MARKETBEAT

MEXICO CITY

Office Q3 2020

	YoY Chg	12-Mo. Forecast
14.0% Vacancy Rate	▲	▲
-22.6K Net Absorption, SQM	▼	▼
$19.80 Asking Rent, PSQM	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2020

	YoY Chg	12-Mo. Forecast
4.0M Mexico City Employment	▼	▼
6.7% Mexico City Unemployment Rate	▲	▲
5.2% Mexico Unemployment Rate	▲	▲

Source: INEGI

ECONOMY

Following the second quarter's lockdowns consequence of Covid-19, decreased economic activity took the GDP to a near 20% plunge. In the first part of the second half of the year a very moderate recovery could be observed, with a sustained reduction in employment and a severe contraction of new investment. However, the financial system kept showing resilience while the US Dollar/Peso exchange rate and the inflation only reflected minor volatility in the quarter. Also, the new free-trade agreement between Mexico, the United States and Canada, USMCA, finally came into force.

DEMAND: Reduced Activity

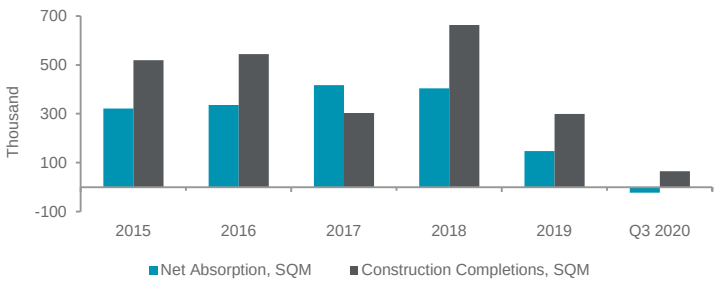
The record decrease of activity in the office market continued in the third quarter. This was reflected in an availability rate that showed a significant annual increase and was set at 14%.

Office net demand at the end of the third quarter reached -22,610 square meters (sqm), the first time in over twenty years that it was in negative grounds. Under this context it should be pointed out that office leases normally involve an important investment and are medium to long-term commitments; as such, lessees usually do not reassess or terminate them hastily. For this reason the aforementioned contraction, if only equivalent to a 0.2% of the total market, is however a clear sign that the market is suffering a moment of great uncertainty.

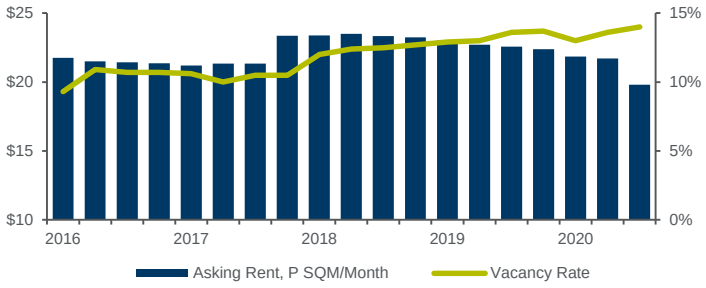
It is remarkable that despite there was negative absorption in most of Mexico City's office submarkets, the Insurgentes corridor had an acceptable positive net demand, 25,288 sqm, in class A buildings alone. This contrast keeps highlighting the importance that accessibility and the availability of good public transport have for tenants. In order to compete with the areas that enjoy these advantages, there was an increase in the concessions and incentives that landlords offered at other submarkets.

Regarding the supply side, the temporary suspension of construction works pushed forward the completion date for those projects expected to be finished in 2020.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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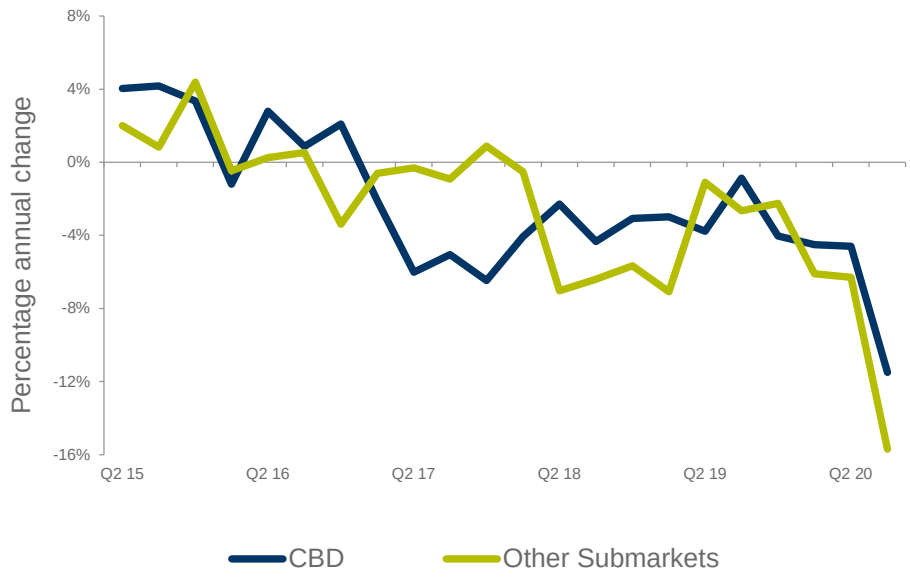
PRICING: Asking Rates Decrease

The overall average asking price had a 13.7% year-over-year contraction and reached US$19.80 per square meter per month. For class A buildings the average asking rent reached US$22.07 per sqm/month, a 4% quarterly decrease.

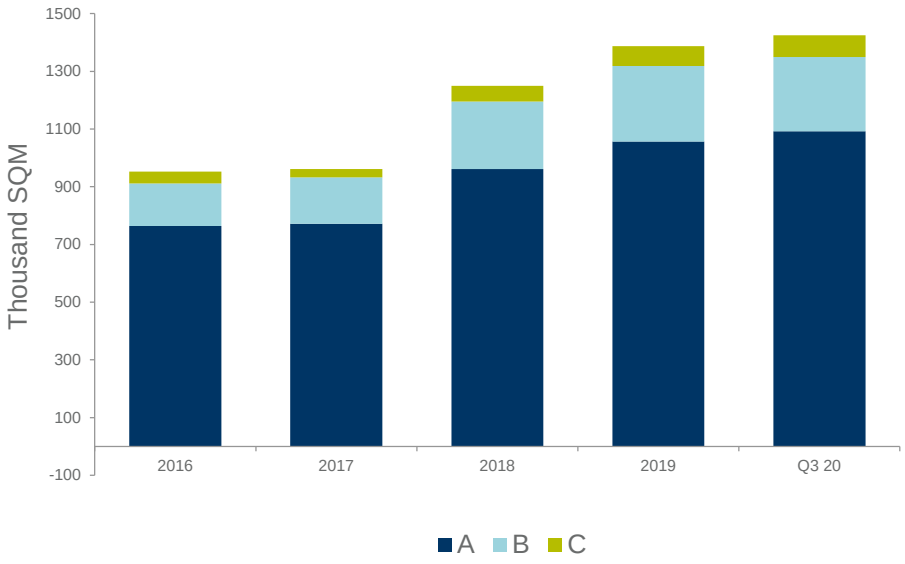
Perspective

- The current situation at the office market is moving landlords to offer remarkable incentives to tenant prospects. Asking lease prices, which were already following a downward path before Covid-19, will likely keep decreasing, however with important variation across submarkets.
- Sublease space is on the rise. This will likely add a good amount of equipped offices to the market, including a good volume of plug-and-play space. Together with the growing offer of new class A buildings, this will offer tenants, both prospect and existing an exceptional opportunity to assess their office real estate strategies.

CLASS A ASKING RATE FLUCTUATION



AVAILABLE SPACE BY CLASS



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MEXICO CITY

Office Q3 2020

CUSHMAN & WAKEFIELD

MARKET STATISTICS

SUBMARKET	INVENTORY (SQM)	OVERALL* VACANT (SQM)	CLASS A VACANT (SQM)	OVERALL* VACANCY RATE	CLASS A VACANCY RATE	2020 OVERALL* NET ABSORPTION (SQM)	2020 CLASS A NET ABSORPTION (SQM)	UNDER CNSTR (SQM)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Polanco	1,749,014	205,200	144,660	11.7%	12.5%	-807	2,858	52,901	$24.39	$25.99
Lomas	789,793	84,220	77,317	10.7%	12.2%	-3,467	-3,367	4,716	$28.36	$28.44
Reforma	1,354,048	165,155	121,790	12.2%	13.9%	-9,329	-15,546	34,357	$25.96	$29.15
CBD TOTALS	3,892,855	454,575	343,767	11.7%	12.9%	-13,603	-16,055	91,974	$25.70	$27.66
Insurgentes	2,291,557	183,482	98,533	8.0%	9.0%	22,069	25,288	224,014	$16.39	$19.08
Santa Fe	1,345,733	289,247	288,807	21.5%	22.3%	-22,512	-22,512	86,076	$19.37	$19.37
Bosques	506,039	55,370	43,014	10.9%	13.0%	-1,345	-2,529	15,600	$19.81	$20.42
Norte	828,338	237,838	198,585	28.7%	33.7%	402	2,541	59,249	$15.33	$15.83
Periférico Sur	698,210	48,675	27,030	7.0%	5.5%	-7,648	-7,275	46,634	$18.14	$18.62
Interlomas	169,154	23,246	22,373	13.7%	14.7%	1,291	1,432	9,380	$13.85	$19.40
Lomas Altas	133,456	48,593	48,593	36.4%	43.3%	-890	-1,799	0	$19.45	$19.57
Other	312,086	84,482	21,470	27.1%	29.7%	-374	800	0	$10.50	$15.50
NON-CBD TOTALS	6,284,573	970,933	748,405	15.4%	18.1%	-9,007	-4,054	440,953	$17.04	$19.00
MEXICO CITY TOTALS	**10,177,428**	**1,425,508**	**1,092,172**	**14.0%**	**16.1%**	**-22,610**	**-20,109**	**532,927**	**$19.80**	**$22.07**

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

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

KEY LEASE TRANSACTIONS 2020

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
Universidad 1080	Insurgentes	Grupo Angeles	24,544	Investment
Amores 1322	Insurgentes	SEDUVI	8,404	Relocation
Insurgentes	Insurgentes	Sanofi	7,598	Relocation
Torre M	Insurgentes	L'Oreal	7,237	Relocation
Radiatas 34	Bosques	Actinver	4,779	Relocation

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

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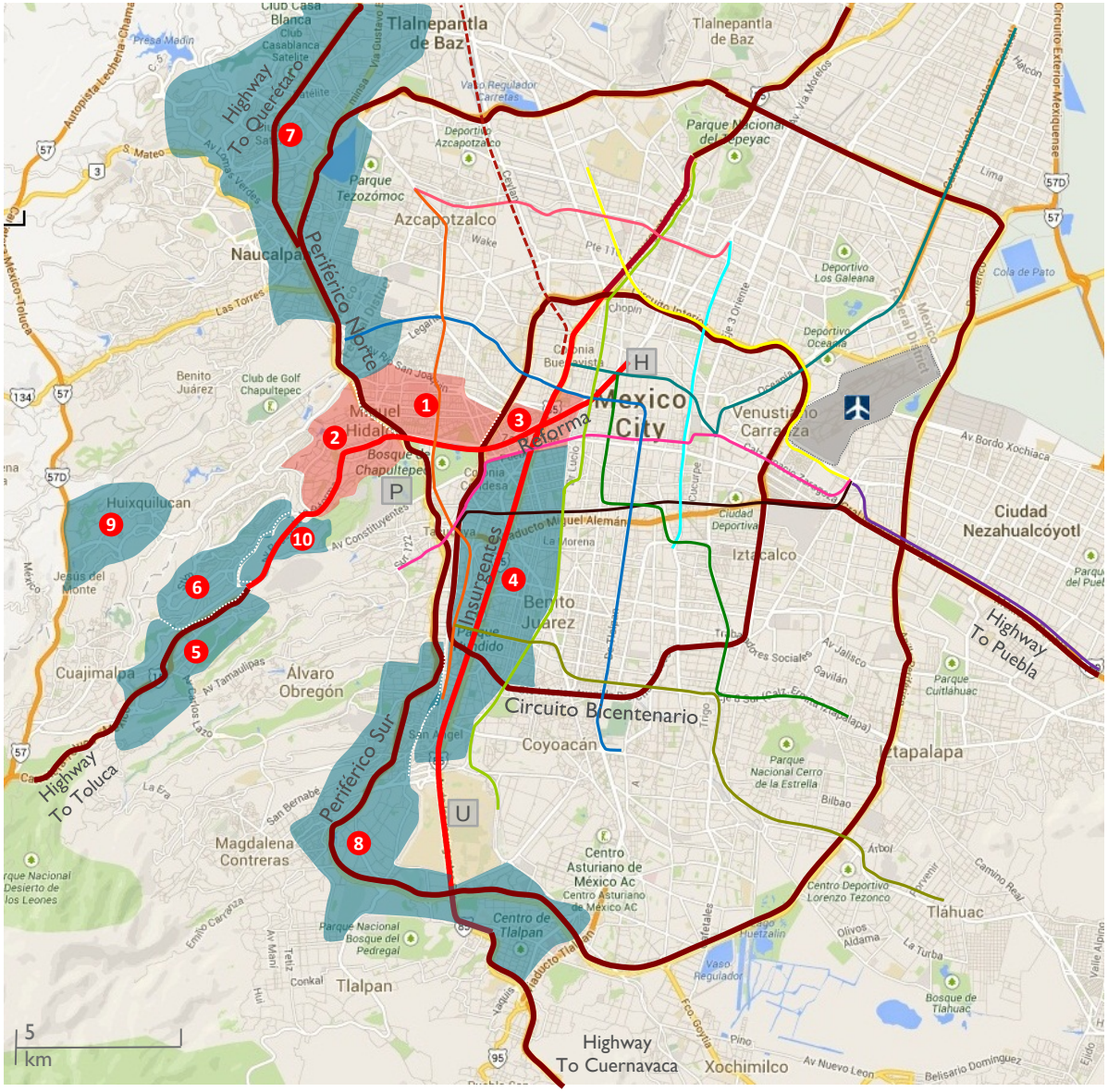
OFFICE SUBMARKETS



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

JOSE LUIS RUBI
Market Research Director
Tel: 5255 8525 8258
joseluis.rubi@cushwake.com

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