



TRADING UPDATE

Q3 2019

- Strong momentum in leasing and asset rotation set to drive performance in Q4 2019
- EPRA NAV of € 42.87 per share (up 7.8% vs year-end 2018)
- EPRA EPS of € 1.89 per share (1.9% lower vs Q3 2018)
- EPRA vacancy rate of 13.2% (improved by 0.6pp vs Q4 2018)
- Forecast YE 2019: EPRA vacancy rate below 10%
- Forecast FY 2019: EPRA EPS in range of € 2.50 - € 2.55

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FINANCIAL CALENDAR

Publication final results 2019	28 January 2020
Publication annual report 2019	5 March 2020
Publication trading update Q1 2020	16 April 2020
Publication half year results H1 2020	13 July 2020
AGM	24 April 2020
Ex-dividend date (final dividend 2019)	27 April 2020
Record date	28 April 2020
Dividend election period	29 April – 13 May 2020
Payment of final dividend	15 May 2020

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NSI HIGHLIGHTS

KEY FINANCIAL METRICS¹

REVENUES AND EARNINGS

	Q3 2019	Q3 2018	Change
Gross rental income	61,941	63,923	-3.1%
Net rental income	48,751	51,154	-4.7%
Direct investment result	35,427	35,617	-0.5%
Indirect investment result	62,669	31,173	101.0%
Total investment result	98,096	66,790	46.9%
Earnings per share	5.25	3.62	44.9%
EPRA earnings per share	1.89	1.93	-1.9%
EPRA cost ratio (incl. direct vacancy costs)	29.0%	27.4%	1.6 pp
EPRA cost ratio (excl. direct vacancy costs)	26.8%	25.2%	1.6 pp

BALANCE SHEET

	30 September 2019	31 December 2018	Change
Investment property	1,242,637	1,202,691	3.3%
Assets held for sale	27,303	3,940	593.0%
Net debt	-434,034	-447,909	-3.1%
Equity	805,107	733,283	9.8%
IFRS equity per share	42.56	39.48	7.8%
EPRA NAV per share	42.87	39.75	7.8%
EPRA NNAV per share	41.96	39.20	7.0%
Net LTV	34.0%	36.9%	-2.9 pp
Number of ordinary shares outstanding	18,917,764	18,574,298	1.8%
Weighted average number of ordinary shares outstanding	18,695,040	18,473,101	1.2%

KEY PORTFOLIO METRICS

	30 September 2019				31 December 2018	Change
	Offices	HNK	Other	TOTAL		
Number of properties	59	14	12	85	95	-10.5%
Market value (€m) ²	924	246	107	1,277	1,214	5.2%
Annual contracted rent (€m) ³	57	18	10	84	87	-2.7%
ERV (€m) ⁴	66	23	10	98	102	-3.5%
Lettable area (sqm k)	364	127	75	566	603	-6.2%
Average rent / sqm	186	190	165	184	179	3.1%
EPRA vacancy ⁵	10.2%	22.0%	12.1%	13.2%	13.8%	-0.7 pp
EPRA net initial yield	4.6%	4.3%	6.5%	4.7%	5.2%	-0.5 pp
Reversionary yield	7.3%	9.2%	9.3%	7.8%	8.5%	-0.6 pp
Wault (years)	4.6	3.0	5.5	4.3	4.4	-0.6%

1 Based on unaudited results.

2 Reported in balance sheet at book value incl. right of use leasehold (IFRS 16), excl. lease incentives and part of NSI HQ (own use).

3 Before free rent and other lease incentives.

4 Excluding ERV for investment properties under construction (Donauweg and Bentinck Huis).

5 In line with EPRA-guidelines EPRA vacancy rate excludes Donauweg and Bentinck Huis, which are currently being redeveloped.

CEO COMMENTS

We have been very active this year, as usual, and the fruits of these efforts will help us to end Q4 2019 on a high.

Good momentum building up for Q4 2019

We have signed several substantial new leases recently and have several sizeable contracts pending, all with a start date in Q4 2019. As a result our vacancy rate is expected to fall below 10% by year-end 2019. This is set to be a significant improvement compared to the 13.8% vacancy rate at year-end 2018 and it is testament to the positive underlying trend in the business and the strength of the team that is managing these assets on a day-to-day basis.

We are currently considering a number of acquisition opportunities. Whilst we are optimistic, there is no certainty any of these deals will close in Q4 2019, or at all. The yields are set to be a bit lower than what we have been able to agree in previous deals, but given the prime locations and asset specifics we believe in these cases this would be warranted as it would help to further improve the overall risk-return profile of the business.

The transaction team has lined up another 10+ disposals for Q4 for a total volume in excess of € 50m. This includes the disposal of our retail asset in Rijswijk, which was transferred to the buyer in early October. The planned disposals in combination with our low LTV should help to finance the aforementioned potential acquisitions and leave room to finance part of the development programme.

Development is a long term business, also for NSI. We continue to pursue our € 850m all-up cost development programme and have made further progress on several of the projects during the quarter. We are still working towards a signed agreement on the Laanderpoort project with ING and we continue to make progress. At Bentinck Huis in The Hague building works are on schedule.

ESG/GRESB

We received our first GRESB score over 2018 back in September and obtained 71 points out of 100. We are pleased that in our first year we ended up scoring as high as this. This is our base line now, already almost on par with our peer group average of 72 points. Our ambition runs much higher and plans are already in place to make a further push in Q4 2019, which should help us to obtain a further step up in our GRESB score next year and thereafter.

Planned increase in stamp duty

In mid-September, as part of its 2020 budget plan announcements, Government has decided to increase the transfer tax for Dutch commercial property from 6% to 7% per January 2021. This is set to impact our December 2020 NAV by about 1.5%, negative.

Outlook for 2019

The still somewhat soft economic outlook in parts of Europe should spur the ECB to further support the Eurozone economy, suggesting interest rates will stay lower for even longer. We appreciate that at some point the softening economic outlook may well start to impair rental growth prospects, but we are not seeing any evidence of this in the market or in our own portfolio as yet.

We are generally still optimistic about the outlook for the business. Our vacancy rate is falling, our funding costs are low and our asset rotation and development activities continue apace. We are aiming to expand the team in the period ahead to add to our in-house development capabilities, which will result in a small increase to our EPRA cost ratio initially.

We now forecast an EPRA EPS for FY 2019 of € 2.50-2.55. This should help to underpin the current dividend level, which is € 2.16 per annum at present.

Bernd Stahl

INCOME, COSTS AND RESULT

EPRA EPS for the nine months YTD is € 1.89, of which € 1.24 in H1 and € 0.65 in Q3. This is a 1.9% decrease compared to the same period last year. This is primarily a result of lower rental income due to net disposals.

Rental income

Gross rental income YTD is down by 3.1% compared to the first nine months of last year. This is entirely due to asset rotation. On a like-for-like basis gross rents are up by 2.6% and up by 4.2% for the assets in target cities. These results are driven by the positive momentum in the HNK portfolio and negatively impacted by non-core assets and temporarily intentionally higher vacancy in Amsterdam as a consequence of active asset management.

Net rent is down by 4.7% due to the lower GRI and a lower NRI margin. On a like-for-like basis NRI for the total portfolio is up 0.3% and up 0.9% for the target cities.

Service costs

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

Operating costs

Operating costs are up 4.1% despite having fewer assets and lower GRI, mostly due to higher maintenance costs this year. Hence, the NRI margin of 78.7% YTD has deteriorated by 1.3pp compared to the same period last year (80.0%). These higher costs explain the increase in the EPRA cost ratio in 2019 to 29.0% at the end of September.

Administrative costs

Administrative expenses YTD are down circa € 150k (2.6%) compared to last year.

Net financing costs

Financing costs YTD are down 20.9% compared to the first nine months of 2018. Last year financing costs were negatively impacted by a € 2.1m one-off from a IFRS 9 impact in H1 2018 due to a refinancing. Without this effect, financing costs are stable.

Post-closing events and contingencies

In early October NSI completed the disposals of its interest in the 'In den Boogaard' shopping center in Rijswijk and a small vacant office building in Den Bosch.

At Centerpoint in Amsterdam South East a Dutch bank signed a lease contract for circa 4,000 sqm in the beginning of the fourth quarter. This lease has a positive impact on the EPRA vacancy rate of 0.9%.

A retail asset in Leiderdorp, which was part of the retail transaction with Retail Estates in 2017, has been transferred back to NSI in October post annulment of the specific Leiderdorp transaction for € 0.8m.

Income segment split Q3 2019

	Q3 2019				TOTAL	Q3 2018
	Offices	HNK	Other	Corporate		
Gross rental income	41,551	12,699	7,691		61,941	63,923
Service costs not recharged	-525	-662	-260		-1,446	-1,485
Operating costs	-6,441	-3,360	-1,941		-11,743	-11,284
Net rental income	34,585	8,677	5,490		48,751	51,154

REAL ESTATE PORTFOLIO

In Q3 2019 the number of assets is stable compared to June. No acquisitions or disposals were completed. Two further assets are sold unconditionally, one small office asset and one retail asset, both located in Rotterdam. Therefore, at the end of September four assets are held for sale, including the two aforementioned assets and both Sterpassage in Rijswijk and Hof ter Hage in The Hague, which were already sold unconditionally at the end of June. The Sterpassage transferred in early October and Hof ter Hage will transfer later in Q4 2019.

Portfolio breakdown

	# Assets	Market value (€ m)	Market value (%)
Offices	58	923	72%
HNK	14	246	19%
Other	9	80	6%
TOTAL Investment property	81	1,250	98%
Held for sale	4	27	2%
TOTAL Portfolio	85	1,277	100%

Vacancy

The EPRA vacancy at the end of September is 13.2%, a 0.6% decline compared to December '18. The decline is driven by asset rotation. On a like-for-like basis the EPRA vacancy is up by 1.1%.

In Q3 the EPRA vacancy rate is up by 1.2% on a like-for-like basis due to temporary effects from tenant rotation in Amsterdam, Rotterdam and Utrecht. Most of the vacated space is already re-let, however with start dates in Q4. Leasing momentum is strong across the portfolio and the vacancy rate is expected to be below 10% by Year End 2019.

EPRA vacancy

	Dec. 2018	L-f-l	Other	Sep. 2019
Offices	11.1%	2.0%	-2.9%	10.2%
HNK	23.2%	-1.2%		22.0%
Other	11.2%	0.6%	0.3%	12.1%
TOTAL	13.8%	1.1%	-1.7%	13.2%
Target Cities	11.3%	1.8%	-1.4%	11.7%
Other	21.1%	-1.2%	-1.6%	18.3%

Rents

On a like-for-like basis net rents are up 0.3%, largely due to strong lease up of our HNK assets. In our target cities net rents are up, by 0.9% YTD, reflecting the health of these markets and the embedded reversionary potential.

Net rent growth like-for-like (€ m)

	YTD 2019	YTD 2018	L-f-l (YTD)
Offices	28	29	-2.7%
HNK	8	7	19.6%
Other	5	6	-7.8%
TOTAL	42	42	0.3%
Target Cities	32	31	0.9%
Other	10	10	-1.6%

Offices

The EPRA vacancy rate is up marginally by 0.3% compared to the end of June, largely due to some additional vacancy in one of our offices in Rotterdam. This is a temporary effect as leasing momentum is strong, in particular in Amsterdam where vacancy is expected to drop sharply in Q4 from the current level of 7.5%. Several leases and LOI's have been signed in both Sloterdijk and Amsterdam South-East.

Like-for-like vacancy in the Offices segment rose by 1.1% in Q3. This is largely due to Centerpoint in Amsterdam, where the team is now pursuing more flexibility in our lease contracts to plan ahead for a potential redevelopment of the asset in the coming years. We expect most of the vacant space in this asset to be re-let by the end of Q4.

Key office metrics - breakdown by segment

	Sep. 2019			TOTAL	Dec. 2018
	A'dam	Other Target Cities	Other NL		
Number of properties	17	27	15	59	67
Market value (€ m)	512	351	61	924	881
Avg. market value (€ m)	30	13	4	16	13
Ann. contract rent (€ m)	28	23	6	57	59
Average rent / sqm	220	177	125	186	179
Reversion	10.6%	-1.4%	-8.8%	3.7%	2.3%
Lettable area (sqm k)	143	153	68	364	394
ERV (€ m)	34	25	7	66	68
EPRA vacancy	7.5%	10.9%	20.4%	10.2%	11.1%
EPRA net initial yield	4.3%	4.8%	6.9%	4.6%	5.1%
Reversionary yield	6.6%	7.5%	11.9%	7.3%	7.8%
Wault	4.4	4.8	4.1	4.6	4.6

HNK

At HNK operations are progressing well. The team is investing in HNK Houthavens and Amsterdam Zuid-Oost to improve the quality of the offering and is working on plans to upgrade the club space at HNK Scheepvaartkwartier, which was first introduced in 2012. In HNK Ede

the team is expanding the Managed Office space offering to fill the current vacancy, as there is significant demand for such product. A pilot programme on team composition and organisation at both HNK Utrecht and HNK The Hague is due to start in Q4.

EPRA vacancy is 22.0%, down from 23.2% at the beginning of the year. Due to tenant rotation, in particular in HNK Houthavens and HNK Utrecht Centraal, the EPRA vacancy went up by 1.4% in Q3.

The vacancy rate will drop significantly at the end of the year with several lease contracts already signed commencing in Q4, most notably the 4,814 sqm letting in HNK The Hague announced in June, after which this specific building will be fully let.

Key HNK metrics - breakdown by segment

	Sep. 2019			TOTAL	Dec. 2018
	A'dam	Other Target Cities	Other NL		
Number of properties	3	6	5	14	14
Market value (€ m)	87	124	35	246	210
Avg. market value (€ m)	29	21	7	18	15
Ann. contract rent (€ m)	5	9	4	18	17
Average rent / sqm	208	201	151	190	188
Reversion	18.7%	-7.0%	-5.6%	0.5%	3.2%
Lettable area (sqm k)	27	64	36	127	127
ERV (€ m)	7	11	5	23	23
EPRA vacancy	11.5%	25.5%	28.2%	22.0%	23.2%
EPRA net initial yield	4.1%	4.3%	5.0%	4.3%	4.6%
Reversionary yield	7.6%	9.2%	13.4%	9.2%	10.8%
Wault	2.7	3.0	3.6	3.0	3.2

Other

Further progress is made in gradually selling out of the remaining retail and industrial assets. The disposal of an asset at Kreeftstraat Voermanweg in Rotterdam is agreed in Q3 2019, with transport planned for late Q4. The Sterpassage in Rijswijk is transferred to the buyer in early October.

We continue to see interest for most of our remaining non-core assets and further disposals are expected in Q4 2019 and in 2020.

BALANCE SHEET, NAV AND FINANCING

Funding

At the end of Q3 net debt is up € 4.4m compared to the end of June 2019, as a result of retained earnings, the payment of the interim dividend in August and swap breakage costs.

The LTV has increased marginally to 34.0% (Jun-19: 33.7%). The average cost of debt is stable at 1.9% (Dec-18: 2.0%).

In August NSI issued € 40m of 12-year unsecured notes to affiliates of Athene asset management, a subsidiary of Apollo Global Management. The notes are Euro denominated and have a fixed coupon of 1.70%.

NSI is using swaps to hedge its interest rate risk on variable rate loans. The proceeds from the issue of fixed rate notes were used to lower the RCF which has a variable rate. This, in combination with disposal proceeds exceeding acquisitions so far in 2019, is also lowering the RCF drawn and is pushing up the hedging ratio. As a result the hedging ratio increased above NSI's internal limit of 100% in Q3 2019. To bring the hedging ratio back to below 100% and in anticipation of further disposals in Q4 € 127.5m of swaps were broken at a cost of € 6.0m. As a result, as per the end of September 2019 the volume hedge is 79% and the maturity hedge is 106%.

Net debt

	Sep. 2019	Dec. 2018	Δ
Debt outstanding	434.1	439.1	-4.9
Amortisation costs	-1.4	-1.4	0.0
Book value of debt	432.8	437.7	-4.9
Cash and cash equivalents	-0.7	-0.2	-0.4
Debts to credit institutions	2.0	10.5	-8.5
TOTAL NET DEBT	434.0	447.9	-13.9

Covenants

	Covenant	Dec. 15	Dec. 16	Dec. 17	Dec. 18	Jun. 19	Sep. 19
LTV	≤60%	43.3%	44.1%	36.9%	36.9%	33.7%	34.0%
ICR	≥ 2.0x	3.2x	3.8x	4.7x	5.5x	6.2x	6.3x