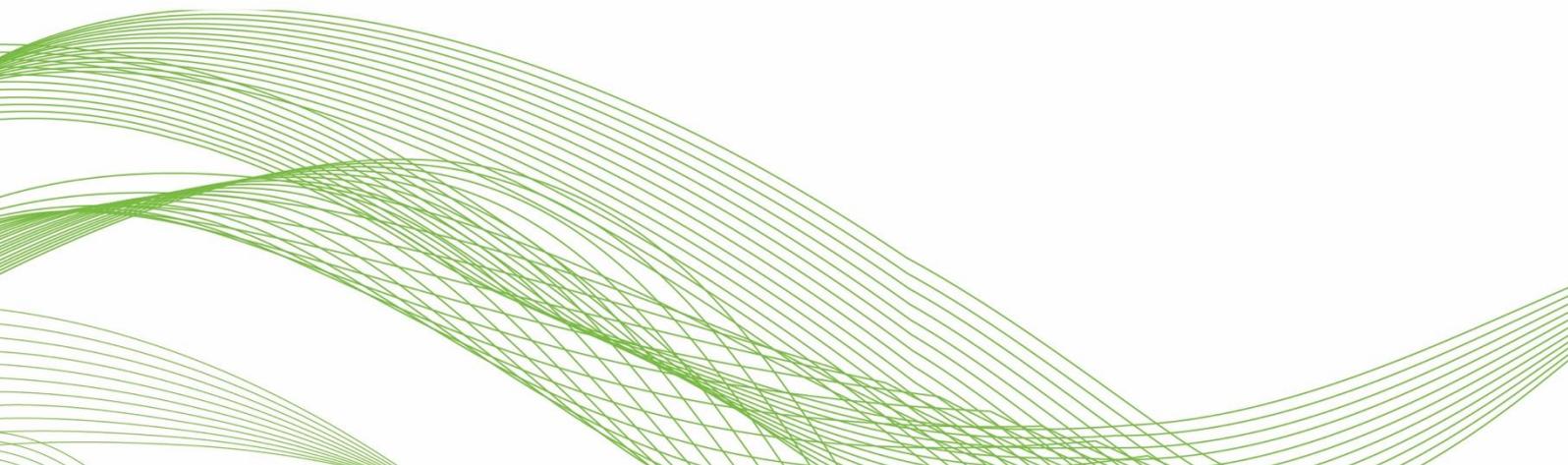


CBRE

Valuation Advice on Yields and Market Rents

CITYCON OYJ
30 SEPTEMBER 2020





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INSTRUCTIONS

Our instruction from Citycon Oyj was to provide Citycon with our opinion on yields and market rents for their investment portfolio as at 30 September 2020, to be used in their internal valuations. The purpose of the internal valuations is financial reporting and performance measurement. The internal valuations include all investment properties excluding any redevelopment projects and any new acquisitions which are valued externally.

SCOPE OF WORK AND ASSUMPTIONS

This report is for the use only of the party to whom it is addressed for the specific purpose set out herein and no responsibility is accepted to any third party for the whole or any part of its contents. Neither the whole nor any part of our report nor any references thereto may be included in any published document, circular or statement nor published in any way without our prior written approval of the form and context in which it will appear.

This valuation advice is a professional opinion and is expressly not intended to serve as a warranty, assurance or guarantee of any particular value of the subject properties. Other valuers may reach different conclusions regarding yields and market rents of the subject properties. This valuation advice is for the sole purpose of providing the instructing party our independent and professional opinion on the portfolio's properties' yields and market rents on the valuation date, to assist Citycon with their internal valuations of the properties.

We confirm that we have had no previous material involvement with any of the properties prior to the 30 June 2017 valuation for Citycon and there is no conflict of interest.

We have carried out our work based upon information supplied to us by Citycon, which we have assumed to be correct and comprehensive.

We have inspected all the properties internally in between May 2017 and July 2020.

MARKET OVERVIEW

DENMARK

Retail Occupancy Market

The Danish government reacted swiftly to encounter the economic impact caused by the outbreak of Covid-19 and there is no doubt that the retail sector is facing an unprecedented disruption of commerce. Most importantly, the duration of the current shutdown of economic activity is unknown. Although Denmark has become one of the first countries in Europe to begin lifting some lockdown measures, the reopening of the economy will be very gradual. In addition, a low consumer confidence could indicate nervous consumers may continue to limit their spending.

According to Statistics Denmark, retail sales increased by 10.7% from end of Q1 2020 to end of Q2 2020 when corrected for price trends, seasonal fluctuations and the effect of trading days. The product group Food and Everyday Commodities increased with 0.7%, while the product group Clothing etc increased in sales with 88.4%, thus recovering from a very weak performance in March and April 2020. This development can be explained by the regulative actions implemented towards Covid-19 where retail stores and shopping centres closed in March and reopened again during May.

Retail sale of groceries and non-electrical household goods via internet have performed particular well in the last couple of years as more retail has shifted online. This trend has been further amplified during Covid-19 and since February 2020, the two sectors have increased in retail sales by 43% and 112% respectively. Another sector which has performed well during Covid-19 is DIY centres and tool stores with an increase of 83% since February 2020. One of the best performing retail sectors in the end of Q2 2020 was the retail sale of footwear and leather goods in specialised stores, which increased by 207% compared to end of Q1 2020. However, this massive increase must be considered with the fact that retail sale of footwear was one of the retail sectors worst hit by the global pandemic.

Prime net shopping centre rents dropped to DKK 5,250 per sq m p.a. in Q2 2020. Looking forward, challenges are expected. The longer this disruption of the global pandemic, the more impact on consumer confidence and purchasing power, the longer the impact on retail sales. Furthermore, Covid-19 is expected to be the ultimate trigger for already dwindling retailers and F&B to close their business, why higher vacancy on the medium / longer term is expected.

Retail Investment Market

The end of the fourth quarter 2018 showed a change in investor sentiment. The shopping centres are experiencing challenges regarding e-commerce and in addition, as a result of weaker investment demand and confidence, market players have been withdrawing their sales from the market due to difficulties in achieving expected pricing. Additionally, the continued disruption caused by the lockdown and prolonged social distancing measures due to Covid-19, is expected to further accentuate the already existing pressure on brick-and-mortar retail caused by the rapid growth of e-commerce.

The change in sentiment is also evidenced by the sale of one shopping centre in the beginning of the first quarter of 2020, where Aviva Investors acquired Galleri K shopping arcade; a mixed-use retail, leisure and office asset located in Copenhagen. The asset is situated on Copenhagen's high street at the centre of the city's retail district and has a total GLA of 24,795 sq m. The asset was sold by Patrizia AG. Purchase price was not disclosed.

The retail property transaction volume in H1 2020 was DKK 2.4bn, which is an increase of 114% compared to H1 2019. The massive increase is a result of a very high volume in Q1 2020 primarily due to the sale of Galleri K shopping arcade. In Q2 2020, DKK 0.6bn was transacted, a decrease of 37% compared to Q2 2019. As of Q3 2020, the general shopping centre yields has remained stable at 5% for prime shopping centres and at 7% for good secondary shopping centres. The trend for both yields is softening, as vacancy is increasing, and retail property values are impacted as well.

Comment on Citycon portfolio

Albertslund is an established shopping centre with a stable track record, while Straedet is a newly developed centre with more uncertainties, characteristic of new centres. Expected rental levels are stable, while economic incentives are expected to increase. Alignment with current investor sentiment in regard to yields is expected.

ESTONIA

According to Statistics Estonia, in the 2nd quarter of 2020, the gross domestic product (GDP) fell by 6.9% compared to the 2nd quarter of 2019. Most of the economic activities experienced an economic downturn due to the emergency situation. Accommodation and food service activities, which were hit most severely by the emergency, fell by 58%, manufacturing by 19%, trade by 11%, transport by 8%, real estate activities by 13% and professional, scientific and technical activities by 10%. The only activities that continued to show significant growth were construction by 12% and information and communication by 8%.

Retail Occupancy Market

According to Statistics Estonia, in July 2020, the turnover of retail trade enterprises was 680 million euros. Compared to July 2019, turnover increased by 4% at constant prices. The first summer months had a positive effect on the turnover of stores selling manufactured goods: in July, their turnover increased by 7% compared to last year. Turnover increased by 7% also in stores selling via mail order or the internet, and in stores selling second-hand goods and in the non-store retail sale (stalls, markets, direct sale). Turnover increased by 6% in pharmacies and stores selling cosmetics and by 5% in stores selling household goods and appliances, hardware and building materials. In stores selling textiles, clothing and footwear, turnover decreased by 6% compared to July 2019 and in other non-specialised stores selling predominantly manufactured goods (department stores) by 2%. The turnover of both grocery stores and enterprises engaged in the retail sale of automotive fuel increased by 1% year on year. In July, compared to June, the turnover of retail trade enterprises increased by 1%. However, according to the seasonally and working-day adjusted data, turnover decreased by 1%. In the first seven months of 2020, the turnover of retail trade enterprises increased by 2% compared to the same period of the previous year. In Tallinn, shopping centre rents in Q3 2020 have gone down a bit. The prime rent prices are now 50 EUR/sq m. Major shopping centre Porto Franco - a multi-functional development will be delivered in Tallinn next year and will add 32,000 sqm of retail space, but in 2020, no new retail spaces should be added to the market.

Retail Investment Market

Yields of Estonian retail assets remain the lowest among the three Baltic countries. Comparing to previous

quarter prime shopping centre yield in Estonia have stayed the same. Currently the Estonian remains prime retail yield is 7.0%. In Q3 of 2020, the Estonian market was absent from shopping mall investment transactions.

Comment on Citycon portfolio

According to the data of shopping centres, in the continuation of COVID-19 pandemic environment, the sales and the footfall have bounced-back strongly and even exceeded the July result of last year. However, the year to date sales and footfall is still less than it was last year in the same period. The recovering results of both shopping centres give optimism both to Citycon Estonian assets and the retail activities in general, which may attract the attention of potential investors in this sector and might tend the yields of shopping malls to harden if looking long term.

NORWAY

Retail Occupancy Market

The Norwegian economy has shown solid performance over the past years, allowing Norges Bank to be among few the hawkish central banks in a global environment dominated by the US/EU/China trade war and Brexit fears. Following the COVID-19 outbreak in March the situation was turned on its head, but the situation stabilized through the summer months and society was gradually reopened, to a state where most parts of normal life resumed, with some restrictions. Coming into Q3 the retail segment in general seemed to be back on its feet, and the high performance continued through the quarter. According to Kvarud Analyse shopping center revenue was 12.1 percent higher in September 2020 compared to September 2019. Despite the downturn following the outbreak shopping center YTD revenue is 3.7 percent higher compared to last year.

However, as we are witnessing a large increase in COVID-19 cases, society could yet again face long-lasting restrictions, which could impact the retail segment in similar ways as we saw back in March and April. Due to the volatile nature of the situation, forecasts are changing often. That said, our latest forecast is that Norway has dived into a recession that will yield a GDP contraction of 5.8 percent in 2020. The NOK is also expected to remain weak against the major currencies, resulting in tough trading conditions for importers, i.e. a majority of retailers.

Average basket size was NOK 379 in September 2020, while the YTD average basket size is NOK 373, up 13 percent compared to the same period last year.

Retail Investment Market

Norway CRE investment volumes increased 31% in Q3 2020 vs Q3 2019, in a clear sign of the market starting to recover from the slump that began in late Q1. However, it is worth noting that portfolio and M&A-type transactions continue to be a significant part of the total investment volumes in Norway. After moving out due to weak investor sentiment and fear, prime yields are falling to an all-time low. Despite increasing financing margins, plummeting interest rates has allowed yields for the best properties to fall. Going forward, we expect logistics yields to continue compressing, and there also might be some room for further compression in office yields too. Regarding the retail segment many analysts expected yields to increase, due to the combination of COVID-19 and an investor sentiment that already was cooling off before the pandemic. However, as parts of the retail segment and shopping centres overall are overperforming, the investor sentiment seems to be improving as well. After being relatively silent for a long

time, we are now also seeing activity in the shopping centre transactions market. Total retail transactions amounted to around NOK 1.6 billion in Q3 2020, which is 8 percent of the preliminary transactions volume for the quarter. The share is up compared to a record low Q2, but nonetheless, the actual volume was down 31 percent YoY.

There has been registered three shopping center transactions in Q3 2020: Magnetten kjøpesenter in Levanger, Bodø Storsenter and a retail portfolio in Drammen. Magnetten is the largest asset and is currently on of the top 50 shopping centers in Norway. Unfortunately, no details about the transactions have been disclosed yet.

Comment on Citycon portfolio

Market rents have predominantly remained stable across the portfolio with minor adjustments in two assets, Linderud and Storbyen, in line with quarterly sales performance and leasing activity. The interest from investors for secondary provincial retail and shopping centre assets seems to be increasing, however, as the second wave of infections is coming closer, we continue to find ourselves in an uncertain market situation. We have not yet obtained detailed information about the Q3 transactions and have for the purpose of this advisory task not changed yields based on the general market situation. However, we have advised on a yield requirement change for 9 assets, mainly due to isolated performance numbers, vacancies etc.

In Copenhagen, Denmark, Oslo, Norway and Riga, Latvia – 26th October 2020



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