CEO COMMENTS

We are looking back on the year 2020 with mixed feelings. The global coronavirus pandemic has touched almost all aspects of personal and business life during the year.

The lock downs, the new work from home (WFH) advice, the on-and-off shutdowns of parts of the economy and the resulting economic contraction were formidable challenges.

Yet throughout this period NSI, as a business and especially as a team, has proven to be robust and resilient, and has been able to navigate these challenges with relative ease.

A robust operational performance

At the onset of coronavirus in March, the key focus for the team was first and foremost the health and well-being of our customers and to facilitate the safe usage of our buildings. We intensified the dialogue with our customers, to understand their immediate needs and possible changes to their long-term requirements. Operationally, the focus was on occupancy levels and rent collection.

The vacancy rate at year-end is 7.0%. This is down 0.1% year-on-year in absolute terms and down by 0.7% on a like-for-like basis. Given the challenging environment this is a particularly good result, testament to the strength of the portfolio in terms of location and quality, the strength of our asset management team and our realistic approach to pricing.

Rent collection for 2020 stands at 98.0%. This is below the 99%+ we tend to achieve in normal years, but respectable in light of the business disruption some of our tenants faced during the year. A more detailed discussion of this subject can be found on page 21 of this report.

EPRA EPS for 2020 is € 2.35 per share, in line with guidance, and net of a € 0.08 per share negative impact related to lost revenues and costs incurred due to the coronavirus pandemic.

> **“NSI, as a business and especially as a team, has proven to be robust and resilient”**

More asset rotation to come
In Q4 we completed the disposal of HNK Groningen and of two smaller assets in Rotterdam, for a total of € 13.9 million. Total disposal proceeds for the year amount to € 30.1 million. One building was acquired during the year, the ONE20 building in Amsterdam in March, for € 34.0 million. ONE20 went from 31% vacant at the time of acquisition to fully let by year-end 2020.

Whilst 2020 may have been a relatively quiet year on the asset rotation front, we continue to see regular asset rotation as an integral part of our business. Going into 2021 we have circa € 125 million in non-core assets left, including our two remaining retail assets. Over time we will dispose of these and aim to re-invest the proceeds in new acquisitions in our target cities and/or in our development programme.

The Q4 disposals were done at 3.9% above the June 2020 valuation and 0.7% below the December 2019 valuation. Whilst these disposals form a small sample of our portfolio, we believe these sales results still help confirm our overall investment portfolio valuations.

Key milestones achieved in development
2020 was a very active year for the new development team. Additional external capacity has been brought in to help steward all ongoing initiatives, in their different phases.

In September we announced our plans to build an innovative, wooden, office tower in the Zuid-as submarket of Amsterdam. Good progress was made on both Laanderpoort and Vitrum, whilst potential projects at Centerpoint and Motion were cancelled for the foreseeable future.

The key development milestones achieved in 2020 include:
- Agreement ('Afsprakenbrief') with municipality of Amsterdam on terms and conditions for construction of Vivaldi III
- LOI with municipality of Amsterdam for Laanderpoort
- Architects and design teams selected for all three projects

There are further milestones to be achieved in 2021, such as finalising scope and plans, obtaining all relevant permits and confirming costs with building contractors, before works can commence in 2022.

As it stands all three projects are likely to - at least - partially overlap in time and in capex/capital needs. We recognise that we have to carefully manage this, given the relative size, risk and complexity of our plans, not only in the context of our existing portfolio and balance sheet, but also relative to the risk/return profile of new acquisition opportunities that may arise.

Our strong balance sheet is an asset
Whilst we appreciate the uncertainty over what may happen to demand for offices once the coronavirus pandemic has subsided, we still see capital actively searching for good quality income and willing to chase some of the best assets at ever lower yields – a trend that is also strongly driven by structurally low interest rates.

Asset valuations fell by 4.1% in H1, followed by a more modest fall in H2 of 0.4%, more or less in line with movements in the wider investment market in 2020. This negative revaluation results in a NTA of € 44.44 per share at year-end, underpinned by a focussed investment portfolio with an attractive EPRA net initial yield of 4.5% and which does not yet include any of the potential upside in Laanderpoort or Vivaldi III.

The year-end LTV is 29.2%, a very comfortable level. Given the volume of non-core assets that we still intend to dispose of in combination with the potential capital requirements for our development programme, our LTV offers room for selective further acquisitions. In February 2021, after balance sheet date, we signed the purchase agreement regarding the acquisition of a portfolio of three assets in our target cities Amsterdam and Rotterdam at an acquisition price of ca. €80 million, as stated in our post-closing events on page 20 of this report.

Outlook for 2021 and beyond
Going into 2021 we acknowledge the general uncertainty over what may happen to the structural demand for offices and to the wider economic environment. Also, we are now nearing the equilibrium vacancy rate of the portfolio, having lowered the vacancy on a like-for-like basis every year over the past five years. As such, whilst we will continue to push hard to attract new business, a further fall in the vacancy rate in 2021 is not a given.

We believe we have the right team and the right portfolio with significant value-add initiatives to look to the future with confidence. It is up to us to make sure that we continue to offer the right space in terms of location, specifications, sustainability, flexibility, amenities and price, so that we remain attractive for both existing and potential customers.

In 2020 we obtained the highest (5-star) rating in GRESB and given the rising importance of ESG for all our stakeholders (including the NSI team itself) we will continue in 2021 to invest and push for a greater impact.

Whilst there are still lots of moving variables so early in the year, based on the in-place portfolio and before any possible further COVID-related costs, we forecast an EPRA EPS of € 2.25–2.35 for 2021. This is in line with earlier guidance that our EPRA EPS in 2021 would be affected by the lease expiry at Vitrum and the agreement that ING will pay half rent at Laanderpoort in 2021 ahead of the redevelopment of this asset.

Medium term the development activities, which to this date are not fully committed, will materially impact the business and our key KPIs. Whilst there are still lots of moving parts, our current estimate for 2025, including the disposal of our non-core assets, is an EPRA EPS in the range of € 2.60– 2.70, as explained in detail on page 13 of this report.

We are pleased to propose our shareholders a stable dividend of € 2.16 per share for the year just passed, a year we are happy to leave behind.

Bernd Stahli
CEO