	5	-
Disposals of property	198	285
Cash flow from investment activities	41	130
Movements in class A notes 2002-2004	-	1,300-
Movements in class A notes 2005	-	1,300
Distributions to unit-holders	130-	340-
Cash flow from financing activities	130-	340-
Total cash flow	32	10-
Cash at end of year	33	1
Cash at beginning of year	1	11
	32	10-

NOTES TO THE CASH FLOW STATEMENT

The cash flow statement has been prepared using the indirect method. The funds in the cash flow statement consist exclusively of cash and cash equivalents. Receipts and expenditure in connection with interest and tax on profit are included in the cash flow from operating activities. Dividends paid are included in the cash flow from financing activities.

Notes

PROPERTY INVESTMENTS (1)

Amounts in millions of euros	Development portfolio	Letting portfolio		Total
		Letting phase	Letting/selling phase	
Value as at 1 January 2006	325	3,079	709	4,113
Additions	120	35	11	166
Disposals	-	-	198-	198-
Internal transfers	357-	-	357	-
Subtotal	88	3,114	879	4,081
Revaluations during financial year	-	231	54	285
Value as at 31 December 2006	88	3,345	933	4,366

FINANCIAL FIXED ASSETS (2)

Amounts in

millions of euros	01-01-06	additions	disposals	to current	31-12-06
Interest-rate caps	20	-	8	-	12
Financing charges	2	-	1	-	1
Loans receivable Dutch Residential Fund I bv	8	-	-	2	6
Loans receivable Dutch Residential Fund II bv	8	-	-	2	6
Loans receivable Dutch Residential Fund III bv	7	-	-	1	6
Other loans receivable	4	-	4	-	-
	49	-	13	5	31

Vesteda has entered into four interest-rate-cap agreements with a finance institution with the intention of hedging interest-rate risks. This limits the risks of rising interest rates on the external financing. Swap agreements were concluded in July 2005 which will take effect on the expiry of the interest-rate-cap-agreements. The terms of the agreements are in line with the remaining terms of the bond loans concluded in 2005. These agreements fully hedge the risk of fluctuations in interest rates.

At year end 2006, the interest-rate caps had a current value of € 0.8 million (2005: € 0.8 million) and the swap agreements had a current value of € 21.9 million (2005: -€ 7.0 million).

Interest is charged on the loans to the custodians based on 3-month Euribor. No security has been provided.

Part of the loans to Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv will be repaid in September 2007.

CASH (3)

The cash is at the free disposal of the company.

FUND CAPITAL (4)

Amounts in millions of euros	issued capital	share premium	revaluation reserve	other reserve	total
Balance as at					
1 January 2006	-	2,206	600	-	2,806
2006 dividend	-	65-	-	167-	232-
Result for 2006	-	-	285	146	431
Realised from sales	-	-	21-	21	-
Balance as at	-	2,141	864	-	3,005

31 December 2006**AMOUNTS OWED TO GROUP COMPANIES (5)**

Amounts in millions of euros	01-01-06	additions	repayments	31-12-06
Vesteda Residential Funding II bv for				
A1 notes	200	-	-	200
A2 notes	400	-	-	400
A3 notes	400	-	-	400
A4 notes	300	-	-	300
	1,300	-	-	1,300

In 2005, Vesteda Residential Funding II bv issued a total of € 1,300 million of new variable-rate bonds consisting of:

- € 200 million class A1 secured floating-rate notes;
- € 400 million class A2 secured floating-rate notes;
- € 400 million class A3 secured floating-rate notes;
- € 300 million class A4 secured floating-rate notes.

Vesteda Residential Funding II bv is a company specially incorporated to manage the financing for Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv under agreements between these parties, Vesteda Group and the Security Trustee. Vesteda Residential Funding II bv also has the duty of providing security in connection with the financing. All the shares in Vesteda Residential Funding II bv are owned by the Stichting Vesteda Residential Funding II. The manager of the Stichting is ATC Management bv.

The proceeds of the issue by Vesteda Residential Funding II bv have been lent to Dutch Residential I Fund bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv. As a result of the above activities, the Vesteda Group had the following facilities as at the balance sheet date:

- Term A1 Facility of € 200 million with an intended remaining term of 1.55 years;
- Term A2 Facility of € 400 million with an intended remaining term of 3.55 years;
- Term A3 Facility of € 400 million with an intended remaining term of 5.55 years;
- Term A4 Facility of € 300 million with an intended remaining term of 8.55 years.

The borrowers are Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv in their capacity as custodians of Vesteda Woningen. The borrowers have made the funds available to Vesteda Woningen. Interest is due quarterly and is based on the 3-month Euribor rate plus a mark-up which is different for each type. The mark-ups for the Term A1, Term A2, Term A3 and Term A4 are 0.12%, 0.15%, 0.20% and 0.28% respectively. The Term A notes are listed on the

Euronext Amsterdam stock exchange. The legal term of the loans at the time of issue was twelve years. If, however, the intended term is exceeded there are sanctions relating in particular to distributions to those entitled to the results of the Vesteda Group. Early repayment is permitted, with limited penalty clauses applying to the A2, A3 and A4 bond loans.

The loans carry considerable reporting and information obligations. The following consequences arise if interest is not paid on time or other obligations are not met:

- payment of dividends and similar distributions are no longer permitted;
- a pledge is established on the bank accounts which receive the rents;
- the voting rights on the shares of Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv are transferred to the Security Trustee;
- a mortgage right is established in favour of the Security Trustee on the property up to an amount of 150% of the outstanding amount of the loans;
- liabilities may only be met out of the residential portfolio. Creditors have no right of recovery against the other assets (other than Vesteda Woningen) of the unit-holders.

If certain financial conditions (ratios) are not met, further sanctions are applicable. In addition to the above measures, the management's power to dispose of property is considerably restricted.

OTHER LONG-TERM LIABILITIES (6)

As 2007 is the final year of the release of ДКРН grant equalisation account, this item is classified as a current liability.

Liabilities not shown in the balance sheet

At the end of 2006 Vesteda Woningen had liabilities of some € 2 million that are not shown in the balance sheet. They relate to obligations for building contracts which are of a short-term nature.

Unit-holders

At the end of 2006, the unit-holders in Fonds Vesteda Woningen were:

ING Real Estate

Delta Lloyd

Dutch Residential Fund IV bv

Holding Dutch Residential Fund bv

Proposed distribution to investors

Vesteda Woningen allocated a total of € 232 million to unit-holders in 2006, including € 102 million payable in April 2007.

	€	%
Net asset value as at the beginning of 2006	€ 112,25	100.0%
Realised result	€ 5.81	5.2%
Unrealised result	€ 11.41	10.2%
Allocation to unit-holders for 2006	€ 9.28-	-8.3%
Net asset value as at the end of 2006	€ 120.19	107.1%

In view of the distributions already made, it is not proposed to distribute a final distribution.

Maastricht, 15 February 2007

The manager:
Vesteda Groep bv

The custodians:
Dutch Residential Fund I bv, Dutch Residential Fund II bv and Dutch Residential Fund III bv.

For the above:
H.C.F. Smeets, *chairman*
F.H. van der Togt
O. Breur

Auditor's report

We have audited the 'Financial statements Vesteda Woningen' for the year 2006, as set out on pages 117 to 127 of the Annual accounts of Vesteda Groep bv, Maastricht, which comprise the balance sheet as at 31 December 2006, the profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the 'Financial statements Vesteda Woningen' and for the preparation of the management board report, both in accordance with the accounting principles as set out on pages 118 to 120. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the 'Financial statements Vesteda Woningen' that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the 'Financial statements Vesteda Woningen' based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 'Financial statements Vesteda Woningen' are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 'Financial statements Vesteda Woningen'. The procedures selected depend on the auditor's judgment, including the assessment of the risks of

material misstatement of the 'Financial statements Vesteda Woningen', whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 'Financial statements Vesteda Woningen' in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Vesteda Woningen. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 'Financial statements Vesteda Woningen'.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 'Financial statements Vesteda Woningen' give a true and fair view of the financial position of Vesteda Woningen as at 31 December 2006, and of its result for the year then ended required in the given circumstances in accordance with the accounting principles as set out on pages 118 to 120.

Furthermore we have established to the extent of our competence that the report of the managing board is consistent with the 'Financial statements Vesteda Woningen'.

Maastricht, 15 February 2007

for Ernst & Young Accountants

was signed by J.G.K. van der Zanden

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