



MÉXICO ECONOMIC AND MARKET REPORT 1Q-2017

THE INTERNATIONAL COUNSELING AND VALUATION GROUP

Country of México Summary



SUMMARY OF KEY INDICATORS 1Q-2017

Capital:	México City (Officially: Ciudad de México)
Area:	1,972,550 Km ² 761,600 Miles ²
States	31 States and 1 Federal District (Ciudad de México)
Largest City	Mexico City Metro (E) 22 million people
Mexico's Population	122,746,451 (STPS, March, 2017)
	48.3 % Men; 51.7% Women (STPS, March, 2017)
Population Annual Growth	1.8% (2005 – 2010 STPS, 4Q-2015).
Work Force (Economically Active)	54,034,800 (March, 2017, TPS)
Unemployment / %	1,911,126 = 3.536% (STPS 4Q/2016)
GDP USD	\$1,143.79 Billion, 2015 by Trading Economics
GDP (PIB) per capita	\$9,517.28 USD (2015) Trading Economics
Annual GDP growth	2.2% for 2015 (INEGI) and 2.6% for 2016 (IFM)
Manufacturing Sector Index IMEF	46.8% in February, 2017 (-1.9 bp)
Foreign Investment (Direct)	\$22,568.4 Million USD during 2014, Sec. Economía. \$28,500 Million in 2015. \$30,000 M. (E) for 2016.
International Reserves BUSD	\$174.524 B on March 10, 2017, compared to \$176.656 Billion USD (Dec. 09, 2016).
Inflation Mexico and USA	4.25 % Mex.; 2.5% USA
Mexico Country Risk Factor JP Morgan Embi+	202 bp on March 16, 2017, compared to 222 bp (JP Morgan at Dec. 16, 2016)
Mexico's Peso-USD Exchange Rate (TC) by The EIU	The Economist I.U. Short Range: 20.0 x 1 (March 2, 2017)

The Economy State of Affairs

Bank of America Merrill Lynch (BofA-ML) slashed its forecast for growth of the Mexican economy during the current year to 1.2 % since it is considered that there will be less external financing, as well as a decrease in consumption and investment. Just in January, Carlos Capistrán, Chief for Mexico's B of A-ML Economist, estimated that it could reach an expansion of 1.9 per cent, although it acknowledged that its forecast risks facing downward.

Still in January, Carlos Capistrán, Chief Economist for Mexico's B of A-ML, estimated that it could reach an expansion of 1.9%, although it acknowledged that its forecast risks facing downward. Both expectations are below the average of the market, according to FocusEconomics, it was up to the month of January, at 1.8%. They are far from the range

estimated by the Secretary of the Treasury, and consigned in general economic policy criteria, between 2 and 3%, which allowed the Congress to plan the economic package that governs this year.

To the Economist of B of A-ML, the new forecast has, as in December, downside risks due to the anti-immigration and anti-trade policies expressed by the Trump administration.

The forecasts also incorporate a greater growth in the United States, which is positive for Mexico and higher interest rates for the Fed (which is negative for Mexico), "based on the mix of policies announced by the President of that country". "Growth of United States will be positive for Mexico, but we believe that the adverse impact of higher interest rates in that country and a stronger dollar will dominate this year and next,"

The International Monetary Fund (IMF) cut Mexico's growth forecasts for 2017 and 2018 due to the uncertainties generated by the arrival of Donald Trump to the Presidency of EU and internal risks. Due to internal risks, such as lower public expenditures, and external risks like the uncertainty over trade policies with the United States, the International Monetary Fund (IMF) slashed its expectations for growth of the Mexican economy in 2017 and 2018 by 0.6 percentage points, at an expected rate of 1.7 and 2.0 percent, respectively, but recognizing that Mexico still has advantages over other economies.

The World Bank's Outlook on the Mexican Economy at the start of the 1Q/2017, was that after having grown at a 2.0% rate in 2016, the economy will present a deceleration in 2017 with an estimated PIB of 1.8%. The lower growth is fundamentally based on the expectation that Foreign Investment in Mexico will be lower, as a reflection of the uncertainty of the political situation in the US.

However, the World Bank's considers that private consumption in Mexico will have a stronger performance which could improve the economy and translate in a growth of 2.5% by 2018 and 2.8% in 2019.

Mexico did not have a good performance during 2016. Its major economic indicators are deteriorating and their growth expectations are increasingly reduced more. However, the third quarter GDP showed a significant recovery after the fall of the previous quarter.

The Trump Effect

Since the results of the presidential election on November 8th, favoring Donald Trump, it has severely impacted the Mexican Peso rate of exchange and has fueled a high level of uncertainty in the Markets and on the future of the manufacturing sector.

However, it is important to point out that the J.P. Morgan Embi+ Country Risk Factor, that had climbed from 217 bp before the elections, to 258 bp by November 25, has maintained much lower levels during December, decreasing to 223 bp by December 16, and on March 16 sat at 202; the lowest since March 6, when the Risk factor stood at 198 bp.

In the opinion expressed by UBS Credit Suisse on a paper published last November 15th, it says: **“We and our experts see fear of NAFTA repeal as largely overblown”**. UBS published their view that that despite his strong opposition, Trump will have a limited impact on NAFTA. UBS also noted that Trump's policies on fuel economy & corporate tax rates would benefit most auto stocks. Since then, we have spoken with four experts – with backgrounds in international trade, law, economics, and tax policy – in order to better understand how Trump's election could impact the auto sector.

As a result of these discussions, we have further solidified our view that a complete NAFTA exit is unlikely. Our experts agree that Trump can technically withdraw the US from NAFTA by invoking Article 2205; however, it's unclear what impact this would have unless Congress passed legislation repealing the NAFTA Implementation Act. One expert thought Trump could potentially take more aggressive action invoking Presidential privileges normally reserved for a war or national emergency situations.

However, given the potential for retaliation by Mexico/Canada (a trade war could reduce employment by 4-7% according to Peterson Institute for International Economics estimates); all 4 experts believe Trump & Congress would have no intention of abandoning NAFTA. Most believe Trump's stated 35% Mexico tariff position is likely a bargaining tool and actual tariffs would be much lower (2.5-10%).

Little risk even if we revert to WTO tariffs

According to UBS Credit Swiss there is little risk even If we revert to WTO tariffs. Potential US withdrawal from NAFTA would likely reset tariffs to Most-Favored-Nation (MFN) rates, set by the WTO and outlined in the Harmonized Tariff Schedule (HTS) of the US. Our review of Chapter 87 (autos & auto parts) of HTS shows an average 2.5% tariff for motor vehicle goods. This is unlikely to shift production away from Mexico as 2.5% is far less than the discount of building in Mexico. The Center for Automotive Research estimates that it is \$1,200 cheaper to produce a Ford Fusion in Mexico vs US, said UBS.

Nonetheless, despite the substantial savings derived from producing a car in Mexico, fear from Trump's menacing Twits have sparked off a reaction from Ford, who has canceled the construction of the new plant in San Luis Potosi which had a planned investment of 1.6 billion.

Mexico's PIB (GDP)

Taking data from Trading Economics, the Mexican economy advanced 1.25% in the third quarter of 2016, in a line with preliminary estimates, and following an upwardly revised 0.1 percent growth in the previous period. It is the strongest growth rate since the second quarter of 2014, boosted mainly by the services sector. The services sector expanded 1.4 percent (+0.5 percent in Q2); the agriculture rose 2 percent (+1.8 percent in Q2) and industrial production rebounded 0.1 percent (-1.5 percent in Q2), according to final estimates. Year-on-year, the economy expanded 2 percent, slowing from a 2.6 percent rise in the second quarter.

1. Mexico GDP



Mexico's Inflation and GDP Growth Expectations (Banxico)

The results of Banxico's February of 2017 survey on the expectations of the specialists in the private sector economy are reported in the chart below. This survey was collected by the Bank of Mexico between 34 groups of foreign and national private sector economic consulting and analysis. The responses were received between the 17 and the 28 of February.

Following are the results of the forecasts of analysts for underlying Inflation, growth of Mexico's GDP and Interbank funding Interest Rates 2017 and 2018.

2. Variation of Inflation, GDP and Interbank Funding Interest Rates forecasts

Annual Percent Rate

BANXICO ANUARY 2017 SURVEY INDEPENDENT ANALYSTS INFLATION, GDP GROWTH & INTEREST RATES (Inter-Bank funding)					
CONCEPT- Period	AVERAGE			MEDIUM	
	SURVEY			SURVEY	
	January	February		January	February
Inflation-Underlying (Dec.-Dec.)					
2017 Forecast	4.19%	4.38%		4.21%	4.40%
2018 Forecast	3.65%	3.71%		3.53%	3.58%
Growth PIB (GDP) % Annual					
2017 Forecast	1.49%	1.49%		1.60%	1.60%
2018 Forecast	2.17%	2.09%		2.20%	2.20%
Inter-Bank Funding Rate (@ close of IV Quarter)					
2017 Forecast	7.06%	7.18%		7.00%	7.25%
2018 Forecast	7.31%	7.27%		7.25%	7.50%

Survey among 34 groups of independent analysts and private national & international consulting firms.

Data Source: BANXICO - Graph by IRV De México

- General inflation for the end of 2017 expectations increased in relation to the survey from January, while the figures for the end of 2018 remained at similar levels. Moreover, inflation expectations underlying for 2017 and 2018 closures increased compared to the previous month.

From the February 2017 survey, the following highlights are noted:

- The probability assigned by analysts that overall inflation will fall within the range of variability of more or less one percentage point around the goal of 3 percent decreased in the February survey with respect to the previous to the end of 2017, at the time that remained at levels close to the end of 2018. Furthermore, the given probability to that underlying inflation will be in the range of 2 to 4 percent also decreased this month regarding the prior to the end of 2017, while it remained at similar levels to the end of 2018.

- The growth expectations of real GDP for 2017 remained constant in relation to the January survey. By 2018, perspectives on this indicator decreased compared to the previous month, while the corresponding median has remained at the same level.

Inflation

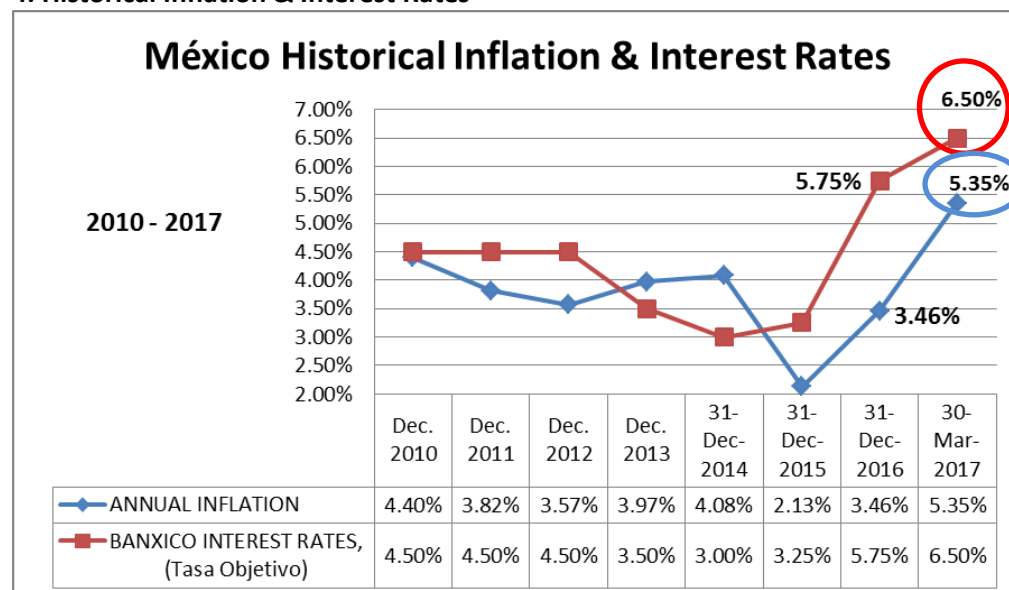
As reported by the Economist on January 24, 2017, inflation during the first half of January, 2017 increased 1.5%, the highest variation recorded since 18 year ago. The entry into force of the liberalization of the price of gasoline and gas LP were key factors to shot inflation 1.51% higher during this period. Thus, on the annual registry, inflation during the first 15 days of the year, reached 4.78%, exceeding the limit of the target set by the Bank of Mexico to settle at 4.78%, according to the National Institute of statistics and geography (INEGI).

Furthermore, on April 21, the National Institute of statistics and geography (INEGI) reported that in March 2017, the national index of prices to the consumer (INPC) presented a monthly increase of 0.61 percent, as well as annual inflation of 5.35 percent. Comparable data in the same period of the previous year were monthly 0.15 percent and 2.60 percent annual growth.

Interest Rates

Mexico's Central Bank (Banxico) on June 30, 2016 increased the Reference Interest Rate to 4.25%, and on September 29 raised the interest rate to 4.75%. Furthermore, after the USA election result increased 50 points to 5.25%, and on December 15, 2016 the interest rate was increased another 50 base points to 5.75% and on March 30, 2017 the "Tasa Objetivo" was raised to 6.50%, where it stands today. As of March 31, Mexican Cetes -28 days had a 6.43% yield rate while the 182 day Cetes yield was 6.81%. The 30 year Udibono fixed rate was 7.52%.

4. Historical Inflation & Interest Rates



Exchange Rates

At the end of 2016, 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 raised to over \$50.00/Barrel, affecting the price of gasoline in Mexico, given that over 50% is imported.

Furthermore, by March 30 the gas stations in the states of Baja California and Sonora will be able to sell gasoline at world market prices.

The “Trump” effect has added volatility to the financial markets, affecting the M Peso rate of exchange. The Peso-Dollar moves on an upward or downward swings, seems to follow Trump’s “Twits” and menacing messages.

However, contrary to expectations, the peso has actually gained strength; despite the diplomatic tension seen during Mr. Trump's first month in office, the currency stood just under \$20.00. By April 7 the Peso exchange had strengthen to 18.65 x 1.

5. Exchange Rates 2014-2017



Foreign Direct Investment (FDI)

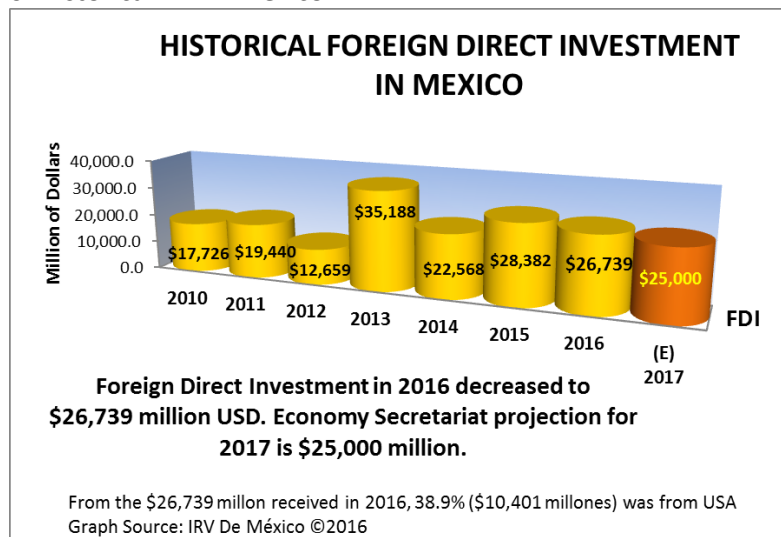
After a brilliant year for Direct Foreign Investment in México in 2013 when it received \$42,934 million dollars, during 2014 México’s FDI amounted to only \$22,568.4 million; during 2015 the DFI increased to \$28,500 million and decreased to \$26,739 in 2016. Ildefonso Guajardo, Secretary of Economy, said on January 15, that the expectation of FDI for 2017, is estimated to reach \$25,000 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 2017 and beyond.

More recently, during the Economic summit in Davos, it was announced that after two years of absence, Mexico returned to appear in the list of 10 countries more attractive as a destination for new investment. Mexico tied with 5% of intentions of investment with Japan and Russia, which occupied the seventh and eighth position respectively.

In the annual poll conducted by the British firm among more than 1,400 Presidents of large companies in 83 countries, Mexico was voted ninth place worldwide in terms of attractiveness to make new investments this year.

6. Historical FDI in Mexico



Unemployment

Mexico's unemployment rate accelerated slightly in February of 2017 to a 4.3%, among signs that the local economy is losing a bit of momentum, showed on Wednesday official figures adjusted for seasonality. The unemployment rate was slightly higher than the 4.2% seen in January, although it moderated to 4.5% seen in February 2015, according to the National Institute of statistics and geography (INEGI).

Since the beginning of last year, the indicator has been ranging between 4.2 and 4.5%, while the second largest economy in Latin America expands at a moderate pace.

From January to November of 2016, for the first time in the history of Mexico were generated one million jobs, of which 86% of these jobs are permanent, unveiled on Tuesday the President Enrique Peña Nieto.

OCDE highlights the fall of unemployment in Mexico last May, placing Mexico among the top 5 countries members of the Organización para la Cooperación y el Desarrollo Económicos (OCDE) with the lowest unemployment rate.

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.

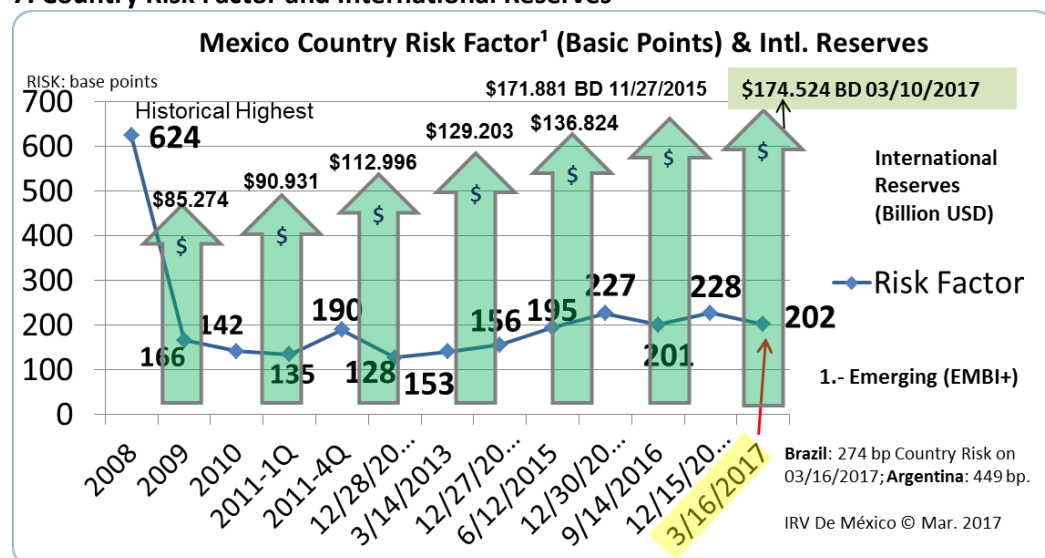
According to information from the international body, the countries with the lowest rates of unemployment in May were Iceland, with 3.1 percent; Japan 3.2 per cent; Korea 3.7 percent, and the Czech Republic and Mexico with 4.0 per cent, in each case.

Country Risk EMBI+ and International Reserves

México's Country Risk Factor for emerging markets as published by J.P. Morgan Embi+ as of March 16, 2017 was 202 ; the lowest since March 6, when the Risk factor stood at 198 bp. On December 15, 2016 the risk factor was 228 bps; 27 bps higher than the 201 bps prevailing on September 14, 2016.

México's International Reserves were \$174.524 Billion USD on March 10, 2017, compared to \$176.542 billion dollars on December 31, 2016. A chart showing the comparison of the Country Risk factor (March 16) and International reserves as of March 10, 2017 is presented here below.

7. Country Risk Factor and International Reserves



A Historical chart presenting the behavior of Mexico's International Reserves is shown herein below.



Mexico's Credit Rating

Standard & Poor's credit rating for Mexico stands at BBB+ with negative outlook. Moody's credit rating for Mexico was last set at A3 with negative outlook. Fitch's credit rating for Mexico

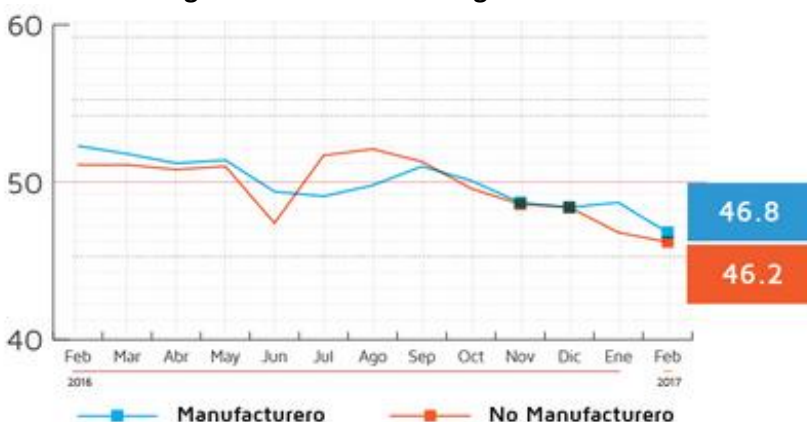
was last reported at BBB+ with stable outlook. In general, a credit rating is used by sovereign wealth funds, pension funds and other investors to gauge the credit worthiness of Mexico thus having a big impact on the country's borrowing costs. This page includes the government debt credit rating for Mexico as reported by major credit rating agencies on 3/16/2017.

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.

Derived from results in the American elections that gave the victory to Donald Trump and could be a reflection of a new phase in the Mexican economy, the indicator of the Mexican business environment that makes the Mexican Institute of finance executives (IMEF) racked up three months of consecutive falls in December 2016, the month with the lowest level of the year.

8. Manufacturing & None-Manufacturing Sectors



Source: Indicador IMEF (March), Instituto Mexicano de Ejecutivos de Finanzas.

During February, the manufacturing index IMEF fell 1.9 points to be located at 46.8 units, in a contraction trend that has lasted 4 months. Meanwhile, the trend of the cycle series fell 0.5 points reaching 47.6 units; the lowest registered since July of 2013.

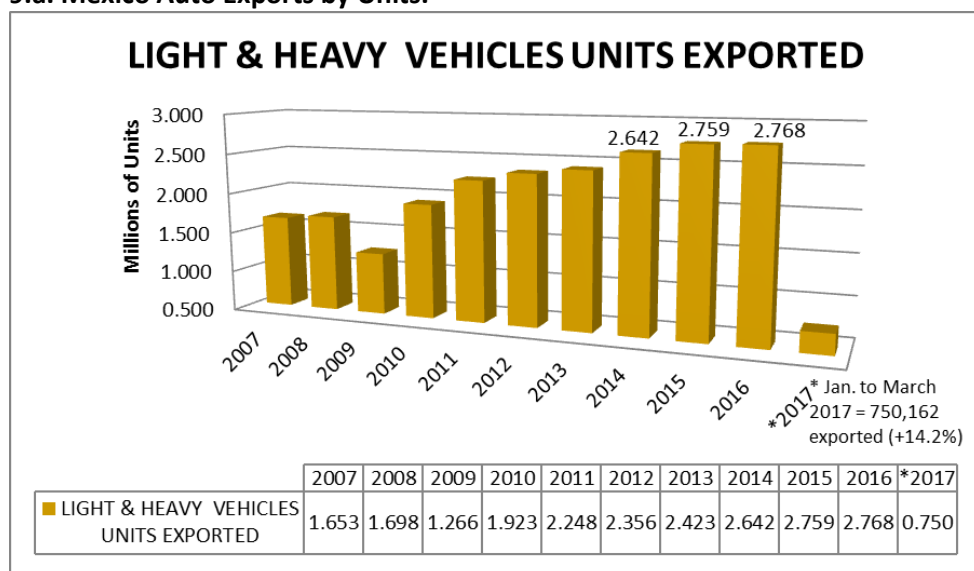
The Automobile Sector

Mexico vehicle production climbed 8.8% during the month of December of 2016 at annual rate, while exports grew by 4.8%, said Monday the Mexican Association of the automotive industry. In the last month of last year the production of light vehicles was a record for a December month, climbing up to 242,495 units, taking the total number of units produced in 2016 to record of 3.47 million units, a 2.0% more than in the year 2015.

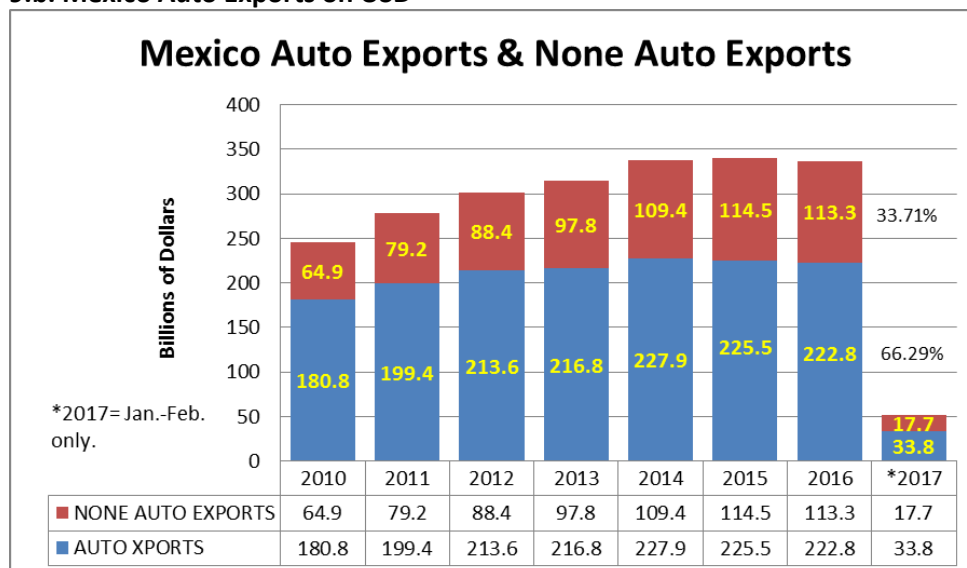
Exports also reached record levels for the month of December and in the accumulated total, since the last month of the 2016 were sold abroad 216,645 light vehicles and 2.77 million units in 2016, a 0.3% more than in the year 2015. Last February, automobile production in Mexico went, for the first time, over the threshold of 300,000 vehicles produce in a single month.

In February of 2017, Mexican light car production and exports grew solidly 11.1 and 9.7%, respectively, which earned them back to record levels, the Mexican Automotive Industry Association (AMIA). Eduardo Solís, President of the AMIA, termed "excellent news", the fact that the automotive sector reached a share of 13.9% in the US market, never before recorded, which indicates that for every 100 cars that Americans consume, 14 are Mexican.

9.a. Mexico Auto Exports by Units.



9.b. Mexico Auto Exports on USD



Data Sources: AMIA, INEGI, ProMéxico, El Economista. Graphics by: IRV De México.

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.

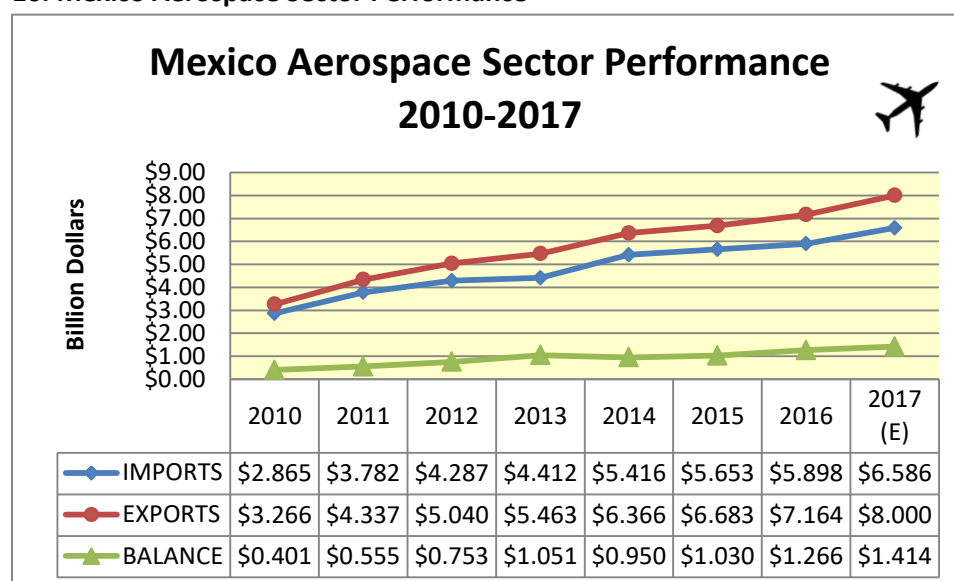
Mexico's Aerospace

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.

The aerospace sector has been growing steadily, from \$3.266 billion dollars exports in 2010, to \$7.164 billion in 2016, 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.

The Assembly and construction of an aircraft requires up to six million pieces of different parts of the world, so the aerospace industry supply chain is one of the most globalized.

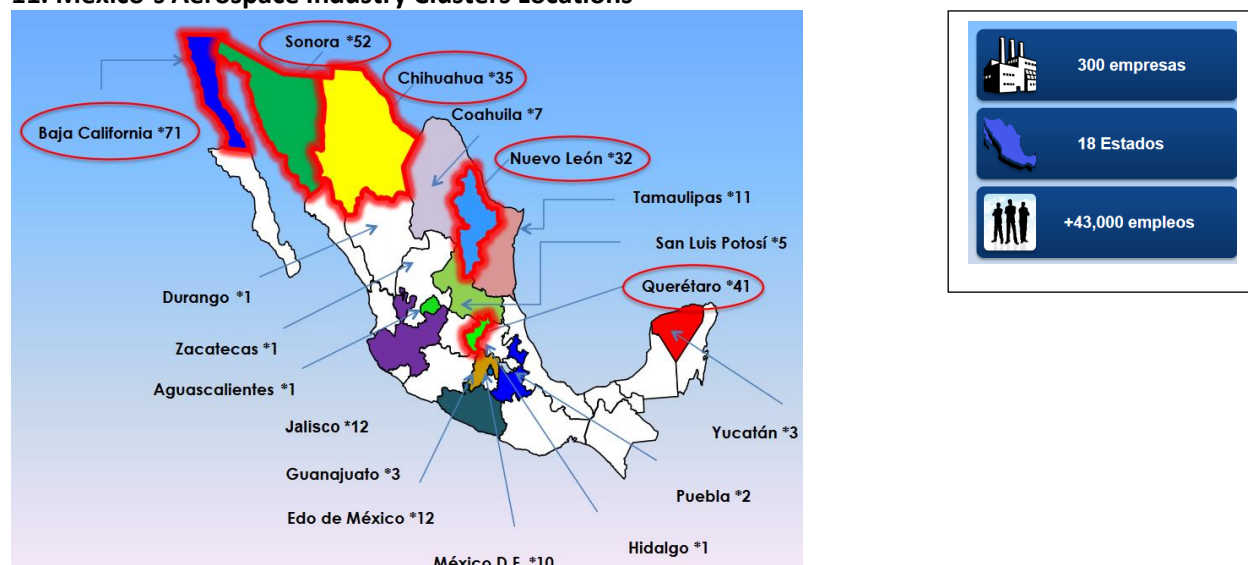
10. Mexico Aerospace Sector Performance



Sources: Ministry of Economy, High Technology and Heavy Industries General Office, with data from The Electronic Commerce General Office, Banxico and FEMIA (Federación Mexicana de la Industria Aeroespacial). Graphic: by IRV De México.

This industry has benefited from 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.

11. Mexico's Aerospace Industry Clusters Locations



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.

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.

The Real Estate Market

According to BBVA, on its second semester 2016 research report, construction stands out from other sectors of the economy, with an annual rate of growth of 2.4%. This trend could reverse due to lower activity in building construction and reduced budgets for civil works. As forecast in the last number of Mexico Real Estate Outlook, building construction is the branch with the greatest activity in the sector, despite showing a lower growth rate than in previous half-years. On the other hand civil works were down by 3.7%, contrary to previous forecasts based on the National Infrastructure Program. The Federal Expenditure Budget also suggests that we cannot expect any significant improvement, since fewer public resources are to be earmarked for infrastructure.

Other highlights taken from the BBVA report are:

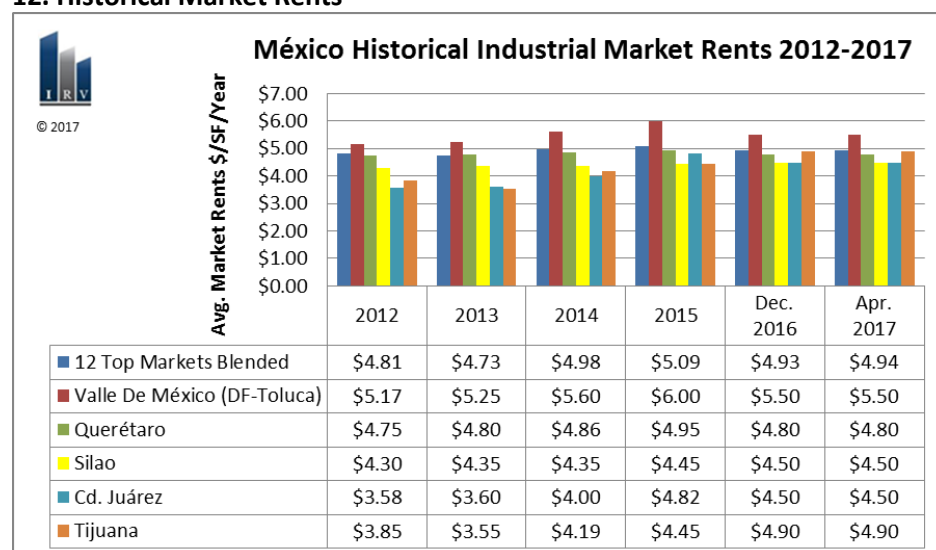
- The mortgage lending market shows contraction in both the number of loans granted and their amount. Even with the changes in monetary policy, the commercial banking market continues on a positive trend, even above that of the economy as a whole.
- In discussing the real estate sector BBVA focused on details mainly from the perspective of residential building construction. However, a comprehensive review of this sector must also include building construction of commercial property. These kinds of works have performed outstandingly in previous years and present themselves as an alternative to home construction. The increase in commercial building construction has gained ground on housing thanks to sustained demand for industrial facilities, shopping centers and office buildings. BBVA expects a slowdown in building construction of these types due to a lower level of economic activity and the increased price of certain inputs.
- According to a report by the Federal Mortgage Company, the housing price index rose by 8% in the first two quarters of the year. However, the residential market shows considerable disparities from one part of the country to another. Prices in states such as Nuevo León, Jalisco and Mexico City are considerably higher than in the rest of the country.

Mexico's Industrial Real Estate Market

Mexico's industrial sector regained momentum to sustain growth during 2016, as demand for industrial space has continued to increase at a moderate pace. Compared to January of 2016, rental rates remained stable on markets such as: Toluca-Edo. de México, San Luis Potosi, Tijuana and Silao. In other markets, such as Aguascalientes, Puebla, Tlaxcala and Cd. Juárez, rental rates increased mildly. However, several markets, where there were more rental rates offered in Pesos, the rates, once exchanged to Dollars, were lower than market rents prevailing a year ago. Such is the case of Querétaro, Cancún and Veracruz.

The table below presents the Historical Industrial Market Rents 2012 to 2017.

12. Historical Market Rents



Mexico City's Industrial market, with over 73 million square feet of class A buildings, is the second largest market, only after Monterrey.

According to CBRE Research 4T 2016, the Mexico City's Industrial market, had a remarkable performance during 2016. Compared to 2015, there was nearly double the amount of space transacted during 2016 (almost 11 million square feet in comparison to 6 million in 2015). The exit price, according to CBRE research, was US \$5.77/SF/Yr.

Our own research (1Q 2017) for the Mexico City-Edo. de Mexico market came to \$5.50/SF/Yr., while Cushman & Wakefield's arrive to \$4.63 asking rent showing a decrease of 19% as compared to the end of 2015. According to Cushman, Mexico City is growing more sophisticated, and as intermodal logistics platforms become more common, demand grows and real estate developers are bringing increasingly specialized products to the market. The main transactions of industrial real estate activity continue to reflect the prominent role of distribution and logistics work, as is exemplified by Walmart's 1,054,800 square foot (SF) lease at Megapark.

USA - México Cap Rates and the Trump Factor

The trend of US class A industrial cap rates during 2013, 2014, 15 and 2016 has been in a down pattern. National average going-in capitalization rates for the industrial sector continued to contract during 2016. However, Mexico's economy has been impacted by the results of the USA election results. The "Trump effect" has taken a toll on the Peso's rate of exchange, interest rates and JP Morgan Embi+ Country Risk, generating uncertainty among investors who are concerned about the future of NAFTA and FDI (Foreign Direct Investment) into Mexico.

The JP Morgan Embi+ country risk factor went from the 228 bps prevailing on November 1, to 261 by November 14 (6 days after de election). However, Mexico's country risk factor has already dropped to 202 bps as of March 16th, 2017. Mexico International Reserves as of March 10 stand at \$174.524 Billion Dollars.

In spite of Trump's menacing statements about manufacturing plants moving to Mexico, major FDI players, including, Cisco, Citibanamex and Walmart, have reiterated that they will move forward with their investments in Mexico. These 4 companies alone are planning investments in Mexico in the range of 12 billion dollars.

Several significant industrial portfolio transactions which started in 2016 were closed in January of 2017 after the US elections took place, reaffirming confidence in Mexico's industrial market.

According to Ildefonso Guajardo's statement on January 13, 2017, Mexico's Secretary of Economy, Mexico will receive during 2017 around 25,000 million dollars of Direct Foreign Investment.

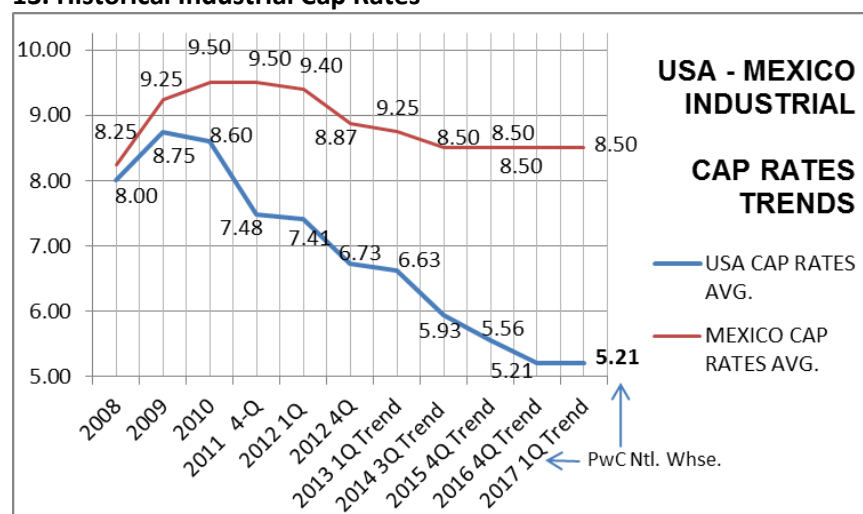
On a recent report published within the Davos Economic Forum, Presidents of more than 1,300 large multinational corporations placed Mexico as the No 8 favorite country to receive foreign investment during 2017. This positions Mexico ahead of France and Australia.

Three methods are used to estimate capitalization rates:

- **Capitalization Rate Comparables in México**
- **Market Participants Survey in US and México**
- **Band of Investment Method (Mexico Criteria)**

Using the most recent data available from the México, for an indication of capitalization rates for similar improved portfolio sales, including the data from the recent sales of small, medium and large size portfolios of industrial buildings, and using data from well-known reliable sources from the USA, the analysis of Cap Rates are implemented. The historical performance of Industrial Cap Rates (USA and Mexico) is presented in the chart below.

13. Historical Industrial Cap Rates



It would be hard at this time for anyone to attempt to predict what the market trends and Mexico's economy performance will be in the future, before we have facts and figures to aid on the predictions. To try to read and guess between tweets what the trade, economic policies and relations between Mexico and the USA will be in the future, is beyond what a prudent analysis could do now.

Although at this time a Cap Rate increase in Mexico seems that it could occur in the future, there is no hard data available yet to support an analysis yielding a Cap Rate increase. Nonetheless, a cautious and vigilant stance is advised, so proper actions and adjustments can be made as it may be necessary.

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