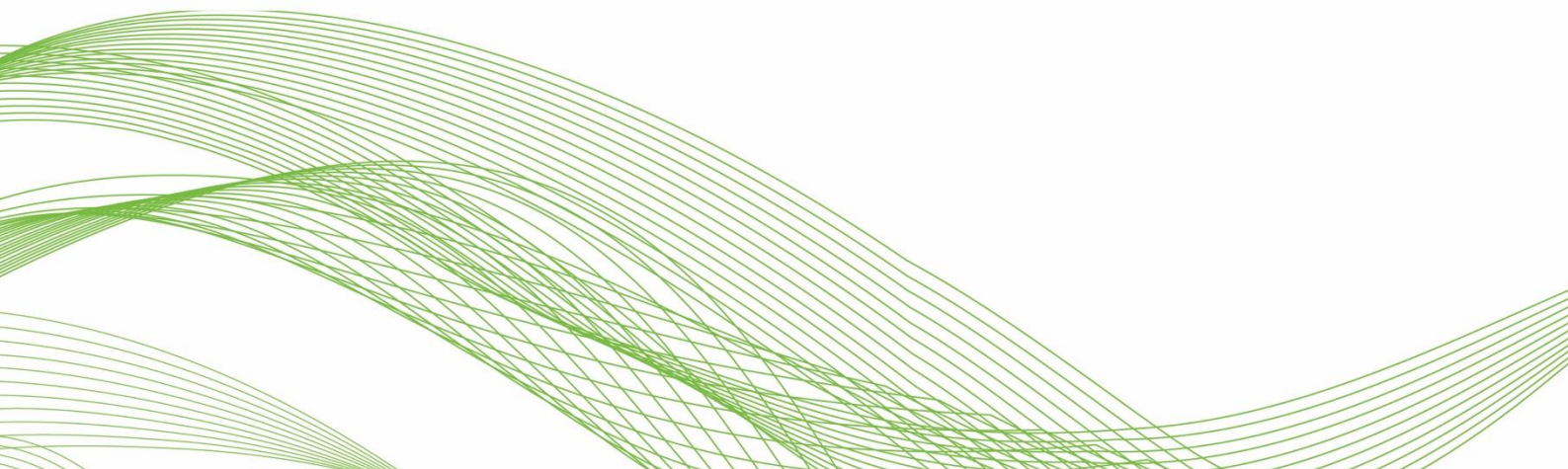




Valuation Advice on Yields and Market Rents

CITYCON OYJ
31 MARCH 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 31 March 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 31 March 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

Retail sales are off to a sluggish start in 2019, with workday adjusted retail sales being up by 0.4% in January and 1.6% in February 2019, according to preliminary figures from Statistics Finland. This is in comparison to growth of 2.8% for the whole of 2018. Growth for the second half of the year was weaker than for the first half.

Grocery stores underperformed the whole retail sector in January and February, with a decline of 0.3% in January and an increase of 1.5% in February, according to preliminary data. This is in comparison to a quarterly average of 3.5% in 2018. The best performances were seen for pharmacies, health care products and cosmetics and sports equipment, while fashion and furniture and interior design continued to underperform.

According to KTI's Shopping Centre index, the most sales growth was seen in 2018 for entertainment and leisure tenants and commercial services, while fashion tenants' sales fell as the only retail category to do so. Shopping centre sales development was -0.5% in the HMA, -2.7% in other large cities and -0.7% elsewhere in Finland in Q4 2018 according to the index. According to KTI, average occupancy in shopping centres in the HMA, which are included in their study, was 95.3% in the end of 2018. In other large cities, occupancy was on average 94.9% and elsewhere in Finland 89.6%.

Some larger good quality centres have experienced modest rent growth recently, however for the most part rents have remained flat or declined.

Retail Investment Market

Retail sales volume was ca. EUR 319 million in Q1, which is below the Q1 level in 2018 and 2017. The only reported shopping centre sale in Q1 was the sale of a 34% share in Jumbo in Vantaa from Unibail-Rodamco-Westfield to Elo for EUR 248.6 million. Elo was an existing part owner of the centre, and after this sale their ownership extends to the whole centre, except for the owner-occupied hypermarkets. The net initial yield was reported at almost 5% and vacancy rate at 0.2%. The 86,100 sqm centre has been the highest selling shopping centre in Finland for several years in row, with sales of 419.6 million in 2017.

Shopping centre yields are considered to have remained stable in Q1, with the prime yield requirement in the Helsinki Metropolitan Area being ca. 4.5%. Demand for non-prime properties is reducing with investors being cautious of the shopping centre sector as present. The significant shopping centre development pipeline is also adversely affecting demand in the Helsinki Metropolitan Area. Smaller centres are expected to suffer more from the stock additions than large prime properties.

Comment on Citycon portfolio

Market rents in Citycon's assets have generally remained stable since Q4, and were only adjusted slightly up or down in a few centres. Assessed yields have also remained stable this quarter. The longer term yield trend is generally upwards for many of the assets.

NORWAY

Retail Occupancy Market

Shopping centre rents in some locations have come under pressure over the last twelve months, primarily driven by weak store sales. Retail sales growth was 2.2% in the period November-January, versus the same period last year, according to Statistics Norway. CPI inflation stands at 3.0% per February 2019, while core inflation (adjusted for tax changes and excluding energy products) stands at 2.6% (Statistics Norway, 2019). The shopping centre turnover index continues to underperform in this backdrop, with a decline of 1.1% in February 2019 (versus February 2018), when adjusted for GLA changes, according to Kvarud Analyse. For the period January-February 2019, the GLA adjusted sales decline was 0.2% compared to the same period last year. As a result, rents in the majority of shopping centres continue to be under pressure, with significant vacancies in many centres.

Shopping centre footfall started to show negative development towards the end of 2018, and this trend is continuing – in January and February 2019, total footfall was down by 0.1% compared to the same period last year. The average basket size is standing at NOK 308 per visit, up by 0.7% (Kvarud Analyse, 2019).

Retail Investment Market

Retail transactions amount to around 31% of the preliminary transactions volume for Q1 2019, though the large majority of this relates to a multi-billion high-street retail deal in Oslo. For comparison, the share of retail transactions was 19.1% for the full year 2018, which is a typical share. The preliminary retail investment volume is estimated at NOK 3.2 billion in Q1 2019. There have been no registered shopping centre transactions so far in Q1 2019.

The prime shopping centre yield in Q1 2019 is estimated unchanged at 4.25%, while there continues to be moderate upwards pressure on secondary yields.

Comment on Citycon portfolio

Market rents have predominantly remained relatively stable across the portfolio with minor adjustments in line with recent sales performance and leasing activity. There has been limited interest from investors for secondary provincial retail and shopping centres recently. In light of this, the yield requirement for four assets in the portfolio has been moderately increased.

SWEDEN

Retail Occupancy Market

The Swedish retail sector is struggling. Even though retail growth was 2.5% in 2018, the growth was mainly captured by e-commerce channels and many physical stores are struggling. Rental levels for big boxes are decreasing and the market is mainly dominated by budget sector tenants, putting pressure on rental levels. In shopping centres, many retailers have experienced a decrease in turnover, leading to problems in paying a higher rent. Property owners are instead prolonging leases at the same rent level as before.

In Stockholm there has been a few new retail outlet openings. The Danish brand Ganni recently opened its first store in Sweden. In March, the low-price store Rusta, received the keys to their new inner-city store, next to NK. During the autumn, Victoria's Secret will open a new flagship store in "Gallerian". H&M has been active and established new concepts in the market and both Arket and Afound have now opened in Gothenburg. Gothenburg will also get its first & Other Stories store in 2019.

Recently, Axel Arigato opened its first store in Gothenburg and later 2019 Na-kd will open up a store for a couple of weeks to try the market before deciding on a future permanent store.

Retail Investment Market

During Q1 2019 the retail transaction volume ended up at approx. MSEK 1,200 which is a decrease compared to Q4 2018, but an increase compared to Q1 2018. Retail represented 7 % of the total transaction volume, which is less than the 2018 average of 10%.

Most sales have been in secondary locations, however Axfast sold Åhlens Shopping Centre in the central part of Uppsala for a price of MSEK 580, showing a rate per square metre of 58,052 and a yield of 4.50%. Tenants are Åhlens, Stadium, Designtorget and Skitotal. Sales of shopping centres in more secondary locations have taken place at levels of between SEK 9,500 and 13,500 per sq m. The transactions have been made in smaller municipalities like Trelleborg, Gävle and Mora.

The prime yield for shopping centres in Sweden in Q1 2019 is 4.25%, unchanged from Q4. We continue to see a polarisation in the market, where prime assets continue to do well, however other assets face more headwinds.

Comment on Citycon portfolio

The investment market has shown hesitation towards retail and in Q1 2019 properties with increased vacancy rates have seen a slight increase in yield level. Lower sales volumes have also been a driving factor for the yield change for some of the properties. Market rents have mainly remained stable and only small adjustments have been made. Generally, the market rent is in line with the previous quarter.

DENMARK

Retail Occupancy Market

According to Statistics Denmark, retail sales in February 2019 were 0.78% higher than in February 2018 when corrected for price trends, normal seasonal fluctuations and the effect of trading days. From January to February, the product group "Food and everyday commodities" as well as "Other consumer goods" has remained constant in sales, while Clothing increased by 1.90%. When comparing Q1 2019 with Q1 2018 after seasonal adjustments, the most significant change was seen in retail sale of games, toys and music in specialised stores, which was marked by the bankruptcy of Fætter BR and associated drop in sales by -52%. The best performing retail sector was the retail sales of fish, crustaceans and molluscs in specialised stores with sales growth of 15% 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. Eating out is increasing and clearly most prominently in the Capital 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 Q1 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 showed a change in investor sentiment. Shopping centres are experiencing challenges regarding e-commerce and as a result of weaker investment demand and confidence, market players have been withdrawing their properties 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 of increased competition from e-commerce and changes in customer behavior.

There were no shopping centre sales reported in Denmark in Q1. The retail property transaction volume in 2018 was DKK 6.5b, which is a decrease of 28% from the previous year. In 2018 Q4, DKK 1.4b was transacted, being a decrease of 71% compared to the same quarter in 2018. These figures are when excluding the Danske Shopping Center portfolio. As of Q1 2019, in general shopping centre yields are at 4.50% for prime centres and at 6.00% for good secondary shopping centres, following a 50 basis point adjustment over the last two quarters. 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

In February 2019, the turnover of retail trade enterprises was EUR 527.5 million, compared to February of the previous year, demonstrating growth of 5% at constant prices. Turnover increased the most in stores selling textiles, clothing and footwear with sales increasing 13% year on year. Turnover also increased in stores selling household goods and appliances, hardware and building materials, demonstrating 10% growth. The turnover of grocery stores increased by 3%. The value of the retail confidence index provided by the Estonian Institute of Economic Research rose to 13 points in March 2019, while the indicator stood at 6 points in the same month the year before.

In Tallinn, shopping centre rents in Q1 2019 have remained stable on a quarterly basis. Despite recent and expected additions to the shopping centre stock, solid overall retail performance, a competitive environment in prime locations and inflation are keeping rent rates up. As the market continues to develop, the rental rate gap between prime and secondary centres, as well as centres falling behind in terms of competitiveness of their offering, is likely to widen further.

Retail Investment Market

Currently Estonia has the lowest prime retail yields of all three Baltic states, with Estonia's prime yield at 6.25%, compared to 6.5% in both Latvia and Lithuania. Although no shopping centre transactions have been observed in Q1 2019, several notable shopping centre deals in the Baltics are expected to close during H1 2019. Retail remains the second most active segment, with around 30% of the total transaction volume in the Baltics.

A major ongoing retail project in Tallinn is the Ülemiste Shopping centre expansion of 13,000 sqm, which is scheduled for completion in June 2019. IKEA, already present in the Latvian and Lithuanian markets, is expected to open its first brick and mortar location of circa 6,000 sqm in Estonia during autumn 2019. Lasnamae Centrum is set to expand by circa 5,000 sqm during 2019-2020, bringing the total area to around 25,000 sqm.

Comment on Citycon portfolio

Despite a modest decrease in footfall and overall retail turnover, partly due to transient factors, both centres continue to demonstrate strong competitive positioning. Opening of the T1 Mall of Tallinn in November, 2018 has likely impacted performance, however as customer flows stabilise, the overall long-term impact is likely to be less. In the current Baltics investment market, the centres are expected to command close to prime yields, which is stable from last quarter. Renovations of Kristiine improve competitiveness and the long-term attractiveness of the asset.

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