

MEXICO

Cushman & Wakefield

Global Cities Retail Guide



Mexico is an emerging country with an expanding population and an increasingly manufacturing-based economy. In the last decade, the population has added 25 million people and grown to 125,300,000. Per-capita income increased to \$16,495 USD per year (PPP).

A growing diversification in retail concepts has translated into growing sales volumes for international and innovative local retailers. This diversity has created a hybrid retail landscape. New world-class retail development shares the market with an estimated 2.3 million mom-and-pop stores and traditional markets. All these venues serve a highly diversified and continuously growing base of consumers, and they make Mexico an ideal location to both assess and profit from retail strategies oriented to emerging nations.



MEXICO OVERVIEW

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ECONOMIC OVERVIEW

ECONOMIC SUMMARY

ECONOMIC INDICATORS*	2018F	2019F	2020F	2021F	2022F
GDP growth	2.0	1.8	1.6	1.9	2.4
Consumer spending	2.5	2.1	1.9	2.0	2.3
Industrial production	0.1	-0.2	1.1	1.5	1.8
Investment	1.1	0.4	0.9	2.4	3.4
Unemployment rate (%)	3.3	3.7	3.8	4.0	4.0
Inflation	4.9	4.0	3.6	3.5	3.4
PESO/€ (average)	22.7	22.3	22.7	23.7	24.1
PESO/US\$ (average)	19.2	19.5	19.1	19.1	19.3
Interest rates 3-month (%)	7.6	8.2	7.5	6.5	5.6

ECONOMIC BREAKDOWN

Population	131 Million (2018F)
GDP (nominal)	US\$ 1.23 Trillion (2018F)
Public Sector Balance	-2.3% of GDP (2018F)
Public Sector Debt	46.8% of GDP (2018F)
Current account of balance of payments	-1.8% of GDP (2018F)
Parliament	Largest minority: PAN
Head of State	Andrés López (2018-2024)
Election Date (midterm)	June 2021

NOTE: *annual % growth rate unless otherwise indicated. Figures are based on local currency and real terms. E estimate F forecast.

CITY	POPULATION
Mexico City	20.2 million
Guadalajara	4.43 million
Monterrey	4.08 million
Puebla	2.66 million
Toluca	1.84 million
Tijuana	1.75 million
León	1.60 million
Ciudad Juárez	1.32 million
Querétaro	1.09 million
San Luis Potosí	1.04 million

Source: Censo de población y vivienda 2010- Instituto Nacional de Estadística y Geografía INEGI



MEXICO LARGEST CITIES

MEXICO

RETAIL OVERVIEW

MAJOR DOMESTIC FOOD RETAILERS

Soriana, Chedraui, La Comer, OXXO, Extra, ISSSTE, City Market

MAJOR INTERNATIONAL FOOD RETAILERS

Walmart, Costco, HEB, 7-Eleven

MAJOR DOMESTIC NON-FOOD RETAILERS

Liverpool, El Palacio de Hierro, Sanborns, Coppel, Elektra

INTERNATIONAL RETAILERS IN MEXICO

Sears, Inditex Group (Zara, Bershka, Pull & Bear, Etc.), Home Depot, Best Buy, Office Depot, Lowe's, Saks Fifth Avenue

FOOD AND BEVERAGE OPERATORS

Domino's Pizza, KFC, McDonalds, Burger King, Starbucks, Pizza Hut, Subway, Vips, Sushi-Itto, Chilli's, Italianni's, Wings, Carl's Jr., Krispy Kreme

TYPICAL HOURS

MONDAY – FRIDAY	SATURDAY	SUNDAY
10.00-20.00	10:00-21:00	11.00-20.00

NEW ENTRANTS TO MARKET

Miniso, Taf, Invictus, Mumuso, The North Face, Lululemon, Trussardi, Lego Store



MEXICO

RETAIL SCENE

Paired with the world's 11th largest population, Mexico's strong economic rebound after the international economic downturn is being reflected in the reactivation of retail investment. Underlying economic and demographic factors are driving sales growth, among them a larger and young urban population (76.5% of Mexicans live in cities with more than 50,000 inhabitants), a growing middle class, and an increased access to credit.

Modern retail has a long history in Mexico. The first department stores opened more than a century ago and supermarkets were present by the mid-20th century. However, this development was chiefly limited to the largest cities and high-end consumers. In the last 20 years, a significant diversification in store formats has taken place, targeting all income levels and matching the growth of middle class. Also, innovative concepts are reaching all kind of localities. Remarkably, there is still plenty of capacity for expansion - leading retailers continue to grow, launching new formats and reaching into new geographies.

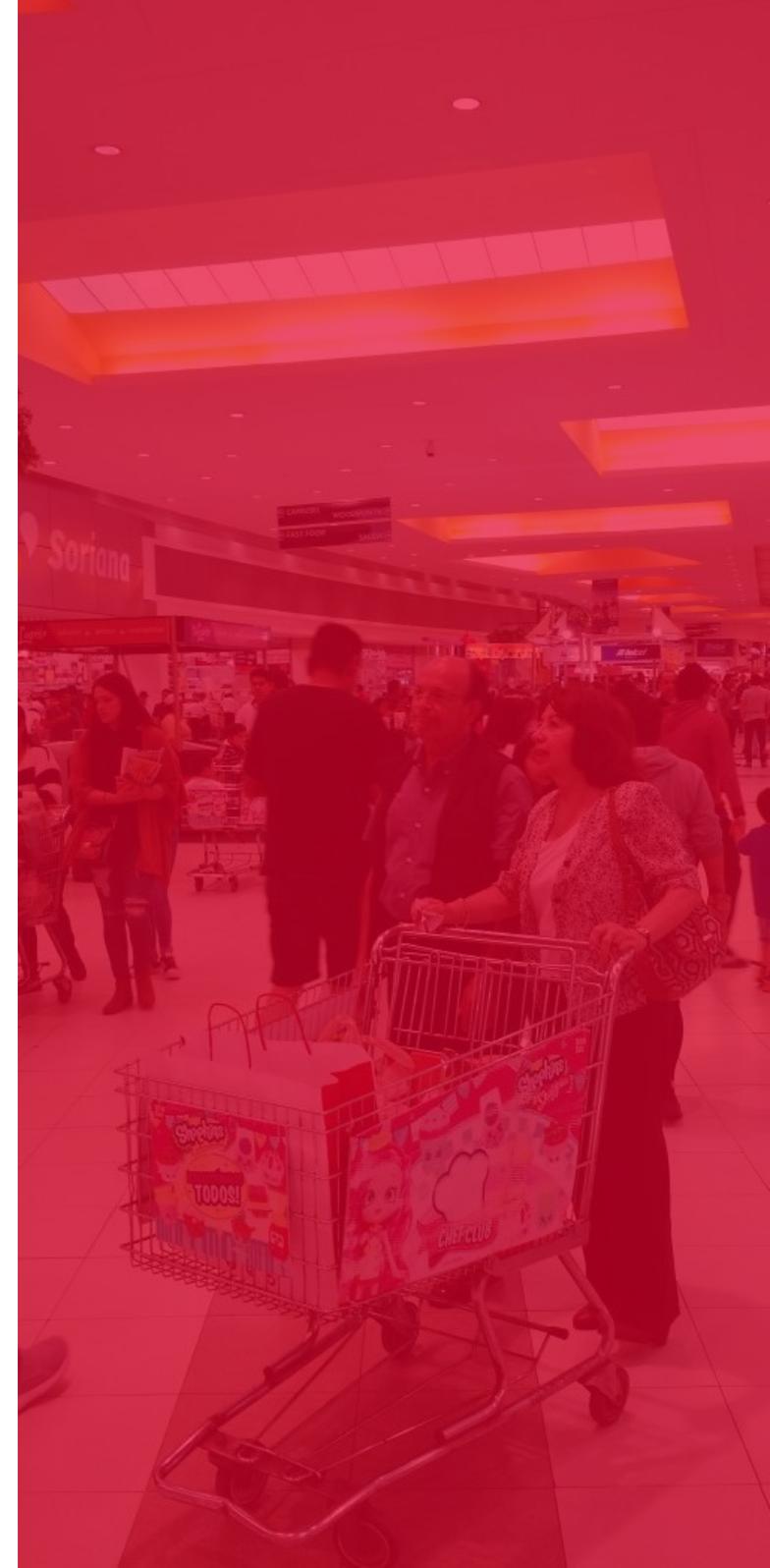
The current inventory of modern shopping centres stands at 13.2 million square meters. The most prevalent format (48% of the Mexican market) is the community centre, which is normally anchored by a supermarket and a movie theatre complex. Following the diversification trend, small format stores account for 50% of investment plans for big box retailers.

Expansion of new formats is one strategy being actively pursued by leading retailers, that indirectly counteracts one of the most prominent limitations in Mexican retail development: the limited availability for anchor store alternatives. This limitation usually translates into a tight market for retail real estate developers. As such, existing anchor stores have had the upper hand, and contract terms are frequently specifically tailored to the top anchors' requests, who are able to negotiate complex contract terms.

E-commerce is growing, following a double-digit rate growth in the use of mobile devices. The Mexican Internet Association reported that e-commerce sales in Mexico reached US\$20.9 billion in 2018, a 20% growth over the previous year.

International retailers can enter the market directly as there are no legal restrictions on foreign companies regarding leasing or sales transactions. However, because of the complex competitive and geographic landscape, franchising and joint-venture with local companies are the preferred methods for market entry.

The property market includes practices present in other geographies such as upward only rent reviews and insuring obligations on the tenant. Ten year periods are common for leases, and the right to sublease is negotiable. The process to search for a location and complete a transaction can take up to one year as there is limited availability of high quality premises.



MEXICO

SHOPPING CENTRES

TOP TEN SHOPPING CENTRES BY SIZE

NAME	CITY	SIZE (GLA SQM)	YEAR OPENED
Centro Santa Fe	Mexico City	120,000	1993
Andares	Guadalajara	105,000	2008
Parque Toreo	Mexico City	100,000	2014
Forum Buenavista	Mexico City	99,400	2009
Antea	Queretaro	93,400	2013
Parque Tezontle	Mexico City	90,000	2007
Paseo Morelia	Morelia	88,500	2008
Parque Lindavista	Mexico City	85,000	2006
Paseo Interlomas	Mexico City	78,100	2011
Forum Tlaquepaque	Guadalajara	77,200	2008
Fashion Mall Chihuahua	Chihuahua	77,000	2006

MEXICO

KEY FEATURES OF LEASE STRUCTURE

KEY FEATURES OF LEASE	
ITEM	COMMENT
Lease Terms	The traditional lease term in Mexico is 10 years with potential renewals—for example, 20 years is not unheard of for an anchor tenant. Termination options are negotiable. In the absence of a clear agreement in the lease, the tenant has no legal right to break as long as the landlord fulfills his obligations. Where agreed, breaks are typically at half of the lease term for office space, but are not currently common for retail unless the lease term is over 10 years.
Rental Payment	Rents are typically payable monthly in advance. Security deposits are usually required (normally 2 months rent equivalent). Annual review of rents is always required.
Rent Review	Indexation is common practice and normally uses the consumer price index as reference.
Service Charges, Repairs and Insurance	Maintenance fees are typical in multi-tenant locations and include security, cleaning of common areas, landscaping, internal maintenance of common parts, external maintenance, management fees, and property taxes. Fees exclude internal maintenance and insurance of rented accommodations, utility charges, and VAT. The landlord is responsible for external/structural matters in properties. The tenant is responsible for internal matters. Tenant: Minor repairs. Landlord: Main structural repairs.
Property Taxes and other costs	Local governments (municipalities) charge the local property tax, which is payable on commercial property, and differs vastly across states. VAT (16%) is normally charged on rental payments, but is usually recoverable by tenants (tax advice should be sought).
Disposal of a Lease	Sublease is usually possible under the terms of contracts, but subject to landlord's approval. Assignment rights are not normally barred in the lease, but will also be subject to consent. At lease end, the tenant is responsible for re-instating the premises to the same condition as the onset of the lease, subject to normal wear and tear. All tenant improvements must be approved by the landlord subject to the alteration covenant in the lease.
Valuation Methods	Local methodology is similar to the U.S. USPAP (Uniform Standard Professional Appraisal Practice). C&W uses the latter for Mexican retail properties.
Legislation	Mexico is a federation of 31 states and as such each state has its own laws and regulations. The Código Civil (Civil Code) and Código Mercantil (Trade Code) of the state where the premises are located are the basic applicable laws for lease and sale transactions; they differ notably across geographies. Local (municipality) legislation may also apply.

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WHAT'S NEXT

REDEFINING THE LANGUAGE OF
RETAIL & LEISURE



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