TRADING UPDATE

Q1 2023

- Review underway to map out fiscal, operational/strategic and capital options for a post-FBI environment
- Pre-emptive fiscal restructuring prepared, in anticipation of prospective abolishment of FBI regime
- Negative market momentum drives review of development pipeline (program, timing and funding)
- Excellent balance sheet, with LTV at 26.4%; strong like-for-like gross rental income growth in Q1 at 5.2%
- EPRA vacancy rate at 6.7% at Q1 2023, up 0.5% over the quarter

INDEX

FINANCIAL CALENDAR

Publication half year results H1 2023	14 July 2023
Publication trading update Q3 2023	13 October 2023
Publication preliminary result FY 2023	25 January 2024
Publication annual report 2023	8 March 2024
AGM	21 April 2023
Ex-dividend date (final dividend 2022)	25 April 2023
Record date	26 April 2023
Stock dividend election period	27 April – 7 May 2023
Payment date	16 May 2023

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NSI HIGHLIGHTS

KEY FINANCIAL METRICS[1]

REVENUES AND EARNINGS

	Q1 2023	Q1 2022	Change
Net rental income	12,408	12,773	-2.9%
Net rental income - like-for-like	12,175	12,229	-0.4%
Direct investment result	8,544	8,600	-0.7%
Indirect investment result	-461	1,004	-145.9%
Total investment result	8,083	9,604	-15.8%
EPRA earnings per share	0.43	0.44	-2.4%
Weighted average number of ordinary shares outstanding	20,054,241	19,869,975	0.9%
EPRA cost ratio (excl. direct vacancy costs)	28.2%	25.8%	2.4 pp

BALANCE SHEET

	31 March 2023	31 December 2022	Change
Investment property	1,240,920	1,259,235	-1.5%
Net debt	-331,004	-365,480	-9.4%
Other assets / liabilities	-14,871	-6,746	120.4%
Equity	895,045	887,008	0.9%
EPRA NTA per share	44.60	44.17	1.0%
Number of ordinary shares outstanding	20,054,241	20,054,241	
Net LTV	26.4%	28.7%	-2.3 pp

KEY ESG METRICS (NON-FINANCIAL)

	31 March 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)	90.0%	88.0%	2.0 pp
GRESB score	93[2]	93	n/a

KEY PORTFOLIO METRICS

	31 March 2023					
	Amsterdam	Other G4	Other NL	TOTAL	31 December 2022	Change
Number of properties	23	14	10	47	49	-4.1%
Market value (€ m)[3]	734	346	180	1,259	1,275	-1.2%
Lettable area (sqm k)	165	125	65	355	382	-7.0%
Annualised contractual rent (€ m)[4]	37	25	12	75	78	-4.6%
ERV (€ m)	44	26	13	83	88	-6.2%
EPRA net initial yield	4.1%	4.7%	4.2%	4.3%	4.6%	-0.3 pp
Gross initial yield	5.8%	7.3%	6.8%	6.4%	6.4%	-0.1 pp
EPRA vacancy	8.0%	6.6%	2.1%	6.7%	6.2%	0.5 pp
Wault	4.4	3.8	3.4	4.0	3.9	3.0%

1 The trading update is based on unaudited results.
2 CREMM building energy intensity and GRESB score are available only at yearend; 2023 figures represent yearend 2022 figures.
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

At the capital markets day in April 2022 we moved on from asset rotation to position NSI as an active investor/developer of offices, with a strong focus on sustainability and services, to continue our pursuit for long term value creation.

Since then a lot has changed. We are very much at risk of losing the FBI tax-regime, property values have started to adjust in response to rising (normalising) interest rates, whilst project development economics are clearly much less favourable at this time. Meanwhile, demand for offices is proving increasingly limited to the best, sustainable product in the best locations.

These circumstances have a significant impact on how we will run the business over the period ahead and on the decisions we make. We believe the investor/developer strategy still holds in the long run, but we will not pursue this at all cost in the short run just to make this point. We already demonstrated our capital discipline when we paused Well House in Q4 last year, despite all the permits being obtained by the development team and with the project ready to go.

In Q4 2022, given the potentially significant implications of the likely forthcoming FBI abolishment, we started a strategic review of the business, which at this time is still ongoing. We acknowledge the current wide discount to NAV and although many of our peers are trading at similarly wide discounts, the share price in our view does not reflect the value of the business, the assets nor the platform.

Whilst we see the challenges and uncertainties ahead, which we will have to address, we are firmly operating on the front foot. We have an excellent balance sheet, at 26.4% LTV, a very strong and committed team, a solid Amsterdam-focussed portfolio, a very clear and executable Paris-aligned sustainability strategy, a genuine emphasis on services, and the flexibility to further streamline, adjust and optimise the business and our capital structure.

Being on the right side of the bifurcation

As we move back to more normal interest rate levels, following the end of a 14-year low interest rates era, markets are having to adjust. Yields are up, the cost of capital is up and capital is scarce, for the time being. Investment mistakes are no longer being bailed out by falling yields. In short, the game is different.

As a result new office development is slowing down, as margins are under pressure or have evaporated, risk appetite is lower and funding is unavailable or prohibitively expensive. Yet, at the same time, it is evident that occupiers increasingly demand to have highly sustainable offices, properly amenitised, in vibrant central locations with good transport infrastructure. It is also increasingly clear that they are willing to pay up for this, in part because they are likely to end up using less space overall, but also to take their corporate responsibility on sustainability, to attract talent and to make WFH/hybrid working work.

So, occupational markets want the product that is now not being built. Most of the supply will therefore have to come from upgrading existing office stock and yet, many older buildings are in the wrong location, were not designed (or are too small) to deliver all the amenities, nor are all the required sustainability upgrades economically viable. These buildings will end up being stranded and not owning these is the new imperative for the market (and has been the guiding principle for our asset rotation in recent years).

The bifurcation in office markets is set to accelerate, where the best assets will continue to attract strong interest, higher rents and ergo higher capital values, whilst the rest is at risk of being valued as ex-growth, depreciating assets.

Reviewing the development opportunities

Given the changes in the market, our development economics are now increasingly challenging, and so it may be cheaper to buy than to build. Yet, the quality of what we can build is far superior to the quality of what we can buy.

This quality gap can obviously be bridged by capex, however market pricing is still in the process of adjusting to the necessary levels to make the economics for upgrading assets attractive.

Very much in line with the change in market conditions, for one of our potential redevelopments, Alexanderhof in Rotterdam, we made the decision in Q1 not to proceed creating plans and have now let the space to the municipality for the coming years.

The Dutch High Court ruled in Q1 that owner-associations need a 100% vote in favour to ratify certain decisions, not the 80% we were working off. Unfortunately this ruling, from an unrelated case, now also applies to our Vitrum redevelopment, which, in all likelihood, will see us require court approval before we can start our redevelopment plans. This may well delay the start by a year, or perhaps by as much as three years if there is an appeals procedure to navigate as well.

So at Vitrum we are now at a crossroad. It has now been vacant for just under two years, but it is hard to justify to keep it vacant for much longer. We are now actively reviewing all our options for Vitrum, including scaling back the project to avoid the court approval process or temporarily leasing up the space, to find a viable way forward.

At Laanderpoort the municipality of Amsterdam received one objection to its plans to rezone the Laanderpoort area (from the owner of an adjacent asset) in early April. The timeline for the project is now under review, but there is a risk this may end up in court. We are in discussions with ING on the way forward for the project.

As it stands none of our development projects are ready to move to the realisation phase in the near term. The team will continue to work hard to further all projects, including the medium term pipeline, but no time lines will be communicated until we have obtained all the necessary permits.

Preparations to optimise our post-FBI fiscal structure

In Mid-March, the draft legislation for the abolishment of the FBI legislation was published, which left us with more questions than answers. There was no mention of the plight of the listed sector, nor any special measures to accommodate us.

The wider industry lobby for an exception for the listed sector continues, but we cannot just assume that this will go our way. As a result, and as a precautionary measure, we have started preparations to optimise our post-FBI fiscal structure based on all the available information at this time.

We expect clarity on the final FBI law by late Q4 2023 and we have now put measures in place that allow us to decide in Q4, depending on the final law and market conditions at the time, to proactively leave the regime per January 2023 - in the most tax-efficient way possible.

As a non-FBI the tax rate for NSI, on running income, would still appear to end up at around the 10% level. Yet it may well end up substantially lower, depending on clarification of certain elements of the draft legislation in the final version of the FBI law later this year.

Q1 commentary

In Q1 2023 we have leased up the remaining vacancy at HNK Amsterdam Zuid-Oost. We are also close to finding a solution for our vacancy at Donauweg.

The overall vacancy rate at the end of Q1 increased by 0.5% to 6.7%. This is due to Laanderpoort moving to the development pipeline during the quarter, but we also got some space back at Sloterdijk and at Centerpoint at the start of 2023, which is being refreshed and put back onto a still active letting market.

The 5.2% increase in like-for-like gross rents in Q1 underpins our guidance that indexation is set to increase our annual rent roll in 2023 by circa 6%. The decline in net rents reflects the pickup in maintenance spending in Q1, vs Q1 2022.

2023 outlook

2023 is a pivotal year for NSI. There are material unknowns (FBI, interest rates, asset repricing, development time tables and economics, a new level of normalised office demand and further demands on sustainability) that will significantly impact the direction of travel for the business over the coming years.

We expect to complete our strategic review over the coming months, which will map out our fiscal, operational/strategic and capital options and we intend to engage with stakeholders before we finalise the review. Once we have the necessary clarity on the FBI legislation, we will update shareholders on the outcome of the review and the future direction of the business.

At NSI, we have emphasised the importance of quality in terms of location, services and amenities, and sustainability for years, as is reflected in our asset rotation program, our HNK offering, and most recently our validated sustainability plans to become Paris aligned. We continue to work on all of these, to stay on the right side of the office bifurcation debate. In combination with our low 26.4% LTV and the strength of our team, we firmly believe we are in a solid position to manage our way through the period ahead and come out stronger at the other end.

Bernd Stahli

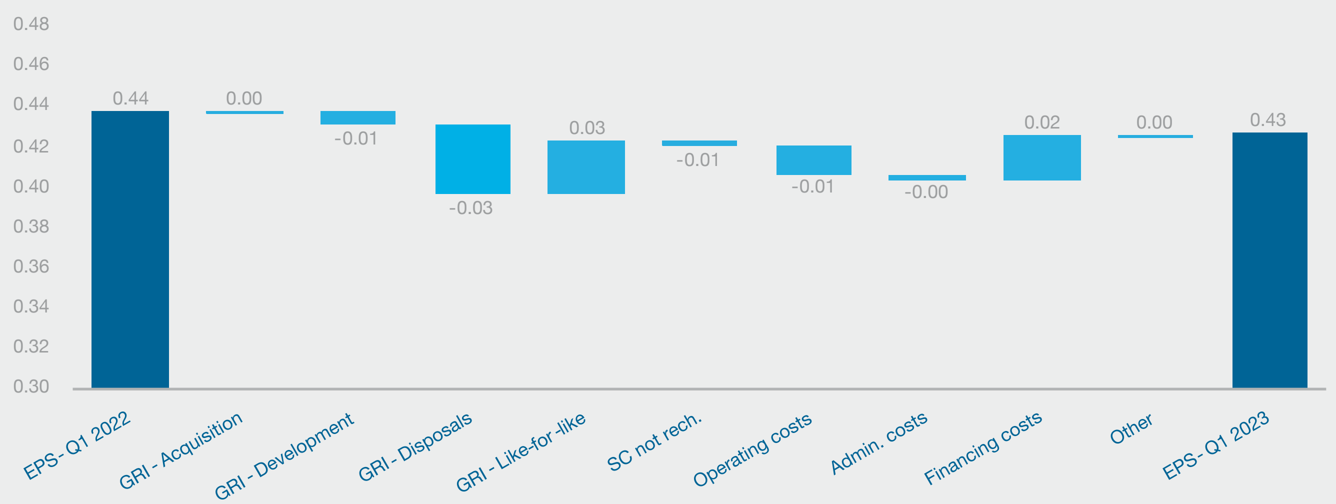
SUPPORTING DATA

Results

Income segment split

	Q1 2023					
	Amsterdam	Other G4	Other Netherlands	Corporate	TOTAL	Q1 2022
Gross rental income	8,731	5,879	2,836		17,446	17,386
Service costs not recharged	-296	9	-20		-307	-243
Operating costs	-1,999	-1,679	-1,053		-4,731	-4,370
Net rental income	**6,435**	**4,209**	**1,764**		**12,408**	**12,773**
Administrative costs				-2,099	-2,099	-1,999
Earnings before interest and taxes	**6,435**	**4,209**	**1,764**	**-2,099**	**10,309**	**10,774**
Net financing result				-1,765	-1,765	-2,173
Direct investment result before tax	**6,435**	**4,209**	**1,764**	**-3,864**	**8,544**	**8,600**
Corporate income tax				-1	-1	-1
Direct investment result / EPRA earnings	**6,435**	**4,209**	**1,764**	**-3,865**	**8,544**	**8,600**

EPS Bridge



Like-for-like growth gross rental income

	Q1 2023	Q1 2022	L-f-l
Amsterdam	8.6	8.3	2.6%
Other G4	5.9	5.4	8.8%
Other Netherlands	2.7	2.6	5.9%
TOTAL	**17.1**	**16.3**	**5.2%**

Like-for-like growth net rental income

	Q1 2023	Q1 2022	L-f-l
Amsterdam	6.5	6.8	-4.2%
Other G4	4.0	3.7	8.3%
Other Netherlands	1.7	1.8	-4.4%
TOTAL	**12.2**	**12.2**	**-0.4%**

Balance sheet & financing

Net debt

	Mar. 2023	Dec. 2022	Change
Debt outstanding	335.5	353.2	-17.7
Amortisation costs	-1.4	-1.6	0.1
Book value of debt	**334.1**	**351.6**	**-17.6**
Cash and cash equivalents	-5.5	-0.2	-5.3
Debts to credit institutions	2.4	14.0	-11.6
Net debt	**331.0**	**365.5**	**-34.5**

Maturity profile