

# Trading update Q3 2015

NSI N.V.

## Highlights:

- Direct result increased to €37.3 million in the first nine months of 2015 compared with €36.5 million in the same period in 2014

## Outlook

- NSI increases its expectation for the direct investment result per share to approx. €0.35 for the full year 2015

## Strategy

- The acquisition of 8 Dutch office properties (€158.9 million), in October (after balance sheet date) marks next important step in the execution of the strategy:
  - Share of region Randstad increased from 42.5% to 52.5% in office portfolio
  - Share of 'core' properties increased from 54% to 65%
- Continuation of divestment program of non strategic and optimised assets resulted in €32.6 million of asset sales in the first nine months of 2015

## Offices (including HNK)

- Continuing upward trend in take up NSI in a stable market: 16,226 sqm in Q3 2015 (Q3 2014: 8,733 sqm, Q2 2015: 12,987 sqm)
- NSI realized a take up/supply ratio of 33% compared with a market average of 13%
- Occupancy rate increases to 72.1% as per 30 September 2015 (71.7% as per 30 June 2015)
- Stable average effective rent level new leases at €122 per sqm over the last 12 months

## HNK

- Approx. 60% preletting illustrates success opening 10<sup>th</sup> HNK: HNK Utrecht Central Station
- Share of HNK in total gross rental income increased to 16.2% (30 June 2015: 14.2%)
- Record take up of approx. 8,000 sqm in the 3rd quarter, driven by among other success of proposition 'Kantoor op Maat' (Tailored Office); take up /supply ratio of 44%

## Retail

- Occupancy rate of 86.6% as per 30 September 2015 (30 June 2015: 87.1%)
- Agreement with respect to redevelopment shopping centre Keizerslanden with municipality of Deventer; start mid 2016
- Stable rent levels at €186 per sqm for new lettings (over 12 months) versus €177 per sqm in total portfolio

## Other

- Occupancy rate Large Scale Retail was 89.8% as per 30 September 2015 (30 June 2015: 93.5%, 30 September 2014: 85.0%)
- Occupancy rate Industrial was 79.0% as per 30 September 2015 (30 June 2015: 81.2%)

Results (x €1,000)	Q3 YTD 2015			Q2 YTD 2015			Q3 YTD 2014		
	Netherlands	Belgium <sup>*</sup>	Total	Netherlands	Belgium	Total	Netherlands	Belgium	Total
Gross rental income	66,929	23,023	89,953	45,109	23,023	68,132	70,238	30,072	100,310
Net rental income	50,015	22,800	73,081	33,616	22,851	56,734	53,959	27,491	81,922
Direct investment result	28,000	9,018	37,299	16,990	7,877	25,149	27,238	9,306	36,543
Occupancy rate (in %)	77.5%		77.5%	77.8%		77.8%	77.8%	84.8%	79.8%

\* NSI decreased its stake in Belgian company IOW from 50.2% to 15.2% on 18 June 2015. Consequently IOW is not longer consolidated in the income statement from Q3 2015 onwards and in the balance sheet as per 30 June 2015.

*Johan Buijs, CEO of NSI:*

*"The Dutch office rental market has stabilized at low take up levels in recent years. In our own portfolio, however, we see in the first three quarters, a clear upward trend in take up. Moreover, we have been able to consistently realize higher take up levels than the market average for quite some time now. This success is mainly the result of our strategic choices: full focus on locations that have a structurally strong office market, to which we adapt our portfolio through asset rotation, and our focus on flexible and full-service office concepts through our brand HNK. The recent acquisition of eight office properties gives a clear boost to this. Also the high take up in HNK and the fact that 60% of our 10th HNK was prelet even before opening confirm our choices."*

*Outlook*

The upward trend in the rental activities in the office portfolio of NSI has also continued in the 3<sup>rd</sup> quarter. Given the expectation that this upward trend will continue into the fourth quarter, combined with lower financing costs, NSI increases the expectation for the full year 2015. In addition, the acquisitions executed in October will further contribute approximately €0.01 per share in the remaining months of the year. As a result of these two effects combined, NSI expects a direct result per share of approximately €0.35 for the full year 2015.

## Leasing activities

	Offices NL*		HNK		Retail	
	Q3 2015	Q2 2015	Q3 2015	Q2 2015	Q3 2015	Q2 2015
Occupancy rate	72.1%	71.7%	67.6%	62.3%	86.6%	87.1%
Take up in sqm	16,226	12,987	7,898	2,782	1,643	1,738
Take up/supply ratio	33%	25%	44%	32%	19%	19%
Effective rent level per sqm new lettings	€ 122	€ 123	€ 166	€ 171	€ 186	€ 204
Effective rent level per sqm total portfolio	€ 145	€ 145	€ 173	€ 171	€ 177	€ 179

\*) includes HNK

### Offices (including HNK)

The occupancy rate improved in the 3<sup>rd</sup> quarter from 71.7% as per 30 June 2015 to 72.1% as per 30 September 2015.

NSI signed 16,226 sqm of new leases (take up) in the 3<sup>rd</sup> quarter, almost doubling the take up compared with the 3<sup>rd</sup> quarter of 2014 (8,733 sqm) and a continuation of the upward trend in the 2<sup>nd</sup> quarter of 2015 (12,987 sqm). This totals the take up over the first nine months in 2015 to 38,303 sqm (2014: 19,905 sqm). This represents over 5% of the total take up in the Dutch office market (715,000 sqm, source Dynamis) while NSI's office portfolio represents only approx. 1.1% of the total office market. The take up /supply ratio was 33% compared with a market average of 13%.

New contracts involving 41,178 sqm have taken effect in the first nine months of 2015, and contracts involving 38,526 sqm were terminated, resulting in a positive net take up of 2,650 sqm. As a result, the occupancy rate increased by 0.4%.

The underlying leasing results show the loss of contracts is compensated by new leases in particular in HNK. The occupancy in the 'conventional office portfolio' decreased by approx. 6,750 sqm while the occupancy in HNK increased by approx. 9,400 m<sup>2</sup>. The decrease in occupancy in the conventional portfolio is mainly caused by the expiration of two large single tenant contracts (approx. 7,000 sqm in total), compensated by the expansion of an existing contract (circa 3,700 sqm) with an educational institution in Amsterdam as a result of a pro active focus on this segment in this region. These differences confirm that the focus on flexible and full service contracts is the right strategy.

In the 3<sup>rd</sup> quarter, Royal Imtech N.V. went bankrupt. Three subsidiaries of Imtech rented in 3 different properties. Also thanks to active management, the rental loss is limited to €0.5 million on an annual basis (total rental income 2014: €1.2 million) as 1 contract in 1 property (3,695 sqm in HNK The Hague) could not be prolonged and will expire in the coming quarter.

The effective rent level of new leases over the last 12 months remained stable at €122 per sqm. The effective rent level over the total office portfolio was €145 per sqm as per 30 September 2015 (30 June 2015: €145 per sqm). The average lease duration of the portfolio (WAULT) was 3.7 years as per 30 September 2015.

### HNK

The average occupancy rate in HNK increased to 67.6% as per 30 September 2015 compared with 62.3% as per 30 June 2015.

HNK realized 8,000 sqm of new lettings (take up) in the 3<sup>rd</sup> quarter, totalling the total take up to approx. 15,000 sqm in the first nine months of 2015. The strong leasing performance in the 3<sup>rd</sup> quarter was driven by a number of larger contracts in the proposition "Tailored Office", including the successful preletting in the recently opened HNK Utrecht Central Station. HNK realised a take-up/supply ratio of 44%, versus a market average of 13%.

The 10<sup>th</sup> HNK was opened in October: HNK Utrecht Central Station, which is the second HNK in Utrecht. Even before the opening, 5,500 sqm out of the total 9,000 sqm available office space was already being prelet, confirming the strength of this unique second location in Utrecht.

The roll out to the targeted 20 HNK's is on track. The preparations for a second HNK in Rotterdam, a HNK in Dordrecht and a HNK in Amsterdam South East are in full swing and are expected to open in the 1<sup>st</sup> quarter of 2016.

The average effective rent level of new leases (over 12 months) amounted €166 per sqm, reflecting the increasing share of the proposition 'Tailored office', involving larger floorplates, compared to an average rent level of €173 per sqm for the total HNK portfolio. The gross rental income from HNK amounted to €5.9 million over the first nine months of 2015, representing 16.2% of the gross rental income of the office portfolio.

NSI invested € 7.5 million in HNK in the first nine months of 2015, bringing the total cumulative investments in HNK to € 19.8 million, out of the total 3-year investment plan of € 31.0 million by 2016.

### *Retail*

Although the consumer confidence is improving strongly, the retail market does not yet show a broad recovery and the market conditions remain challenging. The occupancy rate decreased slightly from 87.1% to 86.6%, which is caused by the expiration of a contract for office space above a shopping center.

The effective rent level of new leases (over 12 months) amounted to €186 per sqm, which is above the average level in the total retail portfolio (€177 per sqm, per 30 June 2015: € 179 per m<sup>2</sup>). The average lease duration of the retail portfolio (WAULT) was 4.6 years as per 30 September 2015.

NSI and the municipality of Deventer agreed on the redevelopment plan of shopping center Keizerslanden in the 3<sup>rd</sup> quarter. The shopping center will be renovated and expanded by approx. 4,000 sqm. In addition, the shopping center will be radically modernized and adapted to consumer needs. The total investment amounts to approx. €11 million. The redevelopment activities are expected to commence mid 2016 and will be completed mid 2018.

## Financial results

Results (x €1,000)	Q3 YTD 2015			Q2 YTD 2015			Q3 YTD 2014		
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\* NSI decreased its stake in Belgian company IOW from 50.2% to 15.2% on 18 June 2015. Consequently IOW is not longer consolidated in the income statement from Q3 2015 onwards and in the balance sheet as per 30 June 2015.

NSI decreased its stake in the Belgian company Intervest Offices & Warehouses ("IOW") from 50.2% to 15.2% on 18 June 2015. As per this date, IOW is being classified as 'associate'. As from the 3rd quarter 2015, IOW is no longer consolidated in the income statement and the holding of 15.2% in IOW is being recognised as 'result from associates' in the results of NSI.

### Gross rental income per segment Q3 2015 versus Q3 2014

x €1.000	Q3 2014	Purchases	Disposals	Organic growth	Q3 2015
Offices	40,444		-1,125	-2,359	36,960
Retail	20,193			766	20,959
Large-scale retail	4,069			446	4,515
Industrial	5,412		-208	-709	4,495
	120		-120		0
<b>Total</b>	<b>70,238</b>		<b>-1,453</b>	<b>-1,856</b>	<b>66,929</b>

As reported earlier, the expiration of a number of large contracts as per 31 December 2014 impacts organic (like-for-like) growth in the office portfolio in all quarters of 2015. The impact of the expiration of these contracts, including contracts with the Central Government Real Estate agency ("Rijksgebouwendienst", 5,000 sqm), ROC Amsterdam (5,000 sqm) and Prorail (9,000 sqm) amounted to € 2.3 million in the first nine months of 2015.

The positive like-for-like growth in the Dutch retail portfolio is driven by the leases in the Zuiderterras in Rotterdam (Primark, Q-park, Dirk). As reported earlier, the 1<sup>st</sup> quarter 2015 of Large Scale Retail includes a positive effect of the settlement of turnover rent over 2014 (€0.4 million).

### Gross rental income per segment in Q3 2015 versus Q2 2015

x €1.000	Q2 2015	Purchases	Disposals	Organic growth	Q3 2015
Offices	12,626	0	-68	-607	11,951
Retail	6,918	0	0	64	6,982
Large-scale retail	1,438	0	0	-8	1,430
Industrial	1,542	0	-50	-35	1,457
<b>Total</b>	<b>22,524</b>	<b>0</b>	<b>-118</b>	<b>-586</b>	<b>21,820</b>

The organic development in the office portfolio in the 3<sup>rd</sup> quarter versus the 2<sup>nd</sup> quarters show the effect of a one-off settlement fee in the 2<sup>nd</sup> quarter of 2015 (€0.5 million).

### Net rental income

The net rental income amounted to €73.1 million in the first nine months of 2015 (€81.9 million in the same period in 2014), which was mainly caused by the deconsolidation of IOW as per 30 June 2015. The net rental income in the Netherlands amounted to €50.0 million in the first nine months of 2015, compared with €54.0 million in the same period of 2014.

#### *Direct investment result*

The direct investment result increased to €37.3 million in the first nine months of 2015, compared with €36.5 million in the same period of 2014, despite the reduced holding in IOW.

The direct investment result in the Netherlands improved from €27.2 million in the first nine months of 2014 to €28.0 over the same period in 2015, mainly due to lower financing costs. The lower financing costs were, in addition to the effects of lower outstanding loans and the impact of lower interest costs in the new financing agreement, influenced by one-off interest income (approx. € 1.3 million) resulting from the final settlement with the Belgian tax authority concerning historically paid withholding tax in Belgium

#### *Financing*

The loan-to-value was 36.6% as per 30 September 2015 (30 June 2015: 35.1%). It should be taken into account that no revaluations are included in the 3<sup>rd</sup> quarter. Furthermore, NSI did acquisitions for in total €158.9 million in October 2015. As a result of the associated financing and derivatives, the average costs of debt will decrease further to approx. 4.1% (30 September 2015: 5.1%). Post acquisitions the LtV amounts to approx. 45%.

The interest cover ratio was 3.0 as per 30 September 2015 (30 June 2015: 2.9)

## Developments in the portfolio

NSI increases the quality of its portfolio through its asset rotation strategy. The focus is clearly on investing in assets on locations with a fundamentally healthy office market and divesting assets on location where this is not the case. By divesting assets of which the value has been optimized or when the required investments will not result in the required returns NSI frees up funds to reinvest.

In a similar way, NSI transforms its retail portfolio towards a portfolio that largely consists of 'daily shopping' centres.

In the 3rd quarter of 2015, NSI completed the earlier announced divestment of office property Villawal in Nieuwegein. Furthermore, an office property at de Nieuwe Steen in Hoorn (approx. 1,750 sqm) was sold. This brings the total divestment volume to 61.000 sqm office space and approx. 8,500 sqm industrial space for total proceeds of €32.6 million in the first nine months of 2015.

The annualised gross rental income of the sold properties amounts to €1.6 million (effect in the first nine months of 2015: €0.5 million).

NSI acquired a portfolio of 7 high quality office assets (56,509 sqm) in October. Furthermore NSI acquired an office property (9,500 sqm) for €15.4 million in the BioScience park in Leiden. With these acquisitions NSI delivers on its strategy to grow in Dutch offices in selected regions with high quality assets. As a result of these acquisitions, the share of the Randstad region in NSI's office portfolio grows from 42.5% to 52.5%, and particular in Amsterdam (growing from 11.8% to 24.7%). The percentage of core assets in NSI's portfolio increases from 54% to 65%, progressing to the strategic target of 70% by year end 2016.

NSI continues its asset rotation strategy by divesting assets that strategically no longer fit its portfolio or of which the value potential has been optimized. The focus is now on investments in order to further improve the quality of the portfolio and to realize growth in the Dutch offices portfolio.

The total investments amounted to €12.5 million in the first nine months of 2015, of which €2.7 million in retail and €9.8 million in offices (of which €7.5 million in HNK)

## About NSI

NSI creates - with and for its customers - inspiring environments to meet, work and do business. NSI realises this by investing in offices and retail in attractive, high-quality locations in the Netherlands and Belgium. NSI is a publicly listed real estate company, and manages invested assets of around €1.2 billion.

Financial Calendar	Date
Investor Day	12 November 2015
Publication preliminary annual results 2015	12 February 2016
Annual general meeting of Shareholders	29 April 2016
Publication Q1 2016 trading update	12 May 2016
Publication half year results 2016	29 July 2016
Publication Q3 2016 trading update	4 November 2016

  

Dividend 2016	Date
Listing ex-dividend	5 May 2016
Record date	6 May 2016
Payment final dividend 2015	12 May 2016

**For more information:**

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