COMMERCIAL REAL ESTATE IN MEXICO

2014 TRENDS AND THE OUTLOOK FOR 2015

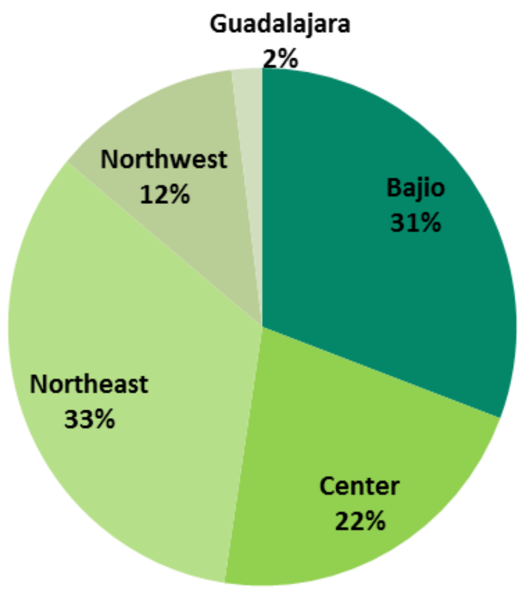
THE INDUSTRIAL SECTOR

The Industrial Sector: Mexico on track to become the industrial "hub" of the Americas.

Mexico has an inventory of Class A industrial space estimated at 53.1 million square meters (sq. m). Thirteen markets account for almost 70% of the inventory with 37.7 million sq. m. recorded up to the month of September in Monterrey, Juarez, Tijuana, the Mexico City Metropolitan Zone (MCMZ), Reynosa, Queretaro, Saltillo, Guadalajara, Guanajuato, Toluca, San Luis Potosi, Puebla and Aguascalientes.

These 13 markets tracked by CBRE are a good benchmark for industrial and logistics activity in Mexico to include mature markets like Monterrey, Tijuana, Juarez and Reynosa, as well as those markets that have demonstrated strong potential for development such as Bajio and the MCMZ. Just in the last year, growth in the inventory of industrial space in these markets was 13.6%, with a clear push by Bajio, which grew by almost 32% with an additional 1.5 million sq. m.

GRAPH 1. SHARE OF MEXICO'S CLASS "A" GROSS ABSORPTION, BY REGION



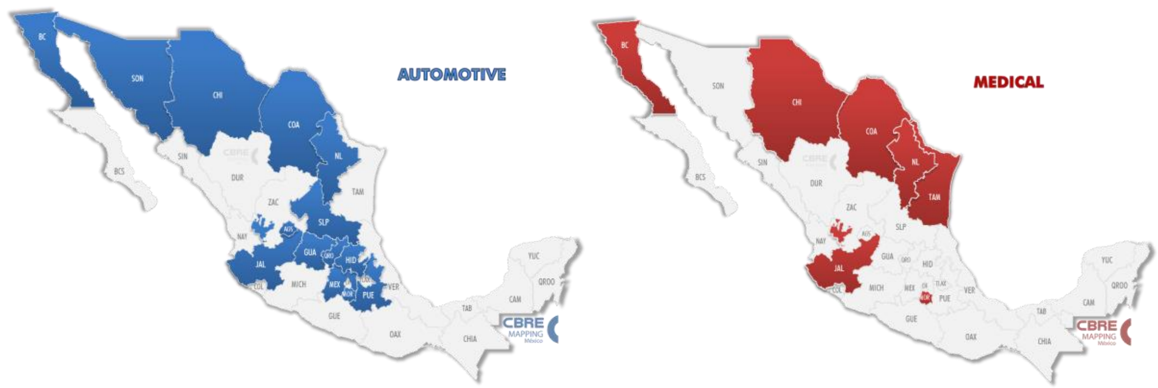
Source: CBRE Mexico Research, November 2014.

* Bajio includes: Querétaro, Aguascalientes, San Luis Potosí, Guanajuato. Center: Ciudad de México, Toluca y Puebla. Northwest: Tijuana y Ciudad Juárez. Northeast: Monterrey, Saltillo, Reynosa, Matamoros.

The growth in the supply of industrial and logistics space in Mexico has been accompanied by increasing demand that is reflected in specialized geographical zones with clusters of logistics and distribution businesses in MCMZ and Queretaro, automotive industry clusters in Bajio, Saltillo and Nuevo Leon, and the aerospace industry and its suppliers in the northeast and Bajío.

However, we can see there are States that have succeeded in establish themselves as prime locations for producers and suppliers in sectors with greater presence in the country:

▼ MAP 1. MEXICO'S STATES WHERE INDUSTRIES SUCH AUTOMOTIVE, MEDICAL EQUIPMENT AND MEDICAL DEVISES, AEROSPACE, AND LOGÍSTICS & DISTRIBUTION ARE LOCATED.



***Only States where assembly plants are located were under consideration**

Source: CBRE Mexico Research, November 2014.

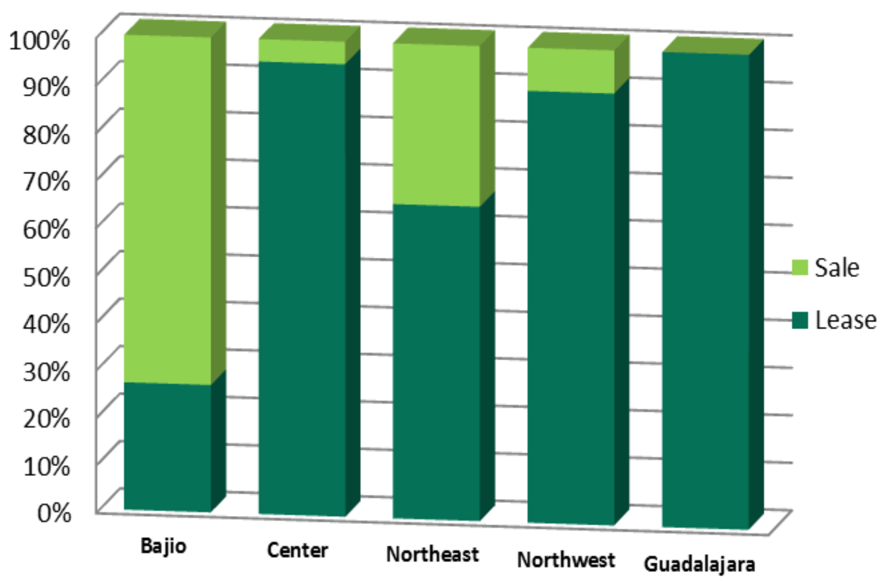
Vacancy and Type of Transactions in the selected markets:

Vacancy in the 13 cities monitored by CBRE has remained very similar to that of a year ago (8.25% vs. 8.37% in 2013), and in spite of the fact that the growth in supply has been almost 5 million new meters in a year. This is due to strong market demand, which in these 13 cities has grown by 30.5% (an increase of just over 500,000 sq. m. under contract) during the period January-September 2014 compared to the same period last year.

Sixty-six percent of the space under contract is concentrated in the Bajio region with 31%, the Mexico City metropolitan zone with 23% and the Monterrey metropolitan zone with 14%.

Another important trend allows us to identify the type of transactions recorded by zone, and due to the demand for specific characteristics required for production plants, the Bajio and Northeast recorded high rates of space successfully placed under contract (88% of that designated for Build to Suit or BTS), while in the rest of the country the leasing of space on spec (speculation) predominates.

▼ GRAPH 2. INDUSTRIAL ABSORPTION CLASS A, BY REGION AND TYPE OF TRANSACTION.



Source: CBRE México Research, November 2014.

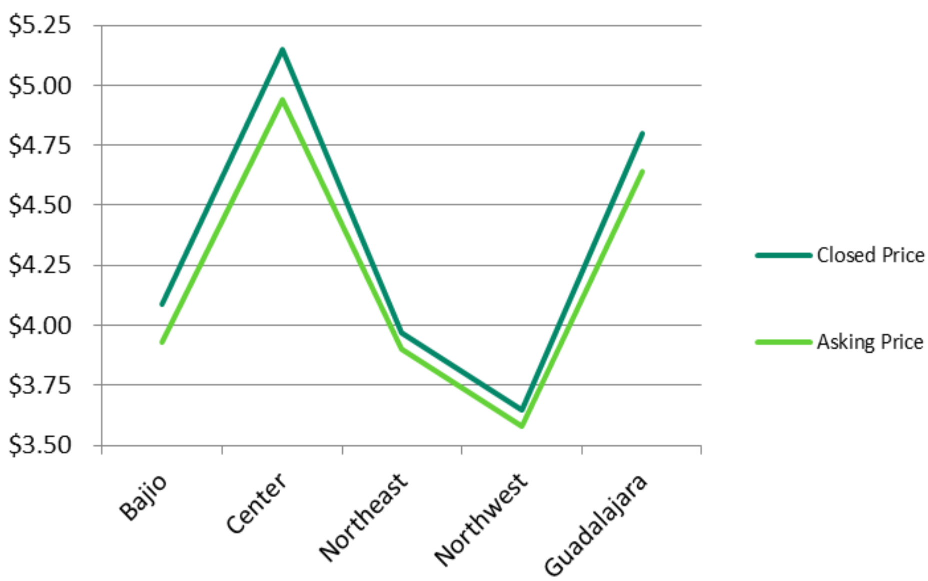
* Bajío includes: Querétaro, Aguascalientes, San Luis Potosí, Guanajuato. Center: Ciudad de México, Toluca y Puebla. Northwest: Tijuana y Ciudad Juárez. Northeast: Monterrey, Saltillo, Reynosa, Matamoros.

Asking and Closing rents:

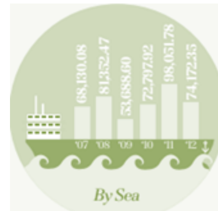
Meanwhile, the average asking leasing price range at a general level has been maintained during the last year at between $4.04 US$/sq. m./month and $4.08 US$/sq. m./month. However, in terms of markets, we can see that the strongest increases in prices driven by demand have been recorded in Aguascalientes (+ 50 cents US$/sq. m.) and San Luis Potosi (+42 cents US$/sq. m.). The biggest drop recorded was in the MCMZ with a starting price of 45 cents US$/sq. m cheaper than a year ago ($4.90 US$/sq. m. vs. $5.35 US$/sq. m.) due to a significant increase in the supply of space (from January to September 555,000 sq. m. of new supply came on the market). Average starting prices between $7 US$/sq. m. and $9 US$/sq. m. were recorded mainly in the northern corridor (Cuautitlán, Tultitlán and Tepotzotlán), and the corridors such as Naucalpan and Vallejo Azcapotzalco due a lack of supply.

In 2014, average asking lease prices in the industrial market were steady, with slight decreases due to the strong increase in supply.

▼ GRAPH 3. GAP BETWEEN ASKING AND CLOSING RENTS FOR CLASS A INDUSTRIAL BY REGION.



Main Sectors driving Industrial Market's demand:



Throughout 2014, demand in the industrial market was led by tenants and/or buyers in the automotive (industrial parks for suppliers), logistics (distribution centers) and food producers (production plants) industries.

▼ CHART 1. TOP 10 CLASS A INDUSTRIAL TRANSACTIONS, BY SPACE SIZE, 2014/P.

Tenant / Buyer	Company's sector	Industrial Park	Size (sq.m)	Market	Type of Transaction
Mondelez	Food & Bev	Interpuerto	148,644	Salinas Victoria, NL	Sale
DHL Express	Logistics	Macrocentro	139,609	Cuautitlán, Méx	Lease
P&G	Manufacture	Stand Alone	85,031	Irapuato, Gto	Sale
Loinco	Real Estate	El Magueyal	81,947	Texcoco, Méx	Sale
Nissan Mexicana	Automotive	Duaki Seisan Park	64,054	Aguascalientes, Ags	Lease
Sumitomo Electric Sintered Dalley	Electronics	P.I San Francisco	46,717	San Francisco de los Romo, Ags	Sale
Uline Shipping Supplies	Logistics	Prologis Park Apodaca	46,584	Apodaca, NL	Lease
Fideicomiso Querétaro	Government	Queretaro Ind Zone	45,000	Querétaro, Qro.	Sale
Chrysler- FIAT-Mitsubishi	Automotive	Toluca Vesta Park II	43,000	Toluca, Mex	Lease
TS Tech	Automotive	Castro del Río	40,000	Irapuato, Gto	Sale
Bridgestone	Automotive	P.I Amistad Bajío	40,000	Apaseo el Grande, Gto	Sale

Source: CBRE México Research, November 2014.

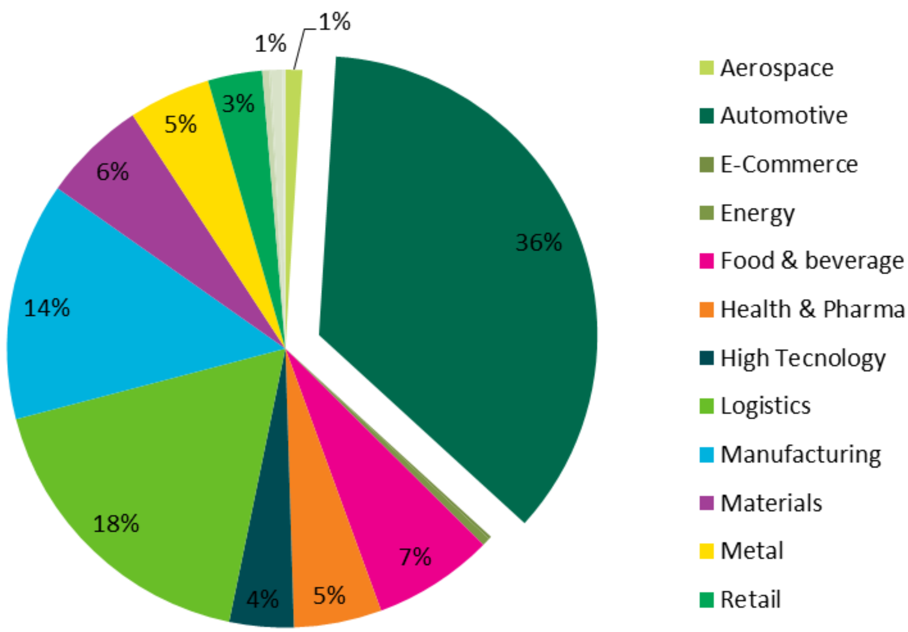
P/ Preliminary data from January to September 2014.

Industrial clusters from main industries (automotive, aerospace, medical equipment, and logistics) were well established in different regions of Mexico, to create highly specialized zones.

Industrial Clusters Consolidation in Mexico:

Some other factors contributing to the new configuration of the industrial market in Mexico, was the desire of developers to acquire land reserves that are close to transportation infrastructure for easy distribution of products, as well as the conversion of industrial parks in Mexico to specialized zones that can accommodate industrial clusters in the mainly automotive, information technology, aerospace, food processing and logistics sectors.

▼ GRÁPH 4. LEADING SECTORS IN CLASS A INDUSTRIAL ABSORPTION, 2014/P



Source: CBRE México Research, November 2014.

P/ Preliminary data from January to September 2014.

The 5 major trends in the industrial sector during 2015:

1. Average starting prices will remain stable with slight upward trends in markets with higher demand.
2. A process of reconversion continues in industrial zones strategically located in areas where classes B and C predominate and are then converted to class A.
3. Energy sector reform implementation will contribute to development in the industrial and the logistics sectors in locations such as Campeche, Tabasco, Veracruz and Tamaulipas.
4. The dynamism in Bajío and MCMZ will be maintained and the recuperation in the entire northern zone of the country will continue principally driven by the automotive, aerospace logistics, and medical equipment industries.
5. The growing trend in the telecom and information technology to locate their training, research and development centers in Mexico will continue.

THE OFFICE SECTOR

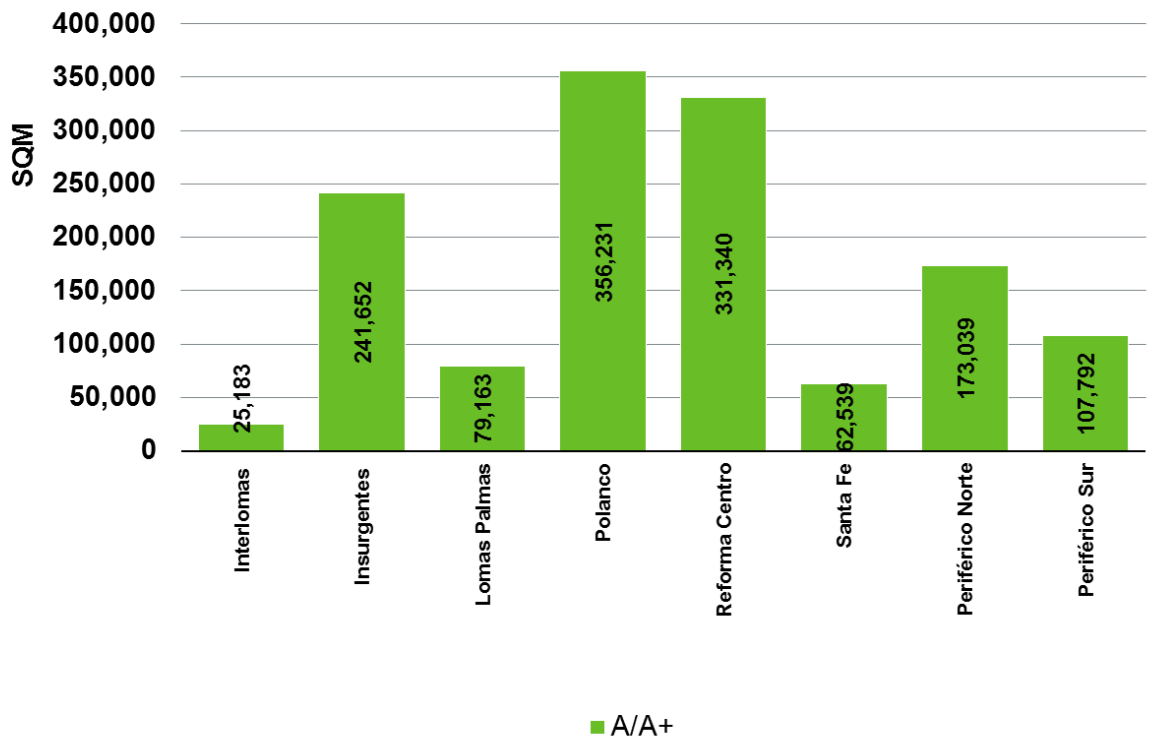
EVOLUTION 2014 AND OUTLOOK 2015

The Office Sector in Mexico City: an expanding Real Estate Market

Approximately 90% of the available office space on offer in all of Mexico is concentrated in Mexico City with almost 4.5 million sq. m. of class A and A+ space, a figure that will reach 6 million sq. m. over the course of the next three years and that signifies an annual growth rate of 10% from the 1.2 million sq. m. of space that existed in 1997. The consolidation of this market makes it the largest class A and A+ market for office space in Latin America.

Today, in Santa Fe alone there are 1.1 million sq. m. and in just two years Polanco will reach the 1 million sq. m. level of inventory, pushed upwards by the dynamic construction of new space in the zone that is known as “Nuevo Polanco” or “Uptown Polanco.”

GRAPH 1. CLASS A/A+ OFFICE SPACES UNDER CONSTRUCTION IN MEXICO CITY (sq.m), BY SUBMARKETS, 2014-2017[e/].

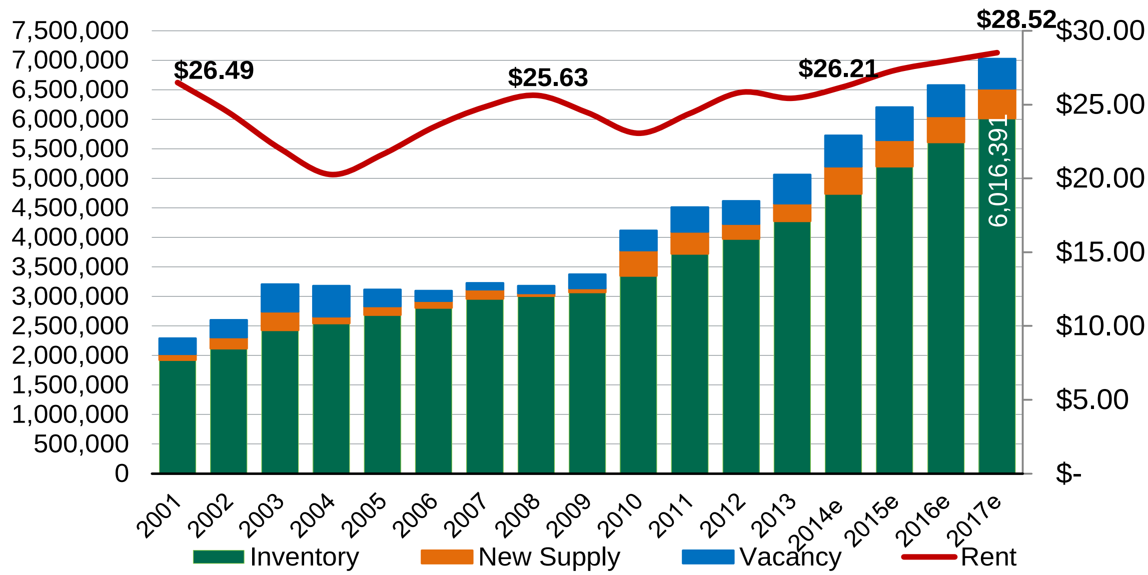


Source: CBRE Mexico Research, November 2014.

In the face of this real estate boom, demand has remained strong with annual absorption rates (space under contract, leased and/or purchased) of between 325,000-375,000 sq. m. in the last three years, an important growth if we consider demand during the previous five years (2007-2011) when the absorption rate was on average 224,000 sq. m.

Also, the starting price of rents has remained stable showing a slight increase, even in the face of new space availability, and driven by the quality of space and the demand for higher quality space. Companies value efficiency and security more and more as well as the cost-benefit ratios the new space offered allows for.

GRAPH 2. MAIN REAL ESTATE OFFICE MARKET INDICATORS IN MEXICO CITY, 2001-2017[e/].



Source: CBRE Mexico Research, November 2014.

e/ Estimated Data.

Main Sectors Driving the Office Market's Demand:

In the first nine months of 2014 almost half of all office space was rented or bought by entities dedicated to serving the public (principally the government), professional services firms (principally human resources and market research consultancies and advertising agencies) and the financial sector (banks and insurance companies).

CHART 1: TOP 10 CLASS A/A+ OFFICE TRANSACTIONS IN MEXICO CITY, ACCORDING TO ESTIMATED TRANSACTION VALUE/P.

Submarket	Building	NRA (sq.m)	Tenant / Buyer	Type of Transaction
Polanco	Ejército Nacional 223	31,168	Federal Government	Sale
Lomas Palmas	Montes Urales 445	8,708	Google Mexico	Lease
Reforma	Capital Reforma Torre Niza	7,342	ACE Insurance	Lease
Palanco	Conjunto Masaryk - Torre I	8,003	Banorte	Lease
Insurgentes	Rouz Tower I	6,009	Instituto Federal de Telecomunicaciones	Lease
Santa Fe	Punta Santa Fe A	7,496	HAVAS MEDIA	Lease
Lomas Palmas	Virreyes	3,888	Baker & McKenzie	Lease
Insurgentes	Torre Vistral	5,544	Crédito Real	Lease
Reforma	Torre Mapfre	4,257	Dow Chemical Mexico	Lease
Polanco	Plaza Carso II	3,058	IZA Business	Lease

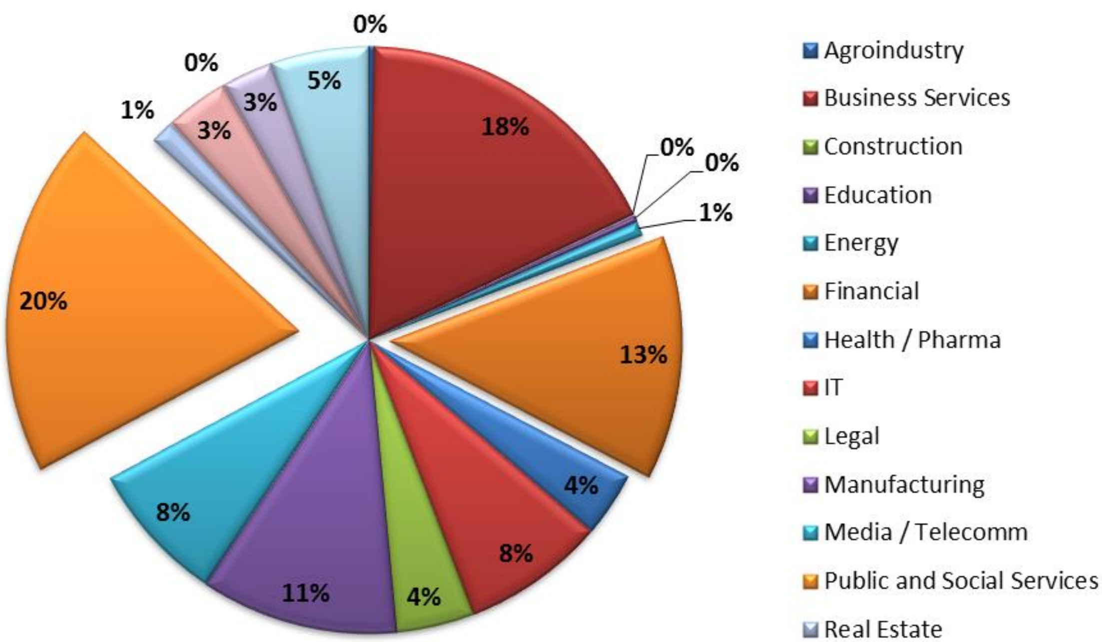
Fuente: CBRE Mexico Research with ICEI data, November 2014.

P/ Preliminary data from January to September 2014.

"Government, Business Services, and the Financial Sector concentrated the most of the registered transactions from the first 9 months of 2014"

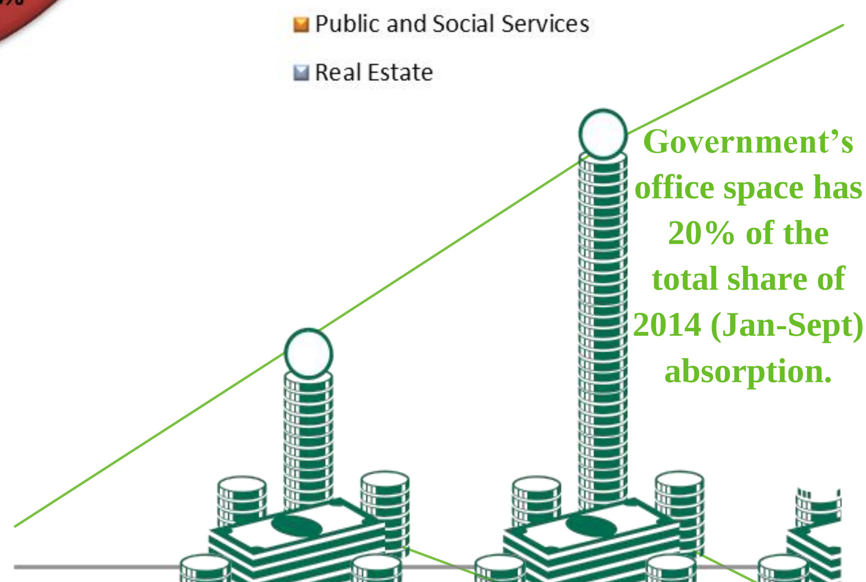
It is important to note that the change in the institutional culture of small and medium enterprises as well as the federal government has mainly driven demand for space that is well-located and connected to infrastructure, and that presents a good image to customers and employees. In response to this, we see that construction of new projects is concentrated in the sub-markets of Reforma-Centro, Polanco and Insurgentes with almost 75% of projects under development in the city.

GRAPH 3. SECTORS LEADING CLASS A/A+ OFFICE DEMAND IN MEXICO CITY, 2014/P.



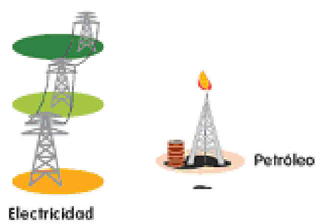
Source: CBRE Mexico Research November 2014.

p/ Preliminary data from January to September 2014.



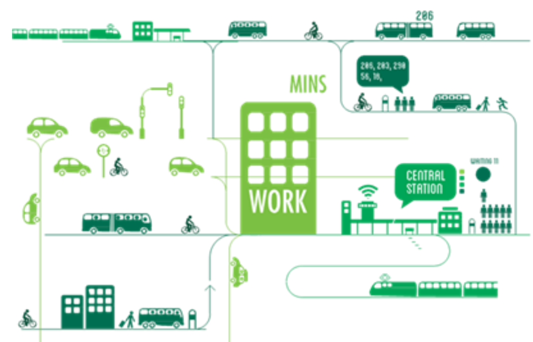
The 5 major trends in the office sector for 2015

1. The energy and telecommunications sectors will be the fastest growing in terms of corporate space needs and will reach 20% of the total demanded spaces during the next year.



2. In 2015, additional 400,000 sq. m. that today are in the planning phase will added to the construction activity for office space in the city that is currently of 1.3 million sq. m.

3. New workspaces that encourage teamwork and innovation will take force in the city.



4. Areas that are better connected in terms of urban mobility (roads and public transport) will remain with the highest asking rents in the city.

5. Mixed-use space under construction will increase its share of total development under construction from the current 35% to almost 50% next year based upon our information about planned projects beginning construction in the coming months.

THE RETAIL SECTOR

The Retail Sector: the largest capacity growth in the country.

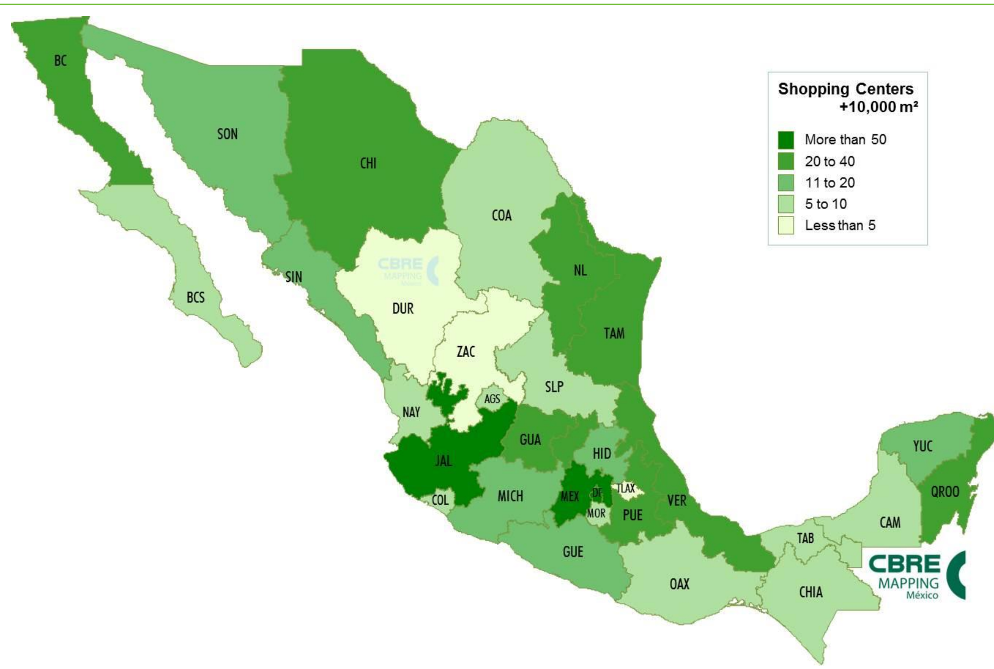
The last ten years in Mexico has shown its most important growth in the retail sector as a result of a growth in demand for recreational spaces and with the tendency to substitute public plazas and parks with these new malls where different entertainment offerings are concentrated.

Taking into account malls offering a net area for lease above 10,000 sq. m, as of November 2014 Mexico had a total inventory of 19.1 million sq. m. with 1.7 sq. m. under construction. During the next year, 1 million new meters are expected to be added so that the year will end with a 5% growth in new space offered. In the next three years, we estimate that growth will reach 10%.

The dynamism this sector has shown over the past 10 years has put upward pressure on sq. m. prices, particularly in large-format malls since they have shown the least space availability as well as an increase in demand.

Forty percent of the national inventory is concentrated in the large metropolitan zones in Mexico, such as Mexico City, Guadalajara and Monterrey. This trend will be accentuated over the next three years, particularly in Mexico City and Monterrey since 65% of the malls now under construction are now located in these metropolitan zones. However, in medium-sized sites like Puebla, Tijuana, Leon, Cancun and Ciudad Juarez, the retail sector is growing positively and this trend is expected to continue in the coming years given important projects under construction and being planned that are adding to the dynamism of these zones in the country.

MAP 1: MEXICO'S SHOPPING CENTER DENSITY BY STATE, 2014P/.



Fuente: CBRE México Research, Noviembre 2014. p/ Preliminary data up to November.

New international brands, the driver of retail

In the past five years, Mexico has become an entry point for new international brands, particularly from Europe and the U.S., that are looking to establish a presence in the Latin American market. In most cases, first entering Mexico has proven very successful. In this regard, in recent years the brands have initiated an expansion process and have peaked interest on the part of new companies given the brands' entrance into the Mexican market. Today, malls in Mexico have seen a strong demand for commercial space on the part of these new companies catering to these brands, which has driven the dynamism in retail throughout the country.

The future continues to look positive in terms of demand for and the development of malls in Mexico. Coupled with the expansion of new companies recently entering the country, new brands are projected to arrive that could come to further develop the sector.

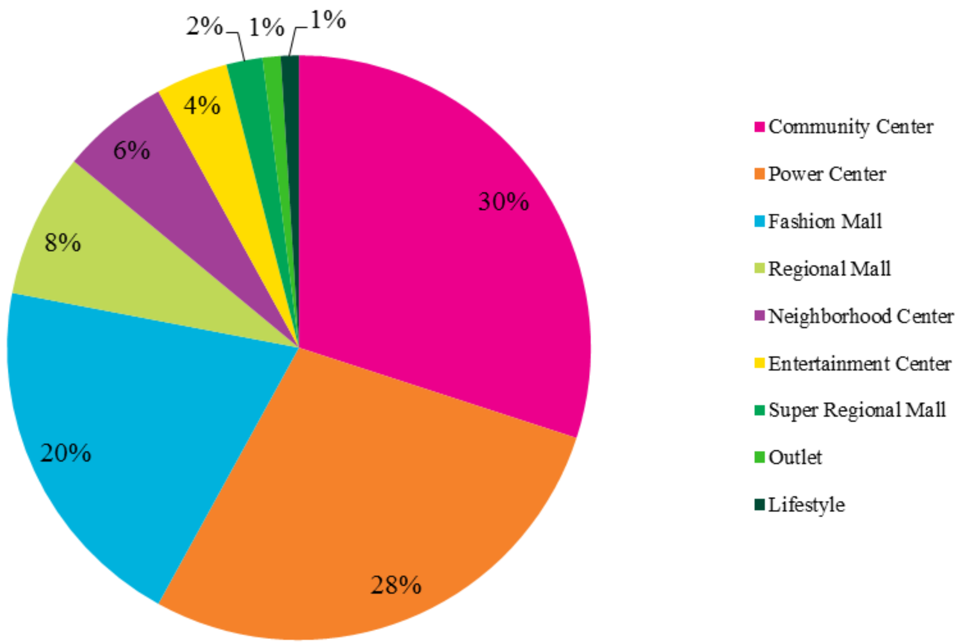
"60% of total Shopping Centers' inventory in Mexico are Community and Power Centers"

The retail sector panorama in Mexico

The demand for commercial space in Mexico has increasingly presented more sophisticated requirements, forcing developers to compete in design, architecture and style with the rest of the world where market leaders are spearheading trends.

Currently in Mexico, more than 60% of shopping centers meet basic shopping needs. In recent years, however, the trend has been reversed, since most of the malls that have been put into operation incorporate diverse spaces where there is a confluence of diversification offering both retail and recreational spaces. A more recent trend mainly in the metropolitan areas of Mexico City and Monterrey is toward mixed-use spaces incorporated into macro commercial, corporate and residential complexes, etc.

GRAPH 1: MEXICO'S INVENTORY BY TYPE OF SHOPPING CENTER, 2014.



Source: CBRE Mexico Research, November 2014.

The 5 major trends in the retail sector during 2015

1. The big national retailers demanding commercial spaces will continue to drive the increasing occupancy of new malls and mixed-uses.
2. Next year will continue to see the merger and acquisition of large retail chains, as well as the sale of more specialized formats as a way to streamline operations and better compete for the domestic market.
3. Commercial locations that contemplate the inclusion of mixed-use space with diversified shopping and entertainment options continue developing in the country, mainly in large cities.
4. It is expected that approximately 60% of the projects in the planning stage as of today will be developed, so around 800,000 sq. m. of net new leasing space will be added to construction.
5. Large-format malls, such as super-regional malls, regional malls and fashion malls located in the nation's principal cities will see an increase in their leasing prices and a decrease in space available as a result of new demand.

CONCLUDING REMARKS

1. We are expecting the year 2015 will continue with the commercial real estate expanding cycle encouraged by Mexican and international investors´ appetite, new financing vehicles (REITS, CKD's), and the Mexican CRE institutionalization.

2. The U.S economic recovery and stronger growth will contribute to the CRE's demand dynamics.

3. Oil price volatility is an external phenomenon to the Mexican economy and Mexico's Government will have to respond it through public finances' adjustments. Meanwhile, oil companies and markets are used to the oil cycles, so we are expecting the same enthusiasm as usual for the Mexican oil market.

4. Other energy sectors such as electricity generation will not be affected by oil prices and investment will keep on track. Furthermore, we expect the telecomm reform would also have a highly positive impact on Mexico's economic growth.

5. Mexican markets with the most potential for economic growth (such the most important cities of the North and the Gulf of Mexico) could be benefited not only by the reforms but from the growing of U.S Economy.

Investors' confidence in Mexico's Commercial Real Estate it is shown by main transactions made by the Mexican REITS in 2014:

CHART 1: FIBRAS' MAIN TRANSACTIONS IN 2014[p/].

Buyer	Seller	Property Name / Portfolio	Asset Type	Estimated Price (USD)	Estimated Cap Rate
Fibra Uno	MRP	R15	Retail	$1,798,051,421	9.00%
Fibra Uno	E-Group	Samara	Mixed Use	$362,138,987	8.50%
Fibra Uno	Garza Ponce JV Clarion Properties	Garza Ponce Industrial	Industrial	$274,800,000	8.40%
Fibra Uno	Private Investor	Galerias Guadalajara	Retail	$266,570,589	-
Fibra Uno	PREI	Centro Bancomer	Office	$125,000,000	-
Fibra Uno	GICSA	Masaryk 111	Office	$114,365,641	7.59%
Macquarie	Kimco	Multiplaza Arboledas	Retail	$58,241,761	8.35%
Fibra Uno	eGroup	Hilton Mexico City Santa Fe	Hotel	$54,016,261	8.52%
Macquarie	Kimco	Multiplaza Lindavista	Retail	$49,787,644	8.35%
Fibra Shop	Grupo Roma de Juarez	Las Misiones	Retail	$46,933,539	10.50%

Source: CBRE Mexico Research with Real Capital Analytics and internal sources' information, November 2014.

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