Valuation Statement

Citycon's properties in Finland and Sweden Q2 2022

06/2022

Executive Summary

At the end of June 2022, Citycon's investment portfolio being valued included 17 investment properties in Finland and Sweden. One of the properties is owned via a joint venture and associated companies (IsoKristiina located in Finland).

14 of these 17 properties are shopping centres, two are residential properties and one is a retail/office property. Lippulaiva apartments are currently under construction and Heikintori, Kassatalo, Asematie 3 and Isomyyri properties are development properties.

The valued portfolio is divided into two geographical areas; Finland and Sweden. Below we present the key figures of the evaluated portfolio. All assets are included the stated value but Asematie 3, Kassatalo, Heikintori and Isomyyri have been left out from other key figures because both have been valued based on development potential. Also, Lippulaiva residential buildings have been left out of all key figures except weighted net yield.

In addition, we have carried out a fair valuation of Kista Galleria locating in Sweden. In Citycon's reporting, Kista Galleria is treated as a joint venture and the shopping centre's fair value is not included in the presented figures.

30 June 2022	Number of properties	Fair Market Value, EUR million	Wght. Average Net Yield Requirement	Wght. Average Initial Yield	Wght. Average Reversionary Yield	Wght. Average Market Rent, EUR/sq.m./ month	Wght. Average Operating Costs EUR/sq.m./ month
Total Property Portfolio in Finland	12	1,697	5.0 %	4.7 %	5.0 %	30.1	6.6
Total Property Portfolio in Sweden	5	646	5.4 %	5.2 %	5.9 %	26.9	6.3
Total	17	2,343	5.1 %	4.8 %	5.2 %	29.2	6.5

Iso Omena is distinctly valuable property compared to the rest of the portfolio, which means that weighted averages are highly influenced by the changes in Iso Omena.

The total fair value of the portfolio in Q2 2022 was approximately €2,343 million.

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1. Instructions

In accordance with our instructions as the External Valuer of Citycon Oyj (“Company”), we have carried out a fair valuation of the properties held within the Company’s investment property portfolio located in Finland and Sweden as at 30 June 2022, to arrive at our opinion of Fair Value.

We understand that this valuation is required for financial reporting and performance measurement purposes.

Fair value is defined by the International Accounting Standards Board (IASB) and IFRS 13 as:

“The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants on the measurement date.”

The International Valuation Standards Board (IVSB) considers that definitions of Fair Value are generally consistent with Market Value and we confirm that the Fair Value reported is effectively the same as our opinion of Market Value.

We confirm that our valuations are fully compliant with IFRS accounting standards and IVSC valuation standards and guidance. We also confirm that we have prepared our valuation as external valuers and that we have no involvement with the subscriber, or the properties valued which is likely to cause a conflict of interest in our provision of this advice.

The Fair Value stated do not include transaction costs, in accordance with normal valuation practice in the market.

2. Scope of Work

We have valued the properties individually and no account has been taken of any discount or premium that may be negotiated in the market if all or part of the portfolio was to be marketed simultaneously, either in lots or as a whole.

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 in Finland and in Sweden between Q4 2019 and Q4 2020. We have also re-inspected part of the properties from Q3 2021 forward, including Lippulaiva shopping centre after the constructions have been completed.

We have not measured the properties' leasable areas but have relied on the information supplied to us by the Company. We have not read copies of the leases or of other related documents but have relied on the tenancy information provided by the Company, which reflects the latest available tenancy position.

We were not instructed to carry out a site survey or environmental assessment nor have we investigated any historical records to establish whether any land or premises are or have been contaminated. Unless we have been provided with information to the contrary, we assume that the Properties neither are, nor are likely to be, affected by land contamination and that there are no ground conditions which would affect its present or future use.

We were not instructed to carry out a structural survey but we have reflected any apparent wants of repair in our opinion of the value as appropriate. The Properties have been valued on the basis of the Properties owner's advice save where we have been specifically advised to the contrary, that no deleterious materials have been used in its construction.

We have assumed that the Properties have been erected and are being occupied and used in accordance with all applicable planning and zoning laws and regulations, consents and permits and that there are no outstanding statutory notices. We assume that the Properties and the buildings comply with all statutory and authority requirements including, but not limited to building, fire and health and safety regulations

Finally, and in accordance with our normal practice we confirm that this report is confidential to the party to whom it is addressed for the specific purpose to which it refers. No responsibility whatsoever is accepted to any third party in relation to this report or the contents thereof. Neither the whole or part of the report, nor any references thereto, may be published or referred to in any document or statement or in any form of media or communicated to any third party without our prior written approval of the form and context in which it will appear.

Please note that the Swedish assets have been valued in SEK. Figures for the Swedish asset presented in Euro in this report has been converted with an exchange rate of 10.7300 SEK/EUR which is the exchange rate according to ECB between Swedish Krona and Euro at 2022-06-30.

3. Market overview

3.1. Market conditions explanatory note: Conflict in Ukraine

On 24 February 2022, Russian forces entered Ukraine and conflict ensued.

At the time this report was drafted the extent of the conflict and its longer-term impact were unknown.

The conflict caused immediate volatility in global stock markets and consequences are anticipated in relation to the cost and availability of energy and natural resources, particularly within Europe. There is a risk that the conflict could escalate and directly involve NATO countries.

Sanctions have been imposed against Russia.

The impact on the property market outside of the immediate area affected by the conflict is as yet unknown and, at this stage, there is no evidence that transaction activity and the sentiment of buyers or sellers has changed. The market can therefore still be described as functioning, albeit still in the aftermath of the COVID-19 crisis.

Accordingly - and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

This explanatory note has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly as the conflict in Ukraine evolves, we highlight the importance of the valuation date.

3.2. ESG impact on valuations

On the back of recent regulations such as the Sustainable Finance Disclosure Regulation (SFDR), EU Taxonomy, EPC requirements and Task Force for Climate Related Disclosures, investors are increasingly integrating ESG into their acquisition criteria. The ESG regulatory environment in Europe has undergone a complete regulatory overhaul with ESG becoming a compulsory part of how all businesses must operate in the EU from 2022. In addition to fundamental societal and regularity shifts, catalysts for driving growth of ESG focused investments include outperformance of ESG assets, corporate commitments, sustainability-linked loans and increasing investor demand.

ESG encompasses many areas including for example:

Environmental	Social	Governance
Energy Carbon (GHG emissions) Waste and resources management Water Management Biodiversity Transport (access to property) Resilience to climate change Etc	Health and security of occupiers Comfort and well-being of occupiers Positive impact on local economy Accessibility (handicap persons) Services available for occupiers Positive social impact Etc	Business ethics ESG strategy in place Relation to stakeholders Internal governance ES compliance of suppliers Etc

As of today, we are currently collecting some ESG information and KPIs on properties being valued in EMEA and we are analysing the transactional market evidence to understand what importance is given to each ESG factor and how they are or were priced by buyers in ongoing or recent transactions. At this stage, there is limited information available to rationalize the exact impact of ESG and its components on market values, as many investors recently finalised their strategy and only started to collect KPIs. Some local and EU regulations are also recent, what does not provide sufficient experience to fully embrace the potential implications and possible solutions to comply with these regulations.

That said, in the current market, reducing GHG emissions, while not sufficient, can be seen as an essential factor in assessing the ESG performance of a property. The EU and UK has committed to net zero carbon by 2050, with legislation already in place or being introduced to reduce GHG emissions from buildings.

The existence of a green premium for the more sustainable buildings is a matter of ongoing market monitoring, investigation and debate. Appropriate levels of market evidence have yet to be established to demonstrate fully whether additional value can be ascribed to such buildings. This investment market monitoring is also to assess where a brown discount is appropriate. As yet in the market we observe the yield gap between prime and more secondary assets to be widening with secondary assets often by definition to have lower EPC ratings.

Finally, we consider that it is likely that further legislation and regulation will be introduced in coming years. Alongside this, occupiers and investors in some sectors are becoming more attentive to the sustainability aspects of the buildings they choose to occupy or purchase. However, it should be noted that the market is evolving rapidly due to the focus from both occupiers and investors on a property's sustainability credentials. We expect that awareness of sustainability matters will increase throughout all sectors of the property market.

3.3. European market overview

The war in Ukraine has increased inflation and general uncertainty. The long-term effects are still unknown.

The war in Ukraine and the sanctions that have been set have had an immediate impact on the European economic environment. Forecasts for 2022 GDPs in Europe are now being revised down incrementally as the war's impact is being felt and consumer confidence across Europe has fallen sharply. The labour costs have increased, and labour availability has become more difficult as travelling between Russia and Ukraine and the rest of Europe has become difficult. Material costs are on the rise, and for example, energy and commodity prices have increased. Energy is the primary channel of economy impact, and changes in energy prices especially will have an effect on inflation. Much like during the corona pandemic, the supply chains are again disrupted as the transport costs and input shortages have increased and the movement between the areas is difficult or completely broken.

This all has raised risks and an uncertain outlook. Different sectors are doing re-prioritization again, although the changes brought by the corona have not yet been fully reviewed.

The impact on the real estate market is also visible although the extent of the effects is still uncertain. Investment flows within and into Europe may be affected and different amounts to different countries. Higher base rates and higher bond yields are likely to push up funding costs and it is possible, that higher bond yields and a perception of higher risk will push up discount rates. A sustained impact on leasing volumes is unlikely, while the market however faces short-term disruption and uncertainty. The rents are also affected, as CPI indexation is included in many of the lease agreements. This however varies across sectors and countries. The construction of new supply will at least delay due to higher material and labour costs and supply chain disruptions. Overall, the economic situation and the real estate market are uncertain and could change very quickly.

3.4. Finland

3.4.1. Economy

The cause of uncertainty changed from the pandemic to Russia's invasion of Ukraine and running inflation

Towards the end of 2021, the focus on economic news started to transition away from the COVID-19 pandemic towards more standard economic news. The effects of the pandemic have significantly reduced due to vaccinations, the prevalence of less severe variants, and better procedures. It should be noted, however, that globally only around 2/3 of the population have received at least one COVID vaccination. This means the disease still poses a threat despite its current status. The two years of the pandemic have developed the resilience of logistics networks. Additionally, the capabilities and procedures of the states and healthcare systems have improved for similar threats.

Consumer price inflation has accelerated quickly, especially in the United States but also in Europe and emerging economies. Inflation has been the focal topic at the beginning of 2022. The reasons for rapid inflation rates include factors from both the demand and supply sides. Firstly, consumers are now spending the surplus savings that have been accumulated during the COVID-19 pandemic. Secondly, the disruptions in international trading, labour shortages, and the shortage of components create pressure on consumer prices. Logistics chains are especially disturbed in mainland China, where the government's zero-covid approach is still leading to large-scale restrictions on movement and work. The US FED has raised the interest rates by mid-May to 0.75–1.00% and further increases are expected during 2022. Interest rate increases are expected in Europe during the second half of 2022, though rate increases are expected slower and smaller than in the US.

At the end of February 2022, the world economy was shocked by Russia's invasion of Ukraine. The attack has led to several economic sanctions against Russia. The extent and force of the sanctions are unparalleled, but their effects and longevity are open questions still today. Three months since the start of the invasion, the economic effects outside the conflicted countries have been faint, though energy prices have increased notably across the continent. However, the geopolitical situation in Europe is extremely tense.

Finnish Economy

Finland has thus far survived with relatively small damages from the pandemic. Due to this, the economic recovery is also smaller than in other eurozone countries. The growth expectations haven't changed significantly during the last years and Finland's economy is expected to remain on a steady growth track.

The biggest uncertainties regarding the economic development are now geopolitical. Should the Russia-Ukraine war remain geographically local with no direct involvement from other parties, the effects on other European economies are likely to be limited to weaker economic growth. This and the economic costs of sanctions are likely to be felt in the letting market. Additionally, the property sector is likely to quickly feel the increase in energy prices due to changes in energy imports from Russia due to the conflict. The effects on a firm level may be significant depending on the exposure to Russian dependency. Despite this, on the whole, the Finnish economy is expected to experience only relatively minor effects.

According to Statistics Finland, the unemployment rate was 7.9 percent in May 2022, compared with 10.3 percent one year earlier. At the same time, the employment rate, that is, the share of the employed population aged 15-64, increased from 74.7% a year ago, to 73.0%. According to the Ministry of Finance's economic review of Spring 2022, the forecast for the unemployment rate for 2022 is 7.2%, 6.8% for 2023, and 6.6% for the year 2024.

The year-on-year change in consumer prices calculated by Statistics Finland was 7.0 percent in May, compared to 5.7 percent in April and 2.2 percent in May 2021. Consumer prices were raised most in May by increases in the prices of electricity, fuels and capital repair on detached houses from one year ago. The rising of consumer prices from one year back was curbed most by reductions in the prices of children's daycare, the average interest rate on housing loans, and regular ferry service. According to the Ministry of Finance, the national consumer price index is expected to increase by 5.8 percent in 2022, 2.7 percent in 2023, and 1.9 percent in 2024.

3.4.2. Retail Occupancy Market

Inflation and consumer sentiment limiting the rental growth

At the beginning of 2022 activity in the shopping centre leasing market has been in a good level despite the difficult and uncertain times due to the Covid-19 pandemic. There are no signs yet that the war in Ukraine has had a significant effect on the leasing market; The leasing negotiations between tenants and landlords are still long and difficult. Tenants have many options to choose from, and they are not shy when negotiating rents and incentives. Incentives have become more and more common in lease negotiations. Landlords are more often investing in tenant fit out costs in order to succeed in the negotiations and in order to reach wanted headline rent levels.

When in the office market tenants have been able to reduce the size of their premises and are capable to pay even record-high rents this has not been the case in the retail market. As the costs are increasing and consumer confidence has dropped, the tenants are more careful in general when it comes to making decisions. The trend in rent levels has been downwards, especially among fashion retailers which have been the trend already before the Covid-19 in some subsectors. In addition, the largest over 1,000 sqm tenants are well aware of their negotiation power and can to some extent dictate their terms while landlords' position is to agree. F&B players are still relatively active.

If there are challenges in achieving the historical/recent rent levels, there are also challenges in achieving historical lease lengths. It is very difficult to negotiate a longer than 3-year lease. In case longer, a break option is often required from the tenants' side or gained incentives are exceptionally high. Tenants may also require special conditions for exceptional future circumstances. Restaurant chains, however, are exception, and may be willing to make even 10-year long leases.

Especially in Helsinki the shopping centre market is highly competitive. This has led to lowering occupancy rates in some locations. However, this is not the case in every centre and the best performing centres are almost on full occupancy. Closer to Helsinki city centre the leasing situation is a lot more challenging.

Some international occupiers are scanning the market and we have seen a couple of new opening/published market entrants in the market including Rituals, which will open four concept stores in Helsinki Metropolitan Area in Fall 2022.

Because of the current uncertain climate and changing consumption habits, the retail occupancy market is facing difficult years, at least in secondary locations and centres. E-commerce is taking a growing share of multiple retail sectors and consumer habits are changing towards more sustainable consumption. In the F&B sector, the increased interest in home delivery services might effect on quality and quantity of space needs of tenants. According to Statistics Finland's retail trade flash estimate, the working day adjusted turnover of retail trade increased by 3.2 per cent in February 2022 from February 2021. The volume of retail trade sales, from which the impact of price changes has been eliminated, decreased by 2.0 per cent over the same period. In daily consumer goods trade, the working day adjusted turnover increased by 3.4 per cent in February. The sales volume, however, decreased by 1.4 per cent from the corresponding period of the previous year.

One of the most discussed topics on the occupier market is opening hours. More flexible opening hours have allowed many companies to survive through difficult times. This will be a very critical issue when attracting new tenants and especially small companies that create needed diversity in the shopping centres. Another trend challenging the retail market is the lack of employees in some sectors, especially in F&B.

ESG is one of the key trends shaping retail market. As retailers typically trade in physical products, there can be a great deal of emissions embodied in upstream and downstream activities such as manufacturing, transport and distribution, waste generated in operations and end-of-life treatment of sold products. For a retailer, it can be more efficient to focus on these areas as a greater proportion of their carbon footprint can come from these activities as opposed to their physical retailing unit. This can result in a perceived level of apathy from occupiers towards landlords when it comes to paying a premium for sustainable space. However, green buildings are already requested by many tenants, and only being energy efficient does not form a competitive advantage for long. Instead, sustainable consumption and second-hand retail might open up new possibilities, especially in busy locations.

3.4.3. Retail Investment Market

Positive sentiment threatened by increased interest rates

In the second half of the 2021 the real estate market gradually picked up activity and finished with a strong second half of the year. The total transaction volume in the second half of 2021 amounted to €4.2 billion, a remarkable 145 percent increase from €1.7 billion in the second half of 2020.

Russia's invasion to Ukraine has thus far had limited effects on the real estate investment market in Finland. In the big picture, transaction activity has remained at a healthy level, but the increasing inflation and interest rates have presented signs of market cooling down. Globally Finland's position in the eyes of investors has mainly remained unchanged. In ongoing transaction processes only in a few cases, the bidders have come to second thoughts because of the war and the number of active market players and the competition between the best assets has led to record price levels on many fronts.

From investment demand perspective retail market is not one homogeneous market but several different sub sectors. Properties with heavy grocery weight and retail warehouses are facing more demand while traditional shopping centre market and high street retail are still facing more moderate investor appetite and the views of counterparts are far from each other in relation to sustainable rent levels. Rising inflation is increasing uncertainty in the market and the cost of financing and its availability also hinder transactions. However, the most pessimistic views for retail did not materialize during the pandemic, and severe competition for investments in other property sectors seems to help the retail sector to be seriously considered by investors again.

During the 2021 the market saw few shopping centre deals after over year of quiet period. Citycon sold local shopping centre Columbus at €106.2 million to NREP in Q4 2021. Other transactions included United Bankers' purchase of Ideapark in Oulu with around €60 million euros from Alma Property Partners and eQ's purchase of shopping centre Entresse from Barings. The most notable transactions in the sector included also Cibus' purchase of 72 secondary grocery stores across the country at around 72 million euros. Year 2022 started with a major transaction when Stockmann sold its crown jewel, Helsinki department store to Keva with 400 million euros in Q1 2022.

The estimated prime yield for shopping centres stands at 5.2% which has remained stable since Q2 2020, but there is slight pressure upwards. Prime yield has increased by 70bps from mid-2018. The prime yield for retail warehouse parks is at 5.70% and unit shops at 3.95%.

In Finnish real estate market ESG questions become more and more important and for reason: in all real estate sectors as the built environment accounts for approximately 40% of all carbon emissions. Retail is one of the real estate sectors facing the biggest challenges on carbon emissions as activity density linked to asset performance is high; although efforts to reduce carbon emissions have been high in this sector and results are beginning to become visible. Therefore, retail real estate has some of the greatest risks and opportunities, with some estimates showing emissions need to reduce by 95% from current levels. In case a property doesn't meet the ESG requirement of investors it might face limited demand and difficulties in financing.

In other sectors, the demand in the residential sector has remained strong and it became the largest sector with office sector during 2021 in transaction volume. Residential and office sectors each had a share of slightly over 30% of 2021 volume. The most notable transactions in the residential sector during the ongoing year have been CapMan's purchase of a 29-property portfolio in the Helsinki metropolitan area (HMA) for ca. 500 million euros, the Sirius Capital's purchase of a 13-property portfolio for 170 million euros, Patrizia's purchase of a 9-property residential portfolio in the HMA for ca. 144 million euros and Kojamo's purchase of 942 newish apartments locating in HMA, Turku and Jyväskylä.

In office sector investors are showing demand especially towards properties with defensive attributes, such as good locations and long lease agreements. The office prime yield has returned to the pre-pandemic level of 3.2%. The most notable transactions in the office sector during 2021 have been Castellum's purchase of 22 properties for ca. 640 million euros in multiple cities, Nyfosa's purchase of 9 office properties in Jyväskylä for ca. 208 million euros and LCN Capital Partners' investment of around 180 million euros to Nokia's new campus in Oulu. In 2022 one of the main transactions were Union Investment's purchase of F-Secure & With Secure HQ in Jätkäsaari Wood City for ca. 58 million euros.

Logistics sector exhibits perhaps the best the discrepancy between demand and supply. The larger demand is causing the prime yield to further decrease. Logistics prime yield is currently at 4.15%, which is a new record low. The most notable transactions during the ongoing year have been Baring's purchase of Onninen logistics centre in Hyvinkää for ca. 86 million euros, AXA's purchase of portfolio of logistics assets spread across Norway, Sweden, Denmark and Finland and Sagax's purchase of HKScan production and logistics facility in Vantaa in sale-and-leaseback process in Vantaa for ca. 77 million euros.

Comment on Citycon's properties

The pandemic had a major impact on retail, and especially fashion retailers suffered from customer loss. In the near future the online market growth will take its share from physical market, and most likely the physical market for fashion retail will not recover to pre-pandemic levels.

The most defensive assets in the current situation have been the ones with the most tenants providing services and products for everyday needs, such as grocery stores and pharmacies, while the future of the fashion sector is still uncertain. In Citycon's portfolio in Finland especially Myyrmanni and Lippulaiva are more grocery emphasized shopping centres and recent decrease of commuting has clearly favoured these locations close to people's homes. Other growing sector that has located to shopping centres in recent years more heavily are public services and those are seen very positively by the investment market currently providing stability and predictable footfall to centres to also support the success of traditional retailers.

The assets with a high emphasis on grocery and other shops suited for everyday needs have better investment demand than centres with a relatively high portion of cash flow coming from other, more traditional sectors. In addition to Myyrmanni, which is becoming a very secure asset with two new grocery tenants, Lippulaiva is the other more local and grocery emphasized centre within Citycon portfolio. In addition, Lippulaiva has a high ESG performance, which increases its attractiveness among investors.

While the accelerating inflation and increasing interest rates has slowed down the investment eagerness, in large-ticket properties, the wall of money originating from international funds and investors is still looking for investment opportunities and growingly also in the retail sector and opportunities for joint venture transactions have been enhanced. In shopping centres, the management capabilities and existing relationships with occupiers are highly valued and thus the joint venture deal would be most likely transaction form in the largest properties; from Citycon's portfolio, this kind of centre is especially Iso Omena.

3.5. Sweden

3.5.1. Economy

Expectations of a strong recovery are dampened due to inflation and interest rate concerns

Following a strong recovery and expected strong growth in 2022 the Swedish economy has had a weak start to 2022 due to impact from the Omnicron covid variant affecting the economy in the first quarter. GDP contracted by 0.8% q/q in Q1 (SCB). Monthly indicators point to a weak start to Q2 as well, with GDP contracting 0.2% m/m in April. Manufacturing and construction were down 0.4% and 1.4% m/m, respectively, while services were up by 1.3% m/m, reflecting post-Covid tailwinds. Household consumption confidence levels has decreased fast in 2022 and are currently at very low levels. In addition, household inflation expectations are at a record high (SCB).

As such, many economic forecasters are lowering the growth outlook for Swedish GDP for 2022. Oxford Economics revised their forecast from 2.6% growth to 2.1% in June. The main headwind is high inflation, which is eroding real incomes and private consumption while prompting an accelerated tightening of monetary policy. Despite Sweden having low direct exposure to Russia and Ukraine Sweden will be hit by lower growth in Europe, supply bottlenecks and high energy prices.

Higher inflation will have a negative impact on households' disposable income, dampening private consumption and accelerate tightening monetary policy leading to higher interest rates and funding costs in general. Inflation hit 7.2% y/y in May 2022, a record high level and the Swedish Riksbank has made a 25 bps hike in early Q2 2022 opening for more hikes during the year in June, September and possibly November. Many economic forecasters expected a 50 bps rate hike in June, which Riksbanken confirmed on the 30th of June. Oxford economics forecasts a policy rate at 1.5% at the end of 2022. In terms of inflation Oxford economics raised their forecasts to 5.3% for 2022.

Sweden has good fiscal space, with a debt-to-GDP ratio among the lowest in the EU at 35%. The fiscal stance should offer support to the economy. Joining NATO could boost Sweden's defence industry.

3.5.2. Retail Occupancy Market

Challenging leasing market in some markets as polarisation is high

During the course of the pandemic consumers have shopped online, car-borne and close to homes. The effect was clearly seen in larger shopping centres and city locations with large decreases in footfall and sales figures. Meanwhile, convenience, grocery anchored retail and the DIY segment have faired significantly better, in some cases even seeing an increase in sales.

In Sweden the majority of restrictions were lifted at the start of Q4 2021 and a clear demand for physical retail destinations and close-contact services have been seen with increasing footfall and sale figures for retail in general but high street locations and shopping centres in particular, in some cases back to pre-pandemic levels. A trend that has been visible in the first half of 2022.

Total retail sales growth in Sweden amounted to 6.1% in 2021 (3.5% in 2020), but polarization within the retail segment is currently large. Approximately 45 % of this increase is reported to come from growth in e-commerce. Following the record year for e-commerce growth in Sweden, 2021 was still a successful year in which growth was reported by Postnord at 20% year on year (40% growth in 2020). In 2021 e-commerce accounted for SEK 146 billion, approximately 16%.

While online sales continues to see strong growth, many markets are expected to see solid growth in physical retail sales over the next four years. This offers opportunities for solid growth for well-connected and repositioned retail assets. However, tenants in certain segments and with dated concepts are facing difficulties and only staying open as of government support measures during 2020/2021. There is a heightened risk of increasing numbers of bankruptcies in 2022 as support measures are winded down combined with high inflation, energy prices and interest rates.

Following inflation commercial real estate rents are likely to rise due to CPI indexation in the short term. However, higher inflation will most likely have impact on consumer spending and savings which in turn will put pressure on retail sales and retailers who also have been hit with higher short term rent increases and additional higher costs. Uncertainty in this regard has increased following Russia's invasion of Ukraine, together with increasing energy prices and interest rates. Central banks of the world are currently increasing policy rates to prevent inflation spiralling whilst trying to prevent recession.

The overall situation on the letting market has been putting downwards pressure on terms and rents in shopping centres during 2021 and for the start of 2022. The pandemic was characterised by prolonged/paused lease negotiations whilst lease deals have required shorter lease terms, higher proportion turnover-based rents, incentives, and an element of tenant fit outs. However, polarisation is high, with some shopping centres performing well with low vacancies and stable rents. These are often characterised with a strong convenience offer, adapted F&B offering and a strong grocery offering. There are no signs yet that the post-pandemic tailwinds have had significant effect on the leasing market, but uncertainty remains high regarding the long-term impacts of the war in Ukraine, inflation, interest rates and increasing energy prices as well as the continuous impact of the accelerated retail trends.

3.5.3. Retail Investment Market

Recent positive sentiment towards the segment is challenged by post-pandemic tailwinds

The Nordic equity markets, bond markets and real estate markets rebounded during 2021, strengthened by the economic recovery and continued attractive interest rates together with good opportunities to borrow at low costs through the banking system. However, following growing inflation and interest rates, together with the impacts of Russias war on Ukraine the above-mentioned rebound has turned negative in the second quarter of 2022 as policy rates have been increased and expected to continue to increase and subsequent cost of financing are following.

Total real estate investment volumes in Sweden broke new records in 2021. Our estimation on full-year investment volumes for 2021 totalled SEK 361 billion, which is a record-breaking level, by far. The investment volume 2021 is 84% higher than the volume in 2020 and 64% higher than the previous record level from 2019. The investment market in 2021 has been characterised by M&A deals, which has been a strong driver for the new record volume, contributing with 50% of the volume in 2021.

Retail was one of the sectors most severely hit by the effects of COVID-19 and the segment continues to recover gradually. Investor appetite has been growing during 2021 with many shopping centres around the Stockholm region changing hands over the year but the segment is still coupled with cautious requirements. The ongoing challenges of increasing e-commerce, accelerating retail trends and the disruption caused by the ongoing war and the pandemic as well as continued tightened financing conditions and inflation, particularly for riskier assets, is putting pressure on physical retail properties, retailers and consumers.

However, there are large differences amongst performance of different retail segments and assets. At the start of the year investor demand was pivoting towards grocery real estate, retail warehouse, prime high street assets and depending on the market, shopping centres with redevelopment potential or a strong convenience offer. Asset management, repositioning and repurposing of shopping centre space continues to attract investor interest. Cost inflation, increased labour, transportation and manufacturing costs combined with probably tightening of consumer spending have become areas for concern.

Overall, retail investment volumes in Sweden are to date estimated to amount to SEK 3.5 billion in Q2 2022. The largest transaction was NREP's acquisition of Vällingby Centrum in Stockholm from Svenska Bostäder for SEK 1,680 million. In addition, it was reported that Gottsunda Centrum in Uppsala was acquired by Hemmaplan for SEK 515 million and Sisjö Centrum was acquired by Trappan for SEK 800 million. Svenska Handelsfastigheter is reported to acquire a portfolio of 7 ICA assets for SEK 160 million. Doxa acquired external retail in Malmö for SEK 144 million and Arwidsro is reported to acquired a supermarket property in Norrtälje for SEK 104 million.

At the start of 2022 retail yield levels were estimated to have stabilized linked to transactions during 2021 following a stronger investment sentiment towards retail with more resilient tenants in late 2021. Main interest is towards grocery anchored retail, DIY and well performing shopping centres with development potential. Per Q1 2022, Swedish Prime shopping centre yields are estimated at 4.90 per cent and prime retail warehouse yields at 5.15 per cent. The positive sentiment at the start of the year towards the segment is challenged by post-pandemic tailwinds as inflation and interest rates have been increasing significantly in Q2 2022. Late in Q2 2022 there are strong indications of a slowing investor market, mainly due to the increased funding costs, although there is so far very little transactional evidence indicating a shift in market values.

Comment on Citycon's properties

Most of the shopping centres have had recovery in footfall and sales figures in H1 2022 as majority of restrictions were removed. The challenges for physical retail remain and currently there is a differentiation in occupancy levels amongst the assets in the Swedish portfolio with Liljeholmen and Mölndal leading the way forward with good leasing performance. Increasing inflation, interest rates and cost of funding is likely to cool down the Swedish investment market in general in H2 2022, from record levels in 2021. Stenungs Torg development plans are progressing as conversion to residential use is starting to concretise. Kista is currently repositioning and taking actions to further strengthening their convenience offer.

4. Valuation rationale

We have adopted a 10-year cash flow as the main valuation method. The model was provided by the Company. Cash flows are calculated based on information from existing lease agreements. For the period after the expiry of these agreements, our market evaluation of the estimated rental value (ERV) replaces the contract rent.

Contract Income/Market for Vacancies equals leased space with respect to contract rents and vacant space with respect to ERV. Deducting both the ERV for the void period between the expired contract and assumed new contract, and the assumed general vacancy level after the start of the assumed new lease, results in the Rental Income. Rental Income less operating expenses (including repairs) equals the Net Operating Income (NOI). NOI less any capital expenditure, investments and tenant improvements equals the Net Income that has been discounted to reach the income stream's present value.

The Terminal Value at the end of the 10-year cash flow period is calculated by using the exit yield to capitalise the 11th year Net Income. The value of the property is calculated as the sum of the annually discounted Net Income stream, the discounted Terminal Value at the end of the calculation period and any other assets increasing the value (e.g. unused usable building right).

There is currently one development project included in the valued portfolio; Lippulaiva located in Espoo, Finland. Development projects are included in the valuation of the portfolio in line with information received from the Company. Adopting the applied valuation model, future rental income is based on finalised rental agreements and rental projections for the valued development project. Correspondingly, the development period is considered as a period when premises generate no income or limited income and when uncommitted investments are included in the cost side as a value reducing factor. Thus, the value of a development project increases automatically when investments are committed and the opening day of the centre approaches.

Below is definition (according to IVSC glossary) and formula used to calculate some of the key figures reported in this valuation:

Weighted average yield requirement

"Yield – the return on an investment. Usually expressed annually as a percentage based on an investment's cost, its current market value or its face (par) value. Often used with a qualifying word or phrase."

In case of this valuation the weighted average yield requirement is weighted with the value of the property and the formula used is presented below.

$$= \frac{(\text{Value of property 1 x Yield requirement of property 1 + Value of property 2 x Yield requirement of property 2 …})}{(\text{Value of property 1 + Value of property 2 …})}$$

Initial yield

"The initial income from an investment divided by the price paid for the investment expressed as a percentage."

The formula used is presented below.

$$= \frac{(\text{Annualised current rents – operating expenses})}{(\text{Market value – estimated value of building right})}$$

Reversionary yield

"The anticipated yield from an Investment Property once the Reversionary Value is attained."

"Reversionary Value – The estimated value of an investment property at the end of a period during which the rental income is either above or below the market rent."

The formula used is presented below.

$$= \frac{(\text{Annualised market rents – operating expenses})}{(\text{Market value – estimated value of building right})}$$

5. Valuation

At the end of June 2022, Citycon's investment portfolio being valued included 17 investment properties in Finland and Sweden. One of the properties is owned via a joint venture and associated companies (IsoKristiina located in Finland).

14 of these 17 properties are shopping centres, two are residential properties and one is a retail/office property. Lippulaiva apartments are currently under construction and Heikintori, Kassatalo, Asematie 3 and Isomyyri properties are development properties.

The valued portfolio is divided into two geographical areas; Finland and Sweden. Below we present the key figures of the evaluated portfolio. Asematie 3, Heikintori and Lippulaiva residential buildings are included the stated value but Asematie 3, Kassatalo, Heikintori and Isomyyri have been left out from other key figures because both have been valued based on development potential. Also, Lippulaiva residential buildings have been left out of all key figures except weighted net yield.

In addition, we have carried out a fair valuation of Kista Galleria locating in Sweden. In Citycon's reporting, Kista Galleria is treated as a joint venture and the shopping centre's fair value is not included in the presented figures.

30 June 2022	Number of properties	Fair Market Value, EUR million	Wght. Average Net Yield Requirement	Wght. Average Initial Yield	Wght. Average Reversionary Yield	Wght. Average Market Rent, EUR/sq.m./ month	Wght. Average Operating Costs EUR/sq.m./ month
Total Property Portfolio in Finland	12	1,697	5.0 %	4.6 %	5.0 %	30.1	6.6
Helsinki Metropolitan Area	8	1,399	4.7 %	4.4 %	4.5 %	32.0	7.1
Other parts of Finland	4	296	6.4 %	5.7 %	7.1 %	21.5	5.6
Total Property Portfolio in Sweden	5	646	5.4 %	5.2 %	5.9 %	26.9	6.3
Greater Stockholm Area	3	476	5.2 %	4.9 %	5.4 %	29.0	7.0
Other parts of Sweden	2	169	6.0 %	5.7 %	7.1 %	21.2	5.0
Total Property Portfolio	17	2,343	5.1 %	4.8 %	5.2 %	29.2	6.5

Iso Omena is distinctly valuable property compared to the rest of the portfolio, which means that weighted averages are highly influenced by the changes in Iso Omena (located in Finland).

The total fair value of the portfolio in Q2 2022 was approximately €2,343 million.

Market rent changes' and yield movement's impact to the market value

When excluding Lippulaiva (shopping centre and residential buildings) and other four development properties (Kassatalo, Asematie 3, Heikintori and Isomyyri), market rents increased and resulted impact of €2.9 million to the value. Adjustments to the exit yields increased the value by ca. €9.9 million.

Properties in Finland

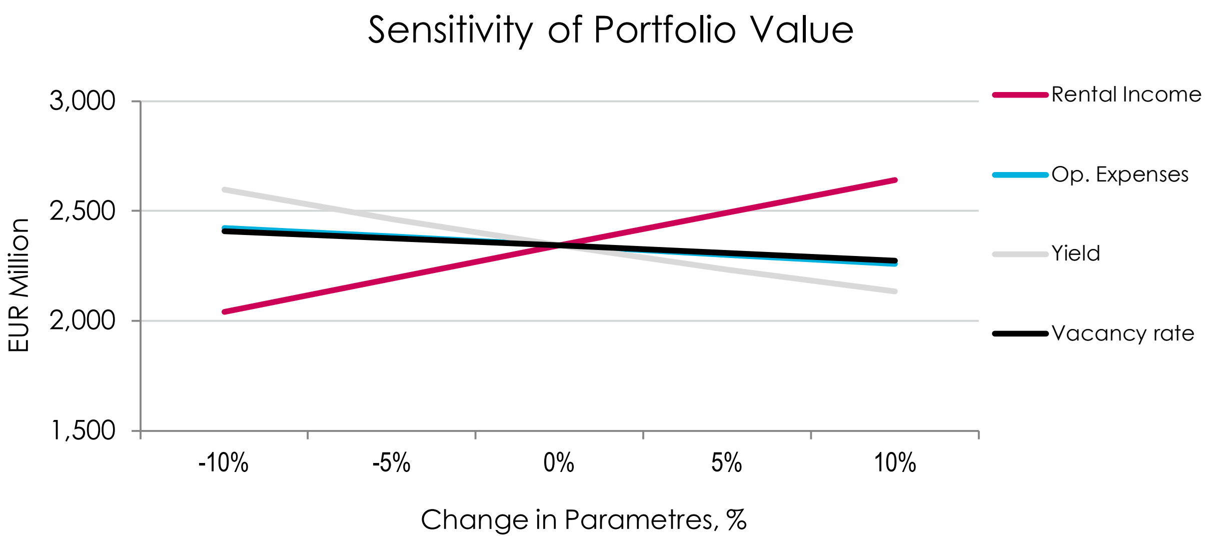
The fair value of the Finnish portfolio is €1,697 million and it increased by 2.1% from Q1 2022. When excluding Lippulaiva shopping centre and residential buildings, the fair value has increased by 0.8%. Compared to the previous quarter, the weighted average yield requirement has decreased by 3bps being 4.95%, and the weighted average exit decreased by 4bps being 4.82%. Value of the Finnish portfolio is driven upwards, especially by committed investments and a positive view of opened Lippulaiva shopping centre.

Properties in Sweden

The fair value of the Swedish portfolio is estimated at SEK 6,927 million, excluding Kista Galleria. With the exchange rate of 10.7300 SEK/EUR the portfolio has the value of €646 million. Compared to the value at Q1 2022, the portfolio's value has increased by 1.1% (excluding Kista). Compared to the previous quarter, the weighted average exit yield is unchanged at 5.18% (excluding Kista).

Sensitivity Analysis

A sensitivity analysis of the portfolio's fair value was carried out by creating a summary cash flow based on individual cash flow calculations. Changes in fair value were tested by modifying the key input parameters of the calculations. The parameters tested were yield requirement, estimated rental value and operating expenses. The current fair value of the properties was used as a starting point for the analysis, which was performed by changing one parameter at a time and then calculating the corresponding fair value of the total portfolio. The sensitivity analysis is a simplified model intended to support the understanding of the value effect of different parameters on the valuation. The figure below represents the results of the analysis.



As seen in the figure above, the value of the portfolio is most sensitive to the changes in estimated rental value and yield requirement. A 10 % increase in estimated rental value leads to change of around 13 % in value, while a 10 % fall in the yield requirement causes an increase of around 11 % in value. Changes in expenses have a more modest effect on the value than the other parameters.

In Helsinki 5th July 2022

Yours faithfully

Mikko Kuusela
Director
For and on behalf of
Jones Lang LaSalle Finland Oy

Simo Hännikäinen
Senior Associate
For and on behalf of
Jones Lang LaSalle Finland Oy

In Stockholm 5th July 2022

Yours faithfully

Patrik Löfvenberg
Head of Valuation Sweden
For and on behalf of
JLL Valuation AB Sweden

Tomas Shaw
Director
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In London 5th July 2022

Yours faithfully

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