STRATEGY

NSI has a clear strategy. Since early 2017, the company diligently worked on becoming the leading Dutch office investor and operator, driving excess returns through active asset management and disciplined asset rotation. Now the asset rotation programme is virtually completed, NSI is ready for the next phase. It is now time to put the customer front and centre in our strategy and purpose: At NSI we aim to enable our customers to achieve maximum productivity and growth, providing best-in-class, flexible, space solutions and an unparalleled level of services in modern, healthy, sustainable buildings in prime locations.

Having a focused portfolio underpinned by a strong balance sheet with significant capacity to fund both internal and external growth, NSI can generate sustainable and growing revenue to drive long-term shareholder returns by investing in attractive space and a high level of services for its customers. We aim to achieve the highest risk-adjusted return, adding shareholder value through a value-add total return approach supported by an optimal capital structure. NSI strives to constantly improve the portfolio, raise the quality of the platform, optimise its services and lower the cost of capital.

LONG-TERM VALUE CREATION

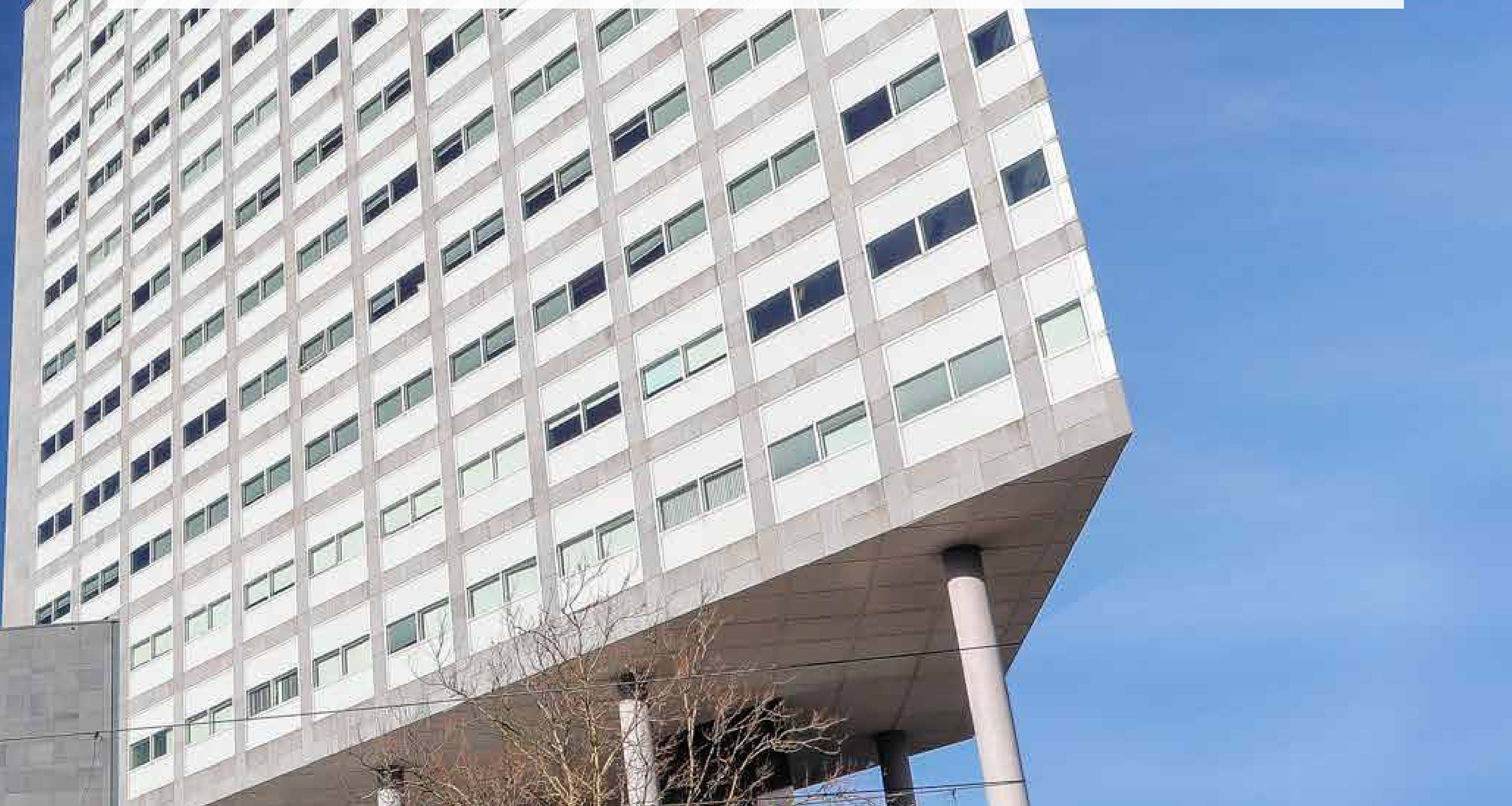
PORTFOLIO OPTIMISATION AND ACCRETIVE INVESTMENTS

NSI focuses on larger office assets in economic growth locations based on the perspective that long-term growth can only be achieved in locations where rents can grow because of economic activity. We see cities grow because of continued urbanisation throughout the world. This means cities will grow. We believe that the only place cities can really grow is around transport hubs, as mobility is and will be an issue in congested metropolitans. We therefore concentrate our acquisitions and developments around train stations in the vicinity of motorway exits.

Furthermore efficiencies can be achieved and margins improved by having fewer, larger assets in a select number of locations. Last but not least we believe that the depth of the investment market in these locations has a genuine positive effect on the risk profile as liquidity is often one of the most underestimated risks in property.

The necessary size, tenant activity and scale of the investment market to drive excess returns is concentrated mostly in the four largest cities in the Netherlands (G4) and some other economically vibrant areas. NSI defines the G4 and Den Bosch, Eindhoven and Leiden as its most important target cities. Future portfolio optimisation will focus on strengthening our exposure and our positioning at or near the major transport hubs in our focus cities. We expect these hubs will turn into locations where ‘work, education, healthcare, sleep, eat and play’ are being offered on an integrated basis to create new, more vibrant, city districts. We embrace this trend and recognise both the necessity and its potential. Where appropriate and where possible we will take an active role in contributing to this future.

NSI has achieved a massive transformation of its portfolio since its new strategy was set out in early 2017. By rotating out of its retail assets and monetising its smaller, provincial office assets NSI released capital for further expansion into offices through acquisitions or value-add initiatives and (re-) development. This has resulted in a more focused portfolio, primarily located in targeted cities (>90%). NSI actively seeks (re-)development opportunities in its portfolio as an attractive alternative in order to obtain assets in the best locations with better cash flows at lower prices. NSI has managed to put together a considerable development pipeline which will be an attractive source of new assets.



CREATING THE RIGHT PLATFORM

In its quest to be the best NSI needs to have the best operating platform. Only with the best team, culture and processes will NSI be able to deliver leading results in an optimal and cost-efficient way. To attract the best talent a new culture and identity have been set out. With its defined core values, drive, professionalism and the will to push boundaries, NSI aims to maximise the full potential of its employees, the shareholder's investment, its clients and the assets that NSI acquires and operates. NSI is also investing in IT due to its increasing importance in a data-heavy industry, as IT helps to streamline processes and aid data consistency and reliability.

At NSI we are constantly assessing if the organisation and associated costs are justified by the size and performance of the portfolio. It is key to aim for an optimal cost structure and befitting an active manager, and not just focus on achieving the lowest cost possible. For NSI it is not about achieving the lowest running costs but about being efficient. We believe that if we run a structurally efficient, focused business that delivers an attractive return to shareholders, our share price and share rating will reflect this.

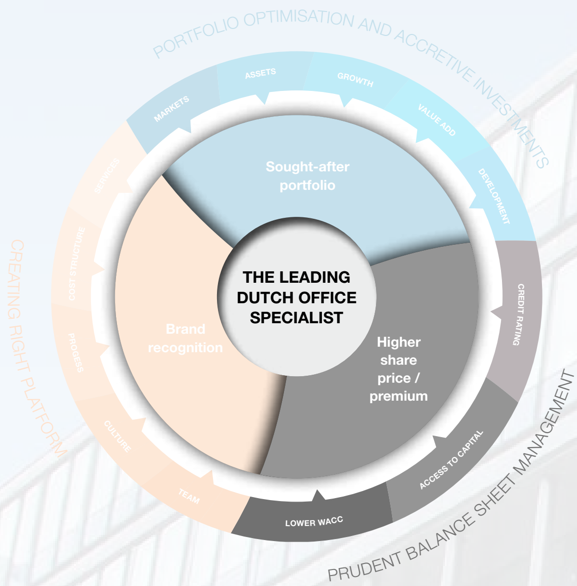
We recognise that customer behaviour and demands are structurally shifting, with flexibility, hospitality, services and amenities are increasingly becoming key considerations. This demand is not only driven by smaller occupiers but also by large corporates. The focus is shifting towards productivity and less on costs, by providing the right mix of quiet space, meeting space, project space and social space, so that businesses can thrive. HNK has been NSI's answer to these trends over the last couple of years. HNK is unique in that it can offer tenants a combination of traditional long-let space and flexible space in a single building. We see this as one of NSI's most important pillars for the next few years. Not only in its HNK assets but also in other multi-tenant assets NSI will improve its service offering and work together with its tenants to make them more productive and let the space be a value creator for their businesses.

PRUDENT BALANCE SHEET MANAGEMENT

Along with obtaining the best portfolio and creating the number one platform, management has another important tool to drive shareholder performance. By constantly optimising the balance sheet structure and capital allocation, management has the levers to minimise its cost of capital.

Having the right capital structure should result in a low cost of capital. Starting with debt, by lowering the LTV we can attract debt at better margins and reduce the cost of financing. A credit rating can further help improve the perspective of a wider range of investors, again lowering the cost of borrowing.

For NSI the capital structure should be entirely supportive of the real estate strategy of the business, and it is not a business in its own right. NSI manages its balance sheet prudently, actively assessing based on a variety of metrics if the combination of operational and financial leverage is appropriate for the business. We believe that by running the business prudently we will be recognised and rewarded by shareholders, which in turn would provide us with access to capital markets if and when the right opportunities emerge.



PROGRESS IN 2019

NSI had another successful year in its asset rotation strategy in 2019. It now holds 65 assets in 17 markets, of which 90% are Offices in target cities. This nearly finishes the asset disposal program as set out in the strategic review announced in February 2017, allowing to shift the focus even more to acquisitions and the development programme going forward.

In 2019 the number of assets fell by 27. The average asset value increased to €19.8 million, up 55% compared to twelve months earlier. NSI's exposure to its target markets increased by 10% to 90%.

Reviewing the full three year period since the start of executing the asset rotation strategy, the number of assets has dropped by 100, increasing the average asset value by 283%.

The new asset management team is now fully contributing to this success, with like-for-like occupancy growth of 4.1% in the year under review and several further leads in the pipeline. HNK continues to perform well with annual occupancy growth of 8.7% on a like-for-like basis.

In late 2017 NSI outlined its ambition to start developing and redeveloping buildings. Over the past two years or so we have managed to put together a considerable development pipeline. The current potential pipeline has circa €700 million of capex to be spend in the years ahead.

This pipeline is a valuable asset at a time when prime investment yields have fallen to record lows. We estimate an average yield on cost for our development programme of 6% to 6.5%. Development, selectively, is therefore one of the better ways to drive further shareholder value, even on a risk-adjusted basis.

We have prepared the balance sheet with a low LTV and with fixed rate debt that extends in duration beyond the expected delivery time table for our projects. This, in combination with having the right organisation and processes, prime locations, sensible pre-letting requirements and reputable partners will help mitigate many of the development risks.

The pipeline includes two near-term projects, Laanderpoort and Vitrum, both in Amsterdam, and numerous other medium-term projects. Laanderpoort (35,000 sqm) involves a development in partnership with ING, with whom a preliminary cooperation and lease agreement is signed for 87.5% of the lettable floor area. Upon completion this would be NSI's largest asset, helping to further focus the portfolio on Amsterdam, increase the average asset size and improve the average quality of the asset base.

After NSI refinanced most of its debt in 2018, it issued €40 million of 12-year unsecured notes to affiliates of Athene Asset Management, a subsidiary of Apollo Global Management. As a result, NSI further extended its average debt maturity while its cost of debt remained flat. If possible further diversification in the debt maturity and investor base will be sought if and when appropriate.

With a structurally sound balance sheet and no significant debt expiries until 2023, the financing strategy going forward is to further improve the diversification of funding sources, extending maturities and preparing for expansion if and when required.

The undrawn RCF provides a €250 million committed debt facility that is sufficient to pay for the capex for both near-term projects and to repay some of the expiring debt.