Market Outlook & Yield Commentary

Citycon Oyj

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1. Instructions & Scope of Work

We have been instructed to provide our view on the market outlook and if there has been movement on exit yield requirements for the properties held within the Company's investment property portfolio located in Finland and Sweden as at 30 September 2021. Our view on the market outlook and yield movement have been provided by local JLL offices in Finland and Sweden. We have been instructed to provide our view whether there has been significant change from the previous quarter (2021 Q2) in terms of yield requirements or not.

For the avoidance of doubt, we have received new and expired leases during the quarter from Citycon for this purpose. We have not received latest sales figures, footfalls or rent collection information and have assumed that these have been stayed largely unchanged compared to Q2 2021.

We have made no inspections during Q3 2021.

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 of 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.

In Helsinki 26th October 2021

Yours faithfully

Mikko Kuusela **Director** For and on behalf of Jones Lang LaSalle Finland Oy	**Simo Hännikäinen** **Associate** For and on behalf of Jones Lang LaSalle Finland Oy

In Stockholm 26th October 2021

Yours faithfully

Patrik Löfvenberg **Head of Valuation Sweden** For and on behalf of JLL Valuation AB Sweden	**Tomas Shaw** **Director** For and on behalf of JLL Valuation AB Sweden

2. European Retail Market

2.1. Occupancy Market

Stronger than anticipated trading conditions allow various retailers to look forward and commit to new 'selective' store openings. The pandemic is creating opportunities for retailers to secure quality retail space in some of the best locations.

Following an initial lag, the Euro area vaccination rate picked up in Q2 and early Q3 2021. COVID related restrictions in the European area have been gradually reduced of late, although at different rates within the area. After a slight downturn in Q1 2021, the euro area GDP grew by 2 per cent in Q2. The Delta variant is slowing the recovery in some regions, mainly by delaying normalisation in service sectors. GDP for the EU is forecasted by oxford economics to grow by 4.6% in 2021 and 4.6% in 2022.

As stores reopen across the region, footfall returns to physical retail places, exceeding pre-pandemic levels in June in most European countries. Eurostat data points to a cautious shift in consumer spending back towards more traditional channels. There is a positive trend in non-food retail spending which is expected to carry on into the second half of 2021. The long-term outlook on the non-food retail sales growth forecast is positive but has been adjusted downwards from earlier projections. According to scientists advising governments across Europe, COVID-19 variants could pose a treat until at least 2023.

Following lighter restrictions and lower infection rates consumer confidence across the EU rose to its highest level in June 2021 since August 2000 and well above the long-term average. Retail sales across the EU are expected to rise by 3.9% in 2021 and 2.9% in 2022, driven by pent-up demand, 'social consumption' and increased savings.

Leasing activity is picking up, albeit retailer demand remains focused on securing quality retail space in and around major cities that are on track to see a fast-paced recovery in economic activity and benefit from either large catchments or high levels of affluence. The pandemic is creating opportunities for retailers to secure quality retail space in some of the best locations at more attractive terms than before COVID-19, but retailers also recognise that the window of opportunity to capitalise on current market conditions will be limited. On a net-net basis less retail space is expected to be required as the market recovers, but it is increasingly clear that demand is pivoting towards experience led shopping destinations and accessible convenience orientated retail places.

Prime retail rents witnessed a sharp correction in 2020 in most European retail markets but are expected to gradually stabilise in 2021 and return to growth in 2022 and onwards. The actual impact is still difficult to assess as many rent renegotiations still need to take place between landlords and retailers. Retailers are keen to understand where sustainable rent levels are at to ensure they size their business accordingly.

2.2. Investment Market

European retail investment volumes for H1 2021 fell 17% year-on-year to €11.1 billion. Early signs of a cautious recovery in retail investment activity emerge as more assets priced from €50 million to €250 million have been transacted.

The European retail real estate investment market is seeing a cautious recovery in investment activity with pockets of liquidity emerging in some countries. European retail investment volumes in Q2 were up 33% to €6.5 billion compared with the same period last year. Considering the first six months of 2021, volumes fell by 17.1% year-on-year to €11.1 billion. Investor demand for convenience retail real estate remains strong with investment volumes for retail warehouse assets and grocery real estate combined accounting for 48% of the total European retail investment volumes for H1 2021.

Disruption, volatility and change have accelerated in the European retail market over the past year, with a notable effect on deal execution and pricing for even the most attractive assets. Since the Covid-19 pandemic outbreak, the European retail investment market has become polarised between large transactions, consisting of core shopping centres and defensive income-producing retail portfolios, and small transactions by local buyers. The accelerated structural change of the retail market is likely to lead to a further re-appreciation of grocery real estate. The weaker secondary and tertiary shopping centre markets are seeing more activity with a wide range of buyers, including developers, PE-investors and UHNW-investors.

Domestic investors continue to drive demand across Europe, although demand for the different sub-sectors varies across markets. Some investors believe that retail income returns of good quality retail stock are beginning to look favourable when compared to office and industrial sectors, in some markets. Investor demand is pivoting towards food stores, retail warehouse assets, prime high street assets and depending on the market, shopping centres with redevelopment potential or a strong convenience offer.

3. Market Outlook Finland

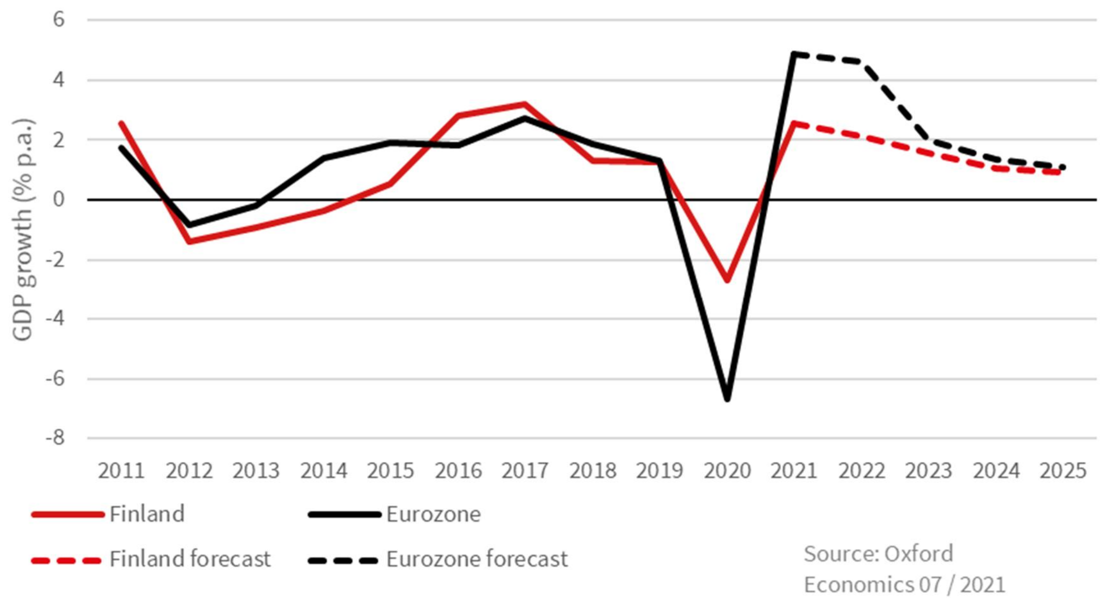
3.1. Economy

The economy surviving surprisingly well on the Covid-19 pandemic

The world economy is still at a state of elevated uncertainty due to the COVID-19 pandemic. The World Health Organisation (WHO) classified the Coronavirus as a pandemic on March 11th, 2020. The disease has spread around the world, but the situation (and its economic effects) varies notably within countries as well as between countries. During the course of the pandemic, infection rates have fluctuated notably, and appearance of new variants have altered the expected scenarios. However, by summer of 2021 the vaccinations have progressed well in many countries reducing its pandemics effects on health as well as economy. Globally risks still remain on an elevated level but the general sentiment is more optimistic than anytime during the pandemic thus far. Now the most important race is between global vaccination coverage and spread of variants of the virus.

When the pandemic struck in early 2020, the leading economic organisations predicted the COVID-19 pandemic to affect the world economy with a large, but short, drop in GDP. Initial statistics from 2020 would suggest this scenario was fairly close to reality. In May 2021, the OECD estimates the EU GDP to have decreased by 6.8% in 2020 and forecasts growth of 4.3 and 4.4 percent for years 2021-2022 respectively. The corresponding values from the IMFs July 2021 estimate for 2020 GDP growth is -6.5% and forecasts for the 2021-22 being 4.6% and 4.3% respectively.

Finland has thus far survived with relatively small damages from the pandemic. The Ministry of Finance and the Bank of Finland estimate the Finnish gross domestic product to decrease in 2020 by 2.8 percent (forecast 12.05.2021) and decrease 2.8 percent (forecast 15.06.2021) respectively. The increase in unemployment and the number of furloughed people has not been as bad as feared in the start of the pandemic. The amount of people furloughed in the summer of 2021 if less than half of the numbers in the summer of 2020. The measures taken at the start of the pandemic to secure funding for companies seem to have worked, as by August of 2021 the amount of bankruptcies in Finland remains at pre pandemic levels.



Finland GBD

The changes in the real economy can be felt in the letting market faster than in the capital market. The effects of the COVID-19 pandemic can be seen primarily in accommodation sector, restaurants and culture/event sector. The prolonged pandemic period has dealt serious damages to businesses in this sector and the outlook is still uncertain. At the same time, for many the pandemic period has meant working remotely for a year straight, which has developed both the practices and possibilities of remote working. It is widely believed to have caused a leap in remote working rates, which may have significant effect on real estate markets.

The effects on the capital market lag behind the letting market. In situations where the real economy experiences negative changes, the free capital searches more vigorously for safe havens and the importance of cash flow is further highlighted. In addition to this, the volatility of the stock market further increases the appeal of real estate in the eyes of investors. The possible significant slowdown of the economy affects the allocations within the real estate market. The capital gravitates towards secure core real estate, which in turn means a decrease in demand for the more opportunistic assets, assuming the possible influx of new capital does not replace the lost demand.

The largest risk for the real estate sector is a possible disturbance in the financial market, which could be caused by a wave of bankruptcies or the loss of trust between market players as in the financial crisis of 2008. The immediate danger of market disturbance has for the most part faded away, but a financial market disruption would likely severely hamper the financing of real estate investments. The effect is further enhanced by the fact that real estate investing is commonly largely funded by debt and investment unit size is large. This could have severe and long-term effects on the functioning and the liquidity of the real estate market.

According to Statistics Finland, the unemployment rate was 7.1 percent in July 2021, compared with 7.5 percent one year earlier. At the same time, the employment rate, that is, the share of the employed population aged 15-64, increased from 72.6% a year ago, to 74.9%. According to the Ministry of Finance's economic review of Spring 2021, the increase in the number of unemployed in 2020 was 1.1 percentage points. The forecast for the unemployment rate for 2021 is 7.8%.

Consumer prices were raised most in July by increases in the prices of petrol, capital repair on detached houses, diesel, detached houses, and owner-occupied flats from one year ago. The rising of consumer prices from one year back was curbed most by reductions in the prices of refundable prescription medicines, average interest rate on housing loans and consumer credit, regular ferry service, and games of chance. According to the Ministry of Finance, the national consumer price index is expected to increase by 1.4 percent in 2021, 1.5 percent in 2021 and 1.7 percent in 2022. The increase in wages will gradually transfer to especially service prices.

3.2. Retail Occupancy Market

Retailers are in the driver’s seat in the shopping centre market

Activity in the shopping centre leasing market has been in good level despite of the difficult and uncertain times due to the Covid-19 pandemic. However, the leasing negotiations between tenants and landlords are long and difficult. Tenants have many options to choose, and they are not shy when negotiating on rents and incentives. Incentives have become more and more into the lease negotiations. Landlords are more often investing into tenant fit out costs in order to success 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 capable to pay even record high rents this has not been the case on the retail market. The trend in rent levels has been downwards which has been the trend already before the Covid-19 in some subsectors. So far, there are limited signs for this trend to end and market to move rapidly upwards again.

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 longer than 3 years lease. In case longer, a break option is often required from tenants’ side or gained incentives are exceptionally high. Tenants may also require special conditions for exceptional future circumstances.

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.

In addition to grocery sector Covid-19 winner sectors include hobby equipment and hardware. Companies in those sectors have been active in the leasing side as well as surprisingly F&B players. However, most losers are also starting to bounce back. Some international occupiers are scanning the market and we have seen couple of new opening/published market entrants s in the market (Normal, KFC).

After good growth years 2020 and 2021 the retail sales volume growth in Finland is starting to slow again. Considering this and changing consuming 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 F&B sector the increased interest in home delivery service might effect on quality and quantity of space needs of tenants.

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

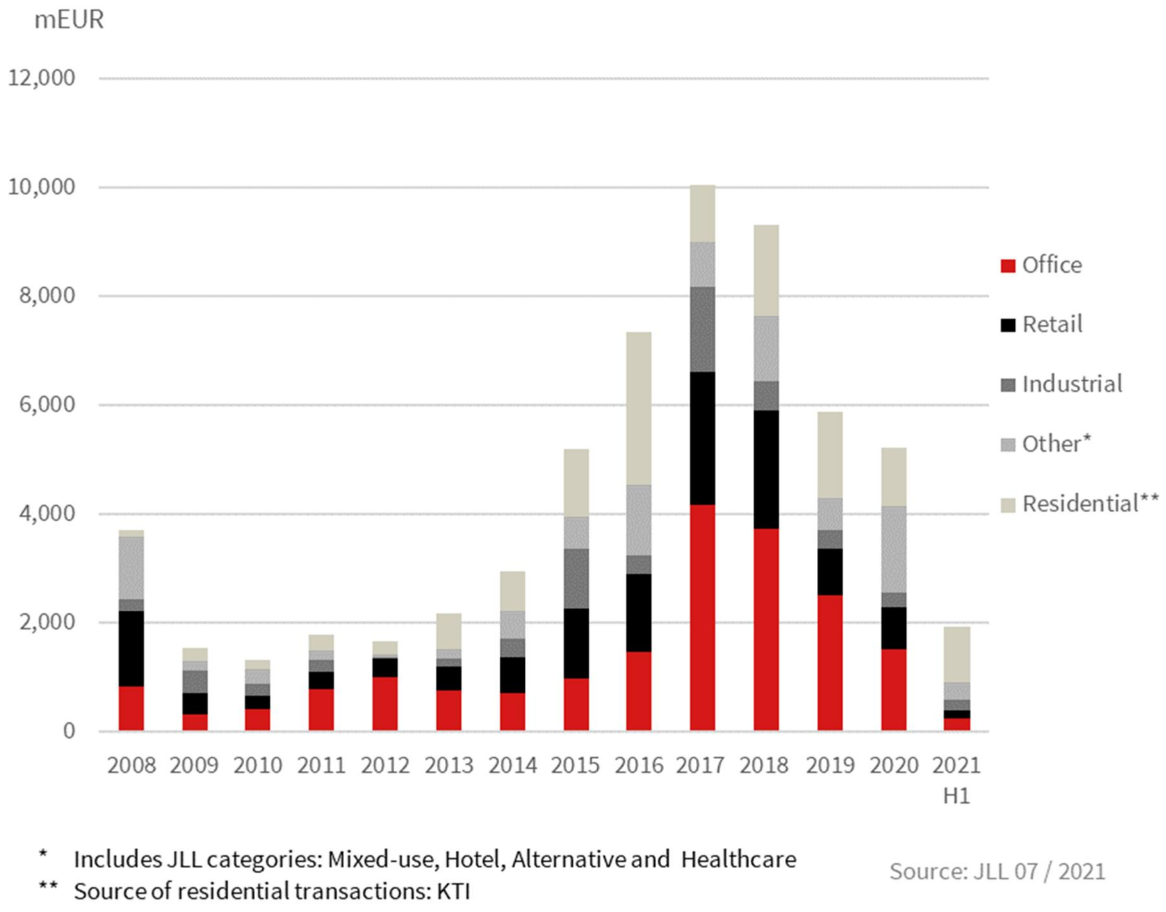
ESG is one of the key trends shaping retail market. As retailers typically trade in physical product, there can be a great deal of emissions embodied in upstream and downstream activities such as manufacturing, transport and distribution, waste generated in operations and end of life treatment of sold 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. Sustainable consumption and secondhand retail might open up new possibilities, especially in busy locations.

3.3. Retail Investment Market

Market is still waiting to see notable shopping centre deals

Overall investment activity in the Finnish real estate market has picked up slightly in the first half of 2021 after the previous year's slowdown. The growing activity is mainly seen in increased demand, while transaction volumes are partly suppressed by a lack of available opportunities. The total transaction volume in H1 2021 amounted to €1.8 billion, similar to volumes in H2 2020.

The real estate investment market remains somewhat polarised, as certain segments have proved more resilient during the pandemic and are attracting more investor focus. Despite the fact that travelling is still far from the pre-pandemic levels cross border investing has continued with notable purchases from e.g. Sweden and Germany.

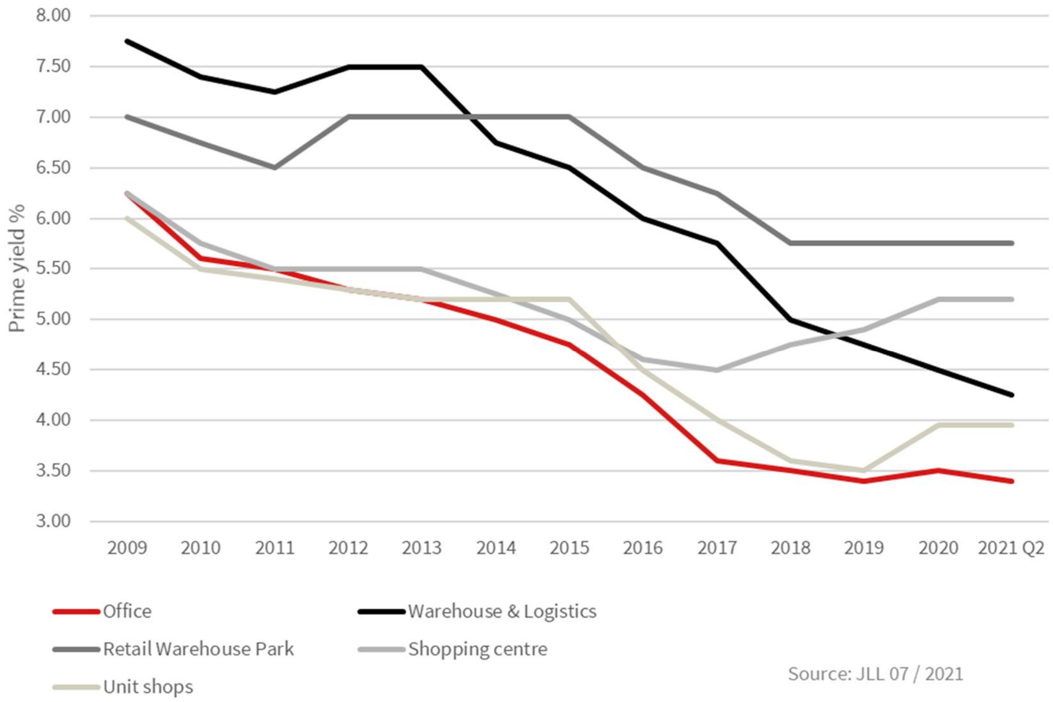


Direct commercial property investment volume in Finland.

Retail market is heterogeneous: grocery and retail warehouse continue attracting capital

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 high demand once shopping centre market and high street retail are still lacking investor appetite. 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 might help the retail sector to be seriously considered by investors again.

During the 2021 the market has not seen any significant shopping centre deals. The estimated prime yield for shopping centres stands at 5.2% which has remained stable since Q2 2020. Prime yield has increased by 70bps from mid-2018. The prime yield for retail warehouse parks is at 5.75% and unit shops at 3.95%. The most notable transaction in the sector during 2021 has been Cibus' purchase of 72 secondary grocery stores across the country at around 72 million euros. The remaining year seems somewhat more active with several mid-sized shopping centre transactions in pipeline both in Helsinki region and outside.



Prime yields in Helsinki.

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 reduction efforts 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.

Severe competition for investments in other property sectors might help the retail sector to be seriously considered by investors again

Demand in the residential sector has remained strong and it became the largest sector during H1 of 2021 in transaction volume. Residential sectors had a share of 45% of H1 transactions while also the prime yields compressed further. The most notable transactions in the 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, and Patrizia's purchase of a 9-property residential portfolio in the HMA for ca. 144 million euros.

Offices were the second most traded sector in H1 2021 with investors 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 3.4%. 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 NREP's purchase of Metso Group HQs in Espoo for ca. 90 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 4.2%, 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, Sagax's purchase of HKScan production and logistics facility in Vantaa in sale-and-leaseback process in Vantaa for ca. 77 million euros, and Evli's purchase of a logistics property in Aviapolis, Vantaa for ca. 15 million euros.

4. Market Outlook Sweden

4.1. Economy

Recovery in the Swedish economy picks up considerable speed in the third quarter following easing of pandemic restrictions

During 2020, COVID-19 had a firm grip on the overall society restricting our social lives as well as economy activity. Following the initial economic shock, signs of positive sentiment followed in the late summer 2020 as infection rates were low. However, a second wave of infections in late 2020 caused the economic recovery in Sweden to stall in the fourth quarter as tighter restrictions were enforced. According to the National Institute of Economic Research (NIER) GDP decreased in Sweden by 2.8% in 2020 and unemployment landed at 8.3%.

The start of 2021 was marked by the second wave, placing considerable strain on healthcare and the economy. The second wave of infections subsided in January but was quickly followed by a third wave which escalated in February and March. GDP nevertheless grew by 0.8 per cent in the first quarter and 0.9 per cent in the second quarter (Statistics Sweden). The third wave peaked in April, and cases started to decline in May.

Infection levels have continued to decrease during the second and third quarter in Sweden following a high vaccination rate. The reduced prevalence of Covid-19 and easing of pandemic restrictions over the summer have helped the recovery in the Swedish economy to pick up considerable speed in the third quarter. Furthermore, the announcement that the majority of restrictions will be lifted in Sweden on September 29th 2021 gives positive signals for retail traders and shopping centres. In their august report NIER revised their GDP forecast for 2021 from 4.4% to 4.7%. However, following weak numbers in the third quarter, their forecast for unemployment is expected to increase to 8.9% in 2021, revised up from 8.7% before decreasing to 7.6% in 2022.

Economic policy has been expansionary during the crisis. Several measures were introduced for businesses to weather the crisis and to support employment. Shortages of materials and logistical issues is predicted to continue to constrain production to some extent in the coming quarters, but the economy is expected to continue to strengthen, nonetheless. NIER updated their inflation forecast to 2.3%, 2.1% and 2.1% for the next three years before stabilizing at 2%.

4.2. Retail Occupancy Market

Consumer and retailer confidence are on high levels but uncertainty about the future remains high

During the course of the pandemic consumers have taken to shop online, car-borne and close to homes. The effect 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.

Following lower infection rates and gradually fewer restrictions from the second quarter 2021 increasing footfall and sale figures are expected for high street locations and shopping centres. The announcement that the majority of restrictions will be lifted in Sweden on September 29th 2021 gave positive signals for retail traders, F&B and shopping centres going forward. The rebound in non-food retail spending following increasing footfall is expected to carry on into the third and fourth quarter of 2021 but could be delayed by the emergence of new variants. Consumer and retailer confidence are on high levels according to NIER in September 2021. Retail sales are expected to grow with 3.0% in 2021 according to HUI.

2020 was a record year for e-commerce in Sweden, which increased sales by 40% according to Postnord who also estimates e-commerce to stand for approximately 14% of the total retail sales in 2020 (11% in 2019). With e-commerce growing and the pandemic accelerating pre pandemic trends with changing consumer behaviours, many tenants are facing difficulties and would be in the risk of bankruptcy if not for the government support measures. As such, there is a heightened risk of increasing numbers of bankruptcies once support measures are winded down.

Many retailers are evaluating their business model and most traditional retail chains are continuing to consolidate their business. Retailer demand focuses on securing and upgrading quality retail space in and around major cities that are on track to see a fast-paced recovery in economic activity and benefit from either large catchments or high levels of affluence. Retailer demand for space is pivoting against experience led shopping destinations and accessible convenience-oriented retail places. Well capitalised mature and new brands are expanding their business focusing on fast and light concepts with lower capex. The overall situation has been putting downwards pressure on terms and rents in late 2020 and early 2021 in shopping centres, but there are signs of stabilizing rent levels of late. Uncertainty remains high both in terms of how potential new variants would delay recovery but also the impact of the accelerated retail trends as of the pandemic with a higher degree of e-commerce which will most likely normalize at a higher level than prior to 2020.

4.3. Retail Investment Market

Few retail deals in Q3 2021 whilst transaction volumes in the Swedish market are on a record high

The Nordic equity markets, bond markets and real estate markets have rebounded over the past 12 months, strengthened by the economic rebound and stabilization of interest rates on attractive low levels, despite pockets of higher inflation. Total real estate investment volumes in Sweden were up by 56 per cent year over year for the first half of 2021 and over a rolling 12 month investment volumes ended on SEK 250 billion, which implies a record level.

Retail remains one of the sectors most severely hit by the effects of COVID-19. The sector is currently not favoured by many investors. The ongoing challenges of increasing e-commerce, accelerating retail trends and the continued disruption caused by the pandemic as well as the gradual tightening of financing conditions, particularly for riskier assets, is expected to put further pressure on physical retail properties. However, there could be a boost for transaction volumes as funds and listed companies in need of equity might be forced to sell the kind of high-quality assets that are still in demand. Investor demand is pivoting towards food stores, retail warehouse assets, prime high street assets and depending on the market, shopping centres with redevelopment potential or a strong convenience offer.

Overall, retail volumes in Sweden were up 33 percent year on year, in part supported by M&A related to the buyout of Trekronor (daily goods retail). Retail properties were sold for an estimated SEK 1 billion, corresponding to approximately 2,5% of the total transaction volume in Sweden during the quarter. During the third quarter four retail transactions have been identified in Sweden. The largest transaction being Serena Properties acquisition of Jägersro Center in Malmö from CBRE GI.

We assess retail yield requirements to have stabilized at a higher level, linked to investment sentiment rather than actual transactions and assess that investors want to be compensated for continued great uncertainty, especially linked to normalised net operating income’s after the COVID-19 pandemic.

5. Citycon Portfolio Yield Commentary

No significant change in the market and thus in the yield level in either country

Finland

The European shopping centre market and the Finnish shopping centre market, as well as the general economic market outlook, has been described above. Based on that and our market knowledge, and despite of the lack of shopping centre transactions in the Finnish real estate market, we are of the opinion that there is no reason to assume yield requirements have moved significantly in Q3 compared to the previous quarter Q2 2021. However, although liquidity is only just returning and we have limited evidence to support yield movements, currently investment market sentiment favours shopping centres locating along good public transport links with low emphasis on fashion sector and high emphasis on grocery and other local and everyday services. We expect this turn to a slight yield compression pressure in the product that fits this appetite.

Sweden

The European shopping centre market and the Swedish shopping centre market, as well as the general economic market outlook, has been described above. Based on that and our general market knowledge, and despite of the limited comparable shopping centre transactions in the Swedish real estate market, we are of the opinion that there is no reason to assume yield requirements have moved significantly in Q3 compared to the previous quarter Q2 2021.

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