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A wide-angle photograph of the Mexico City skyline. The image shows several tall, modern skyscrapers with glass facades, some reflecting the blue sky. In the foreground, there are lush green trees and a clear blue sky with a few wispy clouds. The text 'MÉXICO ECONOMIC AND MARKET REPORT 1Q-2016' is overlaid in white on the right side of the image.

MÉXICO ECONOMIC AND MARKET REPORT 1Q-2016

THE INTERNATIONAL COUNSELING AND VALUATION GROUP

Country of México Summary



SUMMARY OF KEY INDICATORS 1Q-2016

Capital:	México, D.F. (México City)
Area:	1,972,550 Km ² 761,600 Miles ²
States	31 States and 1 Federal District (D.F.)
Largest City	Mexico City Metro (E) 22 million people
Mexico's Population	121,486,582 (STPS, 1 Q, 2016)
	48.5 % Men; 51.5% Women (STPS, 1Q, 2016)
Population Annual Growth	1.8% (2005 – 2010 STPS, 4Q-2015).
Work Force / Economically Active (PEA)	53,809,017 (1Q-2016 STPS)
Unemployment	2,240,498 = 4.16% (STPS 1/2016) / 59.9% Males; 40.1% Females.
GDP USD	\$1.295 Trillion, 2014 by The World Bank
GDP (PIB) per capita	\$ 9,870 USD (2014) The World Bank
Annual GDP growth	2015: 2.3%; 2016: 2.5%; 2017: 2.9% (IMF, Jan. 2016)
Manufacturing Sector Activity Index / Orders	March, 2016: 51.6 bp (INEGI) compared to 51.3 in February.
Foreign Direct Investment	\$28,382.3 Million USD during 2015, Comisión Nacional de Inversión Extranjera. +25.8% compared with 2014.
International Reserves BUSD	\$176,665 million USD (Banxico, March 25, 2016). Reserves decreased 70 million since Dec., 31, 2015.
Inflation	2.13 % (INEGI, Dec. 15 2015); Long Term Outlook:3.4%
Mexico Country Risk Factor	223 bp Embi+ (JP Morgan at March 31, 2016)
Mexico's Peso-USD Exchange Rate (TC) by The EIU	The Economist I.U. Short Range: 17.95 x 1; Long Range 16.50 x 1.

Mexico amidst the Global Economy State of Affairs

As pointed out on its Global Economic Prospects 2016, the World Bank reports Global growth as disappointing in 2015, slowing to 2.4 percent, and is expected to recover at a slower pace than previously envisioned. Growth is projected to reach 2.9 percent in 2016, as a modest recovery in advanced economies continues and activity stabilizes among major commodity exporters, according to the World Bank's January 2016 Global Economic Prospects.

Forecasts are subject to substantial downside risks. A more protracted slowdown across large emerging markets could have substantial spillovers to other developing economies, and eventually hold back the recovery in advanced economies. A broad-based slowdown across developing countries could pose a threat to hard-won gains in raising people out of poverty, the report warns. "More than 40 percent of the world's poor live in the developing countries where growth slowed in 2015".

World Bank Group President Jim Yong Kim said: "Developing countries should focus on building resilience to a weaker economic environment and shielding the most vulnerable. The benefits from reforms to governance and business conditions are potentially large and could help offset the effects of slow growth in larger economies."

Major Economies

According to the World Bank's report, the recovery in major high-income countries gained traction last year. This has been increasingly driven by stronger domestic demand, particularly in the United States, where employment conditions are robust. In the Euro Area, credit growth is picking up and unemployment is declining. The recovery remains fragile in Japan despite substantial policy stimulus. With external demand negatively affected by a slowdown in large emerging market economies, growth forecasts across major high-income economies in 2016 have been shaded down, but growth should still show some improvement from 2015. The tightening cycle of the U.S. Federal Reserve is projected to be very gradual, while policy accommodation will likely continue in the Euro Area and Japan. China's gradual slowdown and rebalancing continued in 2015, as further deceleration in sectors with excess capacity was partially offset by robust growth in services.

Latin America and the Caribbean

Economic activity in the broader Latin America and the Caribbean (LAC) region contracted in 2015. Following three consecutive years of slowing growth, output in the region fell 0.9 percent in 2015, partly reflecting sharp declines in economic activity of large regional economies, such as Brazil and the República Bolivariana de Venezuela (Table 2.3.1, Figure 2.3.1). This reduction in output stemmed from a combination of global and domestic factors, particularly the continued slump in commodity prices. Lower crude oil prices – down around 45 percent from 2014 levels – have reduced export earnings and fiscal revenues of regional oil exporters such as Belize, Colombia, Ecuador, Mexico, and Venezuela.

Source for World Bank data and quotes; *World Bank Group. 2016. Global Economic Prospects, January 2016: Spillovers amid Weak Growth*. Washington, DC: World Bank. Washington, DC: World Bank. doi:10.1596/978-1-4648-0675-9. License: Creative Commons Attribution CC BY 3.0 IGO



Latin America GDP Growth 2014-2015

Figure 1.1

Regional GDP contracted in 2015, because of recessions in large South American economies. Output continued to grow in developing Central and North America and the Caribbean.



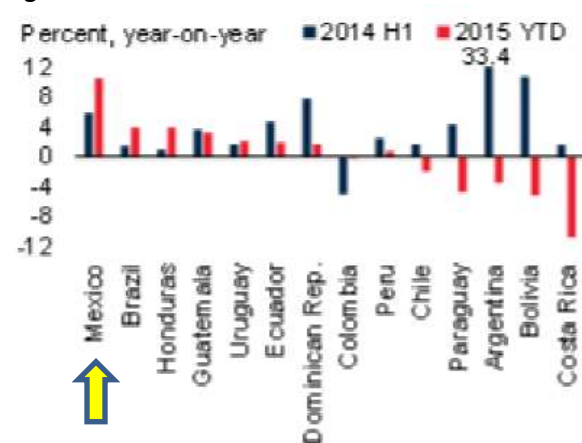
Source: World Bank.
Note: e= estimated. GDP weighted averages.

Depressed prices of copper, iron ore, gold, and soy beans have worsened the terms-of-trade for commodity exporters, such as Brazil, Chile, the Dominican Republic, and Peru. A number of governments had to undertake pro-cyclical fiscal tightening, aggravating the economic slowdown. Several large South American economies have also been grappling with severe domestic macroeconomic challenges that have eroded consumer and investor confidence, further contributing to the regional output decline in 2015.

Despite strong economic ties to a strengthening United States, developing Central and North America saw growth rates in 2015 rise modestly from 2014.3 The sub-region's largest economy, Mexico, saw a small pickup in growth in 2015 on the back of expanding exports to the United States. However, the Mexican economy has been weighed down by low oil prices and reduced oil production. Lower oil prices have severely curtailed government revenues, and compelled fiscal tightening.

Export growth in selected countries

Figure 1.2



Regional currencies continued to depreciate in 2015. Commodity exporters in the region saw large depreciations on account of the continued slump in commodity prices. At end-October 2015, the currencies of Chile, Colombia, Mexico and Uruguay depreciated by an average of 13 percent in nominal terms and around 9 percent in real effective terms with respect to their levels at the beginning of the year. The Brazilian real saw an exceptionally large depreciation, due to investor concerns about macroeconomic imbalances and political uncertainty.

The Argentine peso depreciated 27 percent on December 17, 2015 when capital controls were lifted. Regional export performance improved in 2015, boosted by weak exchange rates and continued recoveries in the United States and the Euro Area. Regional export volumes of goods and services climbed around 5 percent in 2015 after remaining broadly unchanged in 2014.

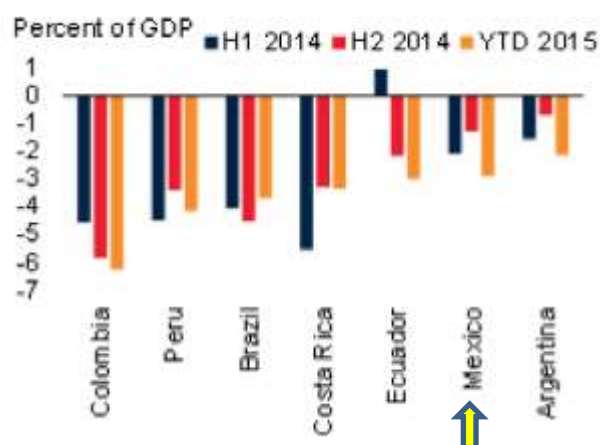
There was a large divergence in inflation performance across the region. Reduced oil prices led to lower inflation in developing Central America, North America, and the Caribbean. For example, despite seeing a 12 percent depreciation of the peso against the U.S. dollar and being an oil exporter, Mexico's consumer price inflation reached historic lows in 2015. The mild inflation rates enabled the Banco de México to maintain a record low interest rate of 3 percent for most of 2015.

In contrast, consumer price inflation ran at very high rates in Argentina, Brazil, and especially Venezuela. In Brazil, inflation reached a 12-year high in the second half of 2015. This was in part due to the one-off effect of a reduction in subsidies and an increase in administered prices, but the main reason was higher underlying inflation, as the core inflation accelerated to above 9 percent. In a series of upward adjustments, the Banco do Brasil raised policy interest rates to 14.25 percent, a nine-year high. Consumer price inflation in Venezuela reached well over 100 percent in 2015, as policy has failed to establish an anchor for inflation expectations.

Fiscal balances are also on differing paths across LAC. Due to lower commodity and export revenues, coupled with the slowdown in growth, regional fiscal balances deteriorated, and the debt/GDP ratio increased in 2015 (Figure 2.3.7). Given the large proportion of major commodity exporters in the sub-region, fiscal balances in South America as a share of sub-regional GDP are projected to deteriorate by more than 2 percentage points in 2015. The deficit to GDP ratio for Brazil widened further, after doubling in 2014. Weak revenues, swelling interest payments, and losses on central bank dollar swaps, were responsible for the slide.

Current account balance in selected Countries

Fig. 1.3



Central, North America, and the Caribbean too saw a narrowing of fiscal deficits in 2015, predominantly due to fiscal consolidation. In Mexico, lower oil prices and production were offset by a sharp increase in non-oil revenues in the wake of the tax reform in 2014 and the increase in excise taxes on domestic fuels in 2015. In addition, the Mexican government enacted spending cuts equivalent to 0.7 percent of GDP.

Mexico's current account balance suffered from lower oil revenues, owing both to weaker prices and declining production.

However, this was offset by strengthening export performance of manufactures, which represent a far larger share of Mexico's trade and benefited from the weak peso.

Gross capital flows contracted in 2015. Following the sharp slowdown in flows in 2014, gross capital flows to the region are estimated to have contracted by another 40 percent in 2015. Brazil and Mexico accounted for around 80 percent of the decline. Weaker-than-expected growth prospects and increased political uncertainty, especially in Brazil, discouraged investors.

All three components of gross capital flows declined in 2015, with equity issuance contracting the most, falling more than 60 percent. Bond issuance slumped more than 40 percent from 2014 levels, mainly on account of a \$35 billion decline in new Brazilian bonds. Other economies took advantage of the still favorable global monetary conditions to put in place refinancing and pre-financing arrangements. In April, Mexico sold the world's first 100-year government notes in euros, as it locked in lower borrowing costs.

The Mexican Economy Performance

During the 3rd and 4th Quarters Mexico's economic performance was affected by the world's economic deceleration and the low prices of Oil. Thus, in April of 2016 the IMF reduced its expectations of Mexico's GDP growth to 2.4% in 2016 and 2.6% for 2017.

The Outlook for the Mexican economy contrasts with the expectation of a negative growth of 0.5 per cent for Latin America in 2016, trend that could be reversed, as calculated, in 2017 with a rebound in GDP at 1.5 per cent at the regional level. In Brazil the GDP at the end of the 2016 predicts it in negative terrain at 3.8 per cent.

The Bank of Mexico on early March reduced for the third time its forecast of growth of the Mexican economy in 2016. The Central Bank new forecast is a growth range between 2 and 3 percent, compared to the 2.5-3.5 % predicted before. Banxico adjusted for the first time its growth forecast for 2017 to a range of 2.5 to 3.5 percent, from the previous 3 and 4 percent.

Inflation & Interest Rates

On April 4, 2016 the Central Bank (Banxico) said that inflation during March had decelerated to reach 2.63%, compared to 2.87% in February. The inter-annual inflation came to 2.80%. This was mostly due to a reduction on some agricultural products, offsetting price increases in tourist services and transportation. Banxico's expectations are that inflation will reach levels superior to 3% between the second and third quarter of this year, falling within the target of 3% +/- 1. The Historical chart (Fig. 2.1) tracks the Inflation and Interest Rates from 2010 to 2016.

Mexico's Central Bank (Banxico) had maintained intact the reference interest rate of 3.0% since June of 2014, but keeping in line with the U.S. Federal Reserve, changed the interest rate by 25 bp on December 17, one day after the Feds increased the interest rate by the same basis points; thus the rate became 3.25%.



Mexico Historical Inflation and Interest Rates

Fig. 1.4



Subsequently, Agustín Carstens, Governor of the Central Bank, on February 17 announced a further 50 bp increase to 3.75%. In conjunction with the Secretary of the Treasury, Luis Videgaray, Conference, Carstens said that the decision was taken at an extraordinary meeting of the Board of Government and "this action does not start a cycle of monetary contraction".

Exchange Rates

At the end of 2015, the volatility of the Mexican Peso vs. the U.S. Dollar exchange rate had increased, as the Dollar strength raised against all major currencies and the oil prices decreased to levels not seen since 2003. Prices plummeted below \$30.00 a barrel for the first time since 2003, representing a 72% plunge from crude oil's June 2014, when it peaked to almost \$108.00.

The *Economist Intelligence Unit* (EIU) April 1, 2016 economic outlook (2016-2020) on Mexico's Exchange Rates said: "The peso slumped considerably in January-February, losing almost 8% of its nominal value, before rebounding after the mid-February rate hike. The peso has since gained further ground in line with a trend towards strengthening seen in many emerging economies, falling below 18 x 1. Although our baseline forecast sees risks of continued volatility, we expect the peso to strengthen gradually from 2017 as global uncertainty eases and the economy strengthens, reaching 16.90 x 1 by end of 2020. Mitigating exchange-rate risks is a substantial reserves cushion (US\$171.9 bn in January), which is high by historical comparison, albeit over US \$20bn below its January 2015 peak. A weakening of the peso in real terms compared with the previous decade will support export competitiveness".

Foreign Direct Investment (FDI)

After a brilliant year for Direct Foreign Investment in México in 2013 when it received \$42,934 million dollars, during 2014 México's FDI amounted to only \$22,568.4 million and during 2015 the DFI increased to \$28,500 million. Ildefonso Guajardo, Secretary of economy, said the official expectation of FDI for 2016, is expected to reach \$30,000 million.

Despite Donald's Trump inflammatory and false rhetoric against Foreign Trade and Foreign Investment abroad, several major firms, from Europe, Asia and the USA, have announced major investments in Mexico to take place during 2016 and beyond. Ford Motor Co. will invest \$1,600

million USD in a new plant in San Luis Potosí. Altogether, Ford's investment in Mexico amounts to \$4,100 million.

Forbes Magazine recently published an article on Mexico's FDI where Debora Riner, Economist for the Chamber of Commerce is quoted to said: "The foreign direct investment (FDI) in Mexico will range between 25,000 and 35,000 million dollars in 2016.

The graphic bellow (Figure 2.2) presents the top 25 ranked countries on the AT Kearney's Foreign Direct Investment Confidence Index.

AT Kearney's Foreign Direct Investment (FDI) Confidence Index

Although Mexico's FDI levels in 2014 fell from all-time highs the year before, investors continue to be drawn to opportunities in many sectors, including manufacturing, energy, and telecom. In fact, Mexico's FDI during 2015 was 26.283% higher than in 2014. It is now ranked in No 9; above Australia, India and Italy.

25 Top countries on the Foreign Investment Confidence Index

2015 FDI Confidence Index ranking score

Fig. 2.2



Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

The Confidence Index results show that two-thirds of companies plan to return to pre-financial crisis levels of FDI by 2016. The Index finds global business leaders pursuing FDI growth strategies grounded in informed optimism. Mexico's ranking in 2015 gained three spots as its business climate improved behind the government's reform agenda.

Quoting AT Kearney's report "Mexico gains three spots to reach 9th, as President Enrique Peña Nieto's reform agenda continues to improve Mexico's business climate. Its 2013 FDI levels of \$38 billion were an all-time high, with the majority of investment targeted at Mexico's growing manufacturing sector, including high-value-added electronics".

Mexico's Economy Ministry has reported that flows fell to \$22.6 billion in 2014, with inflows of \$33.9 billion offset by \$11.4 billion in outflows. Significant reforms in the energy sector will occur this year to allow foreign private investment.

As a result of the telecom reforms that targeted Carlos Slim's América Móvil, which controls 70 percent of the market, customer prices fell nearly 17 percent between February 2013 and January 2015. In response to the policy changes, AT&T made a \$5 billion divestment in América Móvil and subsequently acquired Grupo Iusacell SA, Mexico's third-largest wireless operator, for \$1.7 billion. Going forward, these reforms are expected to open up growth opportunities for smaller competitors.

In November 2014, the American chemicals maker PPG Industries acquired paints maker Consorcio Comex for \$2.3 billion. This followed the rejection by the Mexican federal competition authority of the sale to Sherwin-Williams for a proposed \$2.34 billion on the grounds that it would create unfair market conditions.

Macroeconomic uncertainty is the most common reason companies have not yet returned to pre-crisis FDI levels. 66% of respondents say they will reach those levels by 2016.

UNCTAD's World Investment Prospects Survey 2014-2016

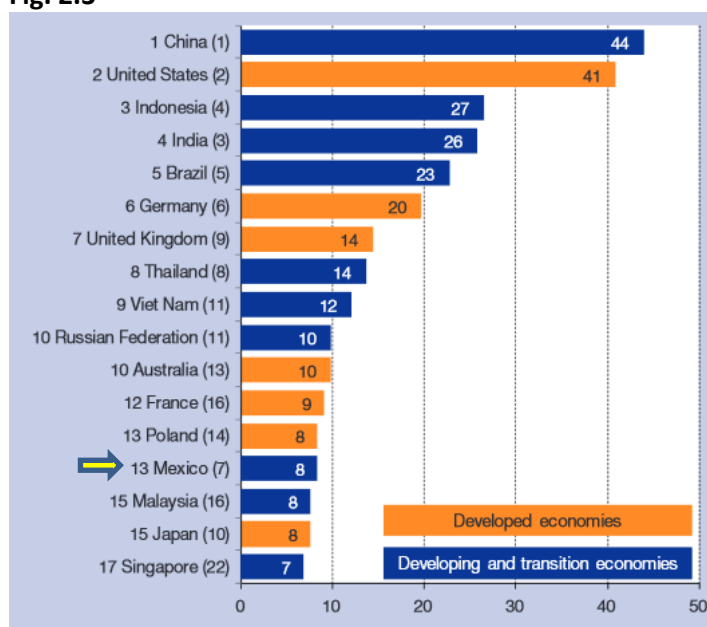
The UNCTAD's survey provides an outlook on future trends in foreign direct investment (FDI) by the largest Transnational Corporations (TNCs). The table below provides the top 17.

Regional inflow trends are confirmed by individual country rankings. This year's ranking is largely consistent with the past surveys, with only minor changes. China leads the list, with 44 per cent of all respondents, followed closely by the United States, cited by 41 per cent, and only at a bigger gap in investors' preferences come Indonesia, India, and Brazil. South-East Asian countries like Viet Nam, Malaysia, and Singapore, and some developed economies such as the United Kingdom, Australia, France, and Poland raised some steps in the rankings while Japan and Mexico fell a few steps.



TNCs' Top 17 prospective host economies 2014-2016
(Percentage of respondents selecting an economy as a top destination)

Fig. 2.3



Source: UNCTAD survey.

Unemployment

According to data from INEGI, at the closing of the 1st quarter of 2016, Mexico's unemployment has decreased to 4.24%. Data from STPS (Secretaría del Trabajo y Previsión Social) for the 4th quarter of 2015, places unemployment at 4.16%, equivalent to 2,240,498 unemployed from the 53,809,017 Economically Active Population (PEA).

OCDE highlights the fall of unemployment in Mexico in November: the unemployment rate declined in Mexico in November last year and was established in that month at 4.1%, almost one point lower than in 2012, said Wednesday the Organization for Cooperation and Economic development.

Mexico continued below the average unemployment in the area that are part of main developed countries and which stood at 6.6% of the active population of the area in November of 2015, measured by the OECD last month.

The United States and Canada, the two major trading partners of Mexico under the Free Trade Agreement among the three countries, the unemployment rate has remained "stable" in United States (5.0%) and grew one tenth in the case of Canada (7.1), said the OECD.

Country Risk EMBI+ and International Reserves

Fig. 2.4



JP Morgan's assessment of México's EMBI+ on March 31, 2016, was 223 bp, compared to the 194 bp (only 9 bp higher) registered on March of 2015. In comparison, Brazil was 427 and Argentina's 459 bp. Simultaneously, on March 25, Mexico's international reserves stood at \$176,665 million.

Mexico's International reserves decreased 8.5%, equivalent to \$ 16,322 billion in 2015, according to preliminary data from the Bank of Mexico. Reserves were 193,045 million dollars in the last week of December of 2014, decreasing to 176,723 million by Thursday, December 31, 2015. A large part of the decrease of reserves was by the decision of the Bank of Mexico's Commission of currency exchange to undertake auctions of dollars, with and without minimum price, in view of the volatility in the international financial markets with the aim of providing liquidity to the foreign exchange market. The Bank of Mexico (Banxico) auctioned every day as much as 400 million dollars which were taken from the international reserves.

The Manufacturing Sector

The economic sector which contributes more to México's GDP is the Manufacturing one, representing 18.3% and as such, the attention is focused on its performance. The group of the manufacturing industries has been the motor of the country's economic activity throughout the last years. The Indicator of Manufacturing Orders (IPM) showed that a small contraction of 0.2% took place during the 12 months of 2015. Five of the thirteen divisions measuring indicator recorded annual declines. This result is due mainly to the contraction of common metal fabrication divisions. However, the index of Industrial production grew 0.6% in twelve months. During the 1st quarter of 2015, Mexico's PIB (GDP) reached \$17,391,045 million pesos; being the key contributors to the PIB the following Sectors: Manufacturing (18.3%), Commerce (16.8%), Real Estate (12.4%), Construction (7.5%), Transportation (6.6%), Mining (4.6%), Education (4.6%) and Financing Services (3.6%).

The Automobile Sector

The Mexican automotive industry closed the 2015 year with a record production reaching 3 million 399,076 units and the export of 2 million 758,896 vehicles. Reporting figures to December 2015, the President of the Mexican Association of the Automotive Industry (AMIA), Eduardo Solís highlighted the growth of 5.6% in the manufacture of cars in Mexico compared with 2014; while sales abroad increased 4.4% compared to the same period of the previous year. "With these figures Mexico is on a path on the possibility of reaching 5.2 million cars produced in 2020. Although it will depend on external factors", said Mr. Solís.

However, the latest figures from AMIA released on April 4, 2016, tells a worrisome story: The production and exports of Mexico light vehicles collapsed in March, said Wednesday the Mexican Association of the Automotive Industry (AMIA), mainly by scheduled technical maintenance stop and the effect of the rest of Holy week. Car production shrank by 11% to annual rate to 266.960 units, while exports, mainly aimed at the United States market, collapsed a 14.2% to 224.184 vehicles. Several of the major carmakers in the country, as local units of Fiat Chrysler Automobiles, General Motors, Ford Motor, Volkswagen and Mazda Motor reported significant reductions in both production and export sales in March.

Light Vehicles Production Var. % Annual

Fabricación de vehículos ligeros

Producción total
(Variación % anual en marzo de cada año)



Total Vehicle Exports Var. % Annual

Exportación total
(Variación % anual en marzo de cada año)



Nonetheless, Mexico was strengthened as the leader of production and automotive exports in Latin America by 2015, year in which also posted six consecutive annual record periods in these areas while reporting the Assembly of 3.4 million units and shipments abroad of 2.76 million vehicles, according to figures reported by the Mexican Automotive Industry Association (AMIA). With these figures, Mexico clinched last year the position as the main assembler of cars of Latin America, while during this time the production of Brazil sank 21.6% to 2.33 million of vehicles, accumulating two years of setbacks in the context of the economic recession that lives the South American country.

With the presence of new players into the market to start production in Mexico this year, such as the cases of the German Audi and KIA Korean, AMIA sees possible that

Mexico's automotive sector will maintain the growth trend and raised the goal that the country could produce 50% more vehicles by 2020.



Auto Industry Cluster locations



The Aerospace Industry

Global Environment

The global aerospace industry is experiencing one of its best moments. For the next twenty years, major aircraft manufacturers have an attractive market demand before them, with growth scenarios of 31,400 aircraft of less than a hundred seats, which will generate an economic impact of close to five trillion dollars. According to figures from industry experts, the supplier base that serves this important sector will provide approximately three trillion dollars.

This reflects the huge market opportunity that the industry will experience in the next two decades and a great opportunity for México.

Mexico's Aerospace Industry Clusters Locations



A Strategic Sector for México

The aerospace industry is a strategic sector for the development of Mexico, a country with significant competitive advantages for the establishment of new companies. At the same time, the potential impact on the national economy is high.

In 2014, the value of production and exports of aeronautical products reached 6.4 billion dollars and projected to increase 15% in 2015, maintaining a growth of 18% during the last ten years, generating more than forty thousand jobs, which has placed Mexico as the sixth supplier to the USA.

This industry has taken advantage of the agreements that the Mexican government has established in the sector, such as the Bilateral Aerospace Safety Agreement (BASA) and the Wassenaar Agreement on Controls of Dual-Use Manufactures. The supplier base has quintupled, growing from 65 companies in 2005 to 305 companies registered in 2014.

Human Capital

One of the strategic pillars of the sector is the development of human capital. In this regard it is important to note that schools are making great efforts to support the preparation, training and certification of young Mexicans at different levels required by the industry: skilled technicians, engineers, and so on.

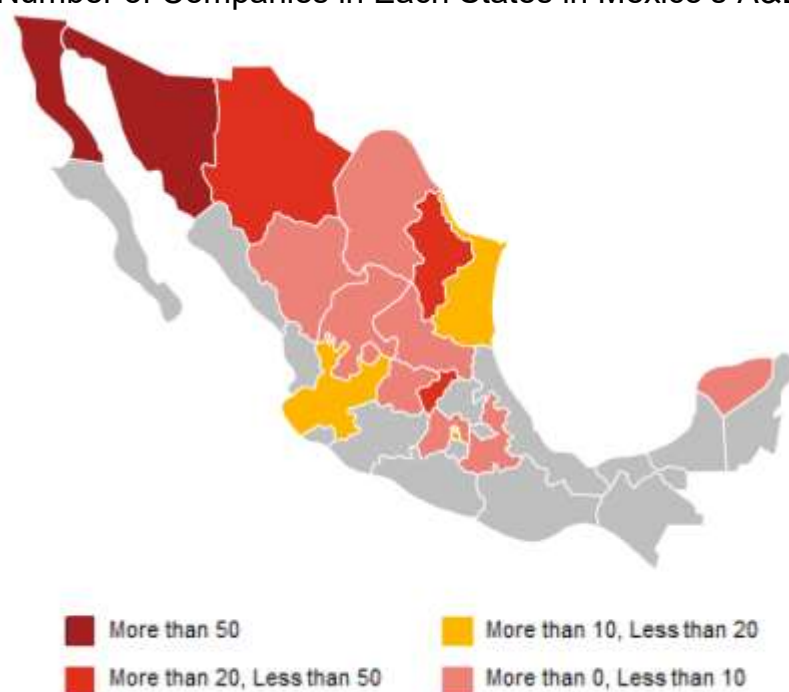
Examples of these initiatives are the creation of the UNAQ, due to the arrival of Bombardier to the city of Querétaro. Since this industry is already present in eighteen states, government strategies both at the federal and state levels are aligned with the private sector through various institutions such as the National Polytechnic Institute (IPN), and the Technological Institute of Monterrey for Advanced Studies (ITESM), among others.

The Aerospace Sector in Mexico in 2014

The aerospace industry is getting more and more important in Mexico. From 2010 to 2014, the average Gross Domestic Product (GDP) growth rate of the industry was around 21%, far higher than the GDP growth of the country.

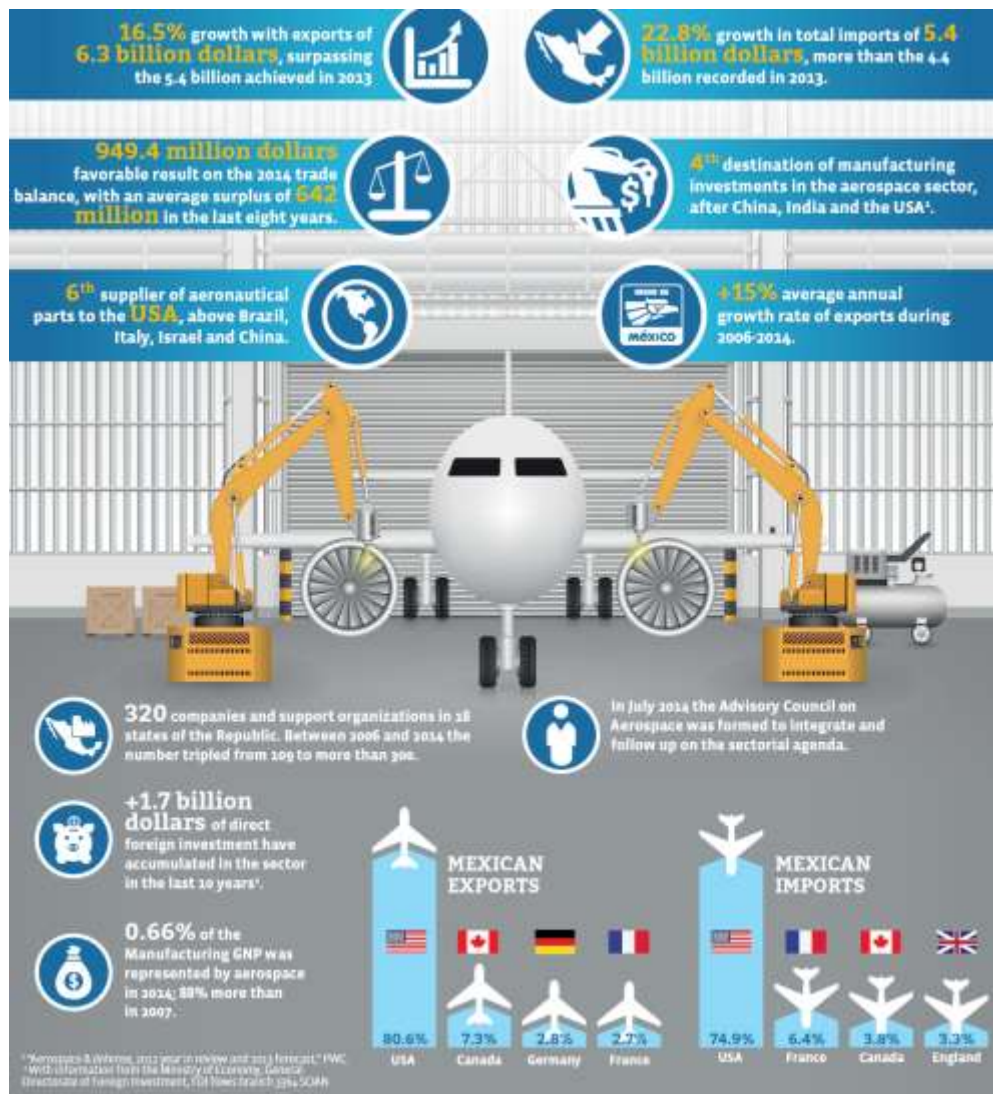
The aeronautical international firms in Mexico have also turned around from harness assembly to produce full structural aircraft components, composite airframes and micro-tolerance turbine parts. Unlike most of the aeronautical manufacturing operations in Mexico which only produce independent aircraft parts and components, there are four platforms which will produce practically the full aircraft airframe, to which, the other systems could be added on to produce a finished product.

Number of Companies in Each States in Mexico's A&D Industry, 2014

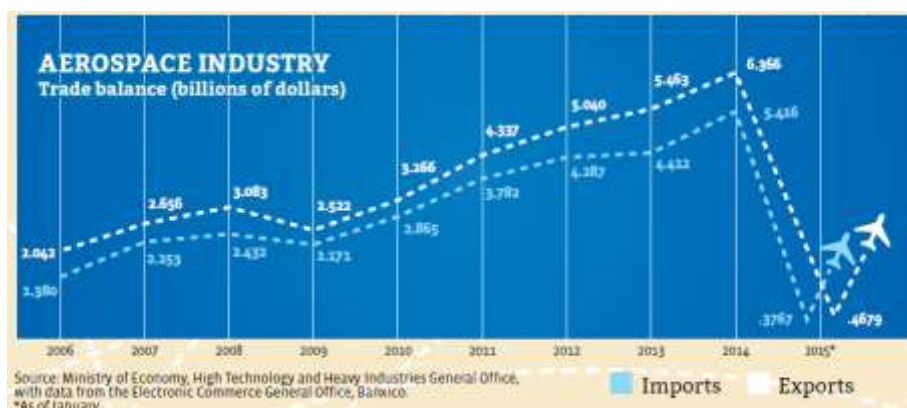


Source: MexicoNow

The Aerospace Sector in Mexico in 2014



Aerospace Industry Trade Balance



In January 2015, exports amounted to 467.9 million dollars, while imports reached 376.7 Million dollars, for a favorable balance of 91.3 million dollars.

According to BANCOMEXT estimates, Mexico's aerospace exports will reach \$7,500 million dollars during 2015. Exports of Mexican Aerospace could reach the 7-thousand 500 million dollars in 2015, according to estimates by the Mexican of the aerospace industry (FMIA) Federation, with which Mexico would be placed among the leaders worldwide, thanks to its highly skilled labor, an important network of trade agreements and its privileged geographical position.

It points out that in the region North of Mexico is concentrated the largest number of companies in the aerospace industry with a 198 total companies, mainly in states such as Baja California, Sonora and Chihuahua; while in the region Center excels Querétaro, the entity with the largest entry of foreign investment in the last five years. Queretaro stands out as having the only tests laboratory in Latin America, comprising three research centers and the only University nationwide focused on aviation issues.

In turn, the CEO of Airbus Mexico, Frederick García, points that today the Mexican aeronautical industry represents 6% of the supply worldwide, and in terms of volume our country ranks 14 in this category. It points out that the aerospace sector in our country is an industry thriving, generating thousands of jobs, and whose companies made exports exceeding 6 billion dollars annually.

The Industrial Real Estate Markets

Mexico's industrial sector regained momentum to sustain growth during 2014 and 2015 demand for industrial space have continued to increase at a moderate pace, rental rates have remained stable in most markets, but in the busiest markets, such as the Valle de México (México, D.F. and Edo. De México) including Toluca-Lerma, El Bajío area (Querétaro, Silao, Aguascalientes and San Luis Potosí) have experienced unusual activity, mostly triggered by the new and expansion of Automotive related plants that have located in this area. The table below (Fig. 3.1) presents the Historical Industrial Market Rents 2012 to 2016.

Fig. 3.1



In some markets where there are significant lease listings offered in Pesos, the rental rate in US Dollars have, of course, decreased. However, overall Mexico's industrial market remains dollar based.

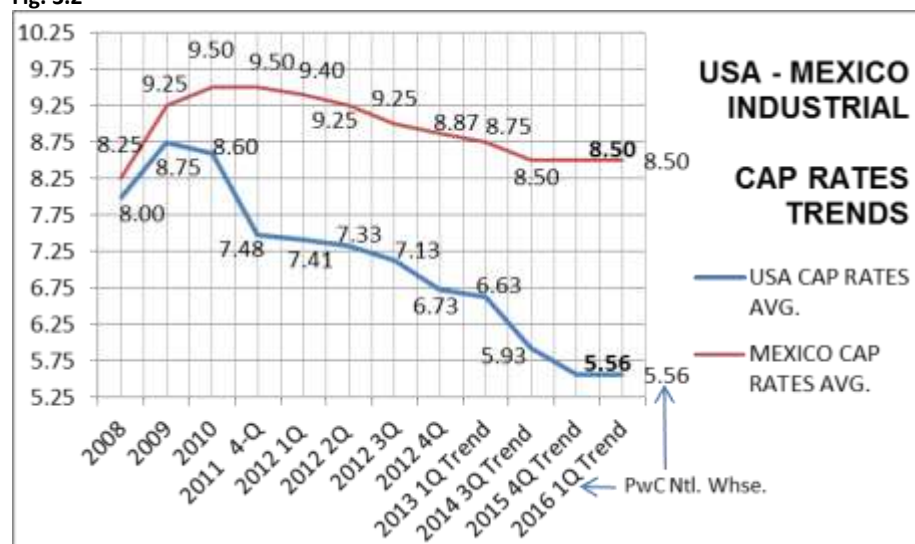
As mentioned in page 34, one of Mexico's top economic drivers is the auto industry. Thus, markets where major automotive plants are nested, such as Puebla, Silao, Toluca-Lerma and lately Aguascalientes, have experienced strong demand for industrial space. There are 28 vehicle assembly plants in Mexico, who have attracted more than 1,100 companies making auto parts and generating more than 500,000 jobs.

Mexico Industrial Cap Rate Trends

USA and Mexico's capitalization rates have been on a decreasing pattern, nearing rates that had prevailed prior to the global economic crisis of 2009. Mexico's political scenario, including the recently approved major reforms, has provided an optimistic outlook and a reaffirmation of its stability.

The trend of US class A industrial cap rates during 2013, 2014 and 2015 has been in a down pattern. National average going-in capitalization rates for the industrial sector continued to contract during 2015. The Figure 3.2 shows the Historical Trend of Mexico and USA since 2008.

Fig. 3.2



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