

	YoY Chg	12-Mo. Forecast
13.7% Vacancy Rate	▲	▲
147K Net Absorption, SQM	▼	▼
\$22.38 Asking Rent, PSQM	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
4.5M Mexico City Employment	▼	▲
5.2% Mexico City Unemployment Rate	▲	▬
3.6% Mexico Unemployment Rate	▲	▲

Source: INEGI

ECONOMY: Stagnant Investment Amid Financial Stability

Not surprisingly, 2019 was a lackluster year for the Mexican economy. The learning curve was particularly steep for the new federal government in terms of defining, communicating and beginning to implement its policies. The business environment's reaction ranged from indifference to deep skepticism. As a result there was a serious reduction of investment across many industries. Construction and real estate services were particularly affected, experiencing a double digit contraction of production. The decline of private investment went along with a contraction in government spending and a stagnant private consumption. Only international trade had a relevant growth, following the sustained expansion of exports. This added up to the other components of aggregate demand to result in a close to 0% GDP expansion for the overall economy. Looking on the bright side, the stagnant economy helped to further ease inflation, which was below 3% and prompted the central bank to begin a tax rate easing cycle. Together with a stable exchange rate, this was reflected in a stable financial environment.

DEMAND: Dispirited Leasing Activity

The office availability rate went through the ascending path begun two years ago, reaching 13.7%. This is 100 basis points higher than the rate at the end of 2018. It was driven by a combination of growing supply and a dispirited leasing activity, that dragged net demand to lows not seen in the entire decade. Office absorption was 60% below the average for the previous five years. This deceleration of demand was present in all submarkets, where the extremes were represented by Santa Fe and Insurgentes. The former had its largest contraction ever, 30,050 sqm of negative absorption due to several middle-size vacancies coming from diverse buildings. On the other extreme, Insurgentes had a healthy net demand expansion of 83,700 sqm, particularly at its growing inventory of high quality class A buildings. The contrast between these two areas highlights the relevance of accessibility and good transport routes, of which Insurgentes keeps gaining an edge.

Under this deceleration of demand backdrop, it is remarkable that large preleases kept taking place, like those signed at Polanco submarket by prominent new economy/platform IT players. These firms, along with coworking companies, replaced the government, which had minimum activity, in the "market moderator" role of taking big blocks of space.

PRICING: Asking Rents Decrease

Overall lease asking rates had a 3.7% year-over-year contraction to US\$22.38 per square meter per month. For class A buildings the average asking rate was \$23.69, a 3.9% annual decrease.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MEXICO CITY

Office Q4 2019

A Fading Construction Pipeline

There has been a lot of talk in recent quarters about an office oversupply in Mexico City. However, hard data suggest that this could be contained soon and the excess of supply perception owes a lot to the gargantuan scale of recent growth in the city. To put it in perspective, in the last ten years Mexico City has added 3.8 million square meters of class A buildings to the inventory; this is similar to 90% of the total built inventory of Miami today. Also, in the last five years Mexico City has absorbed 1.6 million sqm; this is 23% more than the total built class A inventory of Buenos Aires. On average, 465,000 sqm of new office space have been added to the inventory in the last five years. In the same period net demand annually averaged 325,000 sqm. An excess of supply no doubt, this 140,000 sqm imbalance represents 1.3% of the city's total inventory though.

The construction pipeline has gone from its 2016 peak of 1.6 million sqm to 0.5 million sqm today. New deliveries will be significantly reduced to 105,000 sqm per annum in the next three years. Annual absorption is expected to stabilize at a new level of 250,000 sqm on average per year, if the current macroeconomic environment persists. The aforementioned figures combine to suggest that any excess of supply will be contained soon and reversed in a five year horizon maximum.

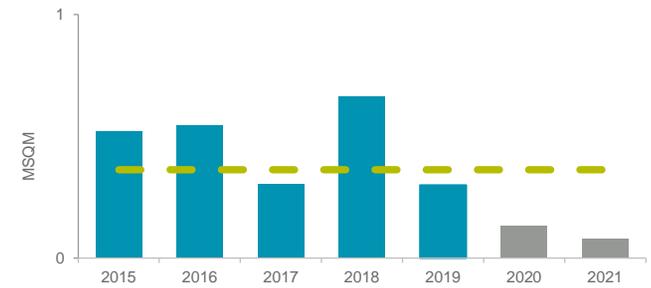
The Continued Migration To Higher Standards

Moderate as it is, the excess of supply has nevertheless contributed to the moderate but sustained price reduction of the last years. These are not great news for building owners, but for tenants it has been an outstanding opportunity to upgrade their facilities. Indeed, a large number of corporations have been taking advantage of very competitive prices at world-class buildings (over 50% of all the new buildings are LEED certified, for example).

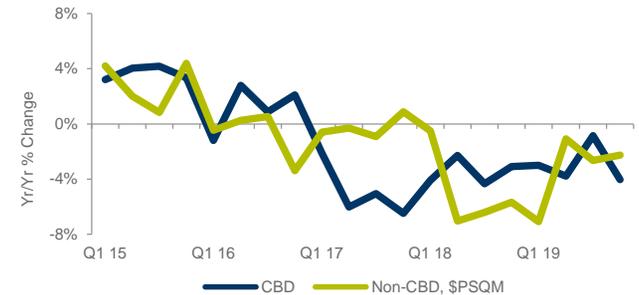
Outlook

- Short run concerns are likely to stay in the conversation, but looking at the big picture it will be evident that there is a strong demographic bonus. Also, increased economic complexity will keep supporting those industries that create office-using employment.
- Highly competitive prices paired with a rapidly fading construction pipeline suggest that this is a good moment for tenants to assess office relocation and consolidation strategies. Prelease activity is likely to keep growing.
- Real estate investment activity could pick up pace as a new macroeconomic cycle develops.

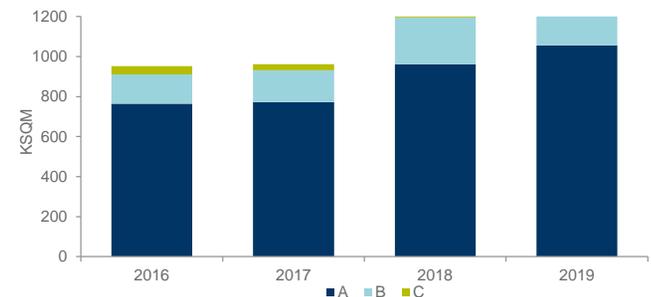
NEW SUPPLY



CLASS A ASKING RATE



VACANT SPACE BY CLASS



MARKET STATISTICS

SUBMARKET	INVENTORY (SQM)	OVERALL* VACANT (SQM)	CLASS A VACANT (SQM)	OVERALL* VACANCY RATE	CLASS A VACANCY RATE	2019 OVERALL* NET ABSORPTION (SQM)	2019 CLASS A NET ABSORPTION (SQM)	UNDER CNSTR (SQM)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Polanco	1,749,014	204,393	147,518	11.7%	12.8%	10,782	22,408	52,901	\$24.02	\$25.43
Lomas	789,793	80,755	73,950	10.2%	11.7%	43,089	23,899	4,716	\$30.99	\$31.57
Reforma	1,354,048	155,824	106,244	11.5%	12.2%	33,148	45,750	34,357	\$26.16	\$28.63
CBD TOTALS	3,892,855	440,972	327,712	11.3%	12.3%	87,019	92,057	91,974	\$26.05	\$27.85
Insurgentes	2,279,267	193,261	111,570	8.5%	10.3%	83,722	88,189	224,014	\$22.85	\$26.28
Santa Fe	1,343,666	264,668	264,228	19.7%	20.4%	-30,056	-30,763	86,076	\$22.62	\$22.61
Bosques	504,859	52,845	39,305	10.5%	11.9%	-20,032	-23,284	15,600	\$25.68	\$27.62
Norte	828,338	238,240	201,126	28.8%	34.1%	35,542	35,187	59,249	\$16.57	\$17.59
Periférico Sur	698,432	41,249	19,433	5.9%	4.0%	-4,795	753	46,634	\$21.74	\$23.09
Interlomas	169,154	24,537	23,805	14.5%	15.6%	18,436	18,626	9,380	\$18.43	\$18.50
Lomas Altas	133,456	47,594	47,594	35.7%	42.4%	-1,086	-1,086	0	\$23.04	\$23.04
Other	312,086	84,217	21,470	27.0%	29.7%	-20,796	2,364	0	\$16.47	\$18.50
NON-CBD TOTALS	6,269,258	946,611	728,531	15.1%	17.7%	60,935	89,986	440,953	\$20.67	\$21.82
MEXICO CITY TOTALS	10,162,113	1,387,583	1,056,243	13.7%	15.6%	147,954	182,043	532,927	\$22.38	\$23.69

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

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

KEY LEASE TRANSACTIONS 2019

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
Distrito Polanco	Polanco	Uber	19,952	Prelease*
Antara	Polanco	Ernst & Young	13,062	Renewal*
Puerta Polanco	Polanco	Amazon	12,748	Prelease*
Centera Chapultepec	Reforma	WeWork	10,029	New Lease
Aleph	Insurgentes	Novartis	8,646	Relocation

*Renewals and preleases are not included in leasing/absorption statistics

KEY SALES TRANSACTIONS 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SQM	BLDG. CLASS
Periférico Sur 4065	Periférico Sur	Private Investor	14,210	B
Sierra Gamón 120	Lomas	Private Investor	4,980	A

KEY CONSTRUCTION COMPLETIONS 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER / DEVELOPER
Torre M at Mitikah	Insurgentes	WeWork	59,660	Fibra Uno
Lago Alberto 375	Polanco	WeWork	18,060	Helfon & Helfon

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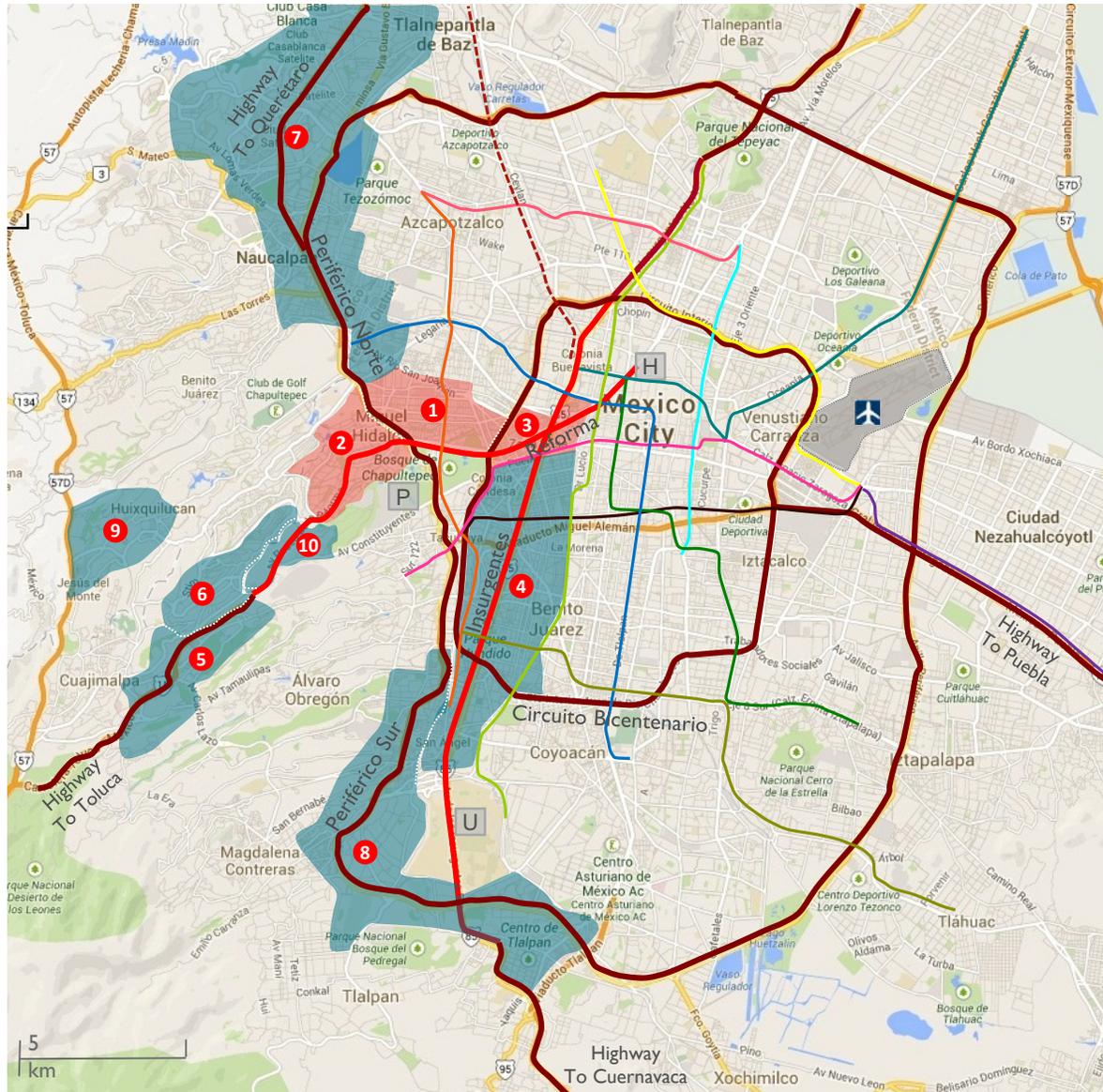
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OFFICE SUBMARKETS



CBD SUBMARKETS

- 1 POLANCO
- 2 LOMAS
- 3 REFORMA

NON-CBD SUBMARKETS

- 4 INSURGENTES
- 5 SANTA FE
- 6 BOSQUES
- 7 NORTE
- 8 PERIFÉRICO SUR
- 9 INTERLOMAS
- 10 LOMAS ALTAS

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