Valuation Advice on Yields and Market Rents

CITYCON OYJ
31 MARCH 2018

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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 2018, 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 except the redevelopment projects and new acquisitions which are valued externally. On 31 March 2018, we have conducted the valuations of the Lippulaiva development project located in Espoo, Finland and new acquisition Strædet shopping centre in Køge, Denmark.

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 March 2018.

CBRE

MARKET OVERVIEW

FINLAND

Retail Occupancy Market

Retail sales were up by 3.5% year on year in January 2018, with grocery store sales being up by 2.6% and department store sales by 3.2%, using workday adjusted figures. These figures, together with February's preliminary data, indicate a continued gradual improvement in the retail sector, although performance is uneven across different sub-categories.

Retail rents have generally remained quite stable in better quality centres, while in secondary centres, particularly outside of Helsinki Metropolitan Area (HMA), rents continue to experience downward pressure after several years of low or negative sales growth, which has only relatively recently started to improve.

Retail Investment Market

Retail property investment volume in Q1 2018 was ca. EUR 985 million, the majority of which related to the sale of Sirius Capital Partners' Sirius Fund I Grocery and Sirius Fund II retail portfolios to a newly established Swedish REIT Cibus Nordic Real Estate. The portfolio includes 123 properties, most of which are grocery stores and hypermarkets. The sale price was ca. EUR 750 million.

The most notable shopping centre sale in Q1 was the sale of Kluuvi in the Helsinki CBD, which includes a 10,300 sqm shopping centre and 6,800 sqm of offices. The purchaser was AXA Investment Managers and seller CBRE Global Investors. The sale price and yield were not publicly disclosed. Niam also purchased two local grocery store anchored shopping centres in Helsinki and Espoo for a total price of ca. EUR 55 million. The yield was not disclosed. The centre in Suurpelto, Espoo is recently completed and the one in Laajasalo, Helsinki is still under construction.

Shopping centre yields have remained stable in Q1, with the prime yield in the Helsinki Metropolitan Area (HMA) outside the CBD being ca. 4.5%.

Comment on Citycon portfolio

Market rents have generally remained quite stable since Q4. Minor adjustments have been made both up and down in light of recent leasing activity. Centres where market rents have been adjusted up are mainly located in the HMA, and centres where market rents have been adjusted down are all located outside the HMA. Some of these centres are adversely affected by the local market's competition situation, with either new competition coming on line or the impact of new supply from a few years ago still affecting.

Yields have generally remained stable, minor adjustments up have been made for 4 centres, 3 of which are located outside the HMA.

NORWAY

Retail Occupancy Market

Generally Norwegian shopping centre rents have remained stable over the last twelve months. Retail sales growth was 2.6% year-on-year, as of January 2018 led by an increase of 1.9% in sales volumes, according to Statistics Norway. Inflation stands at 2.2% per February, while core inflation stands at 1.4% (Statistics Norway, 2018).

The shopping centre turnover index continues to perform and increased by 1.6% in February after a strong start to the 2018 shopping season, which saw sales turnover grow by 2.2% year-on-year, according to Kvarud Analyse. Shopping centre footfall fell by 0.1% in February, however the average basket size increased by 1.0% to NOK 305 per visit (Kvarud Analyse, 2018).

Retail Investment Market

National retail sector transactions amounted to some 19% of the total transaction volume in 2017, in line with the 2016 total. The Q1 retail transaction volume for Norway was ca. 1.3 billion NOK. The retail sector's share of total transaction volume was ca. 7.3%, which is lower than typical.

Most recent retail transactions in Q1 2018 include the sales of Furuset Senter in Oslo for a reported price in the vicinity of 230 million NOK. The property was bought by Carnegie Syndicate from Søylen Eiendom. The prime shopping centre yield in Q1 is estimated at 4.25%, unchanged from Q4 2017.

Comment on Citycon portfolio

Market rents have remained stable across the portfolio with minor adjustments in line with recent leasing activity. Yields have mainly remained stable since Q4, with only the yield for one centre adjusted up.

SWEDEN

Retail Occupancy Market

Sales volumes for FMCG (Fast Moving Consumer Goods) grew with 2.4% the first two months of 2018 compared with the same period in 2017, and by 3.1% for durable goods. The total growth for retail was 2.8%.

Development of retail rents is strong in the best assets with an upward trend in the very best locations. In secondary locations with tenants with more mainstream mass-market brands, the market is more challenging, and there is even a downward trend in some centres.

New notable entrants include Cartier, a French luxury brand for jewelry, watches, parfumes and pens. Their boutique will be established in Hufvudstaden's property in Bibliotekstan at Smålandsgatan 8, in the old facilities of Marc Jacobs. This will be Cartier's first boutique in the Nordics. Another notable entrant is Samsung, ranked as the 6th strongest brand in the world in 2017 by Interbrand, who will open their flagship store in Kungsgatan. The store will focus on their products in the mobile phone segment and IoT.

Japanese fashion brand, Uniqlo is entering the Nordics by establishing their first store in Sverigehuset by Kungsträdgården. The lease is in total 1,580 sqm distributed over 4 floors. The facilities were previously rented by Illums Bolighus, who left the property in August 2017. The Uniqlo store will open in the autumn.

Retail Investment Market

It has been a slow start to the year for the retail investment market in Sweden. Very little has been for sale, and few deals were ready for signing in the quarter. Preliminary estimated transaction volume is a mere 900 million SEK. This can be compared with a volume of 6,135 million SEK Q1 2017, although this was bolstered by some large portfolio sales.

Sales activity in Q1 includes Citycon selling their Åkermyntan shopping centre in Stockholm to Artmax AB and adjoining residential land was also sold to a developer. The combined sale price was ca. 309 million SEK.

The prime shopping centre yield is at 4.25%, unchanged from the previous quarter. There is however some evidence of a slight decrease in yields for non-prime assets, which still have solid fundamentals.

Comment on Citycon portfolio

Yields have been adjusted down slightly for 6 properties in the Greater Stockholm area due to recent market activity. Other yields remain unchanged. Market rents have mainly remained stable, with only minor adjustments up for 2 centres in the Stockholm area due to recent leasing activity.

DENMARK

Retail Occupancy Market

According to Denmark Statistics, retail sales in January 2018 were 0.2% lower than in December 2017 when the figures are corrected for price trends, normal seasonal fluctuations and the effect of trading days. January is up 1.4% compared to January 2017. Overall the retail trade turnover growth has been relatively flat since 2015. The monthly average growth rate is 0.12% for the year.

Prime net shopping center rents have been rather stable since Q3 2015 and currently stand at DKK 5,500 per sq m pa. Shopping centre rents in Albertslund are currently at some DKK 1,550 per sq m pa. For Køge, Shopping centre rents are DKK 1,600 per sq m pa.

“Retailtainment” is a new concept to attract consumers into stores and shopping centres. Providing a fun and engaging experience is key but many are also exploring concepts that promote products at the same time as they educate consumers. Many Danish shopping centers are expanding or planning to expand in order to attract new customers. 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.

Retail Investment Market

There were no reported shopping centre sales in Denmark in Q1 2018. The prime shopping centre yield stands at 4.00% as of Q1 2018 and good secondary yields are ca. 5.50%. Both are unchanged from Q4 and expected to remain stable in the short term.

Comment on Citycon portfolio

Both the market rent level and yield for Albertslund have remained stable since Q4 and no significant changes are expected in the short term. Stages 1 and 2 of the shopping centre Straedet in Køge were valued by CBRE for the first time in Q1 as a single entity. Stage 1 was acquired in Q3 2017 and stage 2 in Q4 2017.

ESTONIA

Retail Occupancy Market

In February 2018, the retail trade turnover amounted to EUR 495.9 million, representing a 7% year on year increase. Pharmacies and cosmetics stores lead growth with sales increasing 17% year on year. The turnover of grocery stores decreased by 3%, affected by increasing food prices.

In Tallinn, prime shopping centre rents in Q1 2018 have remained stable on a quarterly basis, however given expansions of current centres and also new developments, the gap between prime and secondary premises is expected to widen. In particular, in light of continuing growth of online sales, leading shopping centres are expanding their entertainment offering to maintain competitiveness. Properties behind the curve on this are at risk of experiencing downwards rental pressure in coming years. New large retailers in the Baltics during 2018 include Decathlon (France) in Vilnius and O'Learys (Sweden) in Tallinn with further expansion plans in Latvia.

Retail Investment Market

The investment market in Baltics in general was active during Q1 2018 and during the first 2 months of the year, total investment amounted to circa EUR 34 million. EfTEN Kinnisvarafond II AS has acquired the Marienthal commercial centre in Q1 2018 for an undisclosed amount. In general, the Estonian retail investment market was the most active market in the Baltics during the second half of 2017, particularly in terms of single-tenanted retail sales.

The prime retail yield in Q1 2018 in Estonia is estimated at 6.25%-6.50%, unchanged from Q4 2017. Estonia is continuing to show leading regional macroeconomic performance, with the retail investment market in the neighboring country of Latvia becoming more competitive as a result of expansions of major shopping centres such as Alfa and Origo and anticipation of a new major entrant Akropolis Riga. Confidence shown by Baltic Horizon in its Q1 2018 acquisition of Postimaja shopping centre in Tallinn and plans to fuse it with the adjacent Coca-Cola Plaza property, indicate a continuation of a healthy retail investment market in Tallinn. That being said, the prime retail yield in Estonia is likely to plateau in 2018 as the market cycle continues to mature. New shopping centers, T1 Mall of Tallinn and Porto Franco are expected to be completed in Q4 2018 and 2019 respectively. Furthermore, the expansion of Ülemiste Centre by 13 000 square metres of commercial and entertainment premises is expected to be completed in Q3 2019.

Comment on Citycon portfolio

Both market rents and yields for Rocca al Mare and Kristiine have remained stable since Q4 2017. Both centres continue to show strong costs management, a healthy tenant mix and ability to maintain above market performance in terms of tenant retention so far. The lease expiry profile remains the leading source of risk, particularly given the large amount of new retail stock to enter the Tallinn market over the next year.

In Helsinki, Oslo and Stockholm 5 April 2018

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