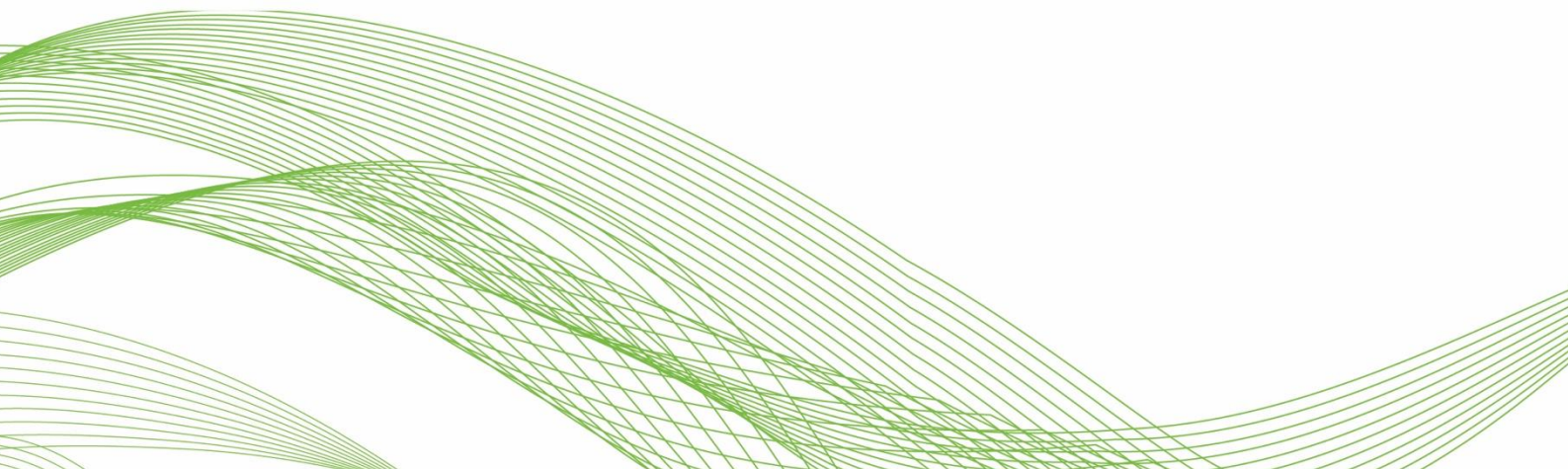




# Valuation Advice on Yields and Market Rents

CITYCON OYJ  
30 SEPTEMBER 2019





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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 2019, 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. On 30 September 2019, we have conducted the development valuation of Lippulaiva in Espoo. No new acquisitions were valued by us this quarter.

## 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 January 2019.

## MARKET OVERVIEW

### FINLAND

#### Retail Occupancy Market

According to preliminary figures, retail sales were up by 4.9% in August and 2.1% in July, compared to a monthly average of 2.1% during the first half of the year. Several sectors performed well in July-August, especially department stores, sportswear, flowers/plants and garden supplies, home electronics, boats and boating equipment and hardware stores. Negative growth was seen in the sale of books, newspapers and paper goods, watches and jewellery and vehicles. Grocery store sales grew by 3.3% in August and 0.2% in July.

Services, entertainment and leisure and café and restaurant sectors are growing sectors in shopping centres, while the fashion segment is struggling the most. Some larger good quality centres, mainly in the HMA, have experienced modest rent growth recently, however for the most part shopping centre rents have remained flat or declined. Rents are expected to decline in many centres in smaller cities, as urbanisation will increasingly benefit the few larger cities at the expense of smaller towns.

Two significant shopping centre openings will take place in the Helsinki Metropolitan Area in October. The larger one is the Tripla Shopping Centre, 85,000 sqm, which is due to open in mid-October. It will have ca. 250 stores over 5 levels and reportedly 96% of the shops are leased when the centre opens. Tripla is co-owned by YIT, Ilmarinen, Conficap and Fennia. The other is the opening of the third stage of Ainoa in Tapiola, which will increase the lettable area from ca. 30,000 sqm to 50,000 sqm. It was reported in May that 80% of the space in the expansion was pre-leased, and the existing centre had a 98% occupancy rate. These new openings are expected to have some negative impact on existing nearby centres.

#### Retail Investment Market

The third quarter was quiet in terms of retail transactions. Retail transaction volume was ca. 62 million, which is the lowest quarterly volume in 6 years. Most of the transactions were other types of retail than shopping centres, and only two small shopping centres were transacted. These were Myllypuro Shopping Centre in Helsinki and Syke in Lahti. Both sold for undisclosed amounts to EVLI and the Hämeenmaa co-operative respectively. The Hämeenmaa co-operative, which is part of the S-Group, is also the anchor tenant in Syke, and they plan to redevelop the centre and to open a Prisma hypermarket to the centre.

The shopping centre prime yield is currently considered to be 4.6%, which is up by 10 basis points from the previous quarter. The adjustment is considered to be warranted in the current investment climate, despite the absence of transactional evidence. We understand that the availability of funding for shopping centres has also deteriorated this year. Investors are especially cautious of centres with a large proportion of fashion tenants, which are generally underperforming.

#### Comment on Citycon portfolio

Market rents in Citycon's assets have generally remained stable since Q2, and were only adjusted slightly up or down in a few centres due to new leasing activity. The largest adjustment was in Columbus, where there was an upward adjustment due to a new lease to Lidl. Assessed yields have also mainly remained stable, however yields were adjusted slightly upwards for two centres, located in both the Helsinki Metropolitan Area and elsewhere in Finland.

## NORWAY

### Retail Occupancy Market

Shopping centre rents in some locations have come under pressure over the last year, primarily driven by weak store sales. While retail sales growth continues to be on a clearly positive trend, the annual growth rate has come down to 0.4% in the period July-August 2019, versus the same period last year, according to Statistics Norway. CPI inflation stands at 1.6% per August 2019, while core inflation (adjusted for tax changes and excluding energy products) stands at 2.1% (Statistics Norway, 2019). The shopping centre turnover index continues to slightly underperform in this backdrop, with an increase of 0.3% in the period from January to August 2019 (compared to the same period in 2018), when adjusted for GLA changes and trading day changes, according to Kvarud Analyse. Because of this, rents at a significant number of the larger shopping centres continue to be under pressure, with significant vacancies in many centres.

### Retail Investment Market

Retail transactions amount to around 14% of the preliminary transactions volume for Q3 2019. For comparison, the retail share was 18.3% for the full year 2018, which is a typical share. The preliminary retail investment volume is estimated to be slightly over NOK 1.6 billion in Q3 2019. The prime shopping centre yield in Q3 2019 is estimated to have remained at 4.50%, after increasing 25 bps in Q2 2019, primarily as a result of the weak investor sentiment in the shopping centre segment. There also continues to be moderate upwards pressure on secondary yields. There has been registered only a few smaller shopping centre transactions in Q3 2019, namely Eiker Senter (c. 10,000 sqm) in Hokksund, and Stokke Senter (c. 8,000 sqm) in Stokke.

### Comment on Citycon portfolio

Market rents have predominantly remained stable across the portfolio with minor adjustments in two shopping centres, in line with recent and historical sales performance and leasing activity. Interest from investors for secondary provincial retail and shopping centres continues to be low, resulting in limited availability of transaction data. Apart from a minor yield increase for Trekanten, the yields remain stable in the Citycon portfolio.

## SWEDEN

### Retail Occupancy Market

The Swedish retail sector is struggling. Even though retail sales growth was 2.5% in 2018, the growth was mainly captured by the e-commerce channels and many physical stores are struggling. The prime rents are still increasing in Stockholm CBD but the ratio between rent and profit for stores is decreasing. Rental levels for big boxes are decreasing and the market is mainly dominated by tenants in the budget sector, putting pressure on rental levels. In shopping centres, many retailers have seen a decrease in turnover, leading to problems in paying a higher rent. Property owners are instead prolonging leases on the same level as before. It is considered that vacancy risk in shopping centres is increasing.

There have been a few new openings in Sweden, mainly in the Stockholm area. In December, the British brand JD Sports will open a new flagship store and Lego will open its second store in Sweden, both in "Gallerian". Other new establishments have been seen in Westfield Mall of Scandinavia. Both Dyson and Sonos (pop-up) have opened up stores and for both of them it is their first store in Sweden. Also, Decathlon will open its first store in a shopping center in Westfield's Mall of Scandinavia in February 2020.

## Retail Investment Market

During Q3 2019 the retail transaction volume ended up at approx. MSEK 1,465 which is down both from Q2 2019 and Q3 2018. Retail represented 3% of the total transaction volume which is less than the average in 2018 of 10%. Four retail transactions have taken place in Gothenburg in Q2-Q3. The largest one is a mixed-use property in the CBD, comprising a large hotel, offices and retail. The second CBD transaction is also in a prime location, with a single tenant on a long lease. Two more big box transactions have been noted, one in Backaplan, an urban development area, and one in the external retail area of Bäckebol. Prices varied between SEK 19,000 per sq. m for big boxes to SEK 122,000 in prime locations.

The prime yield for shopping centres in Sweden in Q3 2019 is 4.25%, which is unchanged from the previous quarter. We continue to see a polarization in the market, where prime assets continue to do well, but other assets face more headwinds, which recent transactions is showing.

## Comment on Citycon portfolio

There is still a hesitation towards retail in the investment market, especially for non-prime assets. The transaction market has not given us any new evidence for a yield change and no changes have been made. Market rents have mainly remained stable and only small adjustments have been made. Generally, the market rents are in line with the previous quarter.

## DENMARK

### Retail Occupancy Market

According to Statistics Denmark, retail sales in August 2019 were 0.8% higher than in August 2018 when corrected for price trends, normal seasonal fluctuations and the effect of trading days. From July to August, the product group "Food and Everyday Commodities" as well as "Other consumer goods" increased in sales, while clothing decreased by 1.1%. When comparing Q2 2019 with Q2 2018 after seasonal adjustments, the retail sale of clothes has remained on the same level, while the retail sales of furniture keeps decreasing. The best performing retail sector was retail sale of flowers, plants and seeds with sales growth of 34% in the lowest turnover month.

Food & Beverage has an increasing role in the retail landscape, especially in high-street areas and in shopping centres. According to estimates from Statistics Denmark concerning the Danish consumption, the average household spent approximately DKK 14,000 on restaurants, cafés, fast food and takeaway in 2017. This is an increase of DKK 2-3,000 in one year. Comparatively households in the Capital Region of Denmark spent slightly below DKK 20,000 on average in 2017 on restaurants, cafés, fast food and takeaway. Consumption is increasing and clearly most prominently in this region compared to the country's average.

Prime net shopping centre rents have been quite stable since Q3 2015 and currently stand at DKK 5,500 per sq m pa. Thus, no changes to the rental level is seen in Q3 2019. Looking forward, we expect vacancy rates to remain unchanged in the best performing centres. Demand and rental levels are also expected to hold at levels previously achieved in the best performing centres, however there will be increases in economic incentives for re-letting. For secondary centres, challenges are expected.



## Retail Investment Market

The end of the fourth quarter 2018 showed a change in investor sentiment. 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. This change in sentiment is also evident in large investors such as Danske Shopping Centre currently increasing investment in renovation and strengthening of the assets to meet the challenges with increased competition from e-commerce and changes in customer behaviours. In September 2019, Danske Shopping Centre further announced they will adjust the rental levels due to the expected increase in vacancy in Danish shopping centres.

This change in sentiment is also evidenced by the sale of two shopping centres in the third quarter – both with the Danish bank, Jyske Bank, as the seller. Park Street Nordicom has acquired the Glostrup Shopping Center for DKK 190 million, with plans to convert the space into residential. Scandinavian Shopping Center Partners was the purchaser of Bytorv Horsens, a 16,600 sq m shopping center in Horsens. The sale price was reported at DKK 199 million and the centre is expected to undergo a refurbishment in the near future. Initial yield or rental level have not been disclosed. Both properties have a large share of vacancy.

The retail property transaction volume in H1 2019 was DKK 1.1 billion, which is a decrease of 60% compared to H1 2018. In 2019 Q2, DKK 517m was transacted, which is a decrease of 69% year on year. As of Q3 2019, the general shopping centre yield is considered to be at 4.75% for prime shopping centres and at 6.50% for good secondary shopping centres, following 25 and 50 bps adjustments in Q3. The forecast trend for both yields is softening.

## 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

### Retail Occupancy Market

The retail sales in Estonia are actively expanding. In Q2 2019, the turnover of retail trade enterprises (excluding motor vehicles) increased by 4.5% year on year at constant prices. Retail turnover increased in most sectors, led by food, beverages, and tobacco sales (16.7%), computers, software, and telecommunications equipment (12.7%), household equipment and recreational goods (8.4) and pharmaceutical and medical products (7.4%).

In Tallinn, shopping centre rents in Q3 2019 have remained stable. New openings and expected additions to the shopping centre stock have increased vacancy but have not affected rent rates. Expansion of Ulemiste as well as opening of the new T1 Mall of Tallinn coincide with strong growth in private consumption, and downward pressure on rents in the largest shopping centres in Tallinn is unlikely to be observed in Q4 2019.

The major shopping centre Porto Franco, which is a mixed-use development, will be delivered in Tallinn next year and will add 32,000 sqm of retail space. Additionally, Tallinn will observe a further increase in retail space at existing locations. Shopping centre Lasnamäe is expanding the retail premises by ca 5,000 sqm. Shopping centre Kristiine will add a few hundred square metres in Q4. In 2020, total retail space in Tallinn should increase by ca. 37,000 sqm.

## Retail Investment Market

Estonia has the lowest prime retail yields of the three Baltic countries, Estonia at 6.25%, compared to 6.75% in Latvia and 6.5% in Lithuania. The shopping centre River Mall (ca. 11.300 sqm) in Kaunas in Lithuania was acquired by the Estonian Eften Capital in Q3 2019. The shopping centre was sold together with the adjoining office campus River Hall for an undisclosed amount, while the yield was standing something around 7.5%. It is likely that by the end of the year or early next year, the market in the Baltic states will observe a few significant retail investments. In Q3 retail was the third most active segment, with around 14% of total transaction volume in the Baltics.

## Comment on Citycon portfolio

Steady performance results and rental income shows the ability of both shopping centres to follow market trends, keeping rental levels stable and in line with the market. Furthermore, the finish of the reconstruction of Kristine by the end of the year should boost the results, which could positively affect the yield. Overall, both shopping centres have maintained competitiveness and constant yields and are considered as prime assets in the Estonian and Baltics real estate market.



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