

REAL ESTATE PORTFOLIO

NSI sold 30 assets in 2019, eight retail assets, one industrial asset and 21 office assets. The disposal proceeds of € 128.5 million (excluding costs) reflect a 6.8% premium to the most recent book value. Compared to the 31 December 2018 book value, the office assets were sold at a 12.7% and the retail assets at a 1.5% discount, before costs.

Two office assets were acquired in the first quarter of 2019, in Amsterdam and Leiden, for a total of € 30.8 million including acquisition costs. A small retail asset in Leiderdorp, part of a package transaction with Retail Estates in the first half of 2017, was transferred back to NSI in early second half of 2019 and was subsequently sold in December.

Asset rotation^{1,2}

	# Assets	Acquisition/ Net sales price	Net result on sale	Contract rent
Offices acquisitions	2	30.8		2.0
Reversed disposal				
Other	1	0.8		
Additions	3	31.5		2.0
Offices	21	76.3	9.5	6.6
Other	9	52.3	-0.8	5.1
Disposals	30	128.5	8.7	11.7
Delta	-27	-97.0	8.7	-9.7

NSI was a net seller in 2019, with disposal proceeds exceeding acquisition costs by € 97 million. The number of assets continues to fall. The average asset value at the end of 2019 is up to € 19.8 million.

1 Acquisitions at acquisition price including costs
2 Including sales and acquisition costs

“We successfully finished our asset rotation strategy.”



At the end of December 2019 the held for sale portfolio consists of two office assets (Europaweg, Zoetermeer and De Hoefse Wing, Amersfoort) and one retail asset (De Hagenborgh, Almelo), which have been transferred in the first quarter of 2020.

Portfolio breakdown

	# Assets	Market value (€ m)	Market value (%)
Offices	46	949	74%
HNK	14	262	20%
Other	2	60	5%
TOTAL Investment property	62	1,271	99%
Held for sale	3	16	1%
TOTAL Portfolio	65	1,287	100%

Vacancy

EPRA vacancy

	Dec 18	LFL	Non-LFL	Dec 19
Offices	11.1%	-2.6%	-4.6%	4.0%
HNK	23.2%	-8.7%		14.5%
Other	11.2%	-0.8%	-0.3%	10.1%
TOTAL	13.8%	-4.1%	-2.7%	7.1%
Target Cities	11.3%	-4.3%	-1.3%	5.6%
Other	21.1%	-2.6%	-3.5%	15.0%

The EPRA vacancy rate is down to 7.1%, a 6.8pp decline throughout the year. On a like-for-like basis the vacancy fell by 4.1pp. Strong net letting in the Offices segment in the fourth quarter is the main contributor. The current vacancy rate includes about 0.3pp of intentional vacancy, related to planned re-developments and other value-add initiatives.

Rents

On a like-for-like basis net rents are up 5.2%. Offices rents are up by 8.4% on a gross basis and 6.2% on a net basis, reflecting the positive impact of both asset rotation and progressive lease up. HNK continues to show strong growth, albeit from a lower base. In the target cities net rents are up strongly, by 7.5%, reflecting the continued strength of these markets.

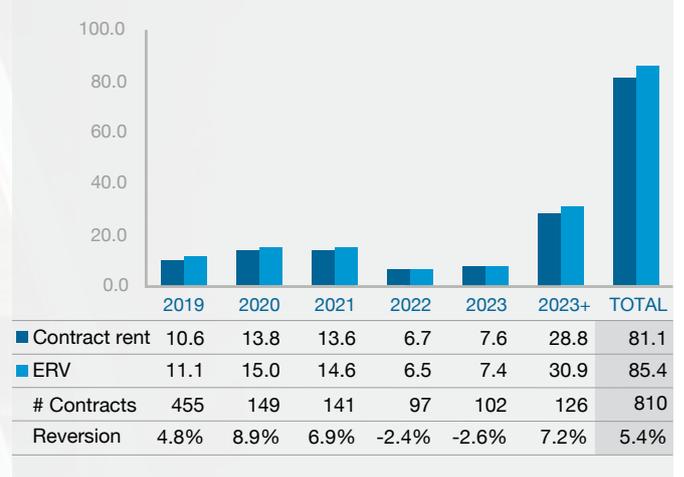
Net rent growth like-for-like (€ million)

	2018	2019	L-f-l
Offices	34.5	36.6	6.2%
HNK	10.5	11.8	11.7%
Other	4.8	4.0	-16.4%
TOTAL	49.9	52.4	5.2%
Target Cities	40.2	43.2	7.5%
Other	9.6	9.2	-4.6%

Reversionary potential / ERV bridge

The portfolio is 5.4% reversionary, up 4.3pp since the end of the previous year. A result of both rising ERVs and asset rotation.

Annual expirations and reversion



The reversion rate in the Offices segment has increased significantly to 8.6%, partly because the like-for-like ERV growth of 4.4% is outpacing inflation, but mainly due to the disposal of assets outside the target cities, which had negative reversion.

At HNK, with new lease contracts on average being agreed above ERV, contracted rent is up by 16.8% compared to December 2018. ERVs grew by 2.0% over the same period. ERVs for HNK do not reflect the premium generated on "conventional" let space, but show the rental level the valuer expects to achieve if the building is let excluding the HNK services and amenities. We therefore expect to lease space at a higher premium than the reversion ratio is indicating.

Reversion³

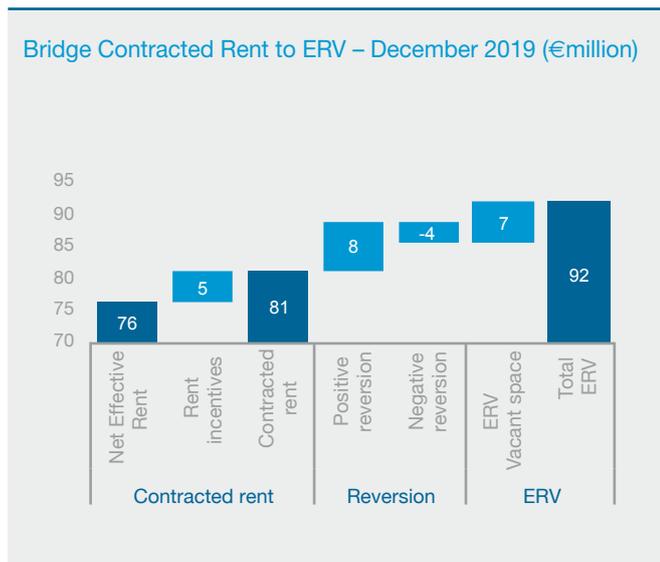
	Dec 18	Dec 19
Offices	2.3%	8.6%
HNK	3.2%	1.1%
Other	-8.4%	-9.7%
TOTAL	1.1%	5.4%
Target Cities	5.2%	7.6%
Other	-10.2%	-6.5%

ERV like-for-like (€ million)

	Dec 18	Dec 19	L-f-l
Offices	58	60	4.4%
HNK	23	23	2.0%
Other	6	6	-7.1%
TOTAL	87	89	2.9%

³ Reversion = ERV let space / contractual rent

Bridge Contracted Rent to ERV – December 2019 (€million)



EPRA yields

The EPRA net initial yield is down 60 bps to 4.6%, due to the effects of asset rotation and an 11.6% increase in capital values in 2019. The fall in yields is reflective of wider market conditions. Pressure on yield levels remains as investor demand continues to be high. In search for yield and for product investors are increasingly looking beyond Amsterdam to the other G4 markets. This trend is also visible in the NSI portfolio, where the gross yield in Amsterdam fell by 0.4pp to 5.4% and in our other target markets by 0.9pp to 6.4%.

Yields

	EPRA net initial yield		Gross initial yield		Reversionary yield	
	Dec 18	Dec 19	Dec 18	Dec 19	Dec 18	Dec 19
	Offices	5.1%	4.5%	6.8%	6.0%	7.8%
HNK	4.6%	4.6%	8.0%	7.5%	10.8%	8.8%
Other	6.9%	6.3%	8.9%	9.7%	9.2%	9.8%
TOTAL	5.2%	4.6%	7.2%	6.4%	8.5%	7.3%
Target Cities	4.8%	4.4%	6.6%	6.0%	7.8%	6.9%
Other	7.0%	6.4%	9.8%	9.9%	11.2%	10.9%

Valuations

The portfolio is appraised externally twice a year. Most assets saw a change in external appraiser in the first half year of 2019, in accordance with our standard appraiser rotation process. Colliers has been appointed as valuer in addition to CBRE, JLL and Cushman & Wakefield.

Capital values are up by 11.6% or € 146.3 million. The valuation of Offices is up by 11.9%. HNK values are up by 22.5%, continuing the strong positive trend of recent years, following a 9% uplift in 2018 and 10% rise in 2017. The 'Other' segment is down by 8.8%, as the Dutch retail investment market remains difficult.

Amsterdam has seen the highest increase in capital values of all our markets, up 15.7%, with assets in our other Target Cities up

by a very respectable 13.2%. These valuation uplifts are driven by strong occupancy growth, income growth and a fall in yields.

Revaluations (€ million)

	Market value (€ m)	Revaluation			%
		Positive	Negative	TOTAL	
Offices	964	117	-8	109	11.9%
HNK	262	48	0	48	22.5%
Other	61	0	-11	-11	-8.8%
TOTAL Portfolio	1,287	165	-19	146	11.6%
Target Cities	1,156	156	-6	150	14.6%
Other	131	10	-13	-3	-1.4%

Capital expenditure

Defensive capital expenditure was € 4.2 million in 2019. The largest expenses were € 0.6 million at the Koningin Wilhelmina-plein, € 0.5 million at Centerpoint, € 0.6 million at Q-port and € 0.4 million at Zuidplein. Most of the offensive capex is spent on Bentinck Huis (€ 5.8 million) and HNK The Hague (€ 1.1 million) for connecting the E tower to the club space.

Capital expenditure (€ million)

	Offensive	Defensive	TOTAL
Offices	6.0	3.7	9.7
HNK	4.2		4.2
Other		0.5	0.5
TOTAL Portfolio	10.2	4.2	14.4

Development and renovations

At the end of 2019 NSI has two assets classified as development (Investment property under construction), Bentinck Huis in The Hague and Donauweg in Amsterdam.

The redevelopment of Donauweg in Amsterdam is set to complete in second half of 2020, at which time the asset will transfer back to investment property. This asset is already being marketed.

The redevelopment of Bentinck Huis is on track. Building works are likely to run into early in the second quarter instead of late in the first quarter due to an unforeseen issue related to the technical part of the historic building.

The existing Laanderpoort asset will only transfer to Investment Property under Construction in 2022 once all the necessary contracts are in place and demolition works are about to commence. For the period January 2021 (when the current lease expires) to early 2022 (the expected date of demolition) ING will pay half rent for the building, subject to certain conditions related to the development project.

Offices

The Offices portfolio has seen a massive transformation compared to the portfolio NSI had at the end of 2016 when the new strategy was set out. Back in 2016 NSI had 108 offices in

54 cities with an EPRA vacancy rate of 21.3%. Today, excluding assets held for sale, the portfolio consists of 46 assets in 9 cities with a 4.0% vacancy. The majority of these assets are located in economic growth areas in close proximity to public transport hubs with strong accessibility by car. Furthermore, the portfolio offers substantial value-add potential. This is a strong foundation to further optimise and grow the portfolio.

The EPRA vacancy rate is down to 4.0% at year end, a fall of 7.1pp compared to the beginning of the year and well below the national average. The biggest drop was realised at the end of the year with strong letting results in the fourth quarter. Amsterdam is the largest contributor as the EPRA vacancy rate fell 6.6% on a like-for-like basis over the quarter to a modest 1.3%.

Strong positive momentum in Amsterdam Sloterdijk was converted with several new lease contracts signed. Q-Port is now fully let and Motion is almost fully let. At Centerpoint in Amsterdam Southeast a three-year lease contract for circa 5,000 sqm was signed in the fourth quarter, offering the team the necessary time and flexibility to prepare the asset for a potential redevelopment.

In the Hooghuisstraat in Eindhoven the government renewed its lease on circa 5,800 sqm of office space and signed a new lease for an additional 1,950 sqm.

Key office metrics - breakdown by segment

	Dec 19			TOTAL	Dec 18
	Amsterdam	Other Target Cities	Other NL		
Number of properties	17	24	7	48	67
Market value (€ m)	563	366	35	964	881
Market value asset (€ m)	33	15	5	20	13
Market value (€ sqm)	3,936	2,530	1,205	3,042	2,233
Ann. contract rent (€ m)	30	22	3	56	59
Average rent / sqm	220	174	125	191	179
Reversion	14.2%	2.3%	-1.3%	8.6%	2.3%
Lettable area (sqm k)	143	145	29	317	394
ERV (€ m)	35	24	4	63	68
EPRA vacancy	1.3%	7.2%	9.3%	4.0%	11.1%
EPRA net initial yield	4.2%	4.6%	7.1%	4.5%	5.1%
Reversionary yield	6.3%	7.1%	10.2%	6.7%	7.8%
Wault (years)	4.3	4.8	3.8	4.5	4.6

At the end of December 2019 Amsterdam makes up 58% of the total office portfolio. Of the seven remaining offices in 'Other NL'

two are held for sale and will leave the balance sheet in Q1. The other five are located in Delft and Hoofddorp.

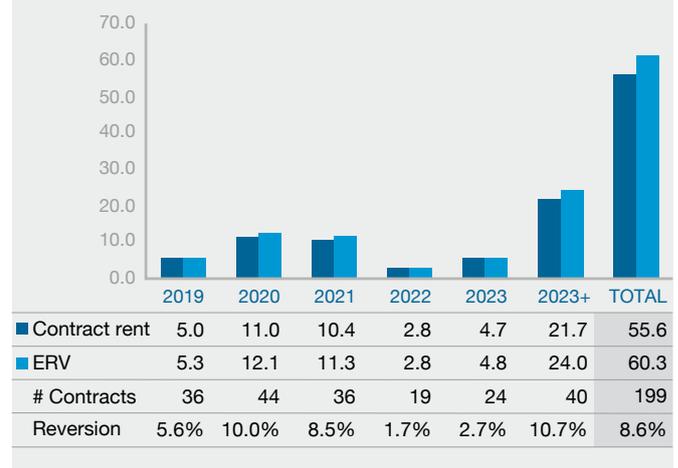
Like-for-like⁴

	NRI growth %	Revaluation %	ERV growth %
Amsterdam	13.8%	14.2%	6.1%
Other Target Cities	-3.4%	12.1%	1.6%
Other Netherlands	6.9%	12.4%	7.6%
Total	6.2%	13.3%	4.4%

Like-for-like GRI is positive at 8.4%. Due to temporarily higher maintenance expenses in Rotterdam, The Hague and Eindhoven the like-for-like NRI is slightly lower, at a positive 6.2%.

Following extensive asset rotation in recent years and strong ERV growth of 4.4% in 2019, the overall office portfolio is now 8.6% reversionary. This is up from 2.3% at the end of 2018.

Offices - Annual expirations and reversion (€million)



HNK

The composition of the HNK portfolio has not changed since the opening of HNK Schinkel in 2018. At December 2019 36% of the HNK portfolio by value is located in Amsterdam. We plan to include an HNK in our redevelopment at Laanderpoort, which is set to open in late 2024.

The EPRA vacancy rate at the end of 2019 is 14.5%, down from 23.2% at the end of 2018. The largest contributor to the drop is a 10-year firm lease with BDO for 4,814 sqm at HNK The Hague. Other noticeable letting achievements include a 1,500 sqm in HNK The Hague, 1,600 sqm in HNK Den Bosch and 590 sqm in HNK Utrecht Central.

The majority of the remaining vacancy is now at HNK Rotterdam Scheepsvaartkwartier. Of the 7,000 sqm of vacant space, 2,000 sqm is let and the lease will commence in May 2020. The vacancy rate in the market is falling and we expect this to lead to a further pickup in lettings in Rotterdam. We also have several inquiries in other HNKs which should lead to a further improvement in

⁴ NRI like-for-like 2019 compared to 2018, only includes assets in portfolio throughout all 12 months 2019 and all 12 months 2018, transformation and development projects are excluded. Revaluation and ERV growth relate to standing investments in portfolio on 31 December 2019 and 31 December 2018.

occupancy. For the end of 2020 the target is to have an EPRA vacancy rate below 10% for the total HNK portfolio.

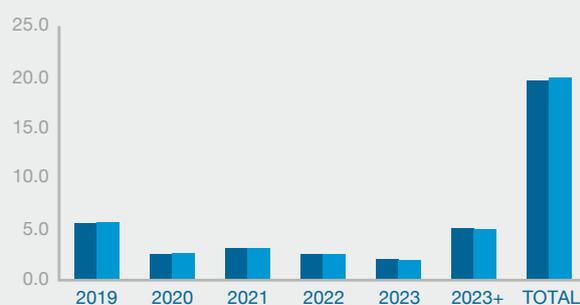
Like-for-like Gross Rental Growth for the HNK portfolio is positive 9.2%. Having said that, polarisation remains high with Amsterdam up 22.1% whilst assets outside of NSI's target markets down 0.4%. NRI growth is 11.7% on a like-for-like basis, with Amsterdam up 19.2% and the HNKs outside target markets up a notable 7.9%. The latter increase is driven by strong results at HNK Ede.

The 22.5% revaluation of the HNK portfolio in 2019 is a result of a € 2.8 million increase in contractual rents and a 50 bps fall in the gross initial yield, driven by our assets in Amsterdam.

Key HNK metrics - breakdown by segment

	Dec 19			TOTAL	Dec 18
	Amsterdam	Other Target Cities	Other NL		
Number of properties	3	6	5	14	14
Market value (€ m)	94	134	34	262	210
Market value asset (€ m)	31	22	7	19	15
Market value (€ sqm)	3,444	2,097	956	2,062	1,650
Ann. contract rent (€ m)	5	10	4	20	17
Average rent / sqm	218	196	150	190	188
Reversion	15.8%	-4.2%	-6.0%	1.1%	3.2%
Lettable area (sqm k)	27	64	36	127	127
ERV (€ m)	7	12	5	23	23
EPRA vacancy	6.7%	14.5%	25.6%	14.5%	23.2%
EPRA net initial yield	4.1%	4.7%	5.8%	4.6%	4.6%
Reversionary yield	7.1%	8.8%	13.7%	8.8%	10.8%
Wault (years)	2.5	3.4	3.6	3.1	3.2

HNK - Annual expirations and reversion (€million)



■ Contract rent	5.3	2.4	2.9	2.4	1.8	4.8	19.5
■ ERV	5.5	2.6	2.9	2.4	1.7	4.7	19.8
# Contracts	375	51	51	24	24	32	557
Reversion	2.0%	7.4%	1.6%	-0.8%	-3.7%	-0.7%	1.1%

Other

Significant progress is made on the disposal of non-core retail assets. At the end of 2019 only three retail assets remain, of which 'De Hagenborgh' in Almelo is a held-for-sale asset.

Following the disposal in Almelo only two retail assets remain. The four holdings that form NSI's interest in the Zuidplein shopping centre in Rotterdam have been consolidated into a single asset. Given the quality of the income, current valuations, the low overall portfolio LTV and the need for income to support the cashflow for the upcoming development phase the disposal of this asset has been put on hold. Shopping centre 't Loon in Heerlen will also be retained until all legal proceedings relating to the 2011 sinkhole issue have come to a conclusion.

ESG

In September NSI received a GRESB score for the first time. The 71 points received out of 100 is in line with the benchmark average. There are several easy wins and the ambition is to improve the score in 2020.

By value 93% of our total portfolio has an energy label C or better. We have plans in place for all non-conforming assets and expect that by the end of 2020 all but two or three of our assets will have a C label or better. NSI's ambition goes further and this is visible in the HNK portfolio, where 88% of the assets by value have an A label and the remainder a C label.

Portfolio breakdown of energy labels by value

