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# NSI – Kempen Amsterdam Conference

5 June 2014

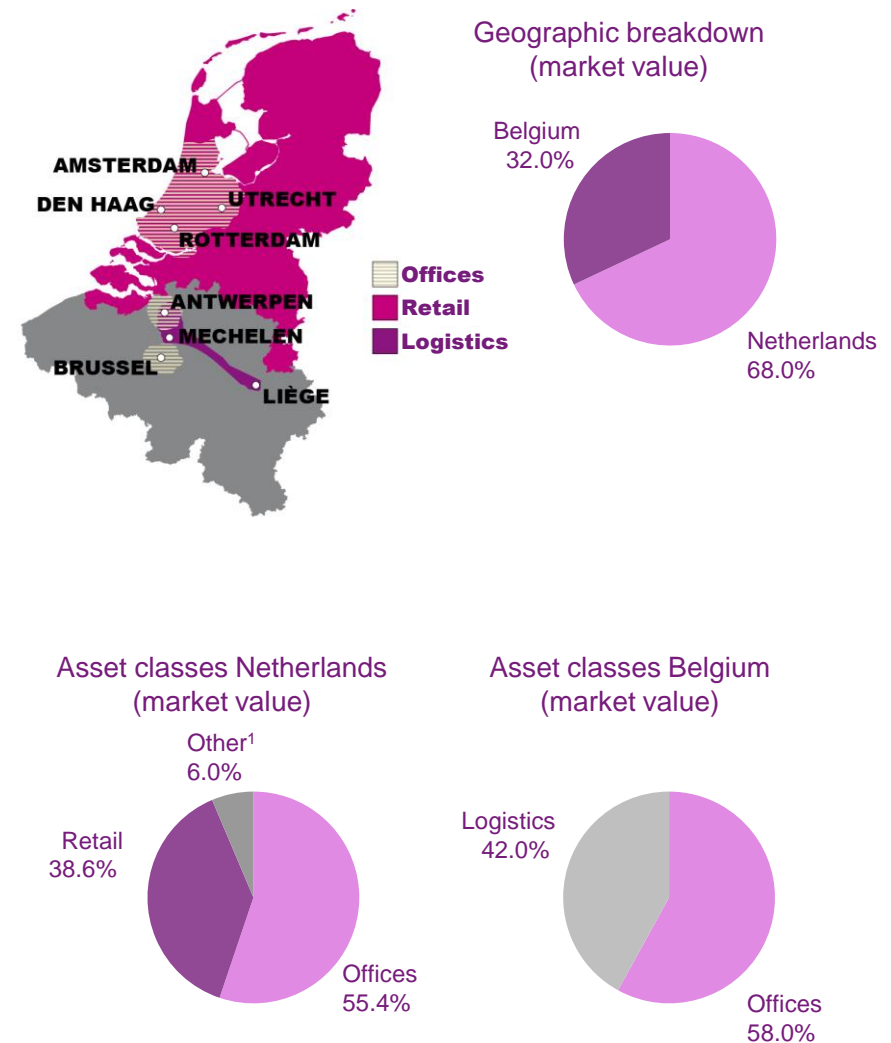
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# NSI at a glance

## Description

- Entrepreneurial Real Estate management company with €1.8b assets under management, a GRI of €145m and a direct result of €46m
- Founded in 1993 and listed on Euronext Amsterdam since 1998
- Dutch REIT (fii): exempted from corporate income tax on Dutch investment result
- Manages real estate portfolios in the Netherlands and Belgium (via 54.0% stake in listed REIT Intervest Offices & Warehouses, 100% consolidated):
  - Netherlands €1.2b: offices and retail
  - Belgium €0.6b: offices and logistics
- Strong letting platform with in-house teams for asset management, marketing, development, business development and technical building management

## Portfolio



# Market view: economy is improving, but ..

## ▪ **Economic fundamentals**

- GDP growth has turned positive since 2<sup>nd</sup> half 2013;
  - 1<sup>st</sup> quarter 2014 was less solid than forecasted, though underlying trends are positive
- Unemployment rate still rising, but is expected to stabilize in 2014
- Housing market is moving in positive direction
- Consumer confidence is growing, though still sub-zero

## ▪ **Position the Netherlands remains fundamentally strong:**

- The Netherlands still score favorably on many social economic parameters;
  - Ranks 4<sup>th</sup> in Europe in GDP per capita; 30% above European average (source: eurstat)
  - Still in the lowest regions of unemployment rates in Europe
  - Strong competitive position (2<sup>nd</sup> in Europe according EU competitive Index)
  - Quality infrastructure is among the best in the world (source: WEF)

# ....fundamentals Real Estate markets are still challenging

## ▪ Office market

- Structural changes in the tenant market
  - » Consolidation; corporates concentrate activities at one (or fewer) locations
  - » “The new way of working”; less space and work stations
- Declining demand, especially for large space/long leases
- Increasing demand for smaller and more flexible space
- Rationalization still ongoing; downsizing work force
- Persistent oversupply and structural vacancy
- First portfolio investments, entry of new market participants
- Property values seem attractive, but a strong letting platform is a prerequisite to achieve good returns

## ▪ Retail market

- Consumer confidence is increasing; though not yet translating into convincing increased willingness to buy and consumer spending
- Increasing share of internet sales
- Resilience of supermarket-anchored convenience centres
- First signs of improving trend turnover retail sector and recovery in non-food segment

# Profile NSI: Space to perform

## 1. Providing SME's affordable and inspiring space

- Inspiring and affordable space in the Netherlands with a focus on growing cities and sectors
- Strong balance sheet and cash flow:
  - Capacity to invest in current portfolio
  - Improving occupancy in Dutch office portfolio

## 2. Strongest letting platform in Dutch market

- Pro-active and tenant-focused platform:
  - Sales-driven organisation (CRM, business intelligence, incentivised staff)
  - Proven track record (improved occupancy in Dutch offices, outperforming the market for new leases in terms of take-up)
- All required real estate competences integrated in an active asset management strategy
- In-house property management to optimise information flow between leasing team and property management team to deliver superior service and nurture tenant relations

## 3. New business capabilities

- Business Intelligence to identify opportunities in the Dutch fragmented micro market; directing leasing and marketing efforts in most efficient way
- Marketing to drive direct conversion and increase visibility
- Business development to drive innovations; innovative concepts to target new customer groups and to increase profitability and occupancy
- Innovative leasing concept HNK (flexibility in space and time, additional services); roll-out to 10-15% of portfolio

**Portfolio and organisation ready to outperform competition**

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# PORTFOLIO STRATEGY

# Portfolio strategy: NSI's approach

## Portfolio

- c€1,200m portfolio in the Netherlands consisting of 149 office and 42 retail properties
- c€600m portfolio in Belgium consisting of 16 office and 17 logistics properties

## Asset management

### Segmentation

Split in core, value-add and non-core segments

### Client focus

Customer-centric approach to optimise occupancy

### Investment

Finance capex to facilitate customers and upgrade portfolio

### Asset rotation

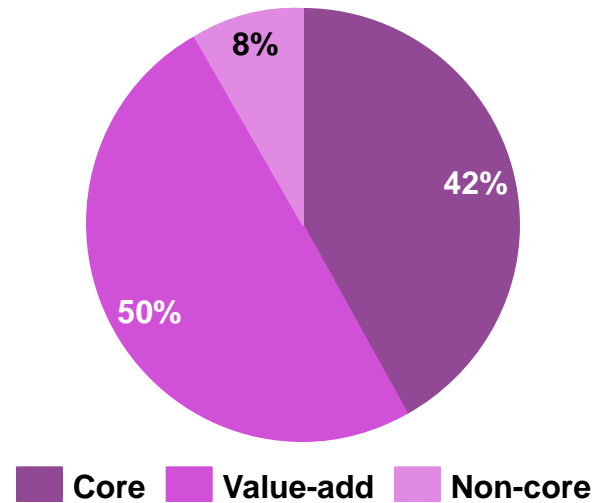
Dispose of assets where maximum value is reached or that structurally underperform

## Maximise total return



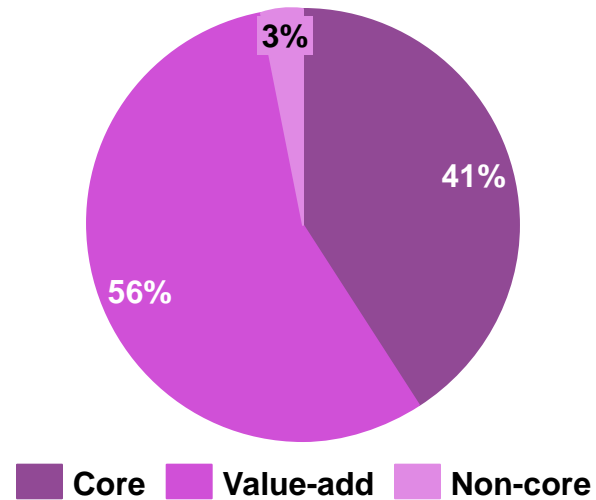
## Retail portfolio

Label	Portfolio NSI <i>In #</i>	Occupancy rate <i>Financial occupancy</i>	Value <i>In € per sqm</i>	Area <i>In sqm</i>	Passing rent 2013 <i>In €m p.y.</i>	Bookvalue <i>In €m</i>
Core	16	89.8%	2,383	83,681	14.2	199.5
Value-add	20	84.3%	1,628	144,714	17.2	235.6
Non-core	6	83.9%	924	42,058	3.5	38.9
<b>Total</b>	<b>42</b>	<b>87.2%</b>	<b>1,752</b>	<b>270,453</b>	<b>34.9</b>	<b>474.0</b>



# Dutch office portfolio: overview

Label	Portfolio NSI <i>In #</i>	Occupancy rate <i>Financial occupancy</i>	Value <i>In € per sqm</i>	Area <i>In sqm</i>	Passing rent 2013 <i>In €m p.y.</i>	Bookvalue <i>In €m</i>
Core	39	77.8%	1,503	184,451	23.3	277.4
Value-add	95	69.6%	1,013	376,050	35.0	381.1
Non-core	15	17.1%	377	54,866	1.0	20.7
<b>Total</b>	<b>149</b>	<b>72.1%</b>	<b>1,104</b>	<b>615,367</b>	<b>59.3</b>	<b>679.2</b>



# HNK (“The New Office”): anticipating a growing trend

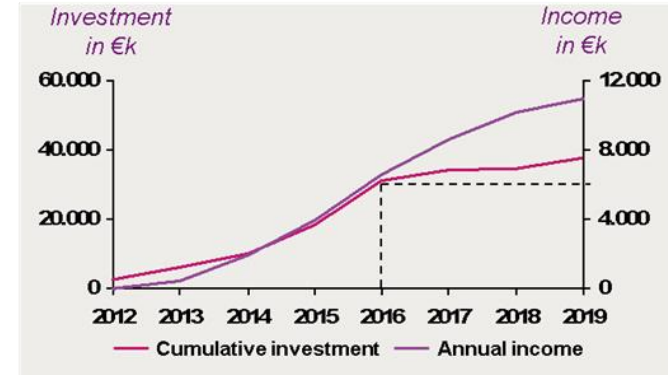
## ■ HNK anticipates

- a growing demand for full service and flexible leasing in Dutch market;
- changing housing needs of corporates due to development of alternative, flexible working practices

## ■ HNK offers

- Range of propositions to tenants” specific needs
  - Memberships, managed offices, tailored offices
  - Additional services and amenities

- Lower risk due to spread of contract expiries
- Translates into higher rental income for NSI, while is able to optimize their costs
- Proven higher take-up
- NSI will invest in total c€31.0m in the concept up to 2016, of which €6.4m has already been invested, and expects rental income of €6.5m as of 2016

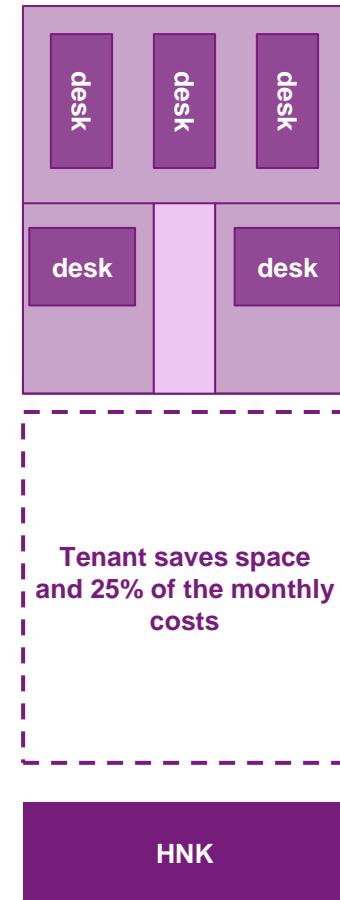
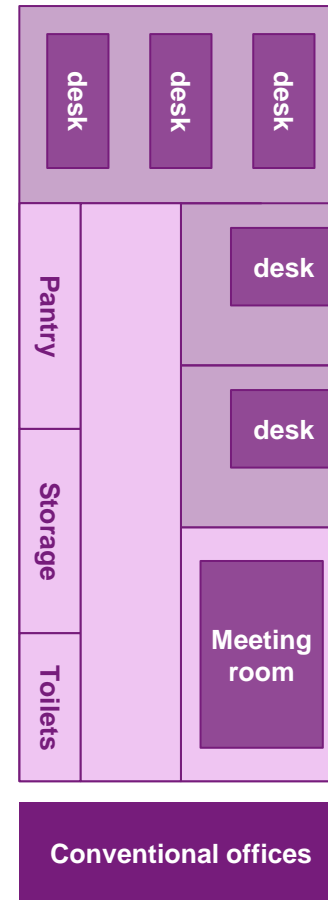


### Proof:

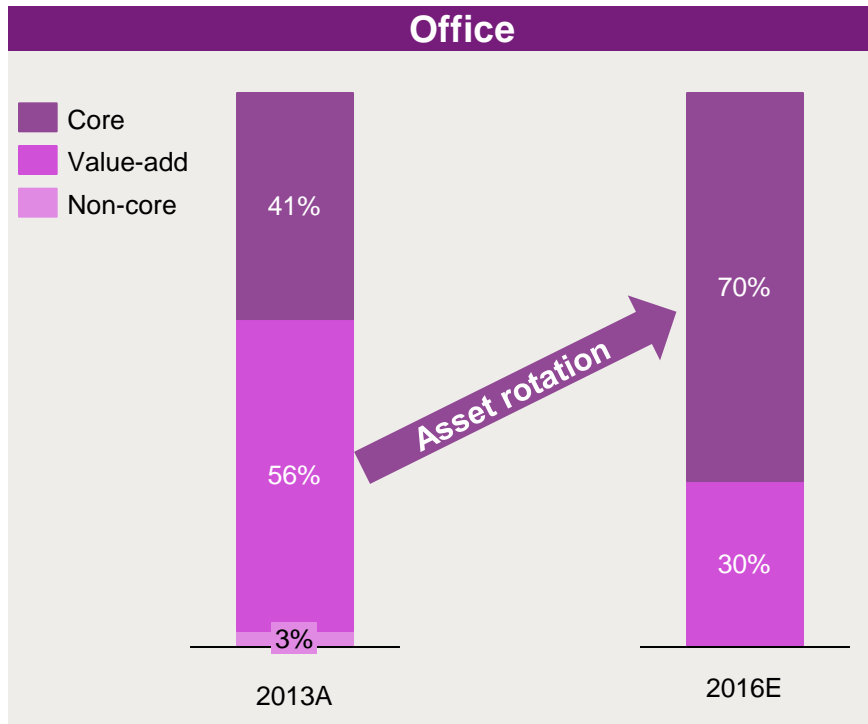
- ✓ Higher take-up ratio (30% vs 13% market, 19% NSI total)
- ✓ Higher effective rent/ sqm
- ✓ Quick reletting

Objective is to transform c10-15% of the portfolio into HNK offices in 2014-2015

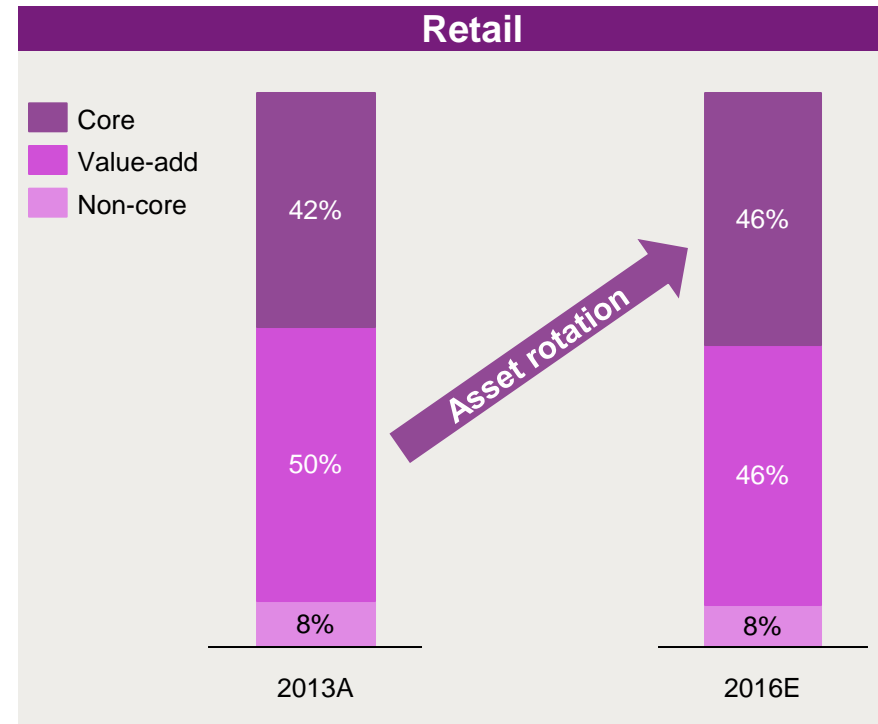
# HNK: concept for new way of working



# Targets 2014 - 2016



<b>Occupancy</b>	72%	>80%
<b># HNK</b>	3	20



<b>Occupancy</b>	87%	>90%
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# 2

## OPERATIONAL PERFORMANCE

# Q1 2014 Trading update – operational highlights

## Overall

- Occupancy rate total portfolio was 78.5% per 31 March 2014 (year-end 2013: 79.5%)

## Offices NL

- Occupancy rate was 71.7% as per 31 March 2014 (year-end 2013: 72.1%)
- Effective rent level new leases in Q1 2014 was €131 per sqm, above the 12 months average of €118 per sqm
- HNK continues to show healthy take-up levels and pipeline
  - Roll out of HNK: 4<sup>th</sup> (HNK Amsterdam Houthavens) and 5<sup>th</sup> (HNK Groningen) opened, refurbishment activities for 6<sup>th</sup> (HNK The Hague) has commenced
  - Expansion of managed office floors (ca. 1,000 sqm) in HNK Rotterdam completed on 1 May 2014

## Retail NL

- Occupancy rate was 83.9% as per 31 March 2014 (year- end 2013: 87.8%), temporarily impacted by approx. 3% due to transition period to move in Primark
- Focus on balanced mix of national retailers and local entrepreneurs pays off; arrival of Big Bazar and Primark enhances the interest of other retailers

## Belgium

- Occupancy rate of the Belgian portfolio was 84.5% as per 31 March 2014 (year-end 2013: 85.0%)
- Intervest Offices & Warehouses renewed leases with 3 of its top 10 tenants, in total representing 14% of the gross rental income
- A non-strategic semi industrial property in Meer was sold
- Intervest Offices & Warehouses successfully placed bonds for a total amount of €60 million.

# Investment market activity

Property	Location	Date	Buyer	Value (€m) <sup>1</sup>	Size (sqm)	(€/sqm)
Equinox portfolio	Multiple locations	May 2014	Valad Europe	37.8	50,200	750
Kromme Schaft	Houten	June 2014	MMZ properties	15.7	12,600	1,250
Cortona	Multiple locations	June 2014	Mbay Netherlands	23.0	53,000	450
Som & Ito	Amsterdam	April 2014	Union INvestment	245.0	52,000	4,700
Stiibbe tower	Amsterdam	Jan 2014	Union INvestment	54.0	13,500	4,000
Wilhelminatoren	Rotterdam	Jan 2014	PPF Real Estate Holding	29.0	16,200	1,800
Nauta Dutihl (Beethovenstraat)	Amsterdam	Dec 2014	HIH Investment	65.0	13,500	4,800
Multiple offices (8) CBRE Dutch Office fund	Amsterdam, Rotterdam, Den Bosch	Sep-2013	JV OVG/ Goldman Sachs	120.0	62,000	1,935
Sanoma pand	Hooffddorp	Sept 2013	PPF Real Estate Holding	47.0	30,000	1,550
HQ Siemens	The Hague	Sep-2013	PingProperties	61.3	30,000	2,040
Axa portefeuille	Amsterdam, The Hague, Arnhem, Rijswijk, Rotterdam	Jun-2013	PPF Real Estate Holding	140.0	100,000	1,400

Source: NSI  
1. Market estimates





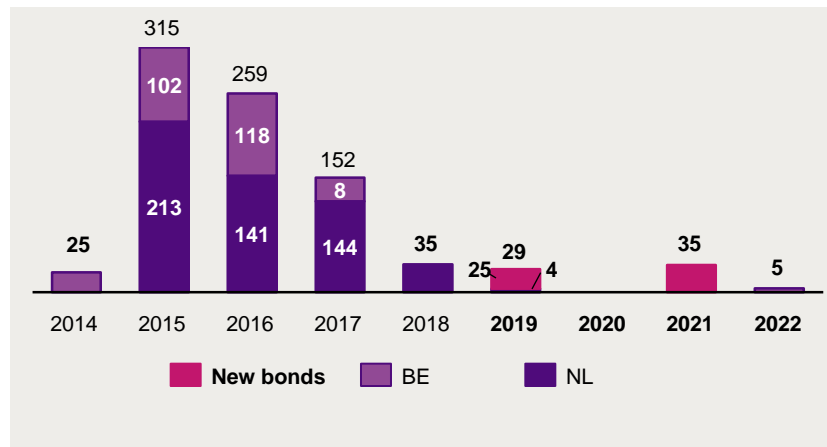
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## FINANCIAL

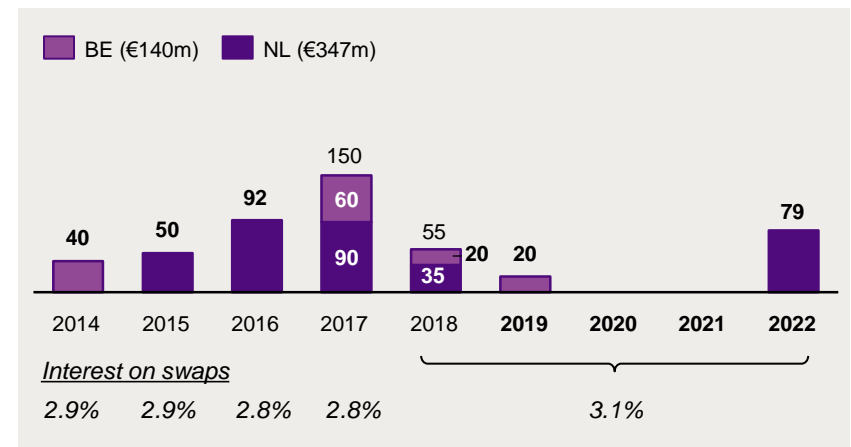
# NSI's debt portfolio

- NSI debt portfolio is well diversified with not more than 25% dependence on one single creditor
- Majority is secured bank financing
- In 2014:
  - Intervest Offices & Warehouses successfully placed 2 bonds for in total €60 million to replace the current outstanding bond of 75 million which will be repaid on 29 June 2015.
  - In the Netherlands 2 agreements with pfandbriefe banks (total €43 million) extended

Debt maturity calendar, average maturity 2.1 years



Swap maturity calendar, average maturity 3.5 years



# Strategic financing aims: focus on flexibility and 2015-2016 refinancing

	2014-2016
<b>Funding diversification</b>	<ul style="list-style-type: none"><li>▪ Decrease dependency of only one source of funding</li></ul>
<b>Reduce cost of debt</b>	<ul style="list-style-type: none"><li>▪ Increase number of (foreign) banks in syndications</li><li>▪ Diversify source of funding</li></ul>
<b>Refinancing risk</b>	<ul style="list-style-type: none"><li>▪ No more than 25% of loans maturing in any single year</li></ul>
<b>Covenants</b>	<ul style="list-style-type: none"><li>▪ Maintain LTV below 50%, peak-to-trough between 40-50%</li><li>▪ Maintain ICR &gt; 2.0</li></ul>
<b>Debt maturity</b>	<ul style="list-style-type: none"><li>▪ Extend and maintain average debt maturity to over 3 years</li></ul>
<b>Move to unsecured financing</b>	<ul style="list-style-type: none"><li>▪ Anticipate move to unsecured in refinancing 2015 – 2016 maturities</li></ul>



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## CONCLUSION

# Conclusion

- **Balance sheet issues resolved**
  - LTV significantly lowered to 45%
  - Cost of debt lowered to 4.8%
- **NSI still operates in challenging markets**
  - Rents not expected to improve in 2014
  - Decrease in NRI in 2014 to be compensated by lower financing costs
  - Markets expected to improve from 2015-2016 onwards
- **Focus on maximising total returns**
  - Add value by strong letting platform and selective investments in the portfolio
  - Supported by stable cash flow from core portfolio
  - Reduce non-core assets
- **Targets for 2016 defined**
  - Improvements in portfolio quality and occupancy
  - Solid financials: funding diversification, debt maturity, refinancing and LTV

***NSI fully focused on operations***






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## APPENDIX

# Dutch portfolio: segmentation drives activities

Full portfolio analysed asset-by-asset to set priorities, provide insights and support decision-making

Segment	Characteristics	Approach
Core	<ul style="list-style-type: none"><li>Well-performing properties</li></ul>	 Sell or maintain
Value-add	<ul style="list-style-type: none"><li>Properties with upside potential</li></ul>	 Invest and sell
Non-core	<ul style="list-style-type: none"><li>Underperforming properties</li></ul>	 Reduce

*Aim is to add value supported by stable cash flow from core portfolio*

# Office portfolio: extracting value from current portfolio

	Asset Characteristics			Approach
	Qualitative	Occ.*	€/sqm*	
<b>Core</b>	<ul style="list-style-type: none"> <li>(Nearly) fully let properties</li> <li>Good location: large cities</li> <li>Multi-tenant (potential)</li> <li>High cash flow certainty</li> </ul>	<b>&gt;85%</b>	<b>&gt;1,500</b>	<ul style="list-style-type: none"> <li>Pro-active tenant retention and optimal property management</li> <li>Improve tenant mix and WALL</li> <li>Hold for income, sell when upside is fully realised</li> </ul>
<b>Value-add</b>	<ul style="list-style-type: none"> <li>(Potential) vacancy</li> <li>Fair location, or good location with high vacancy</li> <li>Potential cash flow certainty</li> <li>Potential to upgrade, redevelop, transform</li> </ul>	<b>&lt;85%</b>	<b>&gt;1,000</b>	<ul style="list-style-type: none"> <li>Re-double leasing efforts</li> <li>Invest to improve</li> <li>Implement HNK formula or other relevant concept</li> <li>Re-develop or transform</li> </ul>
<b>Non-core</b>	<ul style="list-style-type: none"> <li>Significant long term vacancy</li> <li>Poor location and accessibility</li> <li>No use to upgrade, redevelop or transform</li> </ul>	<b>&lt;65%</b>		<ul style="list-style-type: none"> <li>Minimise all specific property-related costs</li> <li>Redevelop or transform</li> <li>Reduce</li> </ul>

\* Indicative segmentation criteria



# Retail portfolio: opportunities & challenges on a property-by-property level

	Asset Characteristics			Approach
	Qualitative	Occ.*	€/sqm*	
<b>Core</b>	<ul style="list-style-type: none"> <li>▪ (Nearly) fully let properties</li> <li>▪ Dominant in local retail hierarchy</li> <li>▪ Long-term leases</li> <li>▪ Anchored by (two) supermarket(s)</li> </ul>	<b>&gt;95%</b>	<b>&gt;2,000</b>	<ul style="list-style-type: none"> <li>▪ Maintain relationship with tenants</li> <li>▪ Maintain property quality</li> <li>▪ Improve WALL and tenant mix</li> <li>▪ Hold for income, sell when upside is realised</li> </ul>
<b>Value-add</b>	<ul style="list-style-type: none"> <li>▪ (Potential) vacancy</li> <li>▪ Low WALL, rents not at market level</li> <li>▪ Medium-term leases</li> <li>▪ Potential to upgrade, redevelop/ transform</li> </ul>	<b>&lt;95%</b>	<b>&gt;1,500</b>	<ul style="list-style-type: none"> <li>▪ Grow food formulas to drive traffic</li> <li>▪ Expand zoning permissions (LSR)</li> <li>▪ Attract retailers in sub-sectors that show growth</li> </ul>
<b>Non-core</b>	<ul style="list-style-type: none"> <li>▪ Significant long term (expected) vacancy</li> <li>▪ Poor location and accessibility</li> <li>▪ Little opportunity to upgrade, redevelop or transform</li> </ul>	<b>&lt;80%</b>		<ul style="list-style-type: none"> <li>▪ Redevelop or significantly improve</li> <li>▪ Attempt to change zoning plans</li> <li>▪ Transform into other asset class</li> <li>▪ Divest in case no potential</li> </ul>

\* Indicative segmentation criteria

# Financial highlights

x€1,000	FY 2013	FY2012	Q4 2013	Q3 2013
Gross rental income	144,564	160,545	35,160	35,792
Service costs not recharged to tenants	-4,723	- 4,754	-1,375	-984
Operating costs	-18,050	- 18,457	-4,884	-4,384
<b>Net rental income</b>	<b>121,791</b>	<b>137,334</b>	<b>28,901</b>	<b>30,424</b>
Administrative costs	-6,458	- 6,469	-1,910	-1,461
Financing costs	-57,565	- 55,846	-13,812	-15,569
<b>Direct investment result before tax</b>	<b>57,768</b>	<b>75,019</b>	<b>13,179</b>	<b>13,394</b>
Corporate income tax	-121	-327	-29	-26
Direct result att. to minorities	-11,375	- 11,287	-2,954	-2,763
<b>Direct investment result</b>	<b>46,272</b>	<b>63,405</b>	<b>10,196</b>	<b>10,605</b>
<b>Indirect investment result</b>	<b>-180,347</b>	<b>- 166,522</b>	<b>-55,791</b>	<b>-55,835</b>
<b>Total result</b>	<b>-134,075</b>	<b>- 103,117</b>	<b>-45,595</b>	<b>-45,230</b>

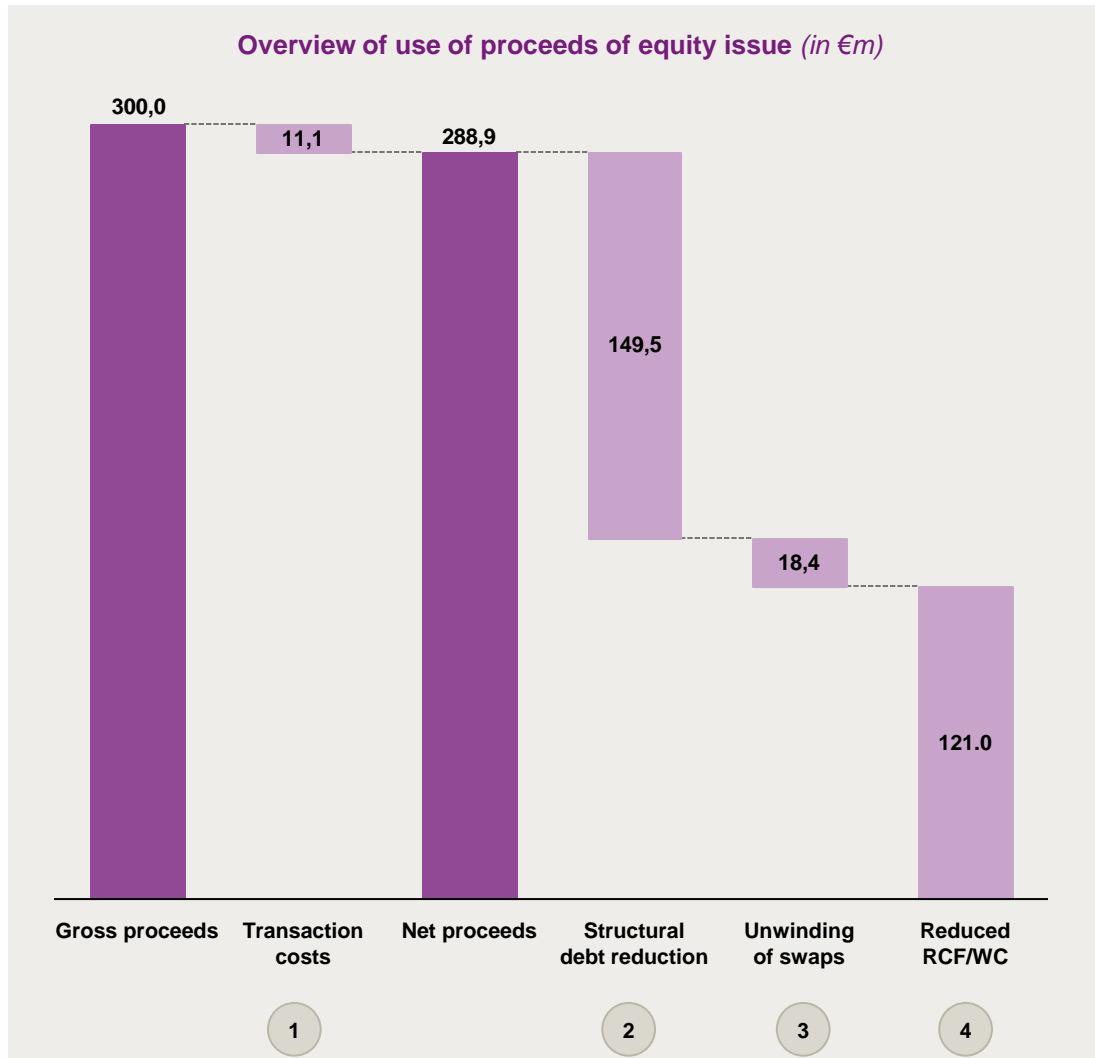
- GRI down due to asset disposals (€9.0m), vacancy and lower reversionary rent levels
- Service costs stable y-o-y, but up q-o-q due to settlement and fragmented vacancy
- Operating costs down y-o-y due to disposals, but up q-o-q, mainly due to higher letting costs and bad debt provisions
- Administrative costs stable y-o-y, up q-o-q due to crisis tax and severance payments
- Financing costs down strongly in Q4 following the debt and derivative redemption after equity issue in November
- Indirect result reflects continued downward revaluations: €192.3m for FY 2013 and €53.0m for Q4 2013, slightly compensated by upward revaluation of swaps: €25.7m

# Balance sheet highlights

x€1,000	FY 2013	Q3 2013	FY2012
Real estate investments	1,808,768	1,863,908	2,106,091
Total shareholders equity	932,915	686,639	789,788
Shareholders equity of NSI	801,159	557,899	666,850
Debt to credit institutions (excl. derivatives)	821,854	1,110,237	1,226,432
Average cost of debt (%)	4.8	5.3	4.8
Net loan to value (%)	45.4	59.6	58.2
Average debt maturity (years)	2.2	2.6	2.3
Fixed interest debt (%)	85.0	95.3	88.5
Interest coverage ratio	2.1	2.1	2.5
NAV (€/share)	5.59	8.18	9.78
EPRA NAV (€/share)	5.85	9.03	10.95

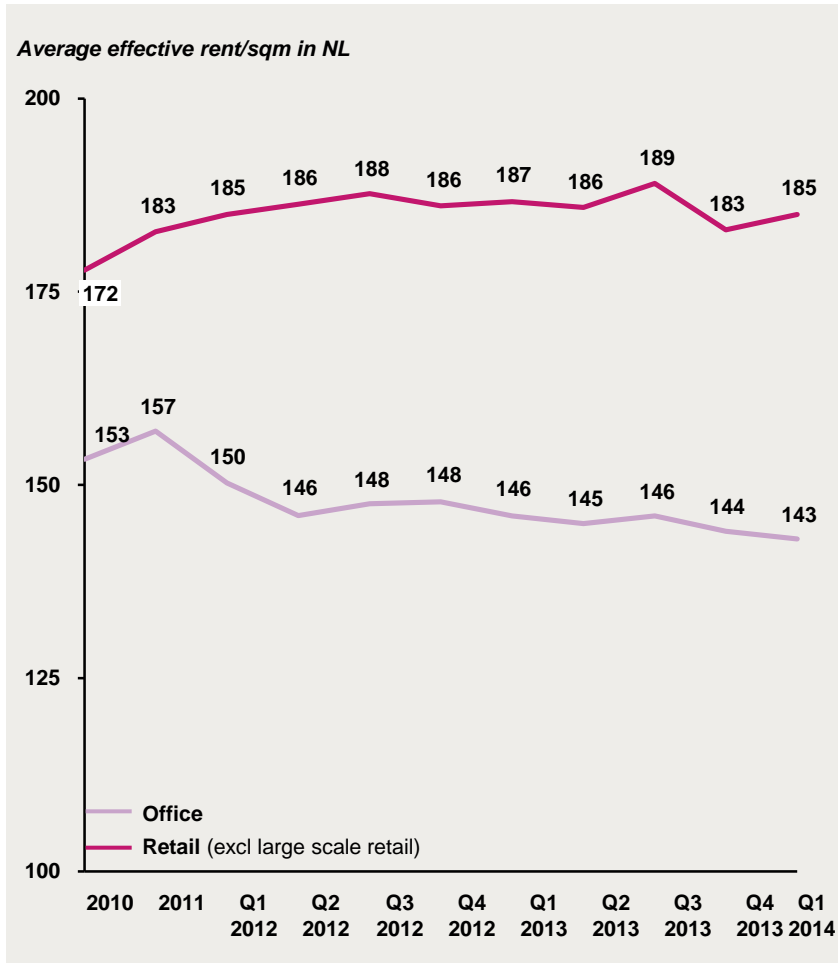
- Value real estate portfolio down by €297.3m mainly due to revaluations (€192.3 million) sales (€123.7 million) and investments (€18.2 million)
- Net proceeds of equity issue (€288.9 million) used to reduce long-term debt, unwind derivatives and increase flexibility
- LtV significantly decreased, aim to maintain below 50%
- Net debt level reduced by 33% to c€822m
- Improved balance sheet resulted in more favourable financing terms to lower average costs of funds
- Outstanding shares increased by 75.0m from 68.2m ultimo 2012 to 143.2m shares

# Equity issue: proceeds used to repay debt and lower hedges



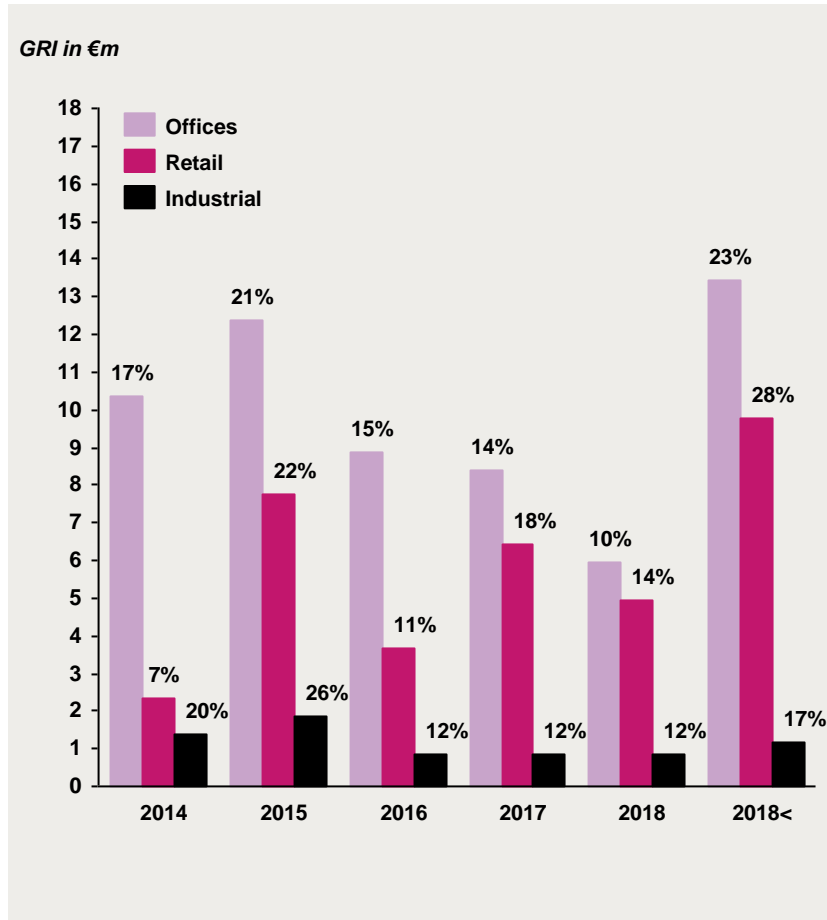
1. Placing and underwriting fees, expenses and applicable taxes
2. Structural decrease of term loans and RCFs
3. Unwinding of swaps with aggregate nominal value of €347m
4. Reduce debt on RCFs and WC facilities for future flexibility

# Rent development Dutch portfolio



- Effective rents (adjusted for incentives) have shown a slight decline over 2013 compared to 2012 for both retail and offices
- New office leases are coming in at levels below the portfolio average
- Alternative leasing strategies (e.g. HNK) aim at higher income per sqm

# Lease expirations Dutch Portfolio



- Total lease expirations coming up for 2014 encompass c€14m in rental income, or 14% of the total portfolio
- Lease expirations for 2014 and 2015 are most notable in offices, where 38% is set to expire in this period

Spread 2014 expiries in contract size offices

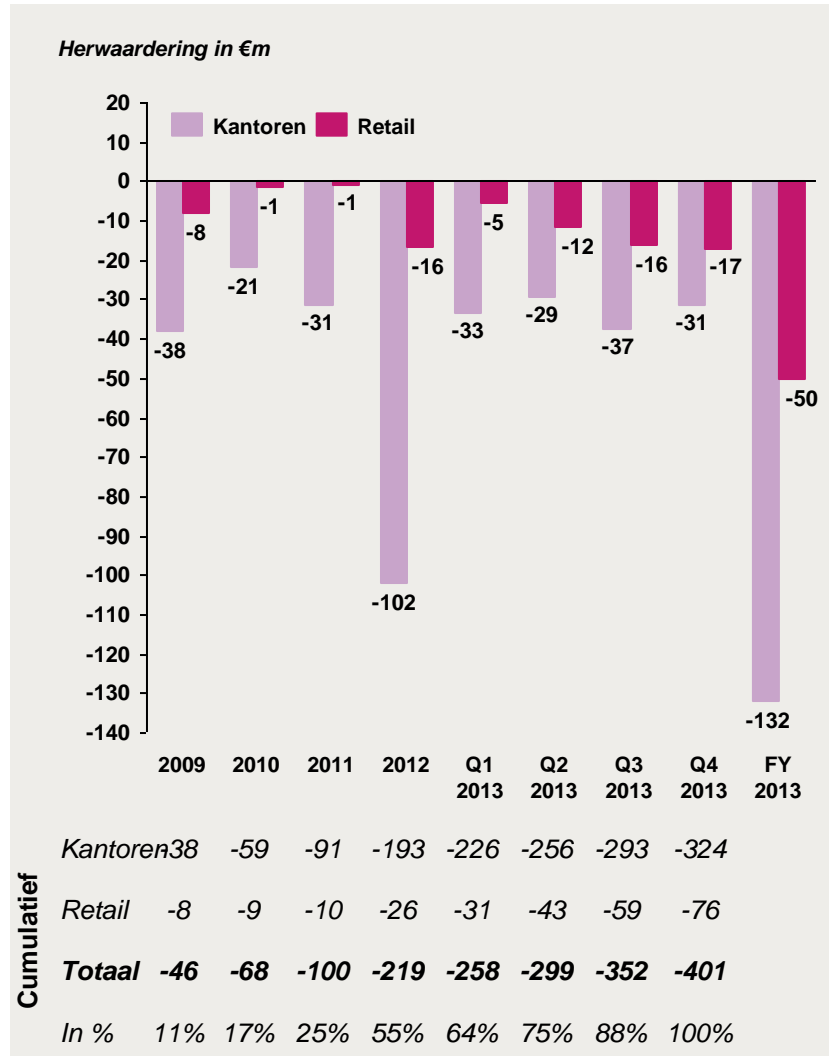
20% < 1,000 sqm

50% 1,000-5,000 sqm

30% >5,000 sqm

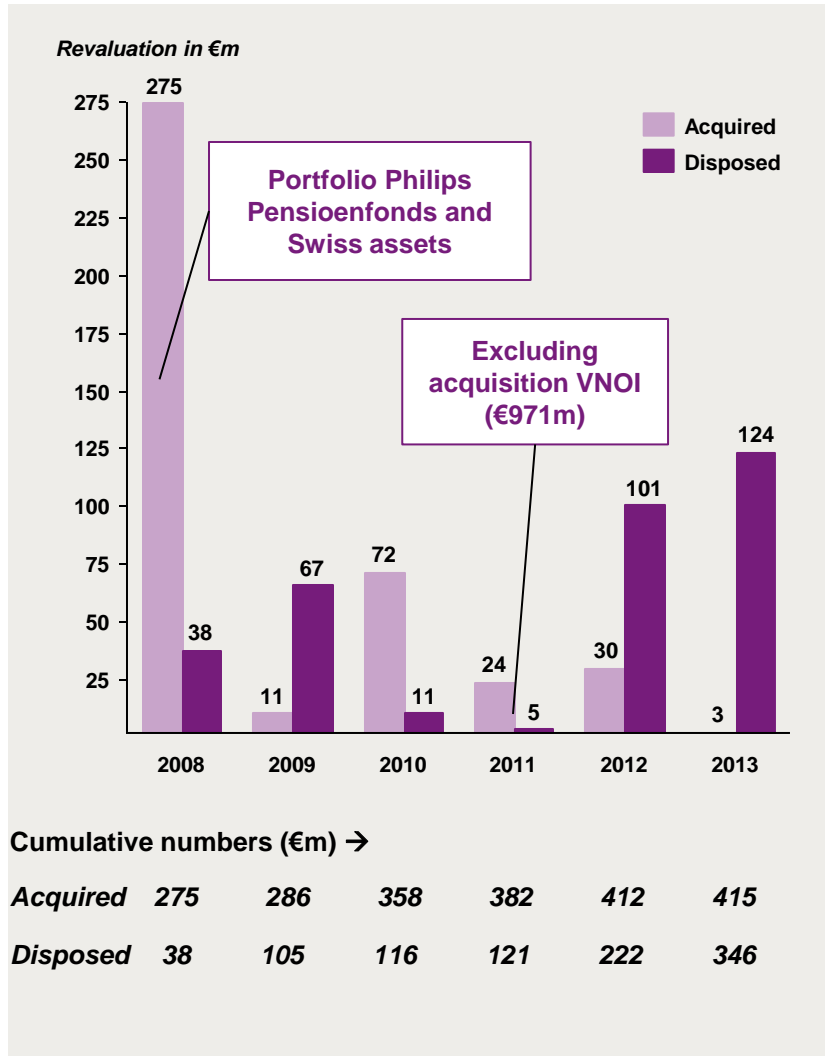
- Most prominent contracts expiring in 2014 include
  - Office
    - Prorail (9,200 sqm)
    - RGD Goes (5,300 sqm)
    - ROC Amsterdam (5,000 sqm)
  - Retail
    - Chesterfield (3,500 sqm)
    - C&A Heerlen (1,850 sqm)

# Property values Dutch portfolio



- Total negative revaluation since 2009 is €401m, of which €324m in the office portfolio
- Revaluations are primarily driven by vacancy and pressure on market rents
- In Q4 2013, €54.3m of negative revaluation was incurred

# Acquisition and disposal overview



- Divesting non-core assets and assets of which the value potential under NSI's management has been optimised is part of NSI's strategy to create value in its portfolio
- In 2013 NSI completed its exit from the Swiss market
- Other asset sales in 2013 included 5 office buildings, 5 retail properties and 2 industrial properties in the Dutch portfolio, and an semi-industrial property and a land plot in Belgium



# Dividend policy

- Pay-out of direct result of at least 75% in cash, allowing financing of capex
- Bi-annual distribution