TRADING UPDATE

Q3 2018

- **Continued positive momentum in the business, pointing to an excellent FY 2018**
- **EPRA NAV € 38.25 per share (up 4% vs YE 2017)**
- **EPRA EPS of € 1.93 per share (net of € 0.11 negative IFRS 9 effects)**
- **Vacancy rate of 16.2%, down by 1.7% on a like-for-like basis (vs Q4 2017)**
- **YE 2018 vacancy rate expected in the range of 14.5-15.5%**

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Definitions

EPRA
European Public Real Estate Association - Please refer to www.epra.com for all EPRA definitions

ERV
The estimated rental value (ERV) is the valuer's estimate of the open market rent that a property in its current state can reasonably be expected to achieve given its characteristics, condition, amenities, location and local market conditions.

Theoretical rent
The contractual rent for let space plus the ERV for vacant units.

G4
G4 refers to the locations Amsterdam, The Hague, Rotterdam and Utrecht.

ICR
NSI calculates its interest coverage ratio for a given period by dividing net rental income by net financing expenses, in accordance with its loan covenants.

Net LTV
The loan to value ratio reflects the balance sheet value of interest bearing debts plus short term debts to credit institutions, net of cash and cash equivalents, as a percentage of the total real estate investments, including assets held for sale.

Financial calendar

Publication final results 2018	29 January 2019
Publication annual report 2018	7 March 2019
Publication trading update Q1 2019	17 April 2019
Publication half year results 2019	18 July 2019
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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Publication date:
18 October 2018

NSI HIGHLIGHTS

Key financial metrics[1]

	YTD Q3 2018	YTD Q3 2017	Change %
Revenues and Earnings (€ '000)			
Gross rental income	63,923	66,984	-4.6%
Net rental income	51,154	53,947	-5.2%
Direct investment result	35,617	36,291	-1.9%
Indirect investment result	31,173	19,165	62.7%
Total investment result	66,790	55,455	20.4%
Earnings per share (€)	3.62	3.07	17.9%
EPRA earnings per share (€)	1.93	2.01	-3.9%
EPRA cost ratio A (incl. direct vacancy costs)	27.4%	27.5%	-0.1 pp
EPRA cost ratio B (excl. direct vacancy costs)	25.2%	24.6%	0.6 pp

	30 Sep 2018	31 Dec 2017	Change %
Balance Sheet (€ '000)			
Real estate investments	1,170,000	1,072,180	9.1%
Assets held for sale	43,961	28,791	52.7%
Net debt	-482,333	-408,453	18.1%
Equity	708,548	672,688	5.3%
IFRS equity per share (€)	38.15	36.63	4.1%
EPRA NAV per share (€)	38.25	36.66	4.3%
EPRA NNNAV per share (€)	38.03	36.13	5.3%
Net LTV	39.5%	36.9%	2.6pp
Number of ordinary shares outstanding	18,574,298	18,364,998	1.1%
Weighted average number of ordinary shares outstanding	18,438,998	18,133,178	1.7%

Key portfolio metrics

	Sep 18				Dec 17
	Offices	HNK	Other[2]	Total	Total
Number of properties	83	14	17	114	126
Market value (€ m)[3]	844	204	174	1,222	1,108
Market value (€ psm)	1,950	1,607	1,637	1,835	1,639
Contracted rent (€ m)[4]	59	16	15	90	87
ERV (€ m)	71	22	15	108	105
Lettable area ('000 sqm)	433	127	107	666	676
EPRA vacancy rate[5]	13.8%	25.8%	13.0%	16.2%	18.4%
WAULT (years)	4.6	3.0	5.4	4.4	4.7
Average rent/sqm (€ p.a.)	171	184	172	173	169
EPRA net initial yield	5.2%	4.0%	6.3%	5.2%	5.5%

[1] Based on unaudited results
[2] Keizerslanden in Deventer was sold in April 2017 and is included as Assets held for sale in "Other", with the delivery and transfer set for December 2018
[3] At market value. Reported in balance sheet at book value excluding lease incentives and part of NSI HQ related to own use
[4] Before rent free and other lease incentives
[5] In line with EPRA-guidelines EPRA vacancy rate excludes Bentinck Huis, which is currently being redeveloped

CEO COMMENTS

We are pleased with our Q3 2018 trading update, as it reconfirms all the positive trends in the business. We continue to make good progress in our asset rotation, vacancy reduction and value-add initiatives.

Adding quality assets to the portfolio

In Q3 we acquired 'Bentinck Huis' in central The Hague, a 6,000m2 office redevelopment opportunity, and 'Motion' in Amsterdam, a 16,000m2 office building with value-add potential. This brings our total acquisitions in the first nine months of 2018 to circa €95m including 'Q-Port' in Amsterdam which was already acquired in Q1.

The acquisitions this year are proof that we are comfortable to take on more risk, selectively, in search for better returns. Having said that, we also remain ready to acquire good quality fully-let assets in city centre locations in our key focus markets, but these are harder to come by at attractive risk-adjusted returns.

It is however not impossible to find attractive good quality fully-let assets, as we show with our latest acquisition of Jacobsweerd in Utrecht for €52m, announced in a separate press release today.

Continued portfolio rationalisation

In Q3 2018 we sold one office asset and one retail asset for a total of €12.3m, reflecting - on average - a 23% premium to book value. The cumulative total for disposals up to Q3 is €38.6m. We expect an active Q4 in terms of disposals and should end the year below 100 assets (YE 2017: 126; YE 2016: 165).

The Q4 disposals will help us to maintain a comfortable level of LTV, well within the 35-40% range, considering the acquisition of Jacobsweerd. Due to the ongoing asset rotation, at year-end the pool of assets outside our focus markets (i.e. all remaining retail assets, one single industrial asset and parts of the office portfolio) should be down to less than 20% of our overall portfolio.

We will continue to reduce the exposure outside our focus markets, which will help to fund potential new acquisitions, our value-add initiatives, capex plans and our development programme.

A 14.5-15.5% vacancy rate at year-end

The vacancy rate is down to 16.2% in Q3 (18.4% at Q4 2017) and includes a 1.7% like-for-like improvement. In line with EPRA guidelines we exclude 'Bentinck Huis' from the vacancy calculation as this asset is currently being redeveloped.

Taking into account known lease expirations, new lease starts and scheduled asset disposals, we expect to end 2018 with a vacancy rate in the range of 14.5-15.5%.

Our goal is to achieve a below market vacancy rate. At present we believe this means a vacancy rate of sub 10%. The gap with our current vacancy rate signals we have still more work to do, but we should be able to close it in the medium term given the supportive economic environment, further investments in our existing assets and continued asset rotation.

FBI regime – positive outcome

The Dutch government announced earlier this week, 15 October, that it has withdrawn its plan to abolish the dividend withholding tax from 2020 onwards. The related plan to no longer allow tax transparent FBI's (such as NSI) to invest directly in Dutch real estate has also been withdrawn. We are pleased with the outcome as it supports a positive business climate for the wider Dutch real estate sector and it allows us to continue to remain tax transparent for our shareholders.

€2m lease termination cost to fall in Q4

In October, after the Q3 period end, we agreed to pay a €2m fee to terminate the lease with one of our tenants in Amsterdam. We are normally not in the habit of pro-actively terminating leases, but in this case we felt obliged to do so.

Lease termination fees are classified as revenues in EPRA EPS. It therefore follows that in this case the cost will also show in EPRA EPS. The net economic effect is likely to be minimal as, whilst it is ultimately up to our external appraisers, the asset is expected to see a positive revaluation in Q4.

Outlook for 2018

We maintain our EPRA EPS guidance for 2018 of €2.50-2.55, even with the €2m in 'one-off' costs as per above. In the above guidance we previously already included a negative €2.1m due to one-off costs related to the H1 debt refinancing. As such for 2018 we are set to include total 'one-offs' of €4.1m, or €0.22 per share.

We have always been clear that uncertainty over timing and size of deals could and will impact our LTV in the short run. Having been a net buyer of assets so far this year has increased the LTV and has helped our current EPRA EPS run-rate, but we aim for a lower LTV at year-end. Disposals in hand will help us get there, which is warranted considering our potential development plans at Laanderpoort from 2020 onwards. Discussions on this project are progressing well.

We are hosting a Capital Markets Day for institutional investors on 7 November in Amsterdam. At a later stage we will also organise a Retail Investor Event (more details to follow) to engage with shareholders on our progress and prospects.

Bernd Stahli

INCOME, COST AND RESULTS

Introduction

In the nine months YTD EPRA EPS is €1.93, a 3.9% decrease compared to the same period last year. The result is negatively impacted by lower net rental income as a result of net disposals in 2017, a €0.11 per share one-off cost due to IFRS 9 (debt refinancing) and a marginal dilution from stock dividend, and is positively impacted by lower administrative and finance costs.

Rental income

Gross rental income is down by 4.6% (€-3.1m) YTD, mainly due to net disposals in 2017. On a like-for-like basis gross rents are up 2.8% (€1.4m), due to an improved occupancy rate.

Non recoverable service charges are down 23.4% like-for-like, caused by one-offs in HNK due to service charge reconciliations from prior years. Operating costs are €1.2m higher than YTD Q3 2017 on a like-for-like basis, mainly due to an increase in letting costs. Despite a lower NRI margin net rent is up by 1.5% on a like-for-like basis. Excluding one-offs it would have been 1.3%.

Income segment split Q3 2018 *(€ '000)*

	Offices	HNK	Other	TOTAL
Gross rental income	41,183	11,276	11,464	63,923
Service costs not recharged	-632	-352	-501	-1,485
Operating costs	-5,244	-4,198	-1,842	-11,284
Net rental income	**35,307**	**6,726**	**9,121**	**51,154**

Operating costs

Operating costs are 2% (€0.2m) higher compared to the first nine months of 2017. The main negative contributors are higher municipality taxes as a result of one-offs in 2017 and higher letting costs.

The net rental margin of 80.0%, is 0.5pp lower than last year (80.5%). One-offs in net rental income contributed €0.1m more than last year.

Administrative expenses

Administrative expenses for the nine month period are €5.7m, a €0.6m (9%) decrease versus Q3 2017, mostly due to lower staff costs.

Net financing expenses

NSI is benefitting from lower financing costs as a result of the refinancing in January and April 2018. YTD the net financing result is, at €9.8m, €1.6m lower compared to 2017, a 13.9% reduction. This is even after a €2.1m one-off due to IFRS 9 refinancing costs, taken in the second quarter. The full impact of the H1 refinancing is visible in Q3, with net financing costs for the quarter 30% lower than Q3 2017.

The cost of debt is 1.9% at the end of September 2018, in line with the cost of debt at the end of June.

Post-closing events and contingencies

In early Q4 NSI agreed to pay a €2m lease termination fee to one of its tenants in Amsterdam, as is mentioned in the 'CEO comment' section of this report.

The €52m acquisition of Jacobsweerd, a 14,400 sqm office building located in the centre of Utrecht is announced in a separate press release today.

REAL ESTATE PORTFOLIO

NSI sold two assets in Q3 2018, one retail asset in Laren and an office asset in Rotterdam, for in total €12.3m, reflecting - on average - a 23% premium to book value. Two assets were acquired during the quarter, 'Bentinck Huis' in The Hague and 'Motion' in Amsterdam Sloterdijk for a total of €61.2m. Six assets with a market value of €44m are sold unconditionally and are held for sale with delivery in Q4 2018.

Portfolio breakdown - September 2018

	# Assets	Market Value €m	Value %
Offices	78	825	67%
HNK	14	204	17%
Other	16	149	12%
Total Investment properties	**108**	**1,178**	**96%**
Held for sale	6	44	4%
Total portfolio	**114**	**1,222**	**100%**

The continued effort to sell smaller assets is progressing steadily. We expect to have less than 100 assets at the end of the year, with the weight towards our target cities increasing. The average value per asset at Q3 2018 is €10.7m (Q4 2017: €8.8m).

Vacancy

The Q3 2018 EPRA vacancy rate is 16.2%, a 2.2% decline (1.7% on a like-for-like basis) from the end of the previous year. This is a clear sign that the business is improving operationally and that changes in the portfolio, team and processes are having a positive effect. The lower vacancy should normally lead to positive like-for-like net rental growth in 2019.

The like-for-like vacancy decline for Offices + HNK is picking up. In Q2 2018 the decline was -1.0% and in Q3 it is already -2.0%. We see healthy interest in both areas of the business, particularly in our focus markets, and we are confident that this trend is set to stay for at least the next 12 months.

EPRA Vacancy

	Dec 17	L-f-l	Other	Sep 18
Offices	15.9%	-1.4%	-0.7%	13.8%
HNK	29.8%	-4.3%	0.3%	25.8%
Other	14.0%	0.5%	-1.5%	13.0%
Total portfolio	**18.4%**	**-1.7%**	**-0.6%**	**16.2%**
Offices + HNK	*19.2%*	*-2.0%*	*-0.5%*	*16.7%*

Rents

On a like-for-like basis gross rents are stable for Offices and Other and up for HNK. Net rental growth YTD is positive 1.5%, entirely driven by HNK, as Offices and Other are seeing a deterioration of the NRI margin as a result of higher maintenance costs.

Net rent growth like-for-like

	YTD Q3 18 €m	YTD Q3 17 €m	Change €m	L-f-l %
Offices	25.6	26.2	-0.6	-2.4%
HNK	6.8	5.2	1.5	29.4%
Other	7.3	7.6	-0.3	-4.0%
Total portfolio	**39.6**	**39.1**	**0.5**	**1.5%**

The average lease maturity is slightly down during the quarter to 4.4 years. This is largely a seasonal effect as the third quarter is generally less active because of summer holidays. We expect the WAULT to increase again by the end of the year.

Offices

The exposure within the office portfolio to Amsterdam has increased to 55% (YE 17: 48%). The weighting to the target cities Amsterdam, Utrecht, Rotterdam, The Hague, Leiden, Den Bosch and Eindhoven is now 87%.

Key Offices metrics

	Sep 17	Dec 17	Sep 18
Number of properties	103	93	83
Market value (€m)	733	736	844
Annual contracted rent (€m)	58	57	59
ERV (€m)	69	67	71
Lettable area (k sqm)	467	436	433
EPRA Vacancy	19.4%	15.9%	13.8%
WAULT (years)	5.1	5.0	4.6
Average rent/sqm (€/p.a.)	156	168	171
EPRA net initial yield	5.9%	5.8%	5.2%

The portfolio outside the G4 still has significant vacancy and this is being reduced mostly through further asset disposals. Some of the vacancy in the G4 or 'Other Randstad' locations is asset specific, in assets that we are currently keeping vacant or where we are not renewing leases, as we believe these assets are worth more vacant than occupied. Most of these assets will be sold in 2019 at the latest.

Key Offices metrics geographical split

	G4	Other Randstad	Other NL
Number of properties	35	23	25
Market value (€m)	612	106	126
Market value per asset (€m)	17	5	5
Market value (€psm)	2,753	1,190	1,032
Annual contracted rent (€m)	37	10	12
ERV (€m)	46	12	14
Reversion	7.1%	-6.5%	-12.5%
Lettable area (k sqm)	222	89	122
EPRA Vacancy	9.8%	18.0%	23.4%
WAULT (years)	5.1	3.7	3.8
Average rent/sqm (€/p.a.)	197	145	135
EPRA net initial yield	4.5%	7.5%	6.9%

HNK

Leasing activity in HNK is steadily improving. The vacancy rate is down by 1.8% quarter-on-quarter to 25.8% at 30 September 2018. A variety of asset management initiatives at several locations is driving the improvement.

HNK Schinkel, which opened in June 2018, is already almost fully leased up. In HNK Houthavens MO (managed office) units were introduced in Q1 and leasing is progressing well. At HNK Utrecht CS an additional floor of MO units opened in Q2 and has already achieved over 90% occupancy. In HNK Ede all of the new MO units are occupied and meeting rooms are now being used to fulfil the strong demand for managed office space. In HNK Den Bosch we are also upgrading several floors.

In Rotterdam there is healthy interest in both HNK locations and in HNK The Hague we have invested in a new stairwell and corridor to better connect the third tower to the main Club space area. This should support the attractiveness of this part of the building..

We are optimistic about the outlook for our HNK activities in most locations. We have some lease expiries in Q4 that may impact the occupancy rate at the year-end, but we expect to show a further positive trend in 2019.

Key HNK metrics

	Sep 17	Dec 17	Sep 18
Number of properties	13	14	14
Market value (€m)	158	181	204
Annual contracted rent (€m)	14	15	16
ERV (€m)	20	22	22
Lettable area (k sqm)	121	128	127
EPRA Vacancy	31.6%	29.8%	25.8%
WAULT (years)	3.2	2.9	3.0
Average rent/sqm (€/p.a.)	175	176	184
EPRA net initial yield	4.4%	3.9%	4.0%

Other

We sold one retail asset in Laren in Q3. The disposal price was in line with the book value. We continue to work towards selling the remaining retail exposure, prudently, over time.

The occupational market remains challenging. The vacancy rate is down by one percent due to disposals, but up by 0.5% on a like-for-like basis. The transfer of the Keizerslanden shopping centre is foreseen for December and, given its relatively low vacancy, will result in a small increase in the vacancy rate at year-end.

Key Other metrics

	Sep17	Dec 17	Sep 18
Number of properties	22	19	17
Market value (€m)	198	191	174
Annual contracted rent (€m)	15	16	15
ERV (€m)	18	16	15
Lettable area (k sqm)	119	113	107
EPRA Vacancy	15.7%	14.0%	13.0%
WAULT (years)	4.8	5.0	5.4
Average rent/sqm (€/p.a.)	171	169	172
EPRA net initial yield	6.3%	6.0%	6.3%

BALANCE SHEET, NAV & FINANCING

Funding

So far in 2018 NSI has been a net acquiror of assets, resulting in an €74m increase in net debt by September 2018. In Q3 itself an additional €66m was drawn from the RCF. We continue to further diversify our loan exposure and lower the utilisation of the RCF.

As a result of the net acquisitions this year the LTV has increased to 39.5% at the end of September (June 18: 36.3%). The cost of debt is stable at 1.9% (June 18: 1.9%).

NSI is using swaps to hedge its interest rate risk on variable loans. The USPP has a fixed rate coupon. The volume hedge is 73% and the maturity hedge is 102% per September 2018.

***Net debt – Sep 2018** (€m)*

	Sep 18	Dec 17	Change
Debt outstanding	488.7	407.2	81.5
Amortisation costs	(1.2)	(1.8)	0.6
Book value debt	487.5	405.4	82.1
Debt to credit institutions	3.3	9.9	(6.6)
Cash	(8.5)	(6.8)	(1.7)
Net debt	**482.3**	**408.5**	**73.8**

Covenants

	Covenant	Dec 15	Dec 16	Dec 17	Jun 18	Sep 18
LTV	≤60%	43.3%	44.1%	36.9%	36.3%	39.5%
ICR	≥ 2.0x	3.2x	3.8x	4.7x	4.6x	5.2x