



TRADING UPDATE

Q3 2023

- Revised strategy to drive sustainable long term shareholder value creation
- Continued robust operational performance; like-for-like GRI growth at 7.1%
- Fiscal restructuring ahead of FBI regime abolishment per 1 January 2025 now underway
- Dividend rebased to a more sustainable level, covered by recurring EPS
- Management and Supervisory Board committed to continuing to consider all value-maximising options

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FINANCIAL CALENDAR

Publication preliminary result FY 2023	25 January 2024
Publication annual report 2023	8 March 2024
Publication trading update Q1 2024	18 April 2024
Publication half year results H1 2024	15 July 2024

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NSI HIGHLIGHTS

KEY FINANCIAL METRICS¹

REVENUES AND EARNINGS

	Q3 2023	Q3 2022	Change
Net rental income	43,104	44,148	-2.4%
Net rental income - like-for-like	42,998	41,398	3.9%
Direct investment result	30,912	31,401	-1.6%
Indirect investment result	-112,723	8,713	-1393.7%
Total investment result	-81,811	40,114	-303.9%
EPRA earnings per share	1.54	1.59	-3.0%
Weighted average number of ordinary shares outstanding	20,105,285	19,807,878	1.5%
EPRA cost ratio (excl. direct vacancy costs)	27.7%	26.8%	0.9 pp

BALANCE SHEET

	30 September 2023	31 December 2022	Change
Investment property	1,130,924	1,259,235	-10.2%
Net debt	-342,507	-365,480	-6.3%
Other assets / liabilities	-17,977	-6,746	166.5%
Equity	770,440	887,008	-13.1%
EPRA NTA per share	38.22	44.17	-13.5%
Number of ordinary shares outstanding	20,155,221	20,054,240	0.5%
Net LTV	29.9%	28.7%	1.2 pp

KEY ESG METRICS (NON-FINANCIAL)

	30 September 2023	31 December 2022	Change
CRREM building energy intensity (kWh/sqm/year)	131 ²	131	n/a
EPC-label (percentage portfolio with label A or better)	94.8%	88.0%	6.8 pp
GRESB score	94	93	1

KEY PORTFOLIO METRICS

	30 September 2023				31 December 2022	Change
	Amsterdam	Other G4	Other NL	TOTAL		
Number of properties	22	14	10	46	49	-6.1%
Market value (€ m) ³	644	329	172	1,145	1,275	-10.2%
Lettable area (sqm k)	161	125	65	351	382	-8.2%
Annualised contractual rent (€ m) ⁴	38	26	12	76	78	-2.9%
ERV (€ m)	43	27	13	83	88	-6.0%
EPRA net initial yield	4.5%	5.2%	4.9%	4.8%	4.6%	0.2 pp
Gross initial yield	6.5%	7.8%	7.2%	7.0%	6.4%	0.6 pp
EPRA vacancy	7.4%	6.8%	1.2%	6.2%	6.2%	0.0 pp
Wault	4.2	3.5	3.1	3.8	3.9	-4.1%

¹ The trading update is based on unaudited results.

² CREMM building energy intensity is available only at year-end; 2023 figures represent the year-end 2022 figure.

³ Reported in the balance sheet at book value including right of use leasehold (IFRS 16), excluding lease incentives and part of NSI HQ (own use).

⁴ Before free rent and other lease incentives.

CEO COMMENTS

Embracing the new paradigm

The period ahead presents a unique set of challenges for the wider real estate sector, which must find a new equilibrium following the unwinding of years of QE that is now firmly underway – resulting in a structurally higher interest rate environment. The office sector in addition has to address the impact of WFH/hybrid working, sustainability costs, and the increasingly more operational nature of the business. Yet, this pivotal moment also provides fertile ground for the most agile operators to turn challenges into opportunities.

Well-positioned for the new market environment

Covid has been the great accelerator of a series of secular trends for offices: location remains vital, but sustainability, well-being, and services are now paramount to asset class success. Once just a unquestioned necessity, post-Covid offices have to prove their relevance for both the corporates (attracting talent and fostering collaboration, and innovation) and the employees (connection, interaction and belonging).

The consolidation of hybrid work is resulting in a reduction in the demand for office space, while simultaneously this demand is becoming increasingly selective. Testament to the bifurcation underway, prime label A space leases nearly twice as fast as offices with lower energy labels and continues to command top rents despite economic challenges, due to limited supply.

Rental growth in Amsterdam for the best space is 10%+ over the past year and relatively flat elsewhere. Meanwhile vacancy remains at a frictional 3.5% in the prime areas and is admittedly rising elsewhere, as further proof of the relative inelasticity of demand at the top-end of the market, resulting in more bifurcation.

Few owners will be able to make the required turnaround (due to a mix of lack of capital, time and knowledge), creating a unique opportunity for owners/operators with the right team, balance sheet and acumen to emerge as a winner.

NSI, with its low level of leverage, focussed portfolio, limited development exposure and, most importantly, a team that understands all of the above, is well positioned to capitalise on this market disruption.

Successful repositioning provides great starting point

Looking through the medium term uncertainty, we continue to see a good long term investment case for high quality, sustainable and amenitised offices in growth locations, with returns driven by long term rental growth.

In recent years, we've strategically refocused our portfolio on offices in high-growth Dutch locations, primarily in Amsterdam, while at the same time, prioritising sustainability. The majority of NSI's properties are now situated in Amsterdam and near major transportation hubs, with 95% boasting EPC labels A or better and well over half labelled Breeam 'Very Good' or 'Excellent'. We have a well-defined, executable, plan to align our portfolio with Paris Agreement goals in the coming years.

The 2022 rebranding of HNK is equally timely and instrumental in providing the services our customers increasingly need from a one-stop shop. Accessibility (location), sustainability, smart solutions, and hotel-like amenities and aesthetics are key. Our newly opened HNK Sloterdijk serves as a blueprint not only for our next HNK upgrades but also for the rollout of services to our wider multi-tenant portfolio, which should in turn be a driver to broader ERV growth.

The above strategic decisions are being vindicated by the operational robustness of our portfolio over the past two years, which was a challenging period for the wider industry. During this period ERV growth has on average been 10%, whilst leases have been signed on average 7.5% ahead of ERV's.

Driving future returns on our existing assets

NSI intends to stay firmly on the front foot and at the right side of the bifurcation debate, ultimately driving long term ERV growth. To achieve this, we will further concentrate our focus: investing in sustainability and well-being in our existing portfolio, whilst continuing to explore the addition of new services in a market that is generally short of this type of product.

Despite prevailing market conditions, as a result of which we are seeking to limit our development exposure, there is a clear and compelling opportunity for new development in meeting the new market demand.

Capital rotation is instrumental to this strategy, to further refine the portfolio and reduce debt to strengthen the balance sheet for the necessary capex for Laanderpoort. While disposals will be less straightforward in what is a difficult investment market we have a successful track record in divesting non-core assets. We have identified circa €150 m of assets that could be sold in the period ahead under the right conditions.

These disposals, in combination with Laanderpoort, will see the focus shift more to Amsterdam. This is especially relevant in light of the necessary sustainability efforts, where investments are only economically viable in high-value areas where tenants are more likely to pay up for these features. Assets where sustainability concerns cannot be addressed will be put under review and if necessary ultimately divested.

Developments: Laanderpoort & Vitrum

The efforts to optimise the Laanderpoort project jointly with ING are still ongoing. An outcome of this process is expected before the year-end.

At Vitrum, pursuant to not obtaining an unanimous vote of the owner-association in September, we are now in the process to prepare our court documents to apply for court consent in lieu.

Given the uncertainty over the time period necessary to obtain all the necessary approvals and permits before the project can possibly commence, we have agreed to partner temporarily with a dedicated operator to generate income for the period ahead until all the approvals are obtained and the project is deemed economically feasible.

Restructuring ahead of FBI regime abolishment

On Budget day in September Government published legislation to abolish the Dutch FBI regime as of 1 January 2025. Whilst the legislation still needs to be voted through Parliament later this year and even though we continue to lobby our case, we have no option but to assume the legislation will come into effect as of that date.

As a result NSI has started a fiscal restructuring of the business in preparation of 2025. We will provide more details on the effects of the restructuring with the publication of the 2023 preliminary results, at which time we expect the restructuring to have been finalised. The tax rate for 2023, as a result of the restructuring, is expected to be circa 0-3%.

Dividend update

Whilst we firmly believe NSI is a better business now for the asset rotation and deleveraging that has happened in recent years (trading yield for better long term growth prospects), NSI no longer has the capacity to sustain a legacy dividend level based on a portfolio yield, leverage level, tax rate and interest rate environment that no longer exists. The impending abolishment of the FBI regime is a natural moment to reset the dividend to a new sustainable level.

At the H1 stage we set an interim dividend € 0.75 per share and promised an update on the new dividend level in general. Going forward it is our intention to pay a dividend in line with recurring EPS based on a pay-out ratio of at least 75%. For 2023 this would amount to circa € 1.50 per share.

This represents a level that we believe can be maintained over the coming years, taking into account the potential future negative impact of planned disposals, the refinancing of cheap legacy debt to market rates per 2026 and the taxation that NSI will be subject to from 2025 onwards.

Finalising the strategic review

As part of the strategic review we provided a strategy update in our half year results, the key elements of which were: increased focus on the Amsterdam market; a doubling-down on our commitment to sustainability; a disposal programme to concentrate our capital where it can work best for shareholders; exploring partnerships where beneficial; and utilising retained earnings as a balance sheet management tool.

Since the H1 results we have spent time with our shareholders to understand their points of view and explain this strategy. Whilst we have heard a wide range of views from our investors, what is clear from our discussions is that shareholders are very focussed on capital discipline and managing risk at this time.

The management team is fully aligned with this philosophy. Should there be opportunities to release capital from assets that will create value for our shareholders, given our current (elevated) cost of capital, these will be looked at extremely seriously. Equally, this cost of capital makes new acquisitions very unlikely for the time being.

The strategic review covered a range of options, including a full sale of the company and / or its assets. Whilst we do not believe that such routes are either deliverable or value maximising for shareholders at this time, we note the limited liquidity in the stock, the low trading level of the shares and in particular the wide discount to net asset value. This is a highly unsatisfactory status for both the Management and the Supervisory Board, and we are committed to continuing to keep all value-maximising options under review, particularly in these conditions.

Outlook

We have prudently managed the balance sheet in recent years and are in full control of the operational business environment, which puts us in good stead. However, this is not the time to put the balance sheet at risk given the likelihood of further adverse market conditions.

The need to maintain a prudent balance sheet at this time also prescribes that any disposal proceeds will initially be used to repay debt and fund any potential Laanderpoort capex before a capital return can be considered. Nevertheless, given the discount at which the shares trade, the Board will carefully examine options to return capital, should this be in the interests of all shareholders, although this is unlikely to be executable in the immediate future.

Operational results remain robust: gross like-for-like rental growth is 7.1%. Vacancy is unchanged at 6.2% vs FY 2022 and is expected to remain stable through year end. The share of NSI's portfolio with EPC label A or higher has increased to 95% from 88% since FY 2022. We are also pleased with our 5-star GRESB rating for a third time running as well as our score of 94, our best result to date.

Q3 interim EPRA EPS is € 1.54 per share. The negative effect of disposals is partially offset by lower employee costs, lower overhead costs and lower financing costs. As ever, NSI remains committed to running a lean organisation and will continue to find ways to optimise costs.

We forecast a pre-tax EPRA EPS of €1.95-2.05 per share for the full year 2023.

Bernd Stahl

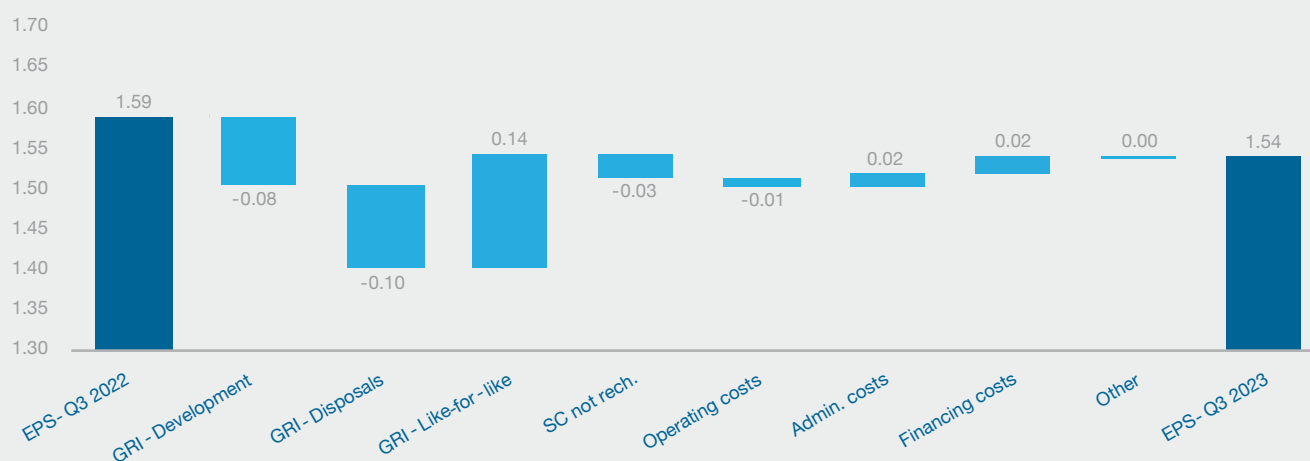
SUPPORTING DATA

Results

Income segment split

	Q3 2023				TOTAL	Q3 2022
	Amsterdam	Other G4	Other Netherlands	Corporate		
Gross rental income	26,669	17,995	8,495		53,158	53,281
Service costs not recharged	-857	-474	-25		-1,357	-751
Operating costs	-3,919	-3,186	-1,593		-8,698	-8,382
Net rental income	21,893	14,335	6,876		43,104	44,148
Administrative costs				-6,217	-6,217	-6,424
Earnings before interest and taxes	21,893	14,335	6,876	-6,217	36,886	37,723
Net financing result				-5,973	-5,973	-6,321
Direct investment result before tax	21,893	14,335	6,876	-12,190	30,914	31,402
Corporate income tax				-2	-2	-2
Direct investment result / EPRA earnings	21,893	14,335	6,876	-12,192	30,912	31,401

EPS Bridge



Like-for-like growth rental income

	Q3 2023	Q3 2022	L-f-I
Amsterdam	26.5	24.9	6.7%
Other G4	17.9	16.5	8.1%
Other Netherlands	8.3	7.8	6.3%
TOTAL	52.7	49.2	7.1%

Like-for-like growth net rental income

	Q3 2023	Q3 2022	L-f-I
Amsterdam	22.2	21.5	3.1%
Other G4	14.0	13.4	4.6%
Other Netherlands	6.8	6.5	5.0%
TOTAL	43.0	41.4	3.9%

Balance sheet & financing

Net debt

	Sep. 2023	Dec. 2022	Change
Debt outstanding	335.0	353.2	-18.2
Amortisation costs	-1.5	-1.6	0.1
Book value of debt	333.5	351.6	-18.1
Cash and cash equivalents	-0.6	-0.2	-0.4
Debts to credit institutions	9.5	14.0	-4.5
Net debt	342.5	365.5	-23.0

Maturity profile

