CBRE

Market commentary & Opinion of yield movement

CITYCON OYJ
31 MARCH 2021

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INSTRUCTIONS

Our instruction from Citycon Oyj was to provide Citycon with support for their investment portfolio as at 31 March 2021, 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.

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 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 of the subject properties. This valuation advice is for the sole purpose of providing the instructing party our independent and professional opinion on the movement of market yields 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 July 2020.

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MARKET OVERVIEW

DENMARK

Retail Occupancy Market

The Danish government reacted swiftly to encounter the economic impact caused by the outbreak of Covid-19 in the Spring last year, and there is no doubt that the retail sector is facing an unprecedent disruption of commerce. Concurrently with the lockdown measures being lifted, retail sales showed modest improvements. This trend has since then diminished as more lockdown measures have been introduced in fall/winter. As 15 March retail units under 10,000 sqm were allowed to open again and as at 21 April restaurants and shopping centres were allowed to open again.

According to Statistics Denmark, retail sales increased by 16.5% from end of Q4 2020 to end of Q1 2021 when corrected for price trends, seasonal fluctuations, and the effect of trading days. The product group Food and Everyday Commodities increased with 2.4%, while the product group Clothing etc increased in sales with 26.9% (after a decrease from Q3 to Q4 2020 of 18%). Consequently, the positive development in Q1 2021 sales indicate that the immediate positive effect experienced in Q2, resulting from the reopening of retail stores and shopping centres, is similar in Q1 2021. A decrease in sales was observed in Q4 2020 which could be expected later in 2021 as effect of the reopening wears out.

Retail sales via internet have performed particular well in the last couple of years as more retail sale has shifted online. This trend has been further amplified during Covid-19. As such, all categories of retail sale via internet have increased since March 2020. Zooming in on the fourth quarter of 2020, it is especially the sale of books, office supplies, music or movies and the sale of hobby articles that have gained momentum with increases equal to 177% and 121% respectively compared to Q3 2020. DIY shops performed well in the first half of 2020, but a correction has been experienced in this sector, with a decrease in sales equal to 9% from Q4 2020 to Q3 2020 and 29% compared to March 2020.

Prime net shopping centre rents remained stable in Q1 2021 at DKK 5,250 per sq m p.a. Looking forward, challenges are expected. The longer this disruption of the global pandemic, the more impact on consumer confidence and purchasing power, the longer the impact on retail sales. Furthermore, Covid-19 is expected to be the ultimate trigger for already dwindling retailers and F&B to close their business, why higher vacancy on the medium/longer term is expected.

Retail Investment Market

The 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. Additionally, the continued disruption caused by regional periodic lockdowns and prolonged social distancing measures, is expected to further accentuate the already existing pressure on brick-and-mortar retail caused by the rapid growth of e-commerce.

Despite these challenges, retail investments were reported at 3.7bn in Q4 2020, an increase equal to 337% compared to the same quarter in 2019. The strong performance witnessed in Q4 was mainly on the back of two acquisition, Aalborg Storcenter, the largest shopping center in North Jutland, by Danske Shoppingcentre. The asset has a total size of 52,000 sq m split on 80 stores, including 8 restaurants. The price was estimated at DKK 1.5 bn and in two transactions Rema 1000 sold of 43 + 19 supermarkets at a reported total price of app. 2 bn. Q1 2021 figures suggest retail investments of app. DKK 600 millions compared to 1.8 bn in Q1 2020 (which was mainly driven by the sale of Galleri K at 1.6 bn).

Looking at 2020 as a whole, total retail investments was DKK 6bn, an increase equal to 109% compared to

2019. As of Q1 2021, the general shopping centre yield has remained stable at 5% for prime shopping centres and at 7% for good secondary shopping centres. The trend for both yields is softening, as vacancy is increasing, and retail property values are impacted as well.

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. We are of the opinion that there has been no significant movement in (market) yields this quarter.

ESTONIA

According to Statistics Estonia, in the 4th quarter of 2020, the gross domestic product (GDP) fell by 1.2% compared to the 4th quarter of 2019, and the GDP at current prices was 7.3 billion euros. In 2020 as a whole, the Estonian economy shrank by 2.9%.

In the fourth quarter of 2020, household consumption decreased by 1.3%. The expenditure on furnishings, food and communication continued to increase, while less was spent on leisure, clothing and transport.

Foreign trade fared well despite the restrictions on international travel. The low level of travel services still limited the export and import of services, but trade in goods reached a historically high level. Both the import and export of goods were boosted by trade in electronic equipment and chemical products – by 14.4% and 8.7%, respectively. The export of wood products also helped increase exports, while imports were driven by importing various machinery and equipment.

Retail Occupancy Market

According to Statistics Estonia, in February 2021, the turnover of retail trade enterprises was 594 million euros. Compared to the same period last year, turnover increased by 4% at constant prices. In January, turnover grew by 7% year on year, but the growth slowed down in February.

The turnover in manufacture goods selling stores increased by 7% compared to February last year. The most significant growth - 44%, was recorded in stores selling via mail order, internet or e-commerce. Other specialized stores selling mostly computers and their accessories, books, sports equipment, games, toys, etc. have evidenced c.a. 12% sales growth. 11% sales increase was recorded in stores selling household goods and appliances, hardware and construction materials.

Not all the retail has evolved in the turnover growth perspective. The stores selling textiles, clothing and footwear have experienced 16% turnover decline, 4% decrement was also recorded in stores selling second-hand goods and in the non-store retail sale (stalls, markets, direct sale). Also, pharmacies and stores selling cosmetics traded 4% lower.

In February compared to January, the retail turnover decreased by 5%.

Shopping center rents in Q1 2021 have marginally decreased In Tallinn. The prime retail rents are now at 45 EUR/sq m.

Porto Franco was expected to open in Q3 2021, but the development has been suspended due to the developer's difficulties.

It is more and more evident that certain sectors of the physical retail selling non-essential goods and services is suffering from the COVID 19 and with the current vaccination outlook it is realistic that the hardships will continue, however restrictions are being lifted as from 3rd of May re-opening all shops provided physical distancing and number of customer rules are obeyed and at the 25% cap on the occupancy however.

We anticipate seeing increasing vacancies once the shopping centers are open to the customers again, it will take time to fill those with other tenants. In many cases the rent renewal negotiations will also be in the favor of tenants providing more flexible lease terms in many of the cases.

More volatile are older SC formats which still need time and capital to be invested into the reshaping the layouts and functional utilization of the rental space whereas the newest schemes have an advantage in maintaining the tenants.

Retail Investment Market

Comparing to the previous quarter, prime shopping center yield in Estonia for the large regional multi-tenancy traditional formats has not moved by an evidence. To our knowledge several such shopping centers are available off-market for bids, but no transaction has really come to the closure mainly because the potential buyers are cautious regarding the short-term future of the physical retail to adjust. On the one hand the landlords are not ready to sell the asset with a discount, on the other hand potential investors are not ready to pay the price which doesn't take into account all possible short and medium term risks in the retail real estate. In combination the situation suggests slightly decreasing sentiment into the shopping center segment with a slightly increasing yield perspective for the prime and high likelihood of markedly increasing for the secondary assets in particular. Currently, the prime SC yield is estimated at 7.0%.

Comment on Citycon portfolio

Due to the ongoing Covid-19 pandemic and the accompanying restrictions, the shopping centers have been partially closed. Only essential shops like groceries, pharmacies, etc., services like post offices, bank branches and etc. have stayed open. For the catering establishment only take-away is allowed. All areas of shopping centers are subject to a 25% occupancy requirement, 2+2 movement rules are in effect, and mask-wearing is mandatory.

Citycon has opened pick-up/drive-in points in their centers. Its purpose is to offer customers the option to receive parcels during the closed period of the center.

A long-term vacancy of c.a. 6% is observed in Rocca al Mare. The lease of DBH Baltics OÜ (2 742 sqm) is ending in two years' time thus putting more pressure on the current cashflow sustainability. No significant capital investment is reported to be made in the foreseeable future nearing the property status closer to Core+ / value add understanding from the investor's perspective.

We are of the opinion that there has been no significant movement in (market) yields this quarter.

NORWAY

Retail Occupancy Market

The COVID-19 pandemic has led Norges Bank to cut the key policy rate to zero for the first time ever, in a move to support the economy. However, as the ongoing vaccination programme is well underway, which is expected to reach a point that will trigger an economic recovery in Q3, and that in turn is expected to allow Norges Bank to start hiking rates again at its December meeting. There is some risk of the hike coming already in September, but December currently seems most likely.

After contracting 3.1 percent in 2020, CBRE predicts that Norway's mainland GDP will expand aggressively in the latter half of 2021, driving mainland GDP growth up to 3.4 percent this year. The NOK is expected to start strengthening moderately against the major currencies, which should result in somewhat more favourable trading conditions for importers from the end of the year and into 2022, i.e. a majority of retailers.

The ongoing lockdowns across Norway are severely affecting brick-and-mortar retailers, similarly to the situation during spring 2020. Despite certain sectors being significantly down on sales YTD, aggregate sales at Norwegian shopping centres are in fact up 1.0 percent YoY through March according to data collected by Kvarud Analyse. This is mostly driven by an increased demand for groceries and home improvement/DIY stores.

Average basket size was NOK 408 in March 2021, while the YTD average basket size is NOK 395, up 19.3 percent compared to the same period last year.

Retail Investment Market

Retail property transactions amounted to NOK 4.7 billion in Q1 2021, up 50 percent YoY, amounting to 26 percent of the total transaction volume for the quarter, which is strong. The prime shopping centre yield in Q1 2021 is estimated at 4.90 percent, up a marginal 5 bps YoY, but up 40 bps vs pre-COVID. Due to the increasingly fierce competition from ecommerce and with interest rates on the rise again, we do not expect any noteworthy yield compression for shopping centres near-term, despite the coming economic recovery. With investors having become more selective within the retail space, it is primarily the good assets that are seeing solid investment demand.

We have registered four shopping centre transactions in Q1 2021, the 16,000 sqm Veitvet Senter in Oslo and the 11,000 sqm Strømsø Senter in Drammen being the most significant. Veitvet Senter was sold by Nærsenter Utvikling to a Carnegie syndicate for over NOK 400 million, while Strømsø Senter was sold by family office Canica to Realkapital Investor for an estimated NOK 340-350 million.

Comment on Citycon portfolio

Due to the ongoing Covid-19 pandemic and the accompanying restrictions, most of the shopping centers have been partially closed. Only essential shops like groceries and pharmacies have stayed open. Despite the Covid situation the centres have performed well last year. Expected rental values are expected to remain relatively stable. Alignment with current investor sentiment in regard to yields is expected. We are of the opinion that there has been no significant movement in (market) yields this quarter.

In Copenhagen, Denmark, Oslo, Norway and Riga, Latvia – 30th April 2021

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