



Real estate, a market of opportunities in Mexico

KPMG in Mexico



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Is the market expanding?

Currently, the Mexican market offers a variety of opportunities for businesses and investors to develop projects in the real estate industry. The market is fertile ground for development, investment and diversification due to the increase in funding sources and the real estate asset demand.

Decision makers must know what prospects exist at a domestic and foreign environment in order to detect possible new businesses or manage risk efficiently. Being able to identify industry's tendencies and trends will lead to competitive advantages which, finally, translate into an increase in the value of the company.

More companies require multidisciplinary and comprehensive services for correct decision making. These services include: identifying financing options, advice with project development and carry out market studies, just to mention a few. If companies want to stand out, it is a requirement to seek external advice, since a good multidisciplinary consulting allows businesses to improve processes and helps to take decisions that benefit the company.

Why to invest in Real Estate?

The last decade witnessed an extraordinary transformation in the way in which developments, investments and transactions take place in the real estate industry. We identified three important trends that shape the market:

1. Emerging small and medium developers around strategic regions of the country
2. Increasing in mixed use developments
3. Raising in the use of financial investment instruments such as real estate investment trusts (better known as FIBRAs) which are an investment trust vehicle under Mexican regulation intended for leasing, similar to real estate investment trusts, or REITs, in the United States; and Certificates of Capital Development (“CKDs”)

The real estate industry in Mexico is in a maturity period which is characterized by a boom in the development of infrastructure. There is also an increase in investments that come from domestic and foreign capital. This translates into an opportunity for companies to try and develop new market schemes. An adequate external advisory allows corporations to get the most out of its resources and its capital.

The housing demand projected for the next few years will be driven by people under 30 years (which represents 55% of the country’s population). The Bajío zone, formed by Aguascalientes, San Luis Potosí, Guanajuato and Querétaro, as well as the northern region of Mexico, are areas of special interest. These areas present investments in the automotive and aeronautics sectors that require new places for people to live.

The commercial and residential markets are also projected as areas of opportunity for real estate investment thanks to the incentives created by new governmental reforms and attractive interest rates. The International Council of Shopping Centers (ICSC) forecasts a market growth of up to 23 million square meters for 2025, which represents an increase of 35% over the current 17 million square meters.

1

Small and medium enterprises



Some statistics from the ICSC state that 35 to 40 projects will be developed in different regions with an area over 30,000 square meters. Several of these projects will be carried by small and medium-sized enterprises. The market expects a change in the way in which local entrepreneurs and owners of real estate investments display and develop their business strategy.

Previously, the investment was driven by the benefits resulting from the sale of an asset. Now we face a different analysis in which the development of the asset and all of the subsequent flows are crucial to the overall value of the asset. In some situations, investors seek to co-invest with developers or investors for capital gains not only resulting from selling the property, but also from income generated by the property once completed (shopping mall, offices, industrial buildings).

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2

Mixed-use developments

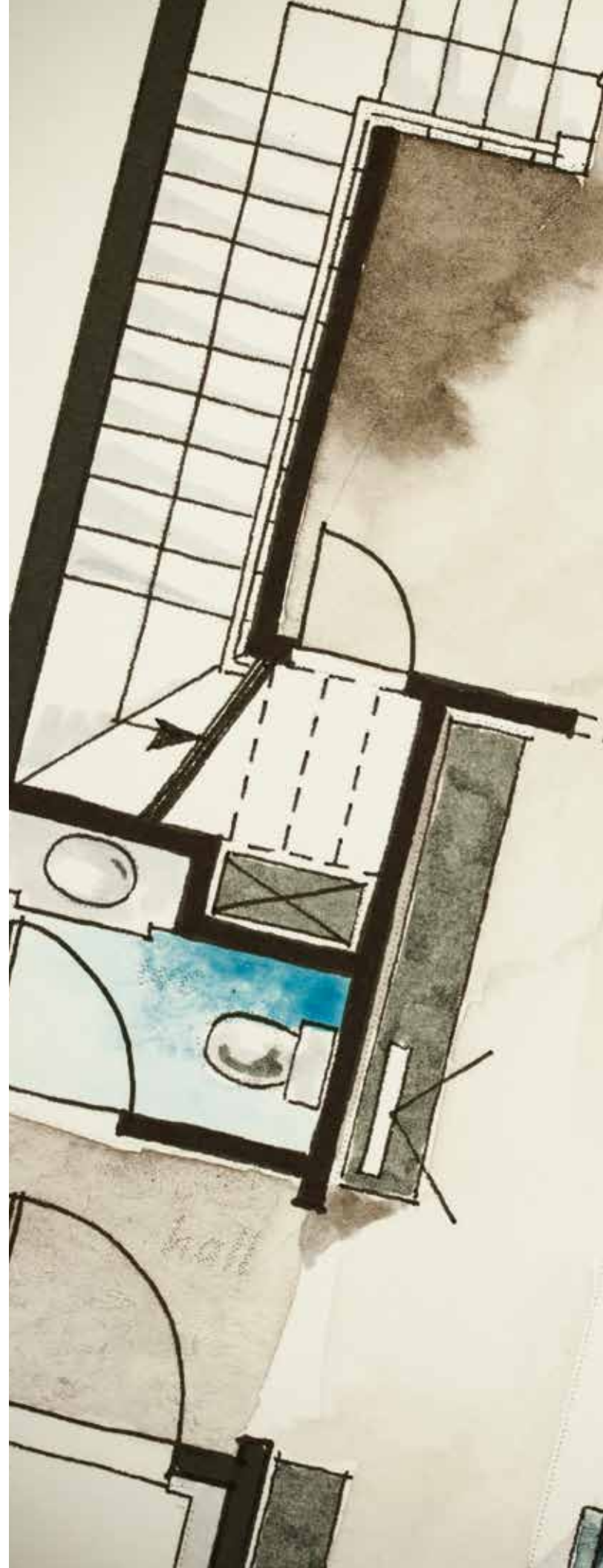


The Mexican real estate industry mainly focuses on four sectors: industrial, housing, offices and commercial. In recent years, difficulties caused by mobility and an increase in the cost of the land explain the integration of commercial spaces into areas that were traditionally intended for other uses. Ten years ago, less than 15% of the real estate developments were mixed use; now, this number has increased to 30%.

The trend is also observed in other cities like Monterrey that is currently growing because of the demand of corporate and residential spaces. There are more than 500 thousand square meters of offices projected for next year, which will incorporate mixed-use buildings. The growth of tourism in destinations such as Cancun, Los Cabos and Puerto Vallarta also encourage real estate developments.

Almost all of the new large-scale projects incorporate mixed-use developments. Universities, hotels and residential areas increasingly require more shopping areas, restaurants and shops to be attractive for their customers. The boom of mixed-use developments is due to the multiple benefits offered: reduction of transport distances, best use of urban resources and planning, preservation of green areas and the creation of communities that encourage social interaction.

Understanding this trend will allow the decision maker to generate innovative solutions to face challenges, benefit from opportunities and create economic value that could help for profitability and growth.



3

CKDs and Fibras, investment instruments



Some instruments allow investors to take advantage of market opportunities. Two of these instruments are the real estate investment trusts (better known as Fibras) and the certificates of capital development (CKDs). Fibras have managed, in less than five years, to accumulate more than 293,000 million pesos in assets. These financial instruments encourage the development of the real estate market, and also allow the investor to minimize the risk and integrate foreign or institutional investments. Finally, it is a great option to finance large-scale projects.

CKDs are Mexican financial instruments placed by the Mexican Stock Exchange, which serve as a vehicle for financing activities and projects in sectors with long-term yields. These instruments arose due to a need of liquidity, lack of funding and uncertainty. Unlike Fibras, CKDs usually have a pre-set expiration date and do not have the obligation to distribute the fiscal result among its investors. Two important advantages of the use of Fibras are their profitability and the liquidity that they offer.

The long term profitability of these instruments can be compared with the performance of small and medium-sized companies due to the potential for capital appreciation and the generation of high-rate dividends. Additionally, these instruments are attractive for companies looking to monetize their real estate assets. This can be achieved by retaining control of strategic assets, maximizing tax benefits and improving the conditions of funding through access to institutional investors.

Dynamism and expansion in the real estate industry

With the speed that the real estate market is changing in Mexico and the variations that buildings and other assets are suffering based on their quality and location: How can a company stand out in the real estate industry? Which trends should decision makers consider to be successful? How can a company benefit from a present analysis of the industry in order to gain a competitive advantage?

The answer to these questions is complex, it requires the active participation of the senior management of the company, and an arduous and detailed analysis of internal and external

factors. In order to decide where to invest businessmen should be very attentive to the limits of expansion and trends with the aim of being able to overcome difficulties.

The Mexican real estate industry is growing due to young people demanding a place to live. We observe three key trends: first, an increase in mixed-use developments; second, medium-sized and small-sized real estate developers arise in strategic regions of the country; and third, there is a boom in the use of financial investing instruments, such as Fibras and CKDs.



How can we help?

KPMG offers an extensive range of services in multidisciplinary areas such as **Advisory**, which seeks to improve the company's profitability, transform risks into opportunities and help with the financing decision; **Audit**, which provides independent auditing of the

financial information, following the best practices with a proven methodology and tools such as Data & Analytics; and finally, **Tax & Legal**, which enables businesses to properly meet their tax obligations and to streamline its tax burden.

Our strengths in Real Estate in Mexico

Long Term Relationships

- Close relationships with investment funds, financial institutions, investors and companies that are part of the real estate industry in Mexico and the world
- Ethic work that has led us to have an excellent reputation that is reflected on the trust and disposition the clients have on us

Mentality

- Focused on client needs
- Excellent support skills and extensive experience in strategic capital and financing transactions, as well as in large real estate developments
- Experience in the creation of value on different types of transactions

Abilities

- Strategic and multidisciplinary mindset focused on business
- Experts in corporate finance and capital markets
- Support in strategic capital and financing transactions, as well as in real estate developments
- Analysis, prevention and experience to adapt quickly to change
- Excellent presentation, communication and team work abilities

Real Estate in Mexico

Market and judgment experience

- Ability to advice debt and equity investments opportunities
- Around \$100 billion dollars in all kinds of transactions
- Years of experience in the consulting market

Character

- Partner orientation
- Strong moral, trusted by clients and colleagues
- Ethical work with a high level of desire for a successful transaction
- Committed to results

Leadership

- Leadership in the Real Estate industry
- Frequently, we are speakers in conferences from the industry

Advisory

Companies seek to improve profitability, as well as to convert the risks and regulatory frameworks into opportunities. With our innovative proposals we seek to maximize profits in a sustainable manner. For 70 years KPMG has helped customers succeed in critical situations, taking full advantage of the good times and strengthening the business at difficult ones. Due to the amount of knowledge that has been acquired by KPMG throughout the years, challenges have been segmented and studied in order to decide which methodology is the most appropriate to deliver the best innovative solution. We have four lines of services:

- Risk management
- Management consulting
- Deal advisory
- Strategy

In the past, lots of companies have disappeared due to the lack of accountability, strategy and transparency. Because of this, our Risk Management area offers its experience in these subjects in order to turn risks into opportunities. The Managing Consulting works very close with clients to provide advice adaptable to their needs. The Deal Advisory area provides weapons to respond to stakeholders and investors and to provide robust balance sheets and stable cash flows in order to take advantage of the market opportunities.

Transactions, management and restructuring advice

Transactions

- Unique real estate assets; direct sale or Sale & Leaseback
- REOs, distressed real estate, bank assets or others
- Portfolios with REDs, mortgage or corporate debt
- M&A operations
- Divestment strategies, implementation and post – deal process consulting
- Structuring and executing transactions out of market
- Analysis and structuring of corporate strategies; Fibrá's and CKD's
- Creation of investment and capital search vehicles
- Valuation of assets and corporate real estate
- Financial Due-Diligence and market

Management

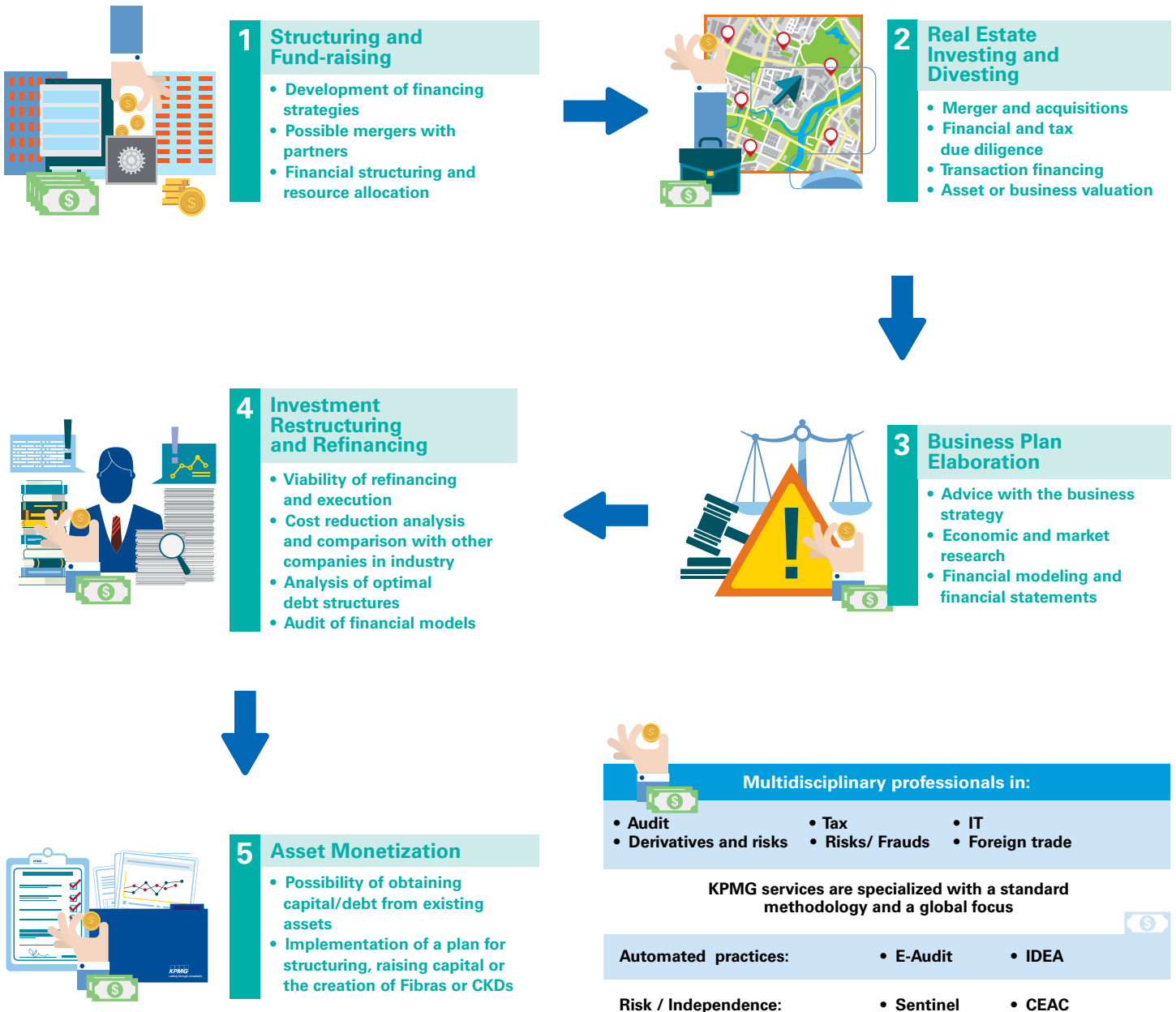
- Real estate portfolio analysis, segmentation
- Liquidity strategies
- Exit procedures
- Strategic and business plans

- Corporate management, real estate assets and holdings
- Project monitoring of urban developments and unique assets
- Turnaround or changes in the management of companies to help preserve value
- Contingency plans
- New financing solutions, investors and others

Restructuring

- Financial and operative restructuring
- Independent business reviews (IBR)
- Business analysis and diagnosis
- Solid viability plans that support restructuring
- Contingency development
- Treasury crisis management
- Divestment of secured debt, foreclosed assets, and process structuring
- Independent experts

Advisory model



Audit

Auditing is important because different groups of people consider the financial statements in order to take relevant decisions in the company. KPMG professionals take this responsibility very serious and with Data & Analytics technology we ensure to obtain the best possible evidence for audits and gain a better understanding of the operations of the entity. These procedures, among others, give a fundamental value to our audit services. At KPMG we innovate to better serve our customers, the market and society.

Audit services

- Auditing of financial statements for statutory, regulatory and reporting purposes
- Application of accounting principles and standards relating to the real estate business
- Accounting analysis of complex transactions, mergers, acquisitions and trusts, among others
- Lease income verification
- Assurance services in relation to the fulfillment of calculations of financial ratios and contractual compliance, among other
- Assurance in the determination of success promote fees

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Tax & Legal

In KPMG we have a network of business advisors specialized in domestic and foreign taxes. The business has operational knowledge as well, which describes how we bring a comprehensive and multidisciplinary service. We offer a diverse range of tax and advisory services that specialize in real estate companies. Major challenges displayed within the real estate sector:

- I. Optimized tax structure to achieve an efficiency of business
- II. Tax efficiency for different types of investors
- III. Identification of the structure that generates the best profitability by mitigating tax risks. In terms of services related with private equity funds, Fibras and CKDs we can offer:

<p>Tax Compliance</p>	<ul style="list-style-type: none"> — Local and Federal Tax compliance — Indirect tax Advisory — Application of Tax Authority criteria and decrees 	<ul style="list-style-type: none"> — Comprehensive services – Tax and Legal — Review and preparation of contracts — Application of Tax incentives
<p>International Taxes</p>	<ul style="list-style-type: none"> — Analysis on the OCDE’s comments — Application of international tax dispositions-BEPS — Efficient structures in Mexico and abroad — Analysis and planning on Transfer Pricing 	<ul style="list-style-type: none"> — Analysis of operations and tax implications — Crediting of tax pay abroad — International Tax Treaties application — Due diligence
<p>Private and Public Equity Funds</p>	<ul style="list-style-type: none"> — Review of requirements for permanence in the regime — Structure of funds 	<ul style="list-style-type: none"> — Screenings of investment and divestment analysis — Tax implications review — Analysis of investment schemes
<p>Fibras and CKDs</p>	<ul style="list-style-type: none"> — Analysis of tax obligations for permanence in the regime — Tax considerations and effects on tax result distributions — Tax implications - Trustors / Beneficiaries 	<ul style="list-style-type: none"> — Tax and legal review of acquisition of projects — Tax refunds — Tax compliance review

Legal Services

KPMG solutions portfolio is designed to help clients take good decisions, to comply with the regulatory provisions and to be ready when facing industry challenges, which are a constant in the business environment. The KPMG Legal area has extensive experience in corporate advisory, immigration services, intellectual property, real estate, financial and state obligations, among others.

Legal Advisory

- Review of the legal situation and urban assets
- Preparation and negotiation of buying and selling contracts
- Compensation boards and other entities involved with urban development
- Process of divestment of public sector
- Changes in regulation
- Forensic work with experts in disputes in the real estate sector
- Experts in research and fraud prevention





Legal Advisory



Implementation and planning

- Company incorporation
- Trusts
- Joint Ventures
- Associations
- Regime review of condominiums



Due Diligence

- Current situation
- Zoning, land use, impact and environmental risk
- Review of possible charges
- Corporate
- Previous history
- Advice on local Due Diligence processes

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