



RISK FACTORS

- 1 Market risks
- 2 Operational risks
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- 4 Regulatory risks

In 2022, as always, the supervisory board paid attention to the risk factors to which Intervest is subject.

The supervisory board confirms the validity of the risks which Intervest may face, their possible impact and the strategy used to mitigate the potential impact, as they are listed below.

The supervisory board follows the permanent evolutions on the real estate and the financial markets by monitoring continuously the results and the financial situation of Intervest with an increased attention for the measures taken by Intervest in order to limit as much as possible and control the possible negative impact of these risks.

Permanent evolutions in the real estate and financial markets require continuous monitoring of the market, operational, financial, regulatory and ESG risks in order to safeguard the results and financial situation of Intervest.

In this chapter, the main specific and material risks faced by the company are described. These risks are divided into the categories of market risks, operational risks, financial risks and regulatory risks and are ranked within each category in order of materiality, based on their probability of occurrence and the expected magnitude of their negative impact on Intervest should they occur. Per risk, first the risk is named and then the remaining possible negative impact on Intervest if the risk were to materialize,

Readers are reminded that these risks are continuously evaluated and that new risks can be identified. This list is therefore non-exhaustive and based on the information that was available at the time this report was published.

In addition, it should be noted that risk management is not an exercise that takes place with a certain frequency, but that it is integral to how the company is managed. This comprises daily financial and operational management, analysis of new investment files, formulating the strategy and objectives, but also establishing strict procedures for decision-making. Understanding of and defending against risks that arise from internal as well as external factors are essential for achieving a total return in the long term.

Finally, readers are reminded that Intervest also faces general risks that are considered and monitored in the company's risk assessment and risk management. However, such general risks are not mentioned separately in this chapter.

1 Market risks

Risks related to inflation

The current inflation may increase financing costs and capitalization rates as a result of rising interest rates and thus cause a decrease in the fair value of Intervest's real estate investments.

As at 31 December 2022, 99,7% of Intervest's leases contain an indexation clause under which rents are indexed according to the evolution of the Belgian health index and the Dutch consumer price index. In 86% of the contracts this is an unlimited index, in 3% of the contracts one or more contract years are skipped, 5% of the contracts have a fixed index and in 6% of the contracts there is a maximum index, which on average is around 4,5%. Indexation clauses take effect immediately. All leases have adjustment options at the break date.

Despite the automatic indexation of the rent, there is a risk that the rent under these leases will rise less rapidly than the market rent. However, there is also the possibility that market rents may rise less than inflation or even fall, in which case the indexation applied would not apply upon lease renewal or the conclusion of new leases. Based on the contractual annual rents, the leases due to expire next in 2023 cover 9% of the portfolio (logistics real estate and offices). If in the future Intervest is unable to include similar indexation or adjustment clauses in its leases, its exposure to this inflation risk will increase.

Potential impact:

- › Less rapid increase in rent under lease agreements than in the market.
- › Increase in financial cost due to increase in long-term interest rates in credit renewals. See risk factor "Risks associated with access to and cost of financing and use of hedging instruments."
- › Decrease in the fair value of investment properties. See risk factor "Risks associated with negative variations in the fair value of properties."

Risks related to investment and rental markets

Evolutions in the investment markets may cause the fair value of Intervest's real estate investments to decline or require Intervest to make investments or divestments at a bad time in the business cycle, as a result of which real estate may be purchased at too high a price relative to fair value or sold at too low a price relative to fair value, respectively. More specifically, periods of pronounced boom give rise to higher market prices that may be subject to negative corrections at a later date, and periods of declining business cycles tend to give rise to a decline in the fair value of investment properties. Therefore, in periods of upturn, a more active investment policy is pursued, anticipating rising fair values of investment properties and a more active rental market. During boom periods, a more moderate investment policy will be pursued.

Evolutions in rental markets may contribute to this risk if they result in rental income from investment properties being too low relative to investment. In the logistics property market, increasing omnichannel strategy, supply chain revisions and sustainability considerations, among others, may trigger changes in the logistics approach and affect demand for the logistics property in Intervest's portfolio. In the office market, drivers such as the co-working model and the need for more flexible use of office space - facilitated by technological evolution and reinforced by the shift to a more hybrid way of working, accelerated by the COVID pandemic and made permanent for many organizations - have already led to major changes in office use and will eventually lead to environments where working, living, leisure, shopping and living are all combined. These evolutions could lead to reduced demand for the logistics property or offices in Intervest's portfolio, resulting in higher vacancy rates or lower rents and thus reduced rental income. As part of its #connect2025 strategy, Intervest has decided not to purchase any more new office space and to fully focus on its own developments and redevelopments in the logistics segment. Consequently, the risk exposure to the office segment will decrease and that to the logistics segment will increase.

Finally, the current economic cycle (which includes high market volatility, deteriorating macroeconomic prospects and higher interest rates) may affect the investment and leasing markets for both logistics properties and offices and contribute to the risks that Intervest may have to make investments or disinvestments at a bad time in the business cycle, that demand for the buildings in Intervest's portfolio may fall at adequate rents or that Intervest's tenants may become insolvent.

Potential impact:

- › Impairment of operating result and cash flow due to investments and divestments at an unfavorable price, possibly combined with declining rental income due to reduced demand for the buildings in which investments were made. A 1% decrease in rental income would result in a € 0,7 million (or 1,6%) decrease in EPRA earnings as at 31 December 2022, a € 0,42 (or 1,8%) decrease in net share value (fair value) and a 0,4% increase in the debt ratio.
- › A decrease in the fair value of investment properties. See risk factor "Risks associated with negative variations in the fair value of properties".

2 Operational risks

Risks related to negative changes in the fair value of the buildings

The fair value of the real estate portfolio is subject to change and depends on various factors. Examples include the decrease in occupancy rates or rents (see risk factor "Risks associated with rental markets"), the increase in construction costs (see risk factor "Risks associated with development and redevelopment projects") the increase in operating costs and investments for maintenance (see risk factor "Risks associated with building obsolescence and maintenance"), tenant default (see risk factor "Risks associated with tenant default") and inflation and rising interest rates (see risk factor "Risks associated with inflation"). Such factors can result in a negative revaluation of the property portfolio. Intervest has a diversified portfolio with a maximum risk per building of less than 8% of fair value.

As at 31 December 2022, the fair value of the real estate portfolio was set at € 1.333.418.418, which, due to the current economic climate (including high market volatility, deteriorating macroeconomic prospects and higher interest rates), implies a negative revaluation in the amount of € 26,1 million (or 1,96%) compared to the fair value of the real estate portfolio as at 31 December 2021.

Potential impact:

- › As at 31 December 2022, a 1% decrease in the fair value of investment properties would result in a € 0,42 (or 1,8%) decrease in net share value (fair value) and a 0,4% increase in the debt ratio.
- › As at 31 December 2022, a decrease in the fair value of the property portfolio in the amount of € 366 million would result in the maximum consolidated debt ratio of 65% being exceeded. See risk factor "Risks associated with the financial debt ratio".

Risks related to lower rents or occupancy rates

Intervest leases the buildings in its portfolio in order to achieve a stable cash flow, for which a continuous and high occupancy rate at appropriate rents is essential. There is a risk that Intervest will find it more difficult to let the buildings in its portfolio, resulting in a lower rent or occupancy rate and consequently reduced rental income.

Drivers behind this risk include evolutions in rental markets and the current economic climate. In the logistics property market, among other things, an increasing omnichannel strategy, supply chain revisions and sustainability considerations may trigger changes in the logistics approach and consequently influence the demand for the logistics property in Intervest's portfolio. In the office market, drivers such as the co-working model and the need for a more flexible use of office space - facilitated by technological evolution and reinforced by the shift to a more hybrid way of working, accelerated by the COVID pandemic and made permanent for many organizations - have already led to major changes in the use of offices and will eventually lead to environments where working, living, leisure, shopping and living go hand in hand. Finally, the current economic climate (which includes high market volatility, deteriorating macroeconomic prospects and higher interest rates) may affect the rental markets for both logistics properties and offices and give rise to a reduction in demand for such properties, higher vacancy rates or lower rents in the event of reletting and tenant insolvency. Other factors affecting this risk include the nature and location of the property, the extent to which it must compete with nearby properties, the intended target market and users, the quality of the property, the quality of the tenant and the lease agreement.

As at 31 December 2022, Intervest's portfolio consists of 47% logistics property in Belgium, 26% logistics property in the Netherlands and 27% offices in Belgium. The average term to first maturity of the leases in the logistics portfolio is 5,3 years in Belgium and 6,5 years in the Netherlands. The logistics real estate in portfolio has an occupancy rate of 96% in Belgium and 100% in the Netherlands. The leases coming to first maturity in 2023, based on contractual annual rents, cover 4,2% of the total portfolio and represent a total annual gross rental income of € 3,2 million. The average term to first maturity of leases in the office market is 2,9 years. The offices in the portfolio have an occupancy rate of 76% and the leases coming to first maturity in 2023, based on the contractual annual rents, cover 4,6% of the office portfolio and represent a total annual gross rental income of € 3,5 million. Given that high occupancy rate - in office portfolio and even more so in logistics portfolio - the risk of vacancy exceeds the potential to increase occupancy.

As part of its #connect2025 strategy, Intervest has decided to stop acquiring new office space and to focus fully on its own developments and redevelopments in the logistics segment. Consequently, the risk exposure to the office segment will decrease and the risk exposure to the logistics segment will increase.

Potential impact:

- › Affecting operating income and cash flow due to lower rents, increasing vacancy rates and higher reletting costs. A 1% decrease in rental income would result in a 1,6% decrease in EPRA earnings per share as at 31 December 2022, a 1,8% decrease in net share value (fair value) and a 0,4% increase in debt ratio.
- › Decrease in the fair value of investment properties. See risk factor "Risks associated with negative variations in the fair value of properties".

Risks related to the aging and maintenance of buildings

As a landlord, Intervest is in principle responsible for major maintenance work and repairs to the buildings in its portfolio, while the tenants are responsible for regular maintenance (maintenance of windows and windows, technical maintenance, maintenance of greenery, etc.) and minor repairs.

The condition of the buildings is deteriorating because of wear and tear on various components due to ageing, while the buildings have to meet increasingly stringent (legal or social) requirements. The average age of the buildings in the portfolio is 17 years (37% between 0 and 5 years, 12% between 6 and 10 years, 6% between 11 and 15 years, 14% between 16 and 20 years and 31% older than 20 years).

As the age of the buildings in the portfolio increases and in order to continue to meet increasing (legal or social) requirements, maintenance and renovation works have to be carried out in order to continue to attract a sufficiently high quality tenant base and to continue to realize the pre-estimated rent. Those works may give rise to substantial costs and investments. In addition, those works are exposed to a possible increase in construction costs and to possible difficulties in the supply of raw materials or materials, for which Intervest is largely dependent on macroeconomic developments, such as the volatility of raw material prices (which is influenced by the volatility of energy prices) and basic materials and supply chain disruptions. Finally, those works may result in temporary and/or partial unrentability of buildings.

Historically, an average maintenance budget of about 2% of rental income was provided for maintenance of the existing portfolio. In 2022, total investments in the existing portfolio amounted to € 3 million (or 2,4% of the fair value of properties available for lease or 4,1% of rental income). An additional € 2,3 million was spent on maintenance and reinstatement works in 2022.

For the existing portfolio, the company anticipates a maintenance budget of € 1,3 million (0,1% of the fair value of the property available for lease or 1,8% of rental income) for 2023 and an additional € 0,8 million (0,1% of the fair value of the property available for lease or 1,1% of rental income) for reinstatements. The company has factored in a capex budget of € 15 million for 2023 for larger value-enhancing renovations and innovative or sustainable investments. In addition - based on a consideration of the required capex and incoming rent versus the potential sale price - obsolete buildings will be disposed of.

Potential impact:

- › Impairment of operating income and cash flow due to temporary and/or partial vacancy. A 1% decrease in rental income would result in a 1,6% decrease in EPRA earnings per share as at 31 December 2022, a 1,8% decrease in net share value (fair value) and a 0,4% increase in debt ratio.
- › Decrease in the fair value of investment properties. See risk factor "Risks associated with negative variations in the fair value of properties".

Risks related to (re)development projects

(Re)development projects constitute 5,4% of Intervest's portfolio as at 31 December 2022. This includes (i) the following licensed (re)development projects: Genk Green Logistics - unit 18/19 (expected completion H1 2023), Herentals Green Logistics - unit 1B (expected completion Q1 2023), Greenhouse Woluwe Garden (expected completion 2024), Zellik (expected completion 2024), 's-Hertogenbosch Rietvelden (expected completion Q2 2023), as well as (ii) the following land reserves for which no concrete work has yet started: Genk Green Logistics (expected completion 2023-2025), Puurs (expected completion 2024) and Venlo.

Specific risks are associated with (re)development projects. On the one hand, the (re)development projects are influenced by the choice of the right use format, finding the right external service providers (architects, engineering firms, contractors, other consultants) and partners and obtaining, maintaining or renewing the necessary permits as well as increasing regulations and customer preferences and societal attitudes regarding environmental qualifications (ESG). On the other hand, the (re) development projects are exposed to a possible increase in construction costs and to possible difficulties in the supply of raw materials or materials, for which Intervest is largely dependent on macroeconomic developments, such as the volatility of raw material prices (which is influenced by the volatility of energy prices) and basic materials and supply chain disruptions. These and other factors, among others, can lead to delays, poor execution and failure to achieve the targeted quality or sustainability levels and budget overruns, and thus delayed rental income and potentially increased (financial) costs. Intervest normally launches development projects - barring exceptions (in 2022 only Greenhouse Collection and Zeebrugge Green Logistics acquired after the start of development by the seller) - only if the necessary permits are in place and they are largely pre-let and fully financed. Intervest bears the construction risk for all projects in its portfolio as at 31 December 2022.

Potential impact:

- › Risk that necessary permits are not obtained or are challenged and later obtained.
- › Development delays, rising construction costs, organizational problems in the supply of materials or failure to achieve the targeted quality and sustainability levels, resulting in reduced rental income or delay or loss of rental income.
- › Failure to achieve targeted returns on (re)development projects.

Risks related to tenant defaults

Intervest cannot exclude the possibility of tenants defaulting on rent payments. Contractual provisions in leases always provide for deposits or bank guarantees, and for an average of five months, and for the prepayment of rent on a monthly or quarterly basis (with a (three) monthly provision for rental charges and taxes that may be contractually passed on to tenants). Full or partial default by tenants in excess of such guarantees could affect rental income, cash flow and occupancy rates.

Potential impact:

- › As at 31 December 2022, outstanding trade receivables amounted to € 2,1 million and bad debts amounted to € 0,5 million. A € 1 million increase in bad debts would reduce EPRA earnings by 2,2%.
- › Operating result and cash flow affected by loss of rental income and write-off of uncollected trade receivables, as well as increase in uncharged service costs due to vacancy and court costs. A 1% decrease in rental income would result in a 1,6% decrease in EPRA earnings per share as at 31 December 2022, a 1,8% decrease in net share value (fair value) and a 0,4% increase in debt ratio.
- › Decrease in the fair value of investment properties. See risk factor “Risks associated with negative variations in the fair value of properties”.

3 Financial risks

Risks related to the financial debt ratio

Intervest seeks to maintain a debt ratio between approximately 45% and 50%, unless a clear overheating of the logistics real estate market would significantly increase the fair value of the real estate portfolio, in which case the target debt ratio will be prudently adjusted downward to 40 to 45%. Intervest has a consolidated debt ratio of 48% as at 31 December 2022. A relative increase in debt to equity can result in higher returns but can also carry risks. As at 31 December 2022, Intervest has investment capacity of € 675 million before reaching the maximum consolidated debt ratio of 65% for RRECs. The room for further investments is approximately € 415 million before exceeding the maximum debt ratio of 60% which is included in most bank covenants in Intervest’s financing agreements.

The fair value of the real estate portfolio also affects the debt ratio. As at 31 December 2022, a decrease in the fair value of the real estate portfolio in the amount of € 365 million would result in exceeding the maximum consolidated debt ratio of 65% and a decrease in the fair value of the real estate portfolio in the amount of € 279 million would result in exceeding a debt ratio of 60%.

Potential impact:

- › Stricter supervision by the relevant regulator and, ultimately, the loss of RREC status (see risk factor “Risks associated with the loss of public RREC and IRREC status”). In addition, RRECs may not pay dividends if their consolidated debt ratio has increased to more than 65% or would increase above that limit as a result of the distribution.
- › Termination or renegotiation of financing agreements or mandatory early repayment of outstanding amounts due to breach of the covenants in Intervest’s financing agreements, which relate, among other things, to the consolidated financial debt level (maximum debt ratio of 60%) (see risk factor “Risks associated with non-compliance with financial covenants”).

- › Inability to meet interest and debt repayment obligations and other payment obligations, resulting in the possible forced sale of investment properties on less favorable terms in order to continue to meet payment obligations, with a negative impact on results and net worth.
- › More difficult access to additional debt financing or additional debt financing at a higher cost. A 100 basis point increase in Euribor rates would result in a € 1,7 million (4%) decrease in EPRA earnings as at 31 December 2022.

Risks related to non-compliance with financial covenants

Intervest has credit lines amounting to € 829 million as at 31 December 2022. Further clarification on these credits and repayment terms can be found in the chapter “Financial structure - Note on the financial structure” in the Activity Report. The credit agreements contain covenants relating to compliance with financial ratios, these mainly concern the consolidated financial debt level (maximum debt ratio of 60%) or the financial interest burden (interest cover ratio minimum 2 to 2,5), the prohibition of mortgaging or pledging real estate investments and the *pari passu* treatment of creditors.

Potential impact:

- › Cancellation, renegotiation, termination or early call of financing agreements by the financial institutions in the event of non-compliance with the covenants and, in particular, non-compliance with the imposed financial ratios.
- › Need, if a financing agreement is compromised, to potentially enter into other financing on less favorable terms or sell investment properties in order to continue to meet payment obligations, with a negative impact on results..

Risks related to access and cost of funding and use of hedging instruments

Intervest relies heavily on its ability to raise financial resources, in the form of equity or debt (including through bonds), to finance its operations and to meet its daily payment obligations. In total, as at 31 December 2022, Intervest has € 829 million of credit lines, of which € 85 million mature within one year, and € 200 million of undrawn credit lines.

Several factors may make it more difficult for Intervest to access financing. Examples include disruptions or volatility in international markets, reduced lending capacity of banks, reduced creditworthiness of Intervest, negative investor perception of real estate companies and failure to meet increasing investor expectations regarding certain environmental (ESG) qualifications and transparent reporting on them.

As at 31 December 2022, the nominal amount of outstanding financing debt was € 629 million. Of the credit lines drawn as at 31 December 2022, 72% have fixed interest rates or are fixed by interest rate swaps and 28% have variable interest rates. Intervest’s profitability and its ability to make future investments therefore depends to a large extent on interest rate developments. An increase in interest rates makes the cost of capital more expensive for Intervest.

In the composition of the loan portfolio, Intervest pursues a strategy to bring the hedging ratio to 80%. As at 31 December 2022, the weighted average remaining maturity of the interest rate swaps is 4,5 years.

The fair value of hedging instruments is determined by interest rates on the financial markets. Changes in these interest rates explain the fluctuation in the value of financial hedging instruments between 1 January 2022 and 31 December 2022, as a result of which income of € 32,3 million was recognized in the income statement. When interest rates fall sharply, derivatives used to hedge interest rate risk receive a negative value. In the event of a sharp rise in interest rates, it is uncertain whether Intervest will be able to conclude sufficient financial hedging instruments or whether they will be able to be concluded on acceptable terms. Fluctuations in the fair value of the authorized hedging instruments have no impact on cash flow as these financial derivatives are held until maturity of these contracts. Only early settlement would incur additional costs.

Potential impact:

- › Financing at higher costs, resulting in impairment of EPRA earnings and cash flow and a higher debt ratio. A 100 basis point increase in Euribor rates would result in a € 1,7 million (-4%) decrease in EPRA earnings as at 31 December 2022.
- › Liquidity problems and inability to finance acquisitions or developments or to meet interest and repayment obligations of debt and other payment obligations.
- › The forced sale of investment properties on less favorable terms to continue meeting payment obligations, with a negative impact on results and net worth.
- › Volatility and uncertainty in the capital markets can lead to sharp fluctuations in the share price.
- › An increase in interest rates of 20 basis points (i.e. the sensitivity used by Intervest's banks for materiality purposes) would have an impact of € 2,2 million on the mark-to-market value of financial hedging instruments in the income statement. A decrease in interest rates of 20 basis points would have a negative impact on the income statement of the same magnitude.

4 Regulatory risks

Risks related to the loss of public RREC and IRREC status

Intervest is public RREC and Genk Green Logistics NV is an IRREC under Belgian law. To maintain their status as public RREC and IRREC respectively, they must meet various requirements under the RREC Law and the RREC RD. Examples of these legal requirements are that their debt ratio should not exceed 65% and that they should not invest more than 20% of their assets in assets constituting a single real estate entity. Further explanation of the applicable legal requirements and tax regimes can be found in the "Legal Framework and Tax Regimes" section of the General information.

Potential impact:

- › Loss of the status of public RREC or IRREC would result in a loss of the advantageous transparent tax regime enjoyed by the entity in question making the general corporate tax rate applicable. Among other things, this would result in the results (rental income and capital gains from sales less operating expenses and financial charges) of the entity in question, which are currently exempt from corporate income tax, becoming subject to it.
- › Loss of public RREC or IRREC status is generally considered in the credit agreements of the entity in question as an event causing credits to become payable early. As at 31 December 2022, Intervest has a total of € 721 million and Genk Green Logistics NV a total of € 63 million in outstanding credits that would become payable in such an event.