

MARKETBEAT

Mexico City

Office Q2 2019



MEXICO CITY OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Mexico City Employment	4.60M	4.56M	■
Mexico City Unemployment	3.9%	4.7%	■
Mexico Unemployment	3.2%	3.6%	■

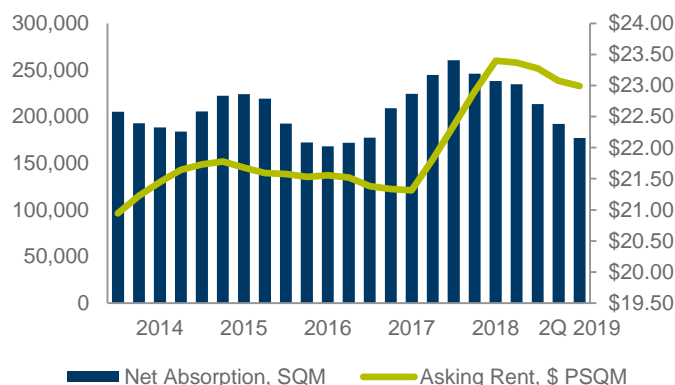
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	12.4%	13.0%	▲
Net Absorption (sqm)	176.4k	91.0k	■
Under Construction (sqm)	1.15M	0.65M	■
Average Asking Rent*	\$23.51	\$22.71	■

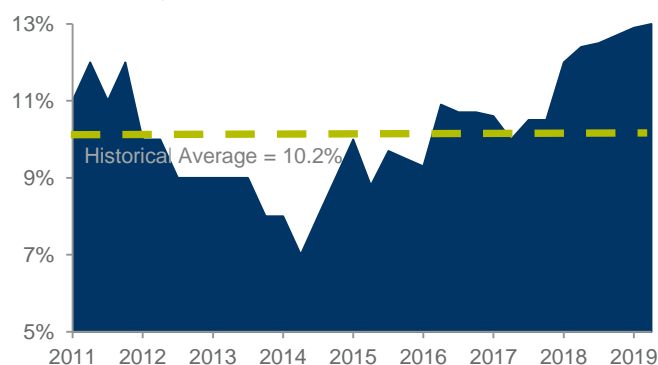
*Rental rates reflect net asking \$psqm/month

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Investor's sentiment has changed this year in Mexico. New investments have been delayed in many industries, including real estate. The most recent survey across economic experts conducted by the central bank¹ showed that 100% of them consider the state of the economy is worse than it was one year ago. GDP expansion has decelerated, its growth rate is now below 1% year-over-year and unemployment had a moderate increase. Nevertheless, monetary indicators continued following a stable path. The inflation rate was below 5% and the exchange rate showed a moderate 2.1% appreciation in the first half of the year. Interest rates have reached 10-year highs. The central banks' reference rate is at 8.25%. In spite of the increased caution observed by investors, the inertia of business fundamentals led to an ordinary performance for many industries up to the end of the second quarter.

Market Overview

Mexico City's office real estate joined the list of markets where performance was mainstream in the first half of 2019. Compared with the average for the same period in the previous five years, absorption was 63% weaker. However, this was still a positive expansion of 91 thousand square meters. The overall vacancy rate increased 60 basis points to 13% year-over-year. This is moderate, taking into account that a significant portion of the construction pipeline was completed in the period, 527 thousand square meters, or 5.5% of the total inventory at the end of Q2 2018.

The current tenant's market suggested by the aforementioned figures will soon meet a swift adjustment of supply. The construction pipeline is now 43.2% below its level one year ago, and proposed projects stay on hold, aligned with the overall economy's sentiment.

Demand continued its diversification, supported by a reasonably good appetite from financial services, technology and manufacturing tenants. These occupants leaned on the CBD and Insurgentes submarkets to land their real estate decisions. Contrasting, the Santa Fe submarket had a historically poor performance.

Price levels clearly mirror the overall economy's hesitations. The average asking rent had a 3.4% year-over-year downward adjustment, to \$22.71 per square meter per month.

Outlook

It seems the market must accept that a larger volatility is here to stay. Whether it will surge or be contained is still not obvious for local real estate. Office demand fundamentals persist and the growing sophistication of the supply-side will be able to support an upside in case the current sentiment moderates.

1. <http://www.banxico.org.mx/publicaciones-y-prensa/encuestas-sobre-las-expectativas-de-los-especialistas/%7B747A0D4E-DCEF-1665-0694-C69F86713C4B%7D.pdf>

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SUBMARKET	INVENTORY (SQM)	OVERALL* VACANT (SQM)	CLASS A VACANT (SQM)	OVERALL VACANCY RATE	CLASS A VACANCY RATE	YTD 2019 OVERALL NET ABSORPTION (SQM)	YTD 2019 CLASS A NET ABSORPTION (SQM)	UNDER CONSTRUCTION (SQM)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Polanco	1,723,145	191,249	136,487	11.1%	12.1%	-1,943	5,590	79,830	\$24.80	\$26.36
Lomas	789,243	80,022	73,315	10.1%	11.6%	43,272	23,984	4,716	\$30.32	\$31.03
Reforma	1,339,122	177,087	118,101	13.2%	13.8%	-3,041	13,452	53,298	\$26.17	\$29.56
CBD	3,851,510	448,358	327,903	11.6%	12.5%	38,288	43,026	137,844	\$26.33	\$28.55
Insurgentes	2,285,348	230,824	157,984	10.1%	14.5%	52,240	48,558	224,014	\$22.80	\$25.15
Santa Fe	1,287,115	185,547	184,775	14.4%	14.9%	-7,486	-7,861	141,545	\$22.68	\$22.70
Bosques	504,859	34,372	20,377	6.8%	6.2%	-1,559	-4,356	15,600	\$23.10	\$25.91
Norte	808,324	250,463	221,512	31.0%	38.9%	3,305	-5,213	79,263	\$17.38	\$18.30
Periférico Sur	698,091	36,416	20,599	5.2%	4.2%	-303	10,587	46,634	\$22.84	\$25.98
Lomas Altas	104,379	19,713	19,713	18.9%	23.7%	-2,282	-2,282	0	\$24.48	\$24.48
Interlomas	154,843	29,935	29,203	19.3%	21.1%	7,727	7,917	9,380	\$20.63	\$20.66
Other	311,506	61,749	21,470	19.8%	29.7%	1,092	2,364	0	\$18.07	\$18.50
NON-CBD	6,154,465	849,019	675,633	13.8%	16.9%	52,734	49,714	516,436	\$20.79	\$21.85
MEXICO CITY TOTALS	10,005,975	1,297,377	1,003,536	13.0%	15.2%	91,022	92,740	654,280	\$22.71	\$24.04

*Overall figures include all building classes. A, B and C

*Rental rates reflect net asking US\$ per square meter/month

SUMMARY BY CLASS	TOTAL BUILDINGS	INVENTORY (SQM)	VACANT SPACE (SQM)	VACANCY RATE	YTD 2019 OVERALL NET ACTIVITY* (SQM)	YTD 2019 OVERALL NET ABSORPTION (SQM)	UNDER CONSTRUCTION (SQM)	YTD COMPLETED CONSTRUCTION (SQM)	AVERAGE ASKING RENT OVERALL
Class A	431	6,622,753	1,003,536	15.2%	535,963	92,740	654,280	142,989	\$24.04
Class B	448	2,672,656	242,661	9.1%	192,348	2,185	0	0	\$18.59
Class C	151	710,566	51,180	7.2%	41,692	-3,903	0	0	\$13.71

*Includes renewals

Key Lease Transactions Q2 2019

PROPERTY	SQM	TENANT	BUILDING CLASS	SUBMARKET
Insurgentes Capital	10,420	Grupo Nacional Provincial	A	Insurgentes
Periférico Sur 4605	7,700	Armstrong Labs.	B	Periférico Sur
Plaza Carso	3,956	Metlife	A	Polanco
One Marina Park	3,912	Atento	A	Other
Plaza Carso	1,978	Principal	A	Polanco
Tecnoparque E	1,685	AT&T	A	Norte
Aleph	1,407	Merens	A	Insurgentes

* Renewal, not included in net absorption statistics

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