

YoY Chg 12-Mo. Forecast

17.3%
Availability Rate ▲ ▲

-174.7K
Net Absorption, SQM ▼ ▼

\$21.87
Asking Rent, PSQM ▼ ▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

YoY Chg 12-Mo. Forecast

4.5M
Mexico City Employment ▼ ▲

7.4%
Mexico City Unemployment Rate ▲ ▬

4.4%
Mexico Unemployment Rate ▲ ▬

Source: INEGI

ECONOMY: Uncertainty and recovery spirits

The first half of the year has witnessed a gradual reopening of diverse economic sectors. This has been possible following the deployment of anti-Covid vaccination campaigns. In the same way that the reopening has not been uniform, the reactivation of the Mexican economy has been uneven. Those sectors highly linked to export activities to the United States have benefited from the robust reactivation of that country, which is by far the largest trade partner of Mexico. Some export-oriented Mexican sectors have reached record activity levels. Also, the flow of remittances has continued growing, while inflationary pressures build up. Most analysts forecast a 5% growth for Mexico's GDP in 2021; although, this is still not enough to compensate for the 8.5% contraction it had in the previous year.

DEMAND: The contraction persists

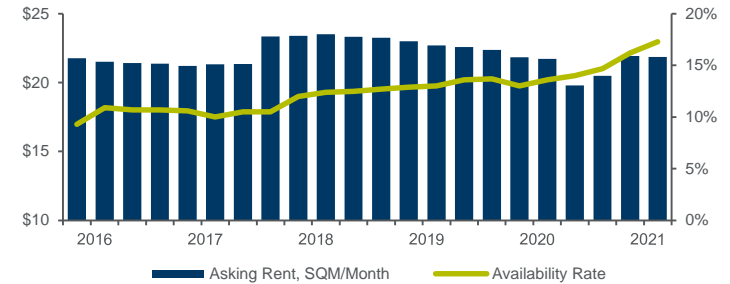
The amount of available office space keeps growing in Mexico City. At the end of the first half of the year there were 1.7 million square meters available, which is equivalent to 17.3% of the built inventory. This availability rate is 63% higher than the average rate for the last ten years (10.6%) and represents a 6.7 percentage points increase from the historic average. For class A standard buildings, the vacant space is greater and totals 1.3 million square meters. This translates into a 20% availability rate for class A buildings, the highest in the last 20 years.

The office market indicators are a reflection of the pause in activity that the organizations demanding office space are experiencing today. They are planning what actions to take to reorganize their work space, assessing the effects of work from home in their productivity. As a result, even when the current market is broadly in favor of tenants, there are few organizations taking the decision to lease office space. This is reflected in a contraction of net demand that reaches 122,000 sqm for class A buildings. A silver lining is that this negative demand was smaller in the second quarter, as compared with the first (27,458 sqm vs 94,940 sqm respectively), suggesting that the contraction of demand is bottoming out.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MEXICO CITY

Office Q2 2021

Location sustains a key role

Despite the unusual behavior of demand that was brought by the Covid crisis, it is clear that location preserves its role as a key attribute of real estate. An illustration of this is provided by the growing variation of availabilities, net demand and prices between the different office corridors of Mexico City. All zones were aligned in the slow down of activity and the fall in prices, but the range for indicators expanded between submarkets. In this way there were extremes where the Polanco submarket enjoyed positive absorption (however due to the opening of buildings that had large preleases) while the Santa Fe submarket reached the highest vacancy rate in all its history: 28.4%. It is worth mentioning that the high quality of Santa Fe buildings combined with its extensive current supply provides an exceptional opportunity for tenants in the market.

SUPPLY: There are some recovery signs

In contrast with the depressed demand, supply has experienced a moderate reactivation. The office building developers are well aware of the cyclic nature of the real estate market and the long timescales of its cycles. Hence, construction works have been reactivated for many projects. Also, the city's government has declared that it will expedite the approval of new projects. Some zones are particularly favoured on this regard, such as the Reforma submarket. The amount of new buildings with active construction works increased to 554,800 sqm at the end of the first half of the year.

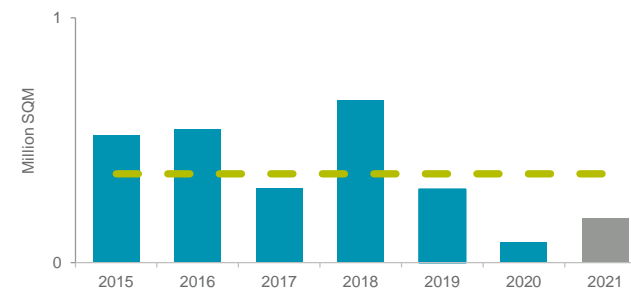
PRICING: The reduction of asking rates is moderated

Even when current class A asking rents are set 7% below their average level for the last ten years (\$23.05 dollars per square meter per month vs \$24.77 dollars per sqm/month, respectively) this price decrease seems to be moderating. In some submarkets there has been a small price growth, surprisingly. However this increase is mainly driven by the higher standard of buildings entering those markets.

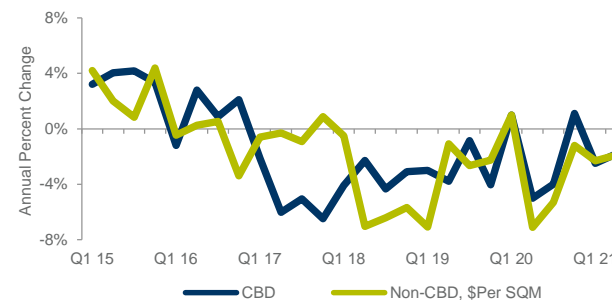
Perspective

- The recent shocks affecting demand will end, eventually. The fundamental strengths of Mexico City, including a robust demographic bonus and the growing sophistication of its business environment will continue. This will sooner or later take the office-using industries to resume growth.
- There is a growing number of studies indicating the necessity to have spaces for corporate work, however of a more flexible nature. When organizations finish their revision of the way they structure their work teams, a new balance in the office market will be set. The need to have places to foster collaboration and corporate identity will still have a significant role in cities. The recent episodes of uncertainty will be seen as events that accelerated market evolution.

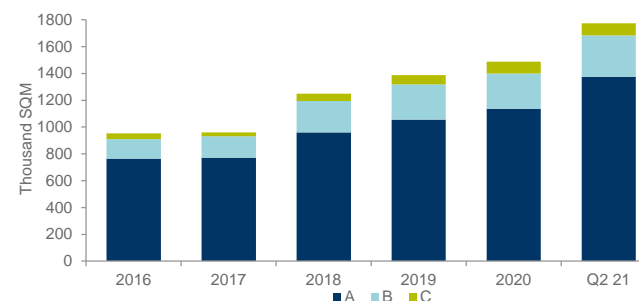
NEW SUPPLY



CLASS A ASKING RATE VARIATION



AVAILABLE SPACE BY CLASS



MARKET STATISTICS

SUBMARKET	OVERALL* (SQM)	INVENTORY CLASS A (SQM)	CLASS A VACANT (SQM)	OVERALL* VACANCY RATE	CLASS A VACANCY RATE	YTD OVERALL* NET ABSORPT. (SQM)	YTD CLASS A NET ABSORPTION (SQM)	UNDER CNSTR (SQM)	OVERALL AVG ASKING RENT (ALL CLASSES)**	OVERALL AVG ASKING RENT (CLASS A)**
Polanco	1,831,840	1,237,781	216,563	15.7%	17.5%	20,587	26,749	31,850	\$24.76	\$26.22
Lomas	789,793	633,897	93,632	12.8%	14.8%	-13,417	-12,727	4,716	\$29.17	\$29.51
Reforma	1,348,135	873,879	136,872	15.0%	15.7%	-41,476	-14,418	94,357	\$23.94	\$27.10
CBD TOTALS	3,969,768	2,745,557	447,067	14.9%	16.3%	-34,306	-396	130,923	\$25.23	\$27.18
Insurgentes	2,302,661	1,106,225	170,915	12.2%	15.5%	-38,527	-20,807	212,014	\$21.67	\$24.02
Santa Fe	1,350,278	1,302,161	369,759	27.4%	28.4%	-75,639	-75,389	86,076	\$21.36	\$21.35
Bosques	506,039	330,696	45,696	11.8%	13.8%	-3,694	-1,743	15,600	\$25.38	\$27.05
Norte	815,634	577,028	209,797	30.5%	36.4%	-18,110	-15,360	59,249	\$16.47	\$17.46
Periférico Sur	698,210	487,589	29,333	7.6%	6.0%	-2,231	329	41,634	\$21.77	\$22.92
Interlomas	169,154	152,445	31,082	18.9%	20.4%	-6,504	-6,504	9,380	\$18.25	\$18.31
Lomas Altas	133,456	112,162	49,625	37.2%	44.2%	-1,436	-1,436	0	\$20.42	\$20.42
Fuera de corredor	312,086	72,291	21,470	27.1%	29.7%	5,693	-1,092	0	\$16.23	\$18.25
NON-CBD TOTALS	6,287,518	4,140,597	927,677	18.8%	22.4%	-140,448	-122,002	423,953	\$20.18	\$21.06
MEXICO CITY TOTALS	10,257,286	6,886,154	1,374,744	17.3%	20.0%	-174,754	-122,398	554,876	\$21.87	\$23.05

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

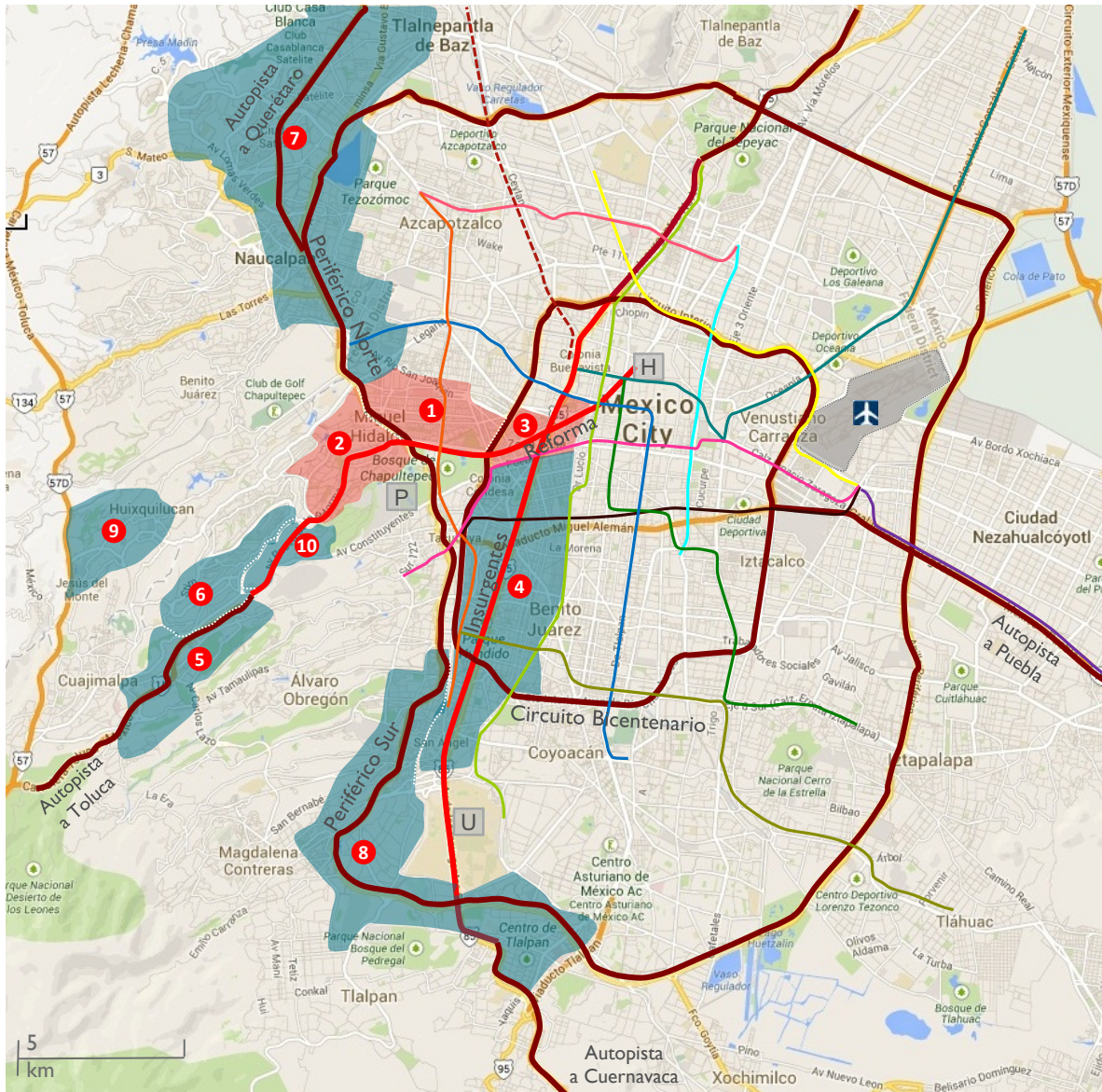
**Rental rates reflect net asking US\$ per square meter/month

SIGNIFICANT TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT/BUYER	SQM	TYPE
Torre Cuarzo	Reforma	Thomson Reuters	5,605	Expansion
Samara	Santa Fe	GE	2,807	Renewal*
Samara	Santa Fe	Engencap	1,970	Relocation
Park Plaza III	Santa Fe	Finamex	1,809	Relocation
Antara II	Polanco	Siemens Energy	1,498	Relocation
Torre Diana	Reforma	Red Hat	1,497	Renewal*
Dos Patios	Polanco	Marriott	1,358	Relocation

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

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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