

Market Outlook & Yield Advice

Citycon Oyj
31 March 2021

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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 31 March 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 (2020 Q4) in terms of yield requirements or not.

We have not received any data from Citycon regarding the performance of the assets for this report.

We have inspected all the properties in Finland and in Sweden between Q4 2019 and Q4 2020.

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.

2. COVID-19 and retail as asset class

Retail is one of the sectors where the impact of COVID-19 pandemic has been the strongest and most visible from the beginning. The drop in international travellers has most acutely impacted global gateway cities, luxury markets and superprime retail destinations in Finland and Sweden. Domestic retail spending has been suffering a temporary decline from consumer reluctance or inability to visit destinations where infection risks are elevated. Retail sales have been hit hard by the changes in customer behaviour and the temporal closures of shops. Shopping centres have remained open throughout the pandemic, but many fashion retailers, among others, have reported significant sales losses. Groceries have stood out from the rest of retail categories as the sales of the sector have been growing, but mainly on the expense of restaurants and cafes.

Sales volumes of online retail have been growing steadily in Finland and in Sweden for years, and it seems that the outbreak is accelerating the shift from traditional retail to online platforms and multi-channel. 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 number of people converting to online shopping. It remains to be seen how permanent the changes are. 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.

3. Market Outlook Finland

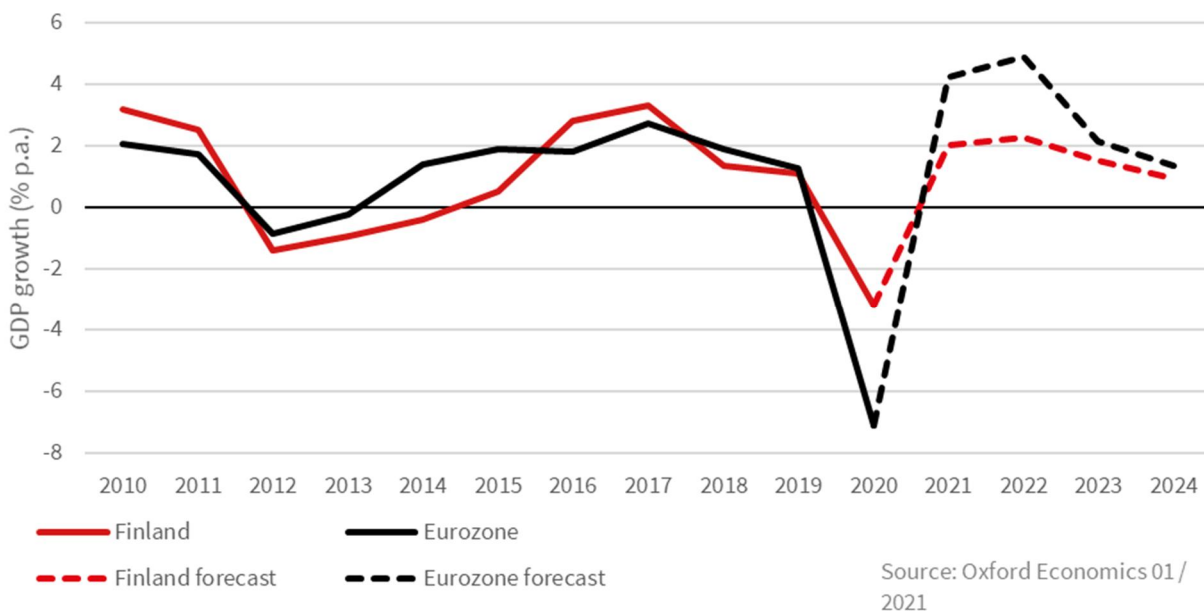
3.1. Economy

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) vary notably within countries as well as between countries. In Europe, after the first wave in the Spring of 2020, the situation improved notably during the Summer with relative normality returning, which also reduced economic uncertainty. However, during the course of the year infection rates have fluctuated notably in different areas. Additional worries have risen due to the appearance and spread of new variants of the virus. Globally risks still remain on an elevated level.

While the vaccines are currently being largely distributed and realized all over Europe, the vaccination schedule is still open. Currently (14.4.2021) 21,3% of all Finnish citizens have received the first dose of vaccine.

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 March 2021, the OECD estimates the EU GDP to have decreased by 6.8% in 2020 and forecasts growth of 3.9 and 3.8 percent for years 2021-2022 respectively. The corresponding values from the IMF's January 2021 estimate for 2020 GDP growth is -7.2% and forecasts for the 2021-22 being 4.2% and 3.6% respectively.

Finland has thus far survived with relatively small damages from the pandemic. The Ministry of Finance and the Bank of Finland forecast the Finnish gross domestic product to decrease in 2020 by 3.3 percent (forecast 17.12.2020) and decrease 3.7 percent (forecast 15.12.2020) respectively. The increase in unemployment and the number of furloughed people has not been as bad as feared in the start of the pandemic. Both have decreased from the peak witnessed during spring of 2020. However, the unemployment level and the number of furloughed people are still higher than in normal market situation. The measures taken during the spring of 2020 to secure funding for companies seem to have worked, as by the beginning of 2021 the amount of bankruptcies in Finland remains at pre pandemic levels.



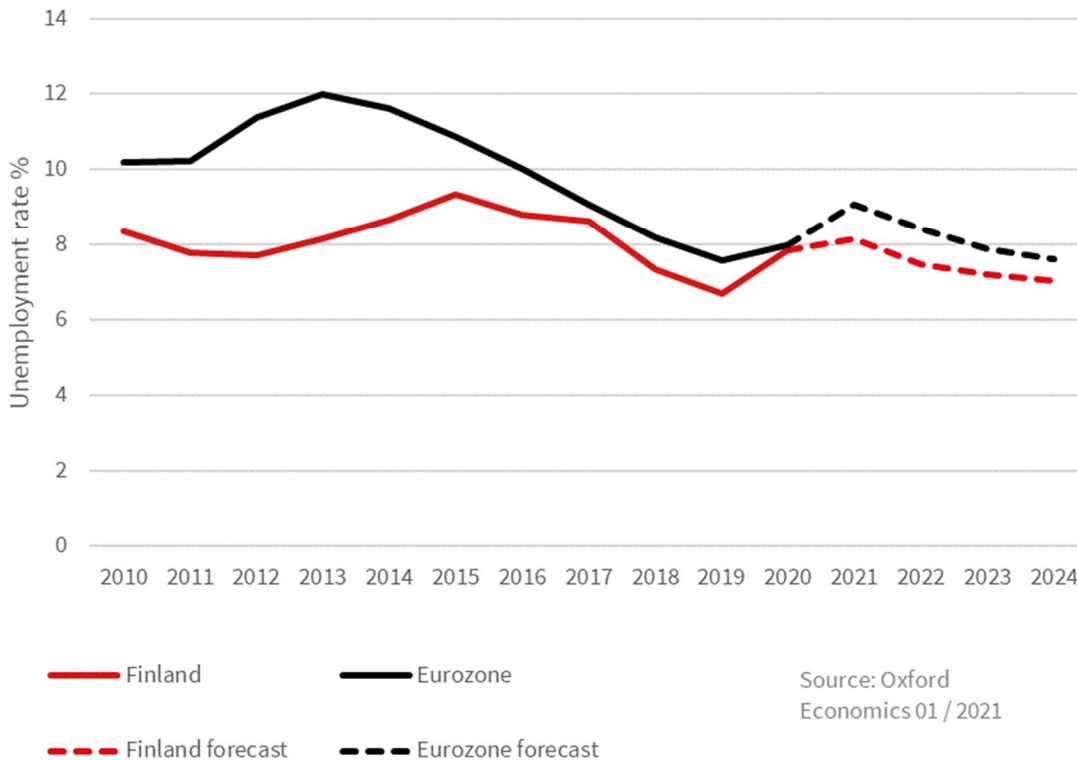
Finland GBD

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, 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.

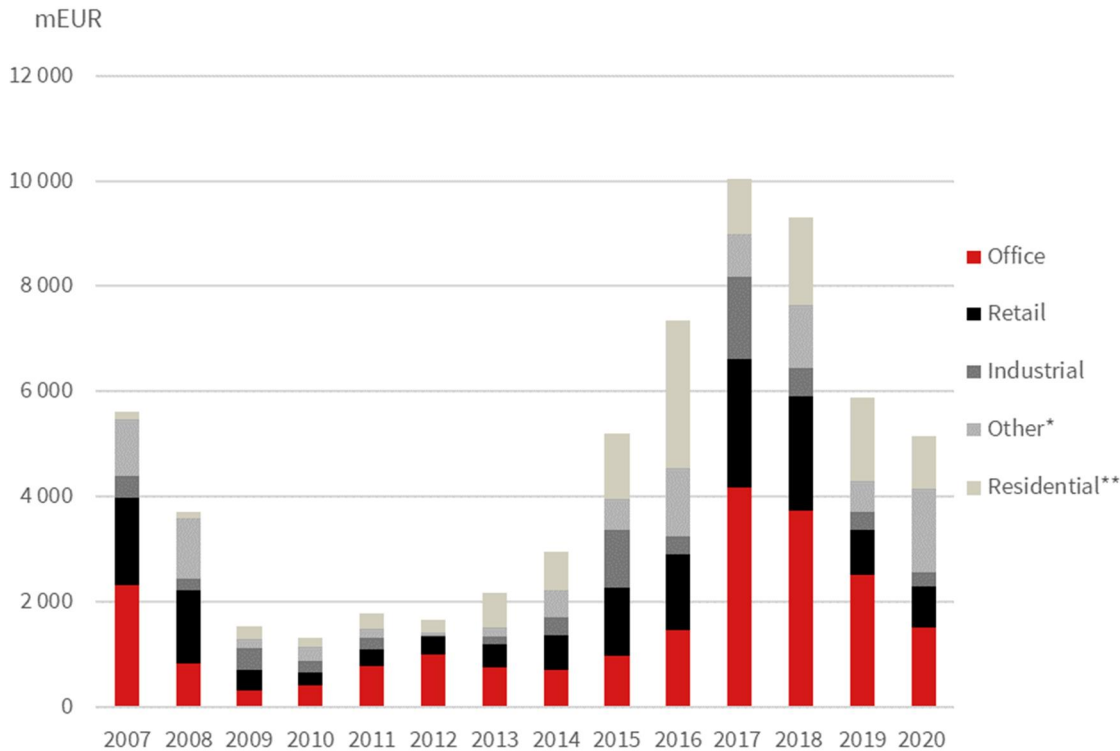
The largest risk for the real estate sector is a possible disturbance in the financial market, which could be caused by a wave of bankruptcies or the loss of trust between market players as in the financial crisis of 2008. The disruption would likely severely hamper the financing of real estate investments. 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.



Unemployment in Finland and Eurozone.

3.2. Investment Market

The investment market saw a gradual recovery during the last half of 2020, with transaction activity picking up significantly in Q4. The total transaction volume in H2 amounted to around €1.8 billion, resulting in a total transaction volume of €5 billion for the whole of 2020, a slight decrease on the previous year.



* Includes JLL categories: Mixed-use, Hotel, Alternative and Healthcare

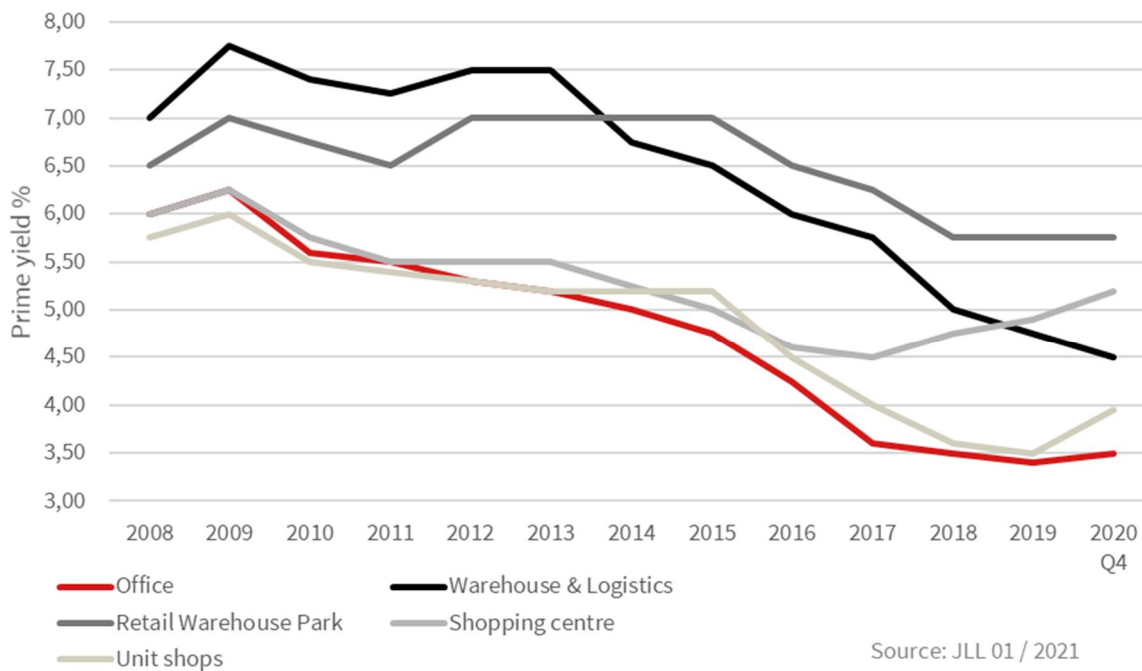
** Source of residential transactions: KTI

Source: JLL 01 /
2021

Direct commercial property investment volume in Finland.

Healthcare became the most traded segment in H2, accounting for some 26% of the total investment volume. Offices accounted for 25% of transaction volume, with core office properties still in high demand. The market is still partly polarized with investors showing a strong preference for segments less affected by the pandemic such as residential, logistics and healthcare. Retail and hotel sectors are still heavily affected as there are currently no indications of when international travel will recover.

Although travel restrictions have remained in place, the value of cross-border investments rose to pre-pandemic levels in Q4. A large contributor to this was eQ's sale of a healthcare portfolio to Samhällsbyggnads Bolaget i Norden (SBB) for €222 million, and Castellum's acquisition of the Lindström Invest real estate group for €150 million.



Prime yields in Helsinki.

In the beginning of 2021, the general market sentiment remains cautious and partly polarised, with offices, logistics and residential properties seeing continued strong investor demand, whereas the demand for retail and hotels is more uncertain. It is still unclear how well pricing views of seller and buyers will meet in the less strong sectors. We expect little if any forced sales, as banks have remained flexible and LTV levels historically conservative. The potential pricing view disparity between market counterparts may thus translate into a lower number of transactions.

Continued high demand for prime logistics has caused a 15bps drop in the prime yield. Also prime yield for big box retail has decreased by 10 bps. On the contrary, retail prime yield has increased 10bps. Yield for residential sector has so far been largely unaffected by the crisis, with prime residential yield remaining at a record low 3.25%. Going forward, the market of 2021 is strongly dependent of managing the COVID-19 pandemic. The beginning of large scale vaccinations around the world is good news when looking forward, however the new variants that are spreading will bring new challenges. Despite this, the market is expected to recover during the next few years, which presses the prime yields down in almost all sectors as the interest rates are still low globally.

3.3. Retail market

Retail Occupancy Market

Despite the situation caused by the COVID-19 pandemic the shopping centres has been open throughout the country, although the restrictions between March 29th – April 18th closed restaurants and cafes allowing only take-away and home deliveries with the exception of northern Finland, where the restaurant sector has been open with limited opening hours. There is also recommendation to close all the public areas within shopping centres in cities, where the coronavirus is in the spread phase. 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 reduced opening hours, closed restaurants and 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 still faced with uncertainty of the affects and length of the restrictions. Expansion and refurbishment plans have been put on hold or at least slowed down. There are however only limited number of rent-frees requested, but there are large amount of rent arrears decreasing the ability to pay in the near future. The financial situation of the tenants is still a question, and in addition to closing of individual stores, the wave of bankruptcies is possible especially within restaurant and café operators. An

example of financial uncertainty is Outlet village Zsar, which has applied to company restructuring process after significant decrease of visitors and sales.

Retail Investment Market

While there have been several transactions which have included big box retail stores and hypermarkets, there has not been shopping centre transactions during 2021 and only few shopping centre transactions were made in H2 2020. Property of 5,900 sq. m, which is part of shopping centre Jyväskeskus, was purchased in Jyväskylä. The purchaser was a private investor and the seller West Capital Oy. Other shopping centre transaction made was done in Lauttasaari, Helsinki, in where local mall Lauttis has been purchased by Veritas from Aberdeen Standard Investment. Lauttis has around 6,000 sq. m of lettable area and has strong emphasis on everyday services, such as groceries and pharmacy.

The shopping centre prime yield in Q1 2021 stood at the same level as in Q4 2020, at 5.2 %. Prime yield has increased by 70bps from mid-2018. 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, while large number of shopping centres have already started to lean more towards entertainment and service sector, the rental levels within these sectors are not what they have been with fashion sector. While investors have money to invest, minimal investor demand for traditional shopping centres, accelerated rise of online shopping and uncertain financial stability of tenants are keeping investment market within shopping centres at very low level.

3.4. Citycon Portfolio Yield Review

We have formed an opinion of yield levels within Citycon portfolio on general level based on our knowledge of the current market situation. While the increased COVID-19 infections and re-imposed restrictions has hit the retail sector and the retail operators performance has become more difficult, especially within the restaurant operators, the current view is that the situation is only temporary and the COVID related uncertainty is slowly coming to an end. However, the uncertainties within retail sector in a longer run, especially increasing online shopping and changing consumption patterns, are still there.

The investors are very cautious when it comes to retail sector, and there is very limited amount of market evidence. The situation however per Q1 2021 has not drastically changed from Q4 2020. As such our assessment per Q1 2021 is that yield requirements for the properties within the Citycon portfolio in Finland have not moved significantly compared to Q4 2020.

4. Market Outlook Sweden

4.1. Economy

For over one year now, COVID-19 has 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 has been marked by the second wave and signs of a third wave of infections have brought subdued growth in the first quarter this year. Hospitals are still under pressure with high levels of infection, which in turn suggests continued restrictions and financial losses is likely to continue in the short term. The new restrictions on maximum amount of people in shopping centres, shops, restaurants and gyms are limiting consumer spending. According to NIER recent data and indicators suggest GDP has begun to grow again in the first quarter. The rise is mainly due to greater optimism in the manufacturing industry which has proven to not be as affected by the pandemic during the last quarters. The service industry is struggling but as vaccines are now being largely distributed and realized, NIER predicts the sector to have a strong recovery in H2 2021. As such NIER have revised their GDP forecast from 3.1% to 3.6% in 2021 and their forecast for unemployment which is expected to increase in 2021 to 8.6%, revised down from 9.0% before decreasing to 7.7% in 2022. Restrictions are expected to ease gradually from the summer, provided that the spread of infection has decreased significantly.

Economic policy has been expansionary during the crisis. Several measures were introduced for businesses to weather the crisis and to support employment. The government has announced that some of the subsidies, such as short-term layoffs and reorientation support, will be extended to the summer to counteract the economic impact of the protracted pandemic. With recovery in sight, the agenda has shifted. Instead, rising inflation and interest rates have been the theme in the markets. Improved economic prospects in combination with short-term inflationary pressures will continue to shape that discussion in 2021. NIER updated their inflation forecast to 1.8%, 1.5% and 2.1% for the next three years before stabilizing at 2%

4.2. Retail Occupancy market

The prolonged and tightened restrictions in Sweden continue to dampen consumer spending, especially in physical retail destinations. Overall consumer spending was down approx. 4.7% during 2020 according to Statistics Sweden. 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 fared significantly better, in some cases even seeing an increase in sales. The pattern is expected to continue well into 2021 and recovery is dependent on the vaccination roll out and future restrictions.

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). Restaurant sales are down on average 20% across the country in 2020 (Statistics Sweden), not considering sales of alcohol. HUI research estimate retail sales growth to 3.5% in 2020, but as stated the polarization within the retail segment is extreme at the moment. The HUI Research Institute suggests a modest 2–2.5% growth for the total retail market in 2021-22.

With e-commerce growing and the pandemic accelerating previous trends with changing consumer behaviour, many tenants are facing difficulties and bankruptcy risks are higher than before the pandemic. Retailers that already have adopted a multi-channel offering are seeking physical exposure to complement their online offering, often limited to one or a few flagship locations. Many retailers are evaluating their business model and most traditional retail chains are continuing to decrease store space across the country. The overall situation is putting downward pressure on terms and rents. Currently, landlords tend to offer rent-free periods, investment contributions and turnover based rents only for a limited time in order to get the

deal signed. Uncertainty remains high regarding 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 previously.

4.3. Retail Investment Market

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, the investment demand is very polarised, with focus moved from shopping centres to local services and retail warehouses that have longer lease maturity, stable cash flow and lower pressure on rental decline. Stronger consumer confidence and the vaccine roll out should limit the short-term risks although investors/banks still favour income resilience and quality locations. We expect reposition and financing to remain strong drivers for transactions in the short term.

Six transactions were identified within the retail segment during the first quarter in Sweden. The largest transaction being Citycon's sale of three community centres in Stockholm to Niam for SEK 1.5 billion in February 2021. The portfolio has a high degree of groceries and public tenants and have generally performed well under the pandemic with stable turnover. Niam also acquired Haninge Centrum from Grosvenor in March 2021, transaction price was not reported.

During Q1 2021, retail properties were sold for SEK 3.1 billion, corresponding to 7% of the total transaction volume in Sweden during the quarter, down 64% compared with Q1 2020. COVID-19 uncertainty and physical limitations for retailers and restaurants have clearly affected investment sentiment negatively and limited the number of transactions in Q1 2021. The comparison with last year is, however, very difficult, when Farsta Centrum was acquired by Stadsrum from Atrium Ljungberg in a record-breaking deal at approximately SEK 4 billion. If we adjust the volume for the large deal, the underlying volume in Q1 2021 is down by 38%.

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. For prime external retail we currently assess prime yields at 5.40%, (+15 bps compared to Q4 2019, pre COVID levels) and for prime external shopping centres we currently assess prime yields at 4.80%, (+30 bps compared to Q4 2019, pre COVID levels).

4.4. Comment on Citycon portfolio

In accordance with our instruction we have formed an opinion on if yield requirements for the properties within the Citycon portfolio have moved on a general level based on our knowledge of the current market situation. While the increased COVID-19 infections and re-imposed restrictions has increased uncertainty in revenue short term, the market now expects stronger consumer confidence and the vaccine roll out to limit the short to medium term risks.

The situation per Q1 2021 has not drastically changed from Q4 2020. As such our assessment per Q1 2021 is that yield requirements for the properties within the Citycon portfolio in Sweden have not moved significantly compared to Q4 2020.

5. Retail Investment Market in Europe

As in Finland and Sweden, the European retail market is distorted as well. The current situation is fluid with prolonged period of lockdowns meaning a slower recovery in physical retail sales. The COVID-19 vaccine is expected to act as a tipping point in H2 2021, which is likely to result in a cautious recovery in leasing activity and a further pick-up in 2022. Leasing activity could accelerate more quickly in major cities, depending on the recovery of tourism flows as well as the economy.

Prime retail rents witnessed a sharp correction in 2020 in most European retail markets but are expected to gradually recover from 2021 onwards and to be back at pre COVID-19 levels by 2024. 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.

In occupier market many non-essential retailers have requested rent frees and deferrals to ease the financial pressures, and pro-active landlords continue to work with retailers to provide flexibility and to grant needed rent frees. Expansion and refurbishment plans have been put on hold or at least slowed down, but there most likely still will be increase in retail failures, accelerated restructuring store portfolios and permanent store closures.

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. There is a strong investor appetite for quality grocery real estate, retail warehouse assets and prime high street units while in shopping centre market mismatch in pricing expectations between buyers and sellers for shopping centre stock continues to constrain activity.

In 2020, retail investment volumes reached a total of €29.6bn down 27% year-on-year. The figure would have been lower if not for the Unibail-Rodamco-Westfield portfolio in France where a share of the assets was divested in Q1 and also the acquisition of Glatt Zentrum in Zurich by Swiss Life for close to €1bn which closed in Q2.

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 weaker secondary and tertiary shopping centre markets are seeing more activity with a wide range of buyers, including developers, PE-investors and UHNW-investors.

The yield gap between prime and secondary shopping centre stock is expected to widen further in 2021.

In Helsinki 27th April 2021

Yours faithfully



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For and on behalf of
Jones Lang LaSalle Finland Oy



Simo Hännikäinen
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In Stockholm 27th April 2021

Yours faithfully



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