

ASSET APPRAISAL METHODOLOGIES

Below is an explanation of PEI's assets commercial appraisal process, which in turn is one of the steps necessary to calculate the equity securities' value.

Because PEI is an income-generating vehicle, total profitability consists of 1) Payment of the quarterly returns from the assets' rents; and 2) The assets' appreciation over time, which daily reflects on the securities' equity value.

How does PEI's commercial appraisal update process work and who conducts it?

Appraisals are conducted at least once a year for each one of PEI's assets, by independent valuation firms that rely on international standards and methodologies.

How are the valuation firms in charge of the periodic appraisals selected?

Those entities meeting international standards and using recognized appraisal methodologies are invited to participate in the selection process. It is important to note that a same valuation firm cannot conduct the appraisal of the same assets for more than three consecutive years.

What is the basic information required to conduct an asset's commercial appraisal?

The information considered includes the asset's relevant lease agreement commercial terms, operating budget, real estate ratios, the property tax costs, and the policies applicable on insurance, among others.

What methodologies are used to conduct the appraisals?

The primary appraisal methodologies used, are the following:

1. Discounted Cash Flow: The asset's capacity to generate cash flow over 10 years is projected, based on the current and prospective lease agreements' commercial terms and associated expenses. The present value of these cash flows results from the appraisal.

2. Comparable Arm's Length Transaction Prices: The prices for sale transactions involving properties with similar characteristics to the asset in question are compared.

3. Direct Capitalization: The appraisal value corresponds to the operating income (NOI) at a market capitalization rate.

4. Replacement Costs: The asset's reconstruction cost is calculated.

The appraisal firms assign a specific weight to each of the results under the methodologies used to produce a final value that incorporates the various criteria. The relevant price under the final appraisal report is compared to the asset's book value -- which is adjusted to inflation on a daily basis--, and the difference is recorded as an appreciation under PEI's financial statements. Accordingly, the appraisals impact the calculation of the equity security's daily value.

Two or more of the abovementioned methodologies are used in each appraisal conducted, and each methodology is assigned a relevant weight.