Valuation *Advisory*

Citycon Oyj

Opinion on yield requirements and market rents

31 March 2017

Scope of Instructions

In accordance with our instructions as the External Valuer of Citycon Oyj ("Company"), we have provided Citycon an opinion of yield requirements and market rents for Citycon's internal property valuations as at 31 March 2017.

We understand that the opinion on yield requirements and market rents is required for financial reporting and performance measurement purposes.

We confirm that we have prepared our opinion on yield requirements and market rents 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.

We carried out inspections of each of the properties during September–December 2011 when the property portfolio was evaluated by us for the first time. Properties added to the portfolio after the initial valuation have been inspected when added to the portfolio.

We have relied on the rent roll 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.

The opinion on yield requirements and market rents were carried out by local JLL offices in Finland and Sweden. In Norway, Estonia and Denmark we were supported in the delivery of our advice by local affiliates.

This report is addressed to and may be relied upon by the Company. It has no other purpose and should not be relied on by any other person or entity. No responsibility whatsoever is accepted on the part of any third party, other than those specified above and neither the whole of the Report, nor any part, nor references thereto, may be published in any document, statement or circular, nor in any communication with such third parties, without our prior written approval of the form and context in which it will appear.

Market overview

Finland

Prime shopping centre rents stayed unchanged quarter–on–quarter and decreased ca. 3% year–on–year. Slightly more positive outlook for retail sales is forecasted but has not at least yet realised as rental growth and occupiers remain cautious. Few new occupiers have entered the market during the past year but this has been seen almost exclusively in Helsinki city centre or shopping centres in Helsinki metropolitan area. Most recent challenge will be large units left vacant after Anttila as the number of potential occupiers is limited and the some of the remaining are in challenging situation (e.g. Hong Kong's debt restructuring and Erätukku's bankruptcy). On the positive side the restaurant occupiers are active but overall polarisation on the market between strong and weak locations and centres is increasingly evident. Prime shopping centre rents are forecasted to remain stable or increase slightly in 2017.

In Q1 2017 the retail transaction volume increased compared to previous quarter but decreased significantly year-on-year. The total volume of retail transactions in 2016 was higher than in 2015. Most of the transactions were focused on big boxes and supermarkets but there was one mention worthy transaction. Barings sold 50% of shopping centre Kamppi located in Helsinki city centre to TH Real Estate. No details were announced of the deal but value of the whole centre was mentioned to be over 500 millions in the press release. Overall, the demand for core assets remains strong, as equity rich investors keep looking for safe havens. However, an increase in investment demand outside prime properties has also been evident, brought on mainly by new funds and returning international investors. Prime shopping centre yields continued to move in being now at 4.50%.

In most of the properties the market rents have stayed unchanged but there is downward pressure in weaker locations outside Helsinki metropolitan area (HMA) and in some smaller local centres inside HMA due to challenging letting market. In two properties yield has been revised up and in two down due to market situation or changes in the property.

Norway

The prime rent for shopping centres is unchanged at NOK 13,500/sq.m/year, and is expected to remain so going forward. The attractivness and demand for prime areas in prime shopping centers is still good.

We expect 2017 volumes to be in line with 2016 at around NOK 70 billion. As of February, activity remains strong with many investors from different segments. The banks' lending practices appear to remain unchanged, and the bond market is present for the largest deals. Furthermore, financing through life insurance companies is an unexplored and untapped source of financing that may prove attractive and more present in the market moving forward. The foreign presence is also expected to continue. With the prime yield estimate currently at 3.75%, we expect to see upward pressure more than downward pressure through the year. This is mainly based on the movements in interest rates and bank margins, which increased through 2016, leading loan-financed investors to see the yield spread reduced substantially.

Following Norwegian practice, the market rents equal the contracted rents (plus any turnover rent). The yields for the smaller, regional shopping centres have been revised up due to market situation and recent transactions. Several SC investors are focusing more on centrally located properties, while divesting regional properties (portfolio optimalisation). This limits the number of potential buyers, reflected in a lower price/higher yields. In addition to this, increasing interest rates and lending margins are also contributing to an upward pressure on the yields.

Sweden

Swedish prime shopping centre rents increased marginally over the quarter. During 2017, retails sales are forecasted to increase by 3%, which continues several years of healthy retail sales growth in Sweden. Turnover by restaurants has been even more impressive and increased by around 7% in 2016. There have been a few new retailers to the Swedish retail market over the last year including Mac Cosmetics, Céline, Lett and NN07, with initial store openings tending to be in central Stockholm or at prime shopping centres.

In Q1 2017, the retail property transaction volume was close to SEK 7 billion which was just above the SEK 6.5 billion transacted in Q4 2016. The sale of Bromma Blocks which comprised 57,000 sq. m of shopping centre and retail box units in north-west Stockholm was the largest retail deal in Q1 2017, sold at a price of SEK 2.2 billion. Demand for retail assets remains strong, shown by the very high recent transaction volumes. While the majority of retail transactions in Q1 2017 have had Swedish purchasers, the two largest transactions i.e. Bromma Blocks and 4 shopping centres next to IKEA stores were sold to the international investors, CBRE GI and Pradera. Swedish prime shopping centre yields have remained stable over the last few quarters and currently are 4.25%.

In most of the Citycon properties, market rents have been relatively stable, although there has been an increase at Liljeholmstorget, as this wealthy residential area continues to expand and retail becomes increasingly sought after, but a decrease at Kista Galleria, because of competitive pressure on retail units from nearby Mall of Scandinavia which opened in late 2015. Yield levels remain stable.

Estonia

Prime shopping centre rents have decreased 1% quarter–on–quarter and decreased 2–3% year–on–year. Despite increased competition and tightened market outlook there will be substantial new supply of retail space in coming years. New shopping centre space entering the market in 2016-2017 was over 100,000 square meters and twice as much is planned for 2018–2019. The major part of the new retail space will be realised in Tallinn or its vicinity, but some shopping centre expansions are planned as well in other major cities in Estonia. Prime shopping centre rents are forecasted to decrease slightly in 2017. Recently the demand for retail space has softened, which is illustrated by the fact that in several shopping centres extending older rental contracts at current rental prices has not been possible. Finding tenants for new retail centres is becoming increasingly difficult. Shopping centre managers show flexibility in reviewing rental rates, and this concerns also well-operated shopping centres in strong locations. Competition among retail companies is tight and has caused sales margins to decline. Major food retail chains continue aggressive expansion and prepare for Lidl entering the market next year. In the context of constantly growing competition, some companies have left or plan to leave Estonia and the Baltic market (e.g. Next, Walking, Marks and Spencer) or frozen their long-term expansion plans (e.g. Maxima).

In Q1 2017 the retail transaction volume decreased significantly compared to previous quarter and year-on-year and there were no comparable deals in Q1 2017. Nevertheless, the demand for prime retail assets is strong as investors keep looking for safe investments. The prime retail yield has been not changed and it is estimated to be near 6.5%.

There is downward pressure of the market rents in Kristiine SC and in Rocca al Mare SC due to oversupply of retail space and challenging letting market, but the yields have stayed unchanged in Q1 2017.

Denmark

Throughout recent years, prime shopping rents have increased, whereas secondary rents levels have stayed more or less unchanged. The outlook for retail sales is positive as the consumer spending is strong and the economic recovery is believed to continue. Consumers, and thereby retailers, are still preferring attractive prime shopping, but as a result of increasing prices in the Copenhagen area and forecasted growth in consumer spending, we see investors seek towards the secondary segment. Prime shopping centre rents are forecasted to increase slightly in 2017, while secondary shopping centre rents are estimated to remain stable.

The volume of commercial and investment property transactions traced an upward trend throughout 2015 and 2016, and this trend seems set to continue in 2017. The brisker transaction activity has been largely concentrated in and around Copenhagen and Aarhus, where the prime segment is the most highly coveted, but in 2017 there was also a greater interest in medium-sized Danish cities, especially Aalborg and Odense. Most recently Magasin du Nord has announced their return to Aalborg. The demand for core assets remain strong as investors keep looking for safe heavens, which suggest more large retail transactions in 2017. The most notable deal in the first quarter of 2017 was Hines' acquiring five high-street properties located on the most attractive locations in Copenhagen CBD for DKK 885m. The properties are high-end retail. Of comparable deals TT Partners acquired two local shopping centres in Greater Copenhagen in end 2016 for DKK 193.5m corresponding to a yield of 7.10% and also Skovlunde Invest acquired a local shopping centre in Skovlunde for DKK 108m corresponding to a yield of 7.35% in December 2016. This shows evidence of investors increasing demand of retail properties outside the prime locations. The current low interest rate is contributing in several ways to making property investments attractive relative to other investment opportunities. Due to current demand, the prime shopping centre yield is still 4.25%.

The rent level has remained unchanged in the subject property as the development in the secondary locations are somewhat more sluggish compared to the rapid development at prime locations. However, the outlook for the secondary rent levels is positive due to the increasing private consumption figures and the general positive development in the Danish economy. The yield requirement is unchanged for the subject property, but we see that investors are starting to focus more and more on secondary locations, as mentioned above, due to the yield compression on prime shopping properties.

In Helsinki and Stockholm 10th April 2017

Yours faithfully

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