TRADING UPDATE

Q3 2020

- Rent collection for Q3 at 98.0%; continued strong focus on operational performance and balance sheet strength
- EPRA EPS for 9-month period of € 1.73 per share, with gross rents up 4.6% on a like-for-like basis
- EPRA vacancy rate at 8.2%; like-for-like vacancy for FY20 expected to be flat
- Potential 'Vivaldi III' development project at Amsterdam Zuidas announced
- EPRA EPS for FY 2020 still foreseen in range of € 2.30 - € 2.40

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FINANCIAL CALENDAR

Publication preliminary results 2020	26 January 2021
Publication annual report 2020	5 March 2021
Publication trading update Q1 2021	15 April 2021
Publication half year results 2021	14 July 2021
Publication trading update Q3 2021	14 October 2021

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NSI HIGHLIGHTS

KEY FINANCIAL METRICS[1]

REVENUES AND EARNINGS

(€ '000)	Q3 2020	Q3 2019	Change (%)
Gross rental income	57,325	61,941	-7.5%[2]
Net rental income	44,483	48,751	-8.8%[2]
Direct investment result	33,079	35,427	-6.6%
Indirect investment result	-57,856	62,669	-192.3%
Total investment result	-24,777	98,096	-125.3%
Earnings per share (€)	-1.29	5.25	-124.7%
EPRA earnings per share (€)	1.73	1.89	-8.5%
EPRA cost ratio (incl. direct vacancy costs)	30.2%	29.0%	1.2 pp
EPRA cost ratio (excl. direct vacancy costs)	28.2%	27.6%	0.6 pp

BALANCE SHEET

(€ '000)	30 September 2020	31 December 2019	Change (%)
Investment property	1,257,354	1,263,089	-0.5%
Assets held for sale		15,903	-100.0%
Net debt	-384,350	-352,632	9.0%
Equity	850,075	903,308	-5.9%
IFRS equity per share (€)	44.06	47.75	-7.7%
EPRA NAV per share (€)	44.24	47.97	-7.8%
EPRA NNNAV per share (€)	44.54	47.40	-6.0%
Net LTV	30.3%	27.4%	2.9 pp
Number of ordinary shares outstanding	19,291,415	18,917,764	2.0%
Weighted average number of ordinary shares outstanding	19,087,446	18,751,178	1.8%

KEY PORTFOLIO METRICS

	30 September 2020					
	Offices	HNK	Other	TOTAL	31 December 2019	Δ
Number of properties[3]	45	14	4	63	65	-3.1%
Market value (€m)[4]	932	255	76	1,262	1,287	-1.9%
Annual contracted rent (€m)[5]	55	19	7	82	81	0.8%
ERV (€m)[6]	62	23	7	91	92	-0.5%
Lettable area (sqm k)	302	127	53	482	491	-2.0%
Average rent / sqm	203	189	156	195	188	3.7%
EPRA vacancy[7]	5.1%	16.9%	7.5%	8.2%	7.1%	1.1 pp
EPRA net initial yield	4.6%	4.3%	6.3%	4.6%	4.6%	0.0 pp
Reversionary yield	6.9%	8.9%	9.4%	7.5%	7.3%	0.2 pp
Wault (years)	4.1	3.2	5.4	4.0	4.2	-4.8%

1 The trading update is based on unaudited results.
2 On a like-for-like basis GRI growth is 4.6% and NRI growth is 3.5%.
3 Two office assets were reclassified in 2020 to the category "Other" due to usage as community college and student housing complex.
4 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).
5 Before free rent and other lease incentives.
6 Excluding ERV for investment properties under construction (Donauweg, Amsterdam and Bentinck Huis, The Hague)
7 In line with EPRA-guidelines EPRA vacancy excludes Donauweg and Bentinck Huis, which are currently under construction

CEO COMMENTS

Going into Q4 we are not only looking back on an unprecedented period for the Dutch and Global economy due to the onset of coronavirus, but we are also looking ahead to a problematic Autumn and Winter season in which coronavirus will once again force parts of the Dutch economy to shut down, impacting many aspects of business and personal lives.

As we prepare for 2021 we see many corporates being uncertain about the economic outlook and we believe working from home (WFH) is a feature the real estate industry will have to acknowledge and address head on. Most larger corporates are actively evaluating how much space they need going forward and how to best put it to use. We believe NSI can play an active role in this process. We discuss our latest thinking on WFH and its implications in a separate section on page 5.

Strong operating resilience

We recognised early March that as a result of coronavirus prospective tenants would see the balance of power shift in their favour. Incentives for new leases have gone up across the board, also in Amsterdam, and we see that our competitors are discounting to attract new business.

Our vacancy rate is 8.2% per Q3, marginally up on the year. It is entirely reflective of the strength of our portfolio, in terms of location and quality, the strength of our asset management team and a realistic approach to pricing that we have been able to maintain a low vacancy rate.

For the year-end we expect a more or less stable EPRA vacancy rate, at 8.2%. This includes the negative effect of our Donauweg asset in Amsterdam, which will be vacant at year-end, post completion of the redevelopment, and contribute 0.9% to the overall vacancy rate.

Polarising investment market & stamp duty

The 'lower for longer' interest rate mantra is slowly turning into 'lower forever' and is driving real estate investment demand at the top end of the market. Following a very quiet Q2, we see 'prime' deals trade again, and at valuations that are up year-on-year as return requirements are being lowered for the right assets with the right characteristics in terms of location, asset quality, lease structure and covenant strength. There may be a recession, but there are plenty of cash-rich investors around.

In contrast, at the lower end of the quality spectrum there is not much of an active market at this time, as the difficulty to obtain debt financing for most actors in this market is clearly impacting liquidity.

At the end of Q3 we briefly checked with our external valuers to see if market evidence was such that an extra full valuation of our portfolio would be warranted for this quarterly update. The message we got back is that a valuation update is not needed at this time.

The Dutch government has announced to increase transfer tax by 2% to 8% for all commercial real estate transactions as per January 2021. Based on our Q3 book values we estimate the negative effect for our shareholders to work out at € 1.25 per share, which will show up in our year-end 2020 NAV, as we report NAV net of transfer tax.

A new 22,000 sqm Amsterdam office project

In September we signed a LOI (letter of intent) with Bureau Zuidas of the Municipality of Amsterdam for the potential development of 'Vivaldi III', a 22,000 sqm high-end wooden office building. With a planned height of 86 meters this will be one of the highest wooden structures in the world on completion. The cost of this project is in the range of € 90-110 mln, excluding land, and will commence no earlier than H1 2022.

We now have three potential development projects in Amsterdam: Vivaldi III, Laanderpoort and Vitrum. The total capex of these projects is circa € 250 mln, excluding incremental leasehold costs. This is so material in the context of the overall NSI balance sheet that it will require careful consideration as to how to proceed from here - in particular as all three projects could potentially start at around the same period.

We have a signed lease agreement with ING for most of Laanderpoort. We have soft-started our leasing efforts for Vitrum and Vivaldi III. Whilst we have a clear intention to start Vitrum on a speculative basis, we may well require a pre-let before committing to Vivaldi III.

We recognise our balance sheet is one of our strongest assets in these unprecedented times and we will not jeopardise it to pursue our project pipeline at all cost. Obviously we still have time to make the judgement call whether or not to proceed. To focus and prioritise the above three projects, we have halted all efforts to work out a development plan for our Motion asset for the foreseeable future.

Change in NAV metric

Earlier this year EPRA, the European Public Real Estate Association, introduced three new 'NAV' metrics to replace EPRA NAV and EPRA NNNAV. The new metrics are EPRA NRV, EPRA NDV and EPRA NTA. For NSI per Q3 these are € 48.16, € 44.23 and € 44.53, respectively. This compares to the old EPRA NAV metric of € 44.24.

We question the need for this change, as EPRA NAV as a metric was well established and served its purpose. In any case we would generally advise investors to pay close attention when the definition of a metric changes. We opt for EPRA NTA as our new 'NAV' metric as it mostly resembles the old EPRA NAV.

Outlook for 2020

The operational results to date portray resilience, with rent collection at 98.0% for Q3, a vacancy rate that is largely stable and an EPRA EPS still expected to come out within the guided range of € 2.30 – 2.40 per share, even after the negative impact of our total coronavirus-related costs for the year of €0.08 per share. We still intend to pay a full year dividend of € 2.16 per share.

As we have said before, the health and well-being of everyone remains first and foremost on our mind. We will not waver here. And we will do what we believe is right. We recognise the current second wave of coronavirus may well last the entire Autumn and Winter season. This, in combination with the recent renewed government request to WFH, has made us decide to offer all our flex tenants at HNK a further month of rent free for the month December 2020. The associated costs are included in the above coronavirus-related costs and guidance.

The wider Dutch and European office industry is facing two significant challenges at this time: the negative impact on tenant demand in the short term due to the current recession and the structural impact on office demand in the long run as a result of the WFH experiment. We recognise the challenge and continue to focus on what we can control. We are selling non-core assets where appropriate, we are realistic on rent levels, we focus on cost controls where possible and we continue to look for ways to improve our assets and offering in terms of services and sustainability. This is not a time to sit still.

Bernd Stahli

THE OFFICE VS WFH DEBATE

Ever since coronavirus forced large parts of the working population to work from home (WFH), with corporates following Dutch Government guidelines to WFH as much as possible, there is a debate on the virtues of working in the office vs WFH. The debate is in fact a global debate, as most countries have or had, one way or another, specific guidelines for working from home as a result of coronavirus.

The debate up to now includes expert opinions, plenty of highly biased views, anecdotal evidence, results from quality surveys like Leesman (www.leesmanindex.com), corporate employee surveys, and individual corporate and personal experiences. The debate will probably continue for years to come and will really only become more meaningful when it starts to include an analysis of the meta effects of shifts in the balance office vs WFH on corporate identity and culture, the ability to innovate and long term employee health and well-being.

WFH - Dutch context

The Netherlands is not an 'everyone in the office, from 9 to 5, five days a week, in 6 sqm cubicles' office market. It is already one of the more flexible markets in Europe, with just under half of employees (48%) working less than 35 hours a week and 32% working less than 28 hours a week. The average work week equates to 31 hours. Meanwhile, in 2019 already about 25% of employees worked incidentally from home.

Most occupiers have been increasing office 'density' for years, reducing their space requirements, as an office is generally seen as a cost to the business that needs to be minimised. The average ratio of office desks to employees in The Netherlands is circa 70-80%, whilst at the same time the average office space per desk is down to circa 13 sqm (Amsterdam: circa 11 sqm), from nearer 20 sqm in 2001.

The Dutch model of part-time working, flexible hours, incidental home working and high desk efficiency could perhaps suggest that a further shift in the balance of WFH and office may well have a relatively modest impact on the space requirement of corporates.

The jobs to be done

The evidence so far from employee surveys such as Leesman is that some activities are better done at home, achieving higher productivity. This includes in particular individual focus work, standardised process work, planned meetings with a clear agenda and video conferencing. In contrast, collaboration, sharing knowledge, creative thinking, training new employees, informal meetings and social interaction work better in an office environment.

The conclusion therefore must be that most office set ups currently do not work for everyone or, to be specific, not for every task. This leaves corporates with a clear choice. Should corporates accept that certain things are better done at home and facilitate this? Or should corporates improve the office set up so that what is now better done at home can be done as well (or even better) in the office? We expect corporates to try and take ownership of the issue and do both.

What is now becoming clear is that for an office to work properly there need to be different 'zones' to facilitate the 'jobs to be done', such as a 'quiet space' zone, much like a library, a zone for social interaction, including catering, a zone for collaboration, including scrum rooms, meeting rooms, and presentation space, but also a zone with normal workstations for employees that cannot effectively WFH. The sort and mix of zones will be different for every corporate and will shift over time, with the focus over time less and less on space to facilitate roles and activities that will in time disappear as a result of robotisation and AI.

Anecdotal evidence so far

Below find several observations and anecdotal evidence from the many conversations we have had in recent weeks and months with tenants, prospects, agents and other partners. Please treat these as such, and not as a complete set of firm conclusions.

Balance WFH vs office

- Most corporates recognise that WFH is actually working well and in more parts of the business better than initially expected.
- WFH will be a way for corporates to attract and retain talent.
- Corporates are seeing that senior employees generally seem to cope well with WFH, but that younger employees that WFH are largely disconnected, are 'standing still' in their careers and are proving less loyal.
- Corporates realise that the WFH experiment has only been going on for six/seven months now and expect employees to shift in their preference for WFH, in particular following a dark Autumn/Winter season. Health and well-being is actively being monitored, with a focus on signs of psychological stress, fatigue and burn-out.
- Corporates recognise that the cultural and social capital that has been built up by working together in proximity for years is being used up as a result of WFH and are looking for ways to replenish this, with a (partial) return to the office as one of the solutions.
- Corporates have mixed experiences with productivity levels. Data suggests that employees login less to PCs/network systems on Mondays and Fridays. Some corporates now recognise they need to better understand/measure/monitor employee productivity.
- It is the multinational mega corporates that are actively studying the body of evidence of failed WFH experiments at Yahoo, Best Buy, Reddit and others, to understand lessons learned and see what the right balance is in the office vs WFH debate. Smaller corporates with few employees (<100) just get on with business.
- Senior management ultimately sets the tone, employees follow. If management favours office working, the organisation will follow.

Future space requirements

- Corporates do want more flexibility, but will not go entirely flex as there is still a need for a long term 'home base' to showcase their brand and identity. Flex space will end up supplementing this.
- Many of the larger corporates are uncertain how things will evolve and are for now delaying decisions on future office usage. Smaller corporates (<1,000 sqm) are operating as usual.
- Larger corporates expect that they may need less space going forward, but they worry how they should manage load distribution, so that the office is being used efficiently, and not just on Tuesday to Thursday.
- Employees that want to WFH part of the week will probably not be able to claim a full time personal desk in the office in the future.
- Subletting is back. Especially in Amsterdam Zuidas. Most of this space is available for periods of up to three years, which is not considered a long enough period for other tenants to step in.
- Many corporates located in Amsterdam recognise that their locally resident employees are living in smaller apartments and are often co-habiting, which is not helpful to achieve productive WFH, and so may longer term not be able to economise much on space.

Final Thoughts

The era is long gone where one could be a traditional landlord passively investing in 'boring' rental income. Office real estate has over the years become a much more service-oriented, operational, business. Recent events will only accelerate this trend. We are at the forefront of this, starting our flexible HNK office concept already back in 2012.

More and more forward-looking corporates that are active in the 'war for talent' are starting to recognise that an office is not just a necessary business cost that needs to be minimised, but can be a value proposition in itself. These corporates have figured out that employees need to be made to want to work for their company and that a properly set-up, healthy and equipped office is part of the attraction, in addition to brand value/proposition, the level of remuneration and all the rest. We are continuously working on plans to further improve our product range and service offering, with the aim to fully and timely address the changing demands of corporates going forward.

DETAILED RENT COLLECTION REVIEW

Q3 update

Rent collection in Q3 is almost in line with normal historical patterns, at 98.0%. We sent out invoices for a total of € 25.8m for Q3, including service charges and VAT, of which we received € 25.3m. The € 0.5m difference includes € 0.2m in rent waived (mostly reflecting a half-month rent free for flex tenants at HNK), € 0.1m in rent restructured and 'other' (mostly rent still due).

Following a turbulent Q2, when we received numerous requests for rent relief, the level of requests were much more limited in Q3 and Q4. Requests for temporary leniency, such as monthly payments instead of quarterly payments, or rent payment at the end of the month instead of at the start were usually honoured. We have also selectively given rent relief in exchange for lease extensions, mostly to retail tenants.

At the end of Q3 the level of debtors is € 1.0m, or 1.3% of our annual rent roll, of which now € 0.4m is provisioned.

Cumulative rent collection for the period Q1-Q3 is at 98.0% of total invoiced rent, as per the end of Q3. Of this 0.8% is waived, 0.6% is restructured and 0.5% is still outstanding.

Rent collection outlook for Q4 2020

We have received 93.6% of rent due for Q4 and for the month of October, as per 21 October. This is more or less in line with historical patterns.

Rent collection Q3 / Q4 2020 (% of invoiced rent)

	Q3 as per 21 July	Q4 as per 21 October
Offices	95.6%	94.8%
HNK	93.4%	93.5%
Other	86.2%	82.9%
TOTAL	**94.4%**	**93.6%**

We have decided to offer all our flex customers at HNK rent free for the month of December 2020, following the reaffirmed WFH guidelines by Government. This gesture reflects a one-off cost of € 0.3m in lost rent, impacting EPS in Q4 2020.

Rent collection bridge Q3 (€m; as per 30/09//20)

Rent collection bridge Q1-Q3 (Cumulative) (€m; as per 30/09/20)

INCOME, COSTS AND RESULT

Introduction
EPRA EPS for the first nine months is € 1.73, of which € 1.14 in H1 and € 0.59 in Q3. This is a decrease of 8.5% compared to the same period last year. The decrease is mainly the result of asset disposals in 2019 and the associated loss of rental income.

Rental income
Gross rental income is down by 7.5% compared to the same period last year, due to net disposals in 2019. On a like-for-like basis gross rental income is up for all segments. For the total portfolio this is 4.6%, driven by 5.9% like-for-like growth for the Offices portfolio, following a fall in the vacancy rate in this segment over the past 12 months.

Net rental income is down 8.8% year-to-date due to a lower GRI and a lower NRI margin. The NRI margin is down by 1.1 percentage point to 77.6%, of which 0.9 percentage point is due to one-off coronavirus-related costs. Net rent is up by 3.5% on a like-for-like basis. In the Offices portfolio like-for-like net rental growth is 6.4%. This is slightly better than the gross figure due to lower maintenance expenditure and lower letting fees this year. Most of the one-off coronavirus-related costs are incurred in the HNK segment, which explains the negative net rental growth of 7.5%. Corrected for these one-off costs like-for-like net rental growth is a positive 3.3% for HNK and a positive 6.1% for the total portfolio.

Service costs
For the first nine months, non-recoverable service charges are down by 19.7% compared to the same period last year, due to asset rotation and lower vacancy.

Operating costs
YTD operating costs are 0.5% (€ 0.1m) lower compared to the same period last year. This is positively impacted by the lower number of assets following disposals at the end of last year. The main contributors are lower municipal taxes (€ 0.4m) and lower letting costs (€ 0.5m), whilst operating costs are negatively impacted by higher maintenance (€ 0.3m) and coronavirus-related one-off costs (€ 0.5m).

Administrative costs
Admin expenses are 8.1% (€ 0.5m) lower compared to the first nine months of 2019. This is mainly due to the capitalisation of some staff costs in relation to our development programme.

Net financing costs
Financing costs are down 19.0% (€ 1.5m) compared to last year. This is primarily due to a lower average amount of debt outstanding, lower hedging costs (€ 0.2m) following the breakage of swaps in Q3 2019 and Q2 2020 and the capitalisation of interest (€ 0.4m) relating to development projects.

Post-closing events and contingencies
There are no post-closing events.

Income segment split Q3 2020 (€ '000)

	Q3 2020									
	Offices			HNK						
	A'dam	Other Target Cities	Other NL	A'dam	Other Target Cities	Other NL	Other	Corp.	TOTAL	TOTAL Q3 2019
Gross rental income	21,840	16,100	1,332	3,509	6,965	2,467	5,113		57,325	61,941
Service costs not recharged	-152	-209	-60	-86	-220	-294	-140		-1,162	-1,446
Operating costs	-2,276	-3,655	-145	-774	-2,469	-1,082	-1,279		-11,680	-11,743
Net rental income	**19,411**	**12,236**	**1,127**	**2,649**	**4,275**	**1,091**	**3,694**		**44,483**	**48,751**
Administrative costs								-5,123	-5,123	-5,576
Earnings before interest and taxes	**19,411**	**12,236**	**1,127**	**2,649**	**4,275**	**1,091**	**3,694**	**-5,123**	**39,360**	**43,175**
Net financing result								-6,278	-6,278	-7,749
Direct investment result before tax	**19,411**	**12,236**	**1,127**	**2,649**	**4,275**	**1,091**	**3,694**	**-11,401**	**33,082**	**35,426**
Corporate income tax								-3	-3	1
Direct investment result / EPRA earnings	**19,411**	**12,236**	**1,127**	**2,649**	**4,275**	**1,091**	**3,694**	**-11,404**	**33,079**	**35,427**

REAL ESTATE PORTFOLIO

There have been no changes to the portfolio in the third quarter. NSI acquired only one asset, the ONE20 office building in Amsterdam, for €34.0m back in Q1 this year. Three assets, which were classified as held-for-sale at year-end, left the balance sheet in Q1. Two assets were reclassified from the category Offices to Other at the start of the year.

Portfolio breakdown - 30 September 2020

	# Assets	Market value (€ m)	Market value (%)
Offices	45	932	74%
HNK	14	255	20%
Other	4	76	6%
TOTAL	**63**	**1,262**	**100%**

Vacancy

The EPRA vacancy at the end of September is 8.2%, a 0.4% increase in the last quarter. The rise is driven almost entirely by the departure of Genencor, part of DuPont, at Archimedesweg 30 in Leiden. The asset has subsequently been re-let to Janssen Vaccines, a subsidiary of Johnson & Johnson with a lease start date on 1 December 2020.

On a like-for-like basis the EPRA vacancy rate is up by 0.9% year to date. Of €2.9m rent expiring in Q4 € 0.8m will definitely leave. Signed future leases starting in Q4 amount to € 2.3m, with further deals with Q4 start dates in the pipeline. As a result like-for-like EPRA vacancy is expected to be about flat for 2020. This confirms the resilience of the NSI portfolio and provides an early indication that office occupiers still see a future role for work in offices in central locations.

The HNK vacancy is up by 2.4% this year, which is driven by two large tenants leaving HNK Houthavens, with at least half of the space set to be relet by the end of the year.

Three assets are not part of the like-for-like vacancy. The two assets classified as “Investment Property under construction”, Bentinck Huis and Donauweg, will be transferred to the standing investments in Q4. Bentinck Huis will be fully occupied with a lease start date on 1 December. Donauweg will be vacant, which will negatively impact the EPRA vacancy. The ONE20 building, which was acquired in the first half of this year. has circa 2,500 sqm of vacant space left. All vacant areas are currently under offer with a likely start before the year end.

EPRA vacancy

	Dec. 2019	L-f-l	Other	Sep. 2020
Offices	4.1%	0.5%	0.5%	5.1%
HNK	14.5%	2.4%		16.9%
Other	8.0%	-0.1%	-0.4%	7.5%
TOTAL	**7.1%**	**0.9%**	**0.3%**	**8.2%**

Rents

Gross rents are up 4.6% on a like-for-like basis, compared to the same period last year. Split by sector Offices are up 5.9%, HNK 1.9% and Other 2.6%.

Net rents increased by 3.5% on a like-for-like basis. This is driven by Offices where net rents are up 6.4% and Other (6.3%). In HNK net rents are down (-7.5%). In HNK this fall is entirely due to the rent holiday we offered all tenants on flexible contracts for the month of May and August (circa € 0.6m) and due to one-off higher property management costs in relation to our coronavirus initiatives (circa € 0.5m). Adjusting for these effects the like-for-like rental growth for HNK would have been approximately 3.3%. For Offices this figure would have been 6.8% and for the total portfolio 6.1%.

Like-for-like growth net rental income (€m)

	Q3 2020	Q3 2019	L-f-l
Offices	31.6	29.7	6.4%
HNK	8.1	8.8	-7.5%
Other	3.5	3.3	6.3%
TOTAL	43.3	41.8	3.5%

Offices

The vacancy rate for Offices at 30 September 2020 is 5.1%, up 0.3% compared to the end of June. The main cause is the departure of Genencore at Archimedesweg 30 in Leiden. NSI bought the asset in 2019 in a sale and lease back deal from DuPont at a 10.5% GIY, with a short lease. This lease expired in August 2020. The property will be fully let as per 1 December 2020 to Janssen Vaccines. The new rent is above the passing rent of the previous tenant, affirming the strength of this location and making this a successful investment so far.

Despite a relatively quiet Q2, with leasing activity effectively coming to a halt in April and May due to coronavirus, year to date the vacancy rate in the office portfolio has risen by a relatively modest 0.5% on a like-for-like basis. And this increase is temporary due to the transitional vacancy at Archimedesweg in Leiden. The 82% retention rate has been instrumental in helping us control the vacancy rate this year.

Occupier activity picked up after the summer holidays and several deals are expected to close before the year end. On average lettings are done at around ERV. Unsurprisingly, and as previously indicated, incentives are up by 5-10% compared to the beginning of the year.

Key office metrics - breakdown by segment

	Sep. 2020				
	A'dam	Other Target Cities	Other NL	TOTAL	Dec. 2019
Number of properties	16	24	5	45	46
Market value (€ m)	554	359	18	932	945
Market value asset (€ m)	35	15	4	21	21
Ann. contract rent (€ m)	31	23	2	55	54
Average rent / sqm	230	178	158	203	194
Reversionary potential	10.3%	-0.2%	-5.1%	5.6%	7.9%
Lettable area (sqm k)	144	145	13	302	308
Market rent (€ m)	35	24	2	62	61
EPRA vacancy	2.2%	9.2%	6.1%	5.1%	4.1%
EPRA net initial yield	4.5%	4.6%	7.4%	4.6%	4.5%
Reversionary yield	6.5%	7.3%	10.7%	6.9%	6.7%
Wault	3.9	4.6	2.9	4.1	4.5

HNK

At HNK the EPRA vacancy rate is up by 1.0% to 16.9% in the third quarter, driven by a large unit in HNK Houthavens and a fall in occupancy of Managed Offices. For the unit at HNK Houthavens a new LOI has already been agreed. This will have a positive effect on vacancy of just over 1% by the end of December.

By the end of September the EPRA vacancy in Managed Offices is up to 17.1% from 8.3% at the start of the year. What we see is that the level of notices is in line with normal churn, but what has largely fallen away for now is the new demand for managed offices.

All tenants on a flexible contract were given a rent free for the month of May and half a month in August at a one-off cost of € 0.6m. Leasing activity for large (conventional) floors at HNK picked up in Q3 with several prospects actively looking for space. The retention rate year to date of 46% at HNK is below historical averages.

Key HNK metrics - breakdown by segment

	Sep. 2020				
	A'dam	Other Target Cities	Other NL	TOTAL	Dec. 2019
Number of properties	3	6	5	14	14
Market value (€ m)	92	131	33	255	262
Market value asset (€ m)	31	22	7	18	19
Ann. contract rent (€ m)	5	11	4	19	20
Average rent / sqm	224	194	149	189	190
Reversionary potential	9.7%	-5.4%	-9.4%	-2.3%	1.1%
Lettable area (sqm k)	27	64	36	127	127
Market rent (€ m)	7	12	5	23	23
EPRA vacancy	17.8%	13.1%	25.3%	16.9%	14.5%
EPRA net initial yield	3.6%	4.5%	5.5%	4.3%	4.6%
Reversionary yield	7.2%	8.8%	14.1%	8.9%	8.8%
Wault	2.5	3.5	3.5	3.2	3.1

Other

In the Other segment the EPRA vacancy has been relatively stable in Q3. Gross rents are up 2.6% on a like-for-like basis, primarily due to occupancy improvements over the previous 12 months. On a net basis rents are up by 6.3%, however, given the small size of this segment numbers can fluctuate from one period to another depending on single expenditures falling in one period and not in the other.

BALANCE SHEET, NAV AND FINANCING

Funding

Net debt is up by € 15.6m compared to the end of June 2020, reflecting mostly the H1 interim dividend paid, capital expenditures and movements in working capital. Shareholders in general opted for a cash dividend, given the price for the stock dividend alternative of € 37.44.

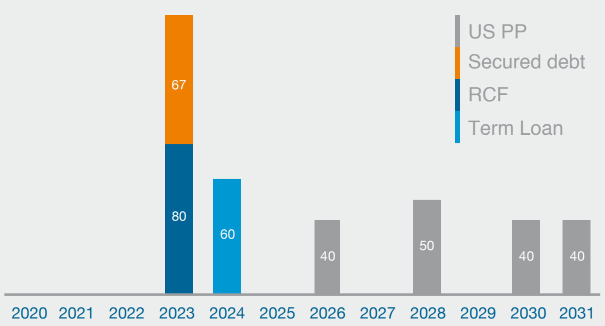
In Q3 NSI repaid a € 25m secured debt facility, which matured in July, by drawing down on the RCF. As a result the RCF is drawn € 60m at the end of September 2020. Taking into account debts to credit institutions as of September 2020, NSI has circa € 230m of cash and remaining committed undrawn credit facilities at its disposal.

Net debt (€m)

	Sep. 2020	Dec. 2019	Δ
Debt outstanding	377.3	342.8	34.5
Amortisation costs	-1.2	-1.3	0.1
Book value of debt	**376.1**	**341.5**	**34.4**
Cash and cash equivalents	-0.1	-1.4	1.3
Debts to credit institutions	8.4	12.6	-4.2
TOTAL Portfolio	**384.4**	**352.6**	**31.7**

At the end of September 2020 the average loan maturity is 5.4 years (December 2019: 5.4 years). 82% of debt drawn is unsecured (89% of available debt) and the average cost of debt remains flat at 2.1%.

Maturity profile



Leverage and hedging

The LTV is 30.3% at September 2020, up 1.1 percentage point compared to June 2020 (29.2%), following the increase of net debt over the period. The LTV still stands well below our 60% covenant. The ICR remained flat at 7.1x at the end of June, well above the 2.0x covenant.

Covenants

	Covenant	Dec. 16	Dec. 17	Dec. 18	Dec. 19	Sep. 20
LTV	≤ 60.0%	44.1%	36.9%	36.9%	27.4%	30.3%
ICR	≥ 2.0x	3.8x	4.7x	5.5x	6.8x	7.1x

NSI is using swaps to hedge its interest rate risk on variable rate loans. The € 25m secured facility maturing in July had a fixed interest rate and is repaid by drawing on the RCF which has a variable rate. As a result the volume hedge ratio at the end of September is 84% (target range: 70-100%). The maturity of derivatives and fixed rate debt is 5.7 years at the end of September 2020 and the maturity hedge ratio is 106% (target range 70-120%).