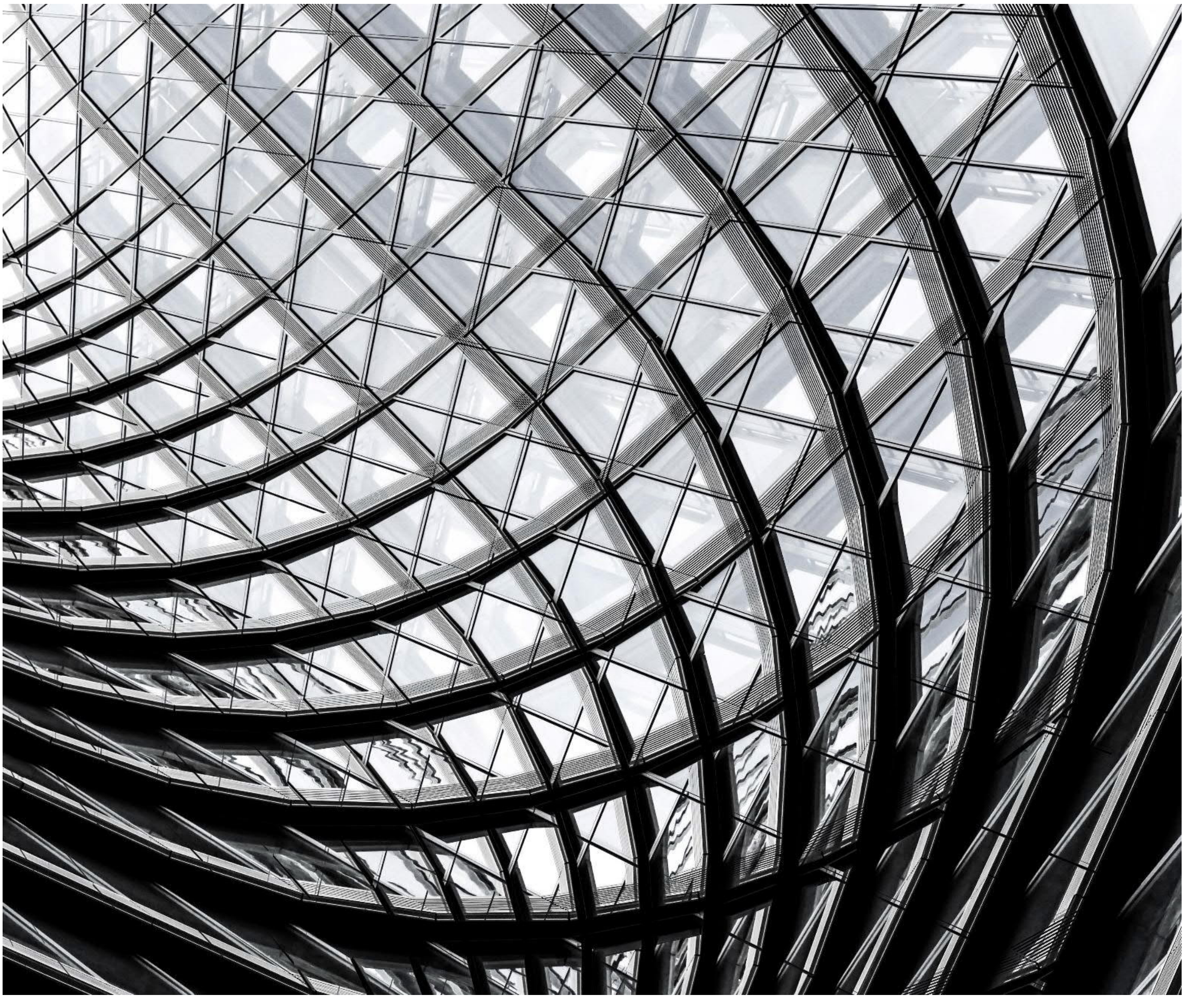
Valuation Advice on Yields and Market Rents

Citycon's properties in Finland and Sweden Q1 2020



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1. Instructions

In accordance with our instructions as the External Valuer of Citycon Oyj (“Company”), we have provided our view on yields and market rents of the properties held within the Company’s investment property portfolio and located in Finland and Sweden as at 31 March 2020. The provided yields and market rents are used for Company’s internal valuation required for financial reporting and performance measurement purposes. All the properties included in the property portfolio were valued internally by the Company except for Lippulaiva, which was updated and the opinion of Fair Value was given by JLL.

Concerning the valuation of Lippulaiva we state the following:

Fair value is defined by the International Accounting Standards Board (IASB) and IFRS 13 as:

“The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants on the measurement date.”

The International Valuation Standards Board (IVSB) considers that definitions of Fair Value are generally consistent with Market Value and we confirm that the Fair Value reported is effectively the same as our opinion of Market Value.

We confirm that our valuation is fully compliant with IFRS accounting standards and IVSC valuation standards and guidance. We also confirm that we have prepared our valuation 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.

The Fair Value stated do not include transaction costs, in accordance with normal valuation practice in the market.

2. Scope of work

For this valuation 2020 Q1 we have carried out inspections for almost all properties located in Sweden, excluding two; Stenungs Torg and Mölndal Galleria.

For this quarter we have provided our view on yields and market rents of the properties held within the Company's investment property portfolio and located in Finland and Sweden. In addition, we have valued Lippulaiva located in Finland. View of market rents and yields have been provided by local JLL offices in Finland and Sweden. Valuation of Lippulaiva was carried out by local JLL office in Finland. We have valued the property individually and no account has been taken of any discount or premium that may be negotiated in the market if all or part of the portfolio was to be marketed simultaneously, either in lots or as a whole.

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 not measured the properties leasable areas but have relied on the 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.

We were not instructed to carry out a site survey or environmental assessment nor have we investigated any historical records to establish whether any land or premises are or have been contaminated. Unless we have been provided with information to the contrary, we assume that the Properties neither are, nor are likely to be, affected by land contamination and that there are no ground conditions which would affect its present or future use

We were not instructed to carry out a structural survey but we have reflected any apparent wants of repair in our opinion of the value as appropriate. The Property has been valued on the basis of the Property owner's advice save where we have been specifically advised to the contrary, that no deleterious materials have been used in its construction.

We have assumed that the Property has been erected and is being occupied and used in accordance with all applicable planning and zoning laws and regulations, consents and permits and that there are no outstanding statutory notices. We assume that the Property and the buildings comply with all statutory and authority requirements including, but not limited to building, fire and health and safety regulations

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.

3. Material valuation uncertainty due to Novel Coronavirus (COVID – 19)

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of “material valuation uncertainty”’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review.

4. Market overview

4.1. COVID-19 and retail as asset class

Global retailers must prepare to navigate a period of elevated risks to cash flow and increased operational costs arising from a slump in consumer demand and disruption to supply chains.

The drop in international travellers will most acutely impact global gateway cities, luxury markets and superprime retail destinations. Domestic retail spending may suffer a temporary decline from consumer reluctance or inability to visit destinations where infection risks are elevated. Non-essential goods items and leisure services will be hit harder than perishables and essential dry goods, which have seen elevated demand as consumers stockpile to avoid personal shortages. As the outbreak spreads, this behaviour can be expected to emerge in new geographies.

In the short term, supply chain disruption will lead to lower inventory levels for some retailers and may result in upward pressure on consumer prices, albeit much depends on the flexibility to source and manage stock. Fashion operators following a traditional two-season model are likely to see disruption spill over later into the year.

If transmission of the virus slows by mid-year, the important Q4 seasonal sale period will be minimally affected, helping to lessen the full-year financial impact. Nonetheless, Lunar New Year sales have already suffered a deep blow and months of inactivity are unlikely to be made up. Significant downside risks exist across all geographies if the spread of the virus continues through year-end.

Protecting cash flow remains crucial for all retailers, and particularly for those operators with thin profit margins, including weaker retailers and non-food value operators. Those hit hardest may seek temporary rent reliefs from landlords. If liquidity and capital constraints arise, new store openings will slow and refurbishments will be delayed.

Retailers with the infrastructure to fulfil online orders through home delivery are currently being perceived as beneficiaries of consumers' reluctance to visit stores and we are seeing an increased conversion of people to online. Greater emphasis will be placed on the shift towards a flexible omni-channel retail model and sustainable fulfilment; strengthened partnerships between landlords and retailers will need to emerge to achieve this.

In the longer term many retailers are likely to rethink their supply chains to ensure continuity of their operations and to mitigate risks of future shocks. Coupled with initiatives to improve the sustainability performance and limit the environmental impact of wider operations, retailers may opt to produce and house more stock locally. This may boost additional demand for logistics space and/or drive the repurposing of existing store networks.

4.2. Finland

4.2.1. Economy

The world economy is at a state of great uncertainty due to the COVID 19 pandemic. The World Health Organisation (WHO) classified the Coronavirus as a pandemic on March 11th. The disease has spread around the world gradually and due to this, as well as the actions taken by countries, the phase of the pandemic varies around the world. The measures taken to prevent the spread of the disease cause the global economy to slow down. Especially the movement restrictions have hit the economies hard, as they have separated the consumers from service providers. Due to this the service and retail sector has been hit the worst. This is unusual, as previously the demand for services has survived economic downturns with minimal effect. According to leading economic organizations' and global forecasting companies' (OECD, Oxford Economics) forecasts, the Coronavirus will cause a short but severe slump in the world economy. In these scenarios, the pandemic is tamed during the Q2, after which the world economy returns to normality. However, it is still too early to say how quickly the world economy will recover, how large and how persistent the unemployment effects are, and how fast the consumption levels return to standard levels.

The Bank of Finland and Research Institute of the Finnish Economy (ETLA) forecast the Finnish gross domestic product to decrease in 2020 by 1.5 - 4 percent (forecast 18.03.2020) and 1 – 5 percent (forecast 17.03.2020) respectively. The Bank of Finland sees a large increase in unemployment as a potential threat, which is mainly due to the isolation measures taken. If the financing needs of companies cannot be secured, the private sector may face businesses falling to insolvency on a large scale, which evidently leads to large unemployment. Measures have been taken by the Bank of Finland, Finnvera, Business Finland and banks to secure financing for companies.

The changes in the real economy can be felt in the letting market faster than in the capital market. The effects of the Corona virus pandemic can be seen primarily in accommodation sector, restaurants, services and non-essential retail. If the pandemic persists for an extended period, causing the economic growth to decrease notably, businesses will start to renew their views of the future. This will be reflected in their demand for space and eventually at the demand of office premises.

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 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.

4.2.2. Retail market

Retail Occupancy Market

At the end of Q1 the shopping centres were open throughout the country. However, as the COVID-19 pandemic has gotten worse, the retail sector has been forced to take actions in order to prevent the pandemic from spreading and because of severe decrease in customers. The shopping centres have widely agreed to more flexible opening hours and especially majority of the specialty stores have used the opportunity and have reduced the opening hours. The government measure to close the restaurants was put into action at the end of March, and the measure will continue at least at the end of May. During this time only take-away and homedelivery is allowed. Even before the government measure, some of the restaurants have closed their doors.

The reduced opening hours combined with people's want to avoid close contact with each other have reduced the foot fall drastically. Current situation is affecting letting of the currently vacant units and re-negotiations as occupiers are faced with uncertainty of the affects and length of the restrictions. Number of landlords have granted or are willing to negotiate of rent frees, rebates or other arrangements especially when it comes to the restaurants.

Shopping centre Hertsi located in Herttoniemi, Helsinki was opened in mid-March. The new shopping centre has focused more in everyday services and has only limited amount of typical specialty stores. The property had significant amount of vacant space on opening day.

Retail Investment Market

In the first quarter there were two shopping centre transactions. Grocery store driven Tikkuri mall in Tikkurila, Vantaa was sold to opportunistic investor Alma Property Partners and shopping centre Espen in Vaasa city centre was sold to Trevian as part of the sale of the entire block. Other transactions in retail sector included hypermarket Prisma in Itäkeskus, Helsinki, which was sold to VVT Property Fund I Ky. Approximately 70 % of the property's leasable area has been leased to hypermarket operator. Property in Jätkäsaari, Helsinki leased fully by Verkkokauppa.com, was sold to French fund Corum. All the assets were sold for undisclosed amount. All the transactions have been made or well-prepared prior the spread of COVID-19.

The shopping centre prime yield has remained at 4.9 % as there is yet no evidence on the market after the COVID-19 outbreak and the effects are yet to be seen. Even prior to COVID-19 the demand for retail properties has decreased as the sector is facing difficulties as the people's consumption habits continue to change and online shopping is increasing. In addition, retail stock in has increased significantly during past few quarters especially in HMA.

Comment on Citycon's properties

Market rents have generally remained stable in Citycon's properties since Q4 2019 as there has been no evidence yet of the effects of COVID-19, but some changes were made downwards due to increased vacancy which was not a result from COVID-19. Increased vacancy and limited occupier demand are forecasted to show as lower rents. IsoKarhu saw the largest adjustment, as several occupants vacated their premises, including Intersport and KooKenkä. In addition, Heikintori and Koskikeskus market rents were adjusted slightly as the vacancy increased.

COVID-19 does not leave Citycon's portfolio untouched and cashflow yields were increased slightly to reflect the uncertainty tied to the cashflows. In addition, JLL has advised on a rental discount to be included for non-essential tenancies.

4.3. Sweden

4.3.1. Economy

The COVID-19 pandemic will hit the Swedish economy hard. Just how hard is currently very difficult to say, but a particularly deep economic downturn looms. Concern about infection and official advice to limit social contacts are putting a major damper on household demand, and delivery problems are disrupting production in parts of the business sector. Demand is also being adversely affected by drastic measures abroad to curb the spread of infection.

NIER, National Institute of Economic Research, estimates that Sweden's GDP will fall by just over 6 per cent in the second quarter. Economic policy is already adopting a strongly supportive role. The focus is on supporting the business sector and local government to prevent a wave of bankruptcies and mass unemployment. NIER believes that this is an appropriate focus, but that more action than what has been decided or announced to date will be needed to stem the rise in unemployment. Relatively low government debt means that there is substantial scope to provide further support for the economy. Unemployment is estimated to increase to 8.7 % for 2020. The Swedish government forecast similar figures in terms of GDP and unemployment rate for 2020. A wide range of economic policies have been proposed by the government to help mitigate the effects of COVID. These include a proposal referring to that the government takes a part of a rental relief focused on vulnerable sectors.

Following increased uncertainty, the stock market has experienced significant turmoil globally. The Swedish market index OMX Stockholm PI is per March 31 2020 down 18.39 % this year. Stock prices of listed real estate companies fell initially by almost 50% in two weeks. OMX Stockholm Real Estate PI is per March 31 2020 down 24.63 % this year.

According to the Swedish central bank, Riksbanken, travel agencies, hotels and restaurants report an extremely large fall in sales in recent weeks. If the situation does not change soon, they fear that businesses may need to be closed down. In contrast, the non-durable goods segment has seen a sharp increase in sales, not least tinned goods, toilet paper and pharmaceuticals. The clothing trade is also reporting a clear decline in sales. As the lead times from China are fairly long, most people have not yet been affected by disruptions to delivery, but they are expecting delivery delays with regard to the summer season.

Several consumer-related retail and services companies point out that the changed consumer behaviour has led to a shift in developments. Previously it was a question of a minor supply stoppage with disruptions to deliveries, but now it has developed into a situation with rapidly falling demand.

Retail and services companies are trying in various ways to reduce their fixed costs to meet the lower demand. They are negotiating rents, have cut back on temporary staff and are giving notice of redundancy to permanent employees. The automotive industry is also reporting staff cutbacks. Other manufacturing companies have not yet needed to reduce their workforces, but think they may need to do so going forward. Companies are positive to the Government's crisis package and they are examining how they can make use of it. At the same time, many say that more needs to be done for especially vulnerable sectors.

4.3.2. Retail market

Retail Occupancy Market

During March the COVID-19 outbreak has affected the retail and restaurant business with declining turnover and footfall. There is currently no quarantine in Sweden, but it is encouraged to work from home and restrict social contact. Shopping centers are still open, but property owners have adjusted the opening hours or allowed stores to decide their opening hours individually. The government have presented a package where property owners could share the cost of rental rebates with the government. In short, property owners could from the government receive up till 25% of rental rebates up to 3 months given to tenants. The property owner would apply for this package in retrospect and it is currently still a proposal. The Swedish trade federation has the opinion that the government needs to help the retail sector with more governmental support to save the companies liquidity.

Due to the current situation, the terms for lease contracts are being renegotiated if possible and retailers generally wants to postpone opening dates for new stores. In the short term the COVID-19 outbreak will impact retailers and restaurants turnover. The lower turnover and the recent years' tougher retail climate with E-commerce challenging the physical retail can present liquidity problems for some retailers. It is at this point hard to predict how the COVID-19 outbreak will affect the retail and restaurant business in the mid to long term, but the outbreak likely to increase the rate of development for E-commerce.

Retail Investment Market

During Q1 2020 the retail transaction volume is estimated at approx. MSEK 8,600 which is an increase compared to Q4 2019 as well as Q1 2019. Retail represented 13.5 % of the total transaction volume in Sweden in Q1 2020, which is substantially higher than the 2019 average of 5 %. The large increase in transaction volume is mainly driven by two large transactions, each over MSEK 1,500.

The most notable transaction is that of Farsta Centrum in early March, acquired by Stadsrum Fastigheter for MSEK 3,979 (SEK 39,790/sqm). The centre is located in the southern part of Stockholm municipality. The centre comprises approx. 100,000 sq. m of retail-, office- and space for public services / healthcare (excl. parking). The centre reported retail sales of MSEK 2,463 in 2018 (SEK 47,663/sq. m retail space) and approx. 18 million visitors per annum. This is one of the largest sales of a retail asset in recent years in Sweden. Anchor tenants include amongst others: Coop, ICA, Lidl, Systembolaget, Clas Ohlson, H&M as well as the local Healthcare Centre. The yield was not reported but estimated to be approx. 5.25 %.

Other notable transactions in the segment are Cibus acquisition of Coop's portfolio of Netto stores throughout the country for MSEK 1,900 in early March, Grandholm Fastigheter's acquisition of Saltsjöbaden Centrum in Nacka in the eastern part of Stockholm in January and the acquisition of four town centres in the north of Stockholm by a JV between NREP and Grandholm in January. In addition, Niam acquired #Bernstorp in Burlöv in early February.

Comment on Citycon portfolio

During Q1 2020 an increase in transaction volume for retail properties has been recorded, with two larger transactions over MSEK 1,500 where one was a larger shopping centre located in Stockholm. Although an increased volume, there is yet no evidence of the impact of COVID-19 on yields as transaction evidence is scarce following the outbreak. There is a tendency for slight yield adjustments prior to COVID-19 for some properties, both upwards and downwards. Market rents have mainly remained stable and only small adjustments have been made. Generally, the market rent is in line with the previous quarter. In addition, JLL has advised on a rental discount to be included for non-essential tenancies.

In Helsinki 8th April 2020

Yours faithfully

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