TRADING UPDATE

Q1 2019

- **Steady progress in disposals of office and retail assets outside focus markets**
- **Overall vacancy rate of 12.6%, down by 1.2% vs Q4 2018**
- **Like-for-like net rents in target cities up 2.8% in Q1 2019**
- **EPRA EPS of € 0.56 per share - flat adjusted for one-offs in Q1 2018**
- **Current leasing activity points to a below 11% vacancy rate end 2019**

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Financial calendar

Publication half year results 2019	18 July 2019
Publication trading update Q3 2019	17 October 2019
Publication final results 2019	28 January 2020
Publication annual report 2019	5 March 2020
Publication trading update Q1 2020	16 April 2020
AGM	17 April 2019
Ex-dividend date (final dividend 2018)	23 April 2019
Record date	24 April 2019
Stock dividend election period	25 April – 9 May 2019
Payment date	14 May 2019
Ex-dividend date (interim dividend 2019)	22 July 2019

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NSI HIGHLIGHTS

Key financials metrics[1]

	Q1 2019	Q1 2018	Change %
Revenues and Earnings (€ '000)			
Gross rental income	20,878	21,148	-1.3%
Net rental income	14,736	15,091	-2.3%
Direct investment result	10,365	10,578	-2.0%
Indirect investment result	-1,641[2]	-181	805.1%
Total investment result	8,724	10,397	-16.1%
Earnings per share (€)	0.47	0.57	-17.0%
EPRA earnings per share (€)	0.56	0.58	-3.1%
EPRA cost ratio A (incl. direct vacancy costs)	27.7%	26.0%	1.7 pp
EPRA cost ratio B (excl. direct vacancy costs)	25.6%	23.2%	2.4 pp

	31 Mar 2019	31 Dec 2018	Change %
Balance Sheet (€ '000)			
Real estate investments	1,216,448	1,202,691	1.1%
Assets held for sale	5,020	3,940	27.4%
Net debt	-444,702	-447,909	-0.7%
Equity	741,597	733,283	1.1%
IFRS equity per share (€)	39.93	39.48	1.1%
EPRA NAV per share (€)	40.33	39.75	1.5%
EPRA NNNAV per share (€)	39.66	39.20	1.2%
Net LTV	36.2%	36.9%	-0.7 pp
Number of ordinary shares outstanding	18,574,298	18,574,298	
Weighted average number of ordinary shares outstanding	18,574,298	18,473,101	0.5%

Key portfolio metrics

	Mar 19				Dec 18
	Offices	HNK	Other	Total	Total
Number of properties	64	14	13	91	95
Market value (€ m)[3]	896	212	119	1,228	1,214
Market value (€ psm)	2,354	1,666	1,526	2,094	2,014
Annual contracted rent (€ m)[4]	60	17	11	88	87
ERV (€ m)[5]	67	23	11	101	102
Lettable area ('000 sqm)	381	127	78	586	603
EPRA vacancy rate[6]	9.6%	22.2%	11.6%	12.6%	13.8%
WAULT (years)	4.5	3.0	5.2	4.3	4.4
Average rent/sqm (€ p.a.)	183	192	166	182	179
EPRA net initial yield	5.1%	4.6%	6.6%	5.2%	5.2%

[1] Based on unaudited results
[2] The main component of the indirect investment result in Q1 is a movement in market value of financial derivatives of € 2.4m negative.
[3] At market value. Reported in balance sheet at book value incl. right of use leasehold (IFRS 16), excl. lease incentives and part of NSI HQ (own use)
[4] Before rent free and other lease incentives
[5] Excluding ERV for investment properties under construction (Bentinck Huis)
[6] In line with EPRA-guidelines EPRA vacancy rate excludes Bentinck Huis, which is currently being redeveloped

CEO COMMENTS

We have a positive momentum in the business and the Q1 2019 trading update reflects this. We continue to execute our strategy to focus solely on good quality offices in selective markets and to pursue value-add opportunities when and where appropriate. The vacancy rate for the portfolio is down to 12.6%, leasing activity is supportive and there is steady progress on asset rotation and our development initiatives.

Asset rotation continues

In Q1 the team sold six assets, in Woerden, Zutphen, Zoetermeer (2x), Hoevelaken and Capelle a/d IJssel, for a total of €22.0m. The sales price reflects – on average - a 7% premium to the year-end 2018 book value, which is substantially driven by a positive result on the disposals in Zoetermeer.

We recognise that for some potential buyers obtaining financing for smaller deals in provincial locations has become more difficult, so much so that more prudent operators once again prefer deal certainty over sales price. In Q1 2019 we saw one very small deal fall through due to problems with financing. That said, we continue to find good traction for the assets that we now offer to the market.

We acquired one office asset in Amsterdam (€23.7m; 6.0% yield) and one small office asset at the BioScience Park in Leiden (€5.0m; 10.5% yield) during the quarter. In Amsterdam the upside sits in the potential reversion (€140psm passing rent vs ERV of €170psm+) and in the significant potential to redevelop/expand as the existing plot is currently underutilised.

Strengthening HNK

We remain fully committed to HNK as we believe flexibility and services will become standard features in the office market, as this is increasingly what customers demand and will pay for. In what is a competitive market, we recognise that for HNK to remain successful it is paramount that it has the right team, operates from the right locations and has sufficient resources to provide a best in class service.

In Q1 we strengthened the HNK team, creating a more focused, integrated, asset management and services platform. In early Q2 an updated business plan was agreed, centred around expanding the 'office as a service' concept. This will be implemented going forward. We expect to expand HNK in the coming years, mainly in the G4, but as profitability is more important than growth we will also review the longer term case for some of the existing, more marginal, HNK locations.

Generally, the performance of HNK continues to improve. We see especially strong interest in The Hague. This was one of the larger vacancies in the portfolio and is now on track to be fully occupied by the end of this year. We are also positive about Den Bosch, where leasing has picked up substantially following an extensive investment programme.

Development opportunities

In early April the Amsterdam city council published a consultation document for the office market over the period 2019-2026. In this document the council proposed that – under certain conditions – an extra 500,000 sqm of new office developments could take place in Amsterdam over the period 2023-2026, recognising the need for additional modern office space to facilitate business activity and expansion in a market now short of options.

This document is open for consultation to early May and should become policy thereafter. We are fully supportive of plans that will help strengthen the Amsterdam economy by adding good quality, modern, highly sustainable space near transport hubs to meet the requirements of the tenants of the future, and will directly liaise with the council to provide detailed feedback.

At Laanderpoort the team is in ongoing discussions with ING to come to a formal agreement on the redevelopment of the existing asset. These discussions are progressing well and more detail will be provided as and when appropriate.

At Motion and Centerpoint we continue our dialogue with the local authorities to further plans for these sites.

At Bentinck Huis, our redevelopment project in The Hague, building works are expected to start in May and we are in discussions with several potential tenants to rent out either the entire building or parts of the building. The delivery of this project is still foreseen for Q1 2020.

Re-segmentation

In the portfolio overview on the next few pages of this document we have introduced a more detailed segmentation of the portfolio, separating out 'Amsterdam', 'Other target cities' and 'Other NL' for both Offices and HNK[7]. We continue to use the segment 'Other' for our remaining retail and industrial assets.

This new segmentation highlights both the current opportunity and the remaining challenge at NSI. Given the strategic choices made in recent years, the new team and the successful asset rotation and leasing progress we have moved away from challenge and much more towards opportunity. This is very much reflected in the better operating performance of our assets in target cities, led by Amsterdam.

Outlook for 2019

We are not oblivious to the emerging signs of economic slowdown in the Eurozone, but the signals are still mixed. Interest rates are bound to stay low for even longer, which will probably help to underpin the current business climate.

The balance sheet is healthy at 36.2% LTV. We continue to be selective in deploying our time and capital, but still see interesting opportunities to invest profitably, in our existing portfolio, in our development initiatives, and in potential new acquisitions. ESG is incorporated in all of the above processes and will even help drive profitability. We can continue to fund all these plans for now by disposing of our remaining non-core assets in the period ahead.

Slowly but surely we are reaching a vacancy rate level that is more befitting of the NSI portfolio and its quality. We have started 2019 on a positive note and see multiple opportunities for further shareholder value creation in the period ahead.

Bernd Stahli

[7] 'Other target cities' are Rotterdam, The Hague, Utrecht, Den Bosch, Eindhoven and Leiden.

INCOME, COST AND RESULTS

Introduction

EPRA EPS is €0.56 in the first quarter. This is a 3.1% decrease compared to the same period last year, entirely due to one-offs. Excluding positive one-off effects in Q1 2018, EPRA EPS is equal to last year. Positive one-offs in Q1 2019 are €175k (service charge reconciliations) versus €450k last year.

Rental income

Gross rental income in Q1 is down by 1.3% (€-0.3m) compared to Q1 last year. This is entirely due to asset rotation. In 2018 proceeds from the disposal of higher yielding assets have been reinvested in better quality lower yielding property in the G4 with value-add potential, at a near term cost to rental income. On a like-for-like basis gross rents are up by 2.5% and up by 3.5% for the assets in target cities.

Non recoverable service charges are down in total, but slightly up on a like-for-like basis, caused by one-offs in service charge reconciliations positively impacting the 2018 number.

Despite a deterioration of the NRI margin net rent is up by 1.2% on a like-for-like basis. Net rent in the target cities is up by 2.8%, showing strong performance and underpinning the strategic choices made to focus on better quality assets in economic growth areas.

Income segment split Q1 2019 *(€ '000)*

	Offices	HNK	Other	TOTAL
Gross rental income	14,033	4,098	2,748	20,878
Service costs not recharged	-216	-166	-82	-464
Operating costs	-3,275	-1,557	-846	-5,678
Net rental income	**10,542**	**2,375**	**1,820**	**14,736**

Operating costs

Operating costs are 4.5% (€0.25m) higher compared to the first three months of 2018. This is entirely due to higher maintenance expenses.

The net rental margin, of 70.6%, is 0.8pp lower than last year (71.4%). Margins in the first quarter are typically lower than in other quarters as under IFRIC21 the annual costs for municipal taxes are charged in the actual quarter these are incurred instead of straight-lined over the year.

Administrative expenses

Administrative expenses for the three month period are €1.8m, similar to last year.

Net financing expenses

Financing costs in the first quarter are down 3.8% compared to Q1 2018, positively impacted by a lower cost of debt as a result of the debt refinancing in April 2018 and negatively impacted by a slightly higher amount of debt held over the three months period.

A fall in bond yields in Q1 2019 has resulted in a negative mark-to-market effect of NSI's interest rate swaps, resulting a negative indirect result in the first quarter.

Post-closing events and contingencies

In April NSI has agreed to extend its Revolving Credit Facility by one year. As a result the €300m RCF is now maturing in April 2024.

REAL ESTATE PORTFOLIO

NSI sold six assets in Q1 2019, one retail asset in Zutphen and five offices, in Woerden, Zoetermeer (2x), Hoevelaken and Capelle a/d IJssel. The sales proceeds, €22.0m in total, reflect a 7% premium to latest book value.

Two assets were acquired in Q1, in Amsterdam and in Leiden, for in total €28.7m. Two small office assets are 'held for sale' at 31 March, with a combined book value of €5.0m.

Portfolio breakdown - March 2019

	# Assets	Market Value €m	Value %
Offices	62	891	73%
HNK	14	212	17%
Other	13	119	10%
Total Investment properties	**89**	**1,223**	**100%**
Held for sale	2	5	0%
Total portfolio	**91**	**1,228**	**100%**

The number of assets will continue to trend down for some time and the exposure to our target cities will continue to increase. The average asset value at Q1 2019 is €13.5m (Q4 2018: €12.8m).

Vacancy

The Q1 2019 EPRA vacancy rate is 12.6%, a 1.2% decline during the quarter. The like-for-like vacancy decline for the portfolio is -0.1%, and for 'Offices + HNK' it is -0.2%. Given a healthy level of tenant retention and our current leasing momentum we anticipate a further decline in the like-for-like vacancy for the rest of the year.

EPRA Vacancy

	Dec 18	LFL	Other	Mar 19
Offices	11.1%	0.1%	-1.6%	9.6%
HNK	23.2%	-1.0%	0.0%	22.2%
Other	11.2%	0.6%	-0.2%	11.6%
Total portfolio	**13.8%**	**-0.1%**	**-1.1%**	**12.6%**
Offices + HNK	*14.2%*	*-0.2%*	*-1.2%*	*12.8%*

Rents

On a like-for-like basis net rents are up 1.2%, largely due to HNK and its high operational leverage. In our target cities net rents are up strongly, by 2.8% YTD, reflecting the health of these markets and the embedded reversionary potential.

Net rent growth like-for-like

	YTD 2019	YTD 2018	L-f-l (YTD)
Offices	8,858	9,293	-4.7%
HNK	2,217	1,717	29.1%
Other	1,820	1,731	5.1%
TOTAL	**12,895**	**12,741**	**1.2%**
Target cities	9,615	9,353	2.8%
Other	3,280	3,389	-3.2%

Offices

The EPRA vacancy rate is down to below 10%, largely due to the disposal of two fully vacant offices in Zoetermeer of circa 7,700m2 during the quarter. Following the disposal of Zoetermeer, we still hold several other office assets intentionally vacant, as we aim to maximise the potential exit value in the period ahead. These assets combined contribute circa 1.5% to the overall office vacancy rate as per Q1 2019.

Key Offices metrics

	Sep 18	Dec 18	Mar 19
Number of properties	83	67	64
Market value (€m)	844	881	896
Market value (€ psm)	1,950	2,233	2,354
Annual contracted rent (€m)	59	59	60
ERV (€m)[8]	69	68	67
Lettable area (k sqm)	433	394	381
EPRA Vacancy	13.8%	11.1%	9.6%
WAULT (years)	4.6	4.6	4.5
Average rent/sqm (€/p.a.)	171	179	183
Reversionary yield	8.2%	8.1%	7.7%
EPRA net initial yield	5.2%	5.1%	5.1%

In Q1 2019 Amsterdam makes up 55% of the total office portfolio and 60% of the office portfolio in the target cities. The 18 remaining offices in 'Other NL' now include all assets both in and outside of the Randstad that are not in target cities.

Key Offices metrics geographical split – March 2019

	Amsterdam	Other Target Cities	Other NL
Number of properties	18	28	18
Market value (€m)	497	333	67
Market value per asset (€m)	28	12	4
Market value (€psm)	3,387	2,118	868
Annual contracted rent (€m)	29	23	7
ERV (€m)[8]	34	26	8
Reversion	10.9%	-2.7%	-10.8%
Lettable area (k sqm)	147	157	77
EPRA Vacancy	6.1%	10.7%	21.2%
WAULT (years)	4.5	4.7	4.0
Average rent/sqm (€/p.a.)	215	176	121
Reversionary yield	6.8%	7.7%	11.8%
EPRA net initial yield	4.6%	5.5%	7.2%

[8] Excluding ERV for investm. properties under construction (Bentinck Huis)

HNK

A large part of the remaining vacancy at HNK is in The Hague and in Rotterdam Scheepsvaartkwartier. Taking into account the recent lettings and current discussions we expect HNK The Hague to be close to fully let by year-end 2019. We are also seeing good traction for Scheepsvaartkwartier, as the overall Rotterdam market is getting tighter for good quality larger floorplates.

A variety of asset management initiatives are under way or under consideration at several locations. In Den Bosch we are upgrading the last few floors and are in active discussions with prospective tenants for most of the space. In Ede we are considering to convert some of the vacant larger floor plates into managed office space, as we see continued high demand for this product.

Key HNK metrics

	Sep 18	Dec 18	Mar 19
Number of properties	14	14	14
Market value (€m)	202	210	212
Market value (€ psm)	1,595	1,650	1,666
Annual contracted rent (€m)	16	17	17
ERV (€m)	22	23	23
Lettable area (k sqm)	127	127	127
EPRA Vacancy	25.8%	23.2%	22.2%
WAULT (years)	3.0	3.2	3.0
Average rent/sqm (€/p.a.)	184	188	192
Reversionary yield	10.8%	10.8%	10.8%
EPRA net initial yield	4.0%	4.6%	4.6%

Key HNK metrics geographical split – March 2019

	Amsterdam	Other Target Cities	Other NL
Number of properties	3	6	5
Market value (€m)	72	109	31
Market value per asset (€m)	24	18	6
Market value per (€sqm)	2,637	1,711	853
Annual contracted rent (€m)	5	9	4
ERV (€m)	6	12	5
Reversion	17.5%	-3.6%	-4.1%
Lettable area (k sqm)	27	64	36
EPRA Vacancy	9.3%	26.4%	29.5%
WAULT (years)	3.0	2.8	3.8
Average rent/sqm (€/p.a.)	207	206	149
Reversionary yield	9.0%	10.7%	15.4%
EPRA net initial yield	4.9%	4.4%	4.9%

Other

In Q1 we sold a retail asset in Zutphen,. We are currently working on several other disposals and expect to continue to slowly, prudently, sell off our remaining retail exposure in time.

The operating performance of the retail portfolio is largely steady in Q1. The vacancy rate is marginally up, by 0.4%, mostly due to a lease expiry in The Hague. This vacancy was anticipated and we are now actively pursuing the multiple value-creation opportunities it provides.

Key Other metrics

	Sep 18	Dec 18	Mar 19
Number of properties	17	14	13
Market value (€m)	174	124	119
Market value (€ psm)	1,637	1,520	1,526
Annual contracted rent (€m)	15	11	11
ERV (€m)	15	11	11
Lettable area (k sqm)	106	81	78
EPRA Vacancy	13.0%	11.2%	11.6%
WAULT (years)	5.4	5.1	5.2
Average rent/sqm (€/p.a.)	172	165	166
Reversionary yield	8.8%	9.2%	9.2%
EPRA net initial yield	6.3%	6.9%	6.6%

BALANCE SHEET, NAV & FINANCING

Funding

Net debt is down €3.2m compared to December 2018. Investments in both new and existing assets in Q1 were slightly higher than disposal proceeds, pushing the overall debt up. Retained earnings pushed the overall debt level down.

As a result the LTV has decreased to 36.2% at the end of March (Dec-18: 36.9%). The average cost of debt is stable at 2.0% (Dec-18: 2.0%).

NSI is using swaps to hedge its interest rate risk on variable rate loans. Both USPP loans have a fixed rate coupon. The volume hedge is 94% and the maturity hedge is 101% per March 2019.

In April NSI has agreed to extend the RCF by one year. As a result the €300m RCF is now maturing in April 2024. This is in line with the strategy to further diversify the maturity profile.

***Net debt – Mar 2019** (€m)*

	Mar-19	Dec-18	Change
Debt outstanding	458.8	439.1	19.7
Amortisation costs	-1.4	-1.4	0.1
Book value debt	457.4	437.7	19.8
Debt to credit institutions	0.1	10.5	-10.4
Cash	-12.8	-0.2	-12.5
Net debt	**444.7**	**447.9**	**-3.2**

Covenants

	Covenant	Dec 15	Dec 16	Dec 17	Dec 18	Mar 19
LTV	≤60%	43.3%	44.1%	36.9%	36.9%	36.2%
ICR	≥ 2.0x	3.2x	3.8x	4.7x	5.5x	5.7x

APPENDIX

From Q1 NSI will present its Office and HNK portfolio based on a new geographical split. For completeness and comparison purposes following this re-segmentation the below tables show year-end 2018 data based on the new segmentation.

Key Offices metrics geographical split – December 2018

	Amsterdam	Other Target Cities	Other NL
Number of properties	17	27	23
Market value (€m)	471	327	83
Market value per asset (€m)	28	12	4
Market value per (€sqm)	3,405	2,114	819
Annual contracted rent (€m)	27	23	9
ERV (€m)	32	25	10
Reversion	10.8%	-1.4%	-14.9%
Lettable area (k sqm)	138	155	101
EPRA Vacancy	6.3%	10.5%	27.5%
WAULT (years)	4.6	5.0	3.5
Average rent/sqm (€/p.a.)	216	175	123
Reversionary yield	6.8%	7.7%	12.5%
EPRA net initial yield	4.6%	5.2%	7.7%

Key HNK metrics geographical split – December 2018

	Amsterdam	Other Target Cities	Other NL
Number of properties	3	6	5
Market value (€m)	72	107	31
Market value per asset (€m)	24	18	6
Market value per (€sqm)	2,634	1,682	853
Annual contracted rent (€m)	5	9	3
ERV (€m)	6	11	5
Reversion	23.3%	-3.0%	-3.9%
Lettable area (k sqm)	27	64	36
EPRA Vacancy	11.4%	26.7%	30.9%
WAULT (years)	3.1	2.9	4.1
Average rent/sqm (€/p.a.)	196	205	149
Reversionary yield	9.0%	10.7%	15.3%
EPRA net initial yield	3.9%	4.7%	6.1%