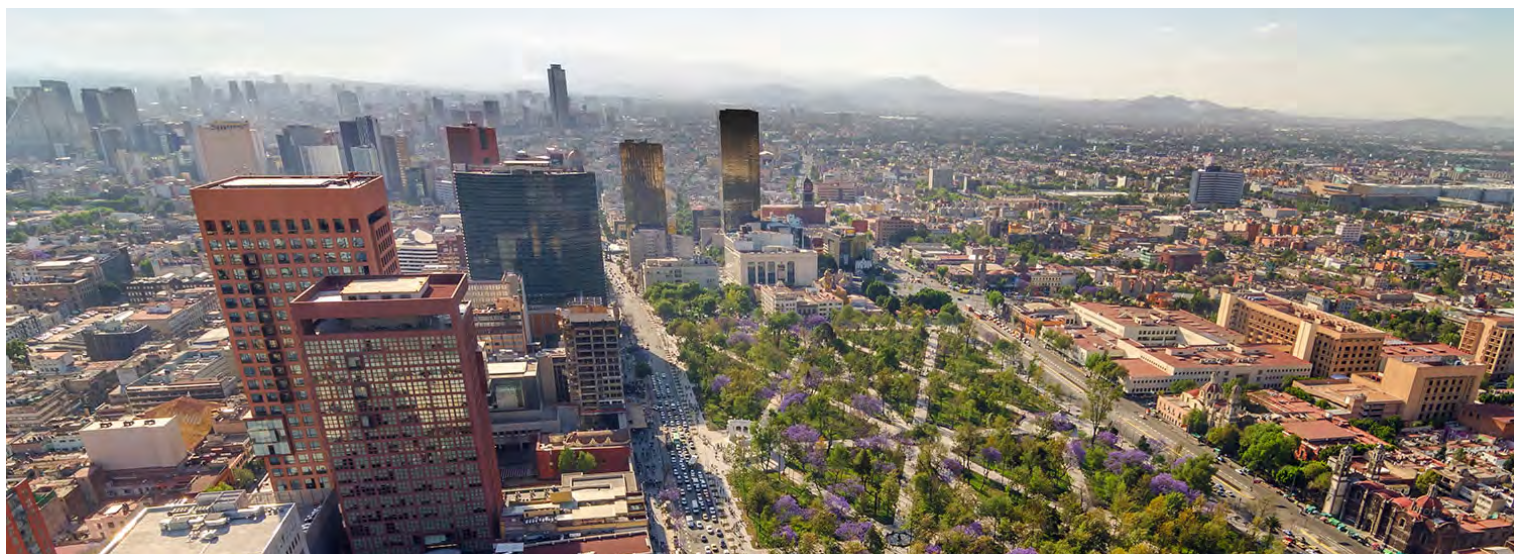


# Mexico City



## Market Indicators

**350**

office buildings A + &amp; A classes

**10**

office sub markets

**62.5**

million sq ft Total Inventory

**15.2**

million sq ft Activity Under Construction

**10.8%**

vacancy rate

## Market Overview

The A + & A class office market in Mexico City closed the third quarter of 2017 with a total inventory of 62.5 million square meters within the 10 submarkets, an increase of 3.5% over last year's closing and an increase of 11.3% compared to the end of the same period in 2016.

The supply registered at the end of the third quarter of the year closed at 6.7 million square feet, of which the corridors "Norte", "Polanco" and "Santa Fe" represent 60.8% of the total available in the market.

The submarkets "Interlomas", "Lomas Altas" and "Bosques" (SBD) account for only 5.2% of the total Mexico City.

The gross demand recorded during the first three quarters of 2017 is 4.2 million square feet, of which 47% correspond to "ABD" (Insurgentes, Norte and Periférico Sur).

Total demand at the end of this quarter represents a 35% increase compared to the same period of 2016 (+1.0 million square feet).

More than 4.6 million square feet will be delivered in the following three months of the year.

Average rental prices showed a 3% increase compared to the end of the previous quarter, however, it shows a decrease of 10% compared to the end of the same period of 2016.

# Mexico City



*In addition to the macroeconomic environment, there are currently two specific problems that affect the behavior of commercial real estate in Mexico.*

*Guillermo Sepúlveda - Principal*

The first issue has to do with the on-going NAFTA re-negotiation talks between the U.S., Canada and Mexico. The tough stance of the U.S. with its two neighbors and main trading partners by threatening to leave the agreement, continues to appear to be the preferred negotiating tactic of Washington. Specific topics of discussion such as the proposal by the U.S. to review the agreement every 5 years, is creating uncertainty in the markets. As a result, we have seen a run against the Peso in the last couple of weeks. This uncertainty has an effect in commercial real estate with the understandable delayed decision making, which is translating into less absorption of leasable industrial space. However, on the other side, the leasing of industrial and warehousing space for logistic purposes continues to remain strong.

The second issue is natural disasters. Specifically, the strong earthquake that shook Mexico City in the middle of September. In spite of news reports to the contrary, this event had zero negative impact on the commercial real estate inventory of class "A" office space. On the contrary, in the weeks following the quake, we have witnessed a "flock for quality" effect with increased interest from corporations housed in "B" class buildings, to move to newer facilities that meet structural codes and can fare much better seismic events.

Construction activity of new class "A" office inventory continues undeterred and we anticipate an additional 5 million sqf of new inventory to be completed in the last quarter of the year, which will reach the 60 million sq ft mark for the first time.





# Mexico City

Office Market Overview | 3Q 2017

## Office Market

It has 10 office corridors which are included in three large sub-markets:  
Central Business District, Suburban Business District and Alternative Business District.

	Inventory	Availability	Vacancy Rate	Gross Demand	USD / sq ft month	Activity Under Construction			
						2017 - 4Q	2018e	2019e	2020e
CBD	26,103,500	2,278,700	8.7%	1,346,600	\$2.8	1,808,300	1,125,900	1,777,100	1,259,400
SBD	17,892,800	1,325,100	7.4%	933,200	\$2.3	897,700	962,300	147,500	712,600
ABD	18,524,700	3,137,600	16.9%	2,019,200	\$2.2	1,956,900	2,965,500	2,890,100	2,080,100
<b>Total</b>	<b>62,521,000</b>	<b>6,741,400</b>	<b>10.8%</b>	<b>4,299,000</b>	<b>\$2.4</b>	<b>4,661,800</b>	<b>5,021,400</b>	<b>447,300</b>	<b>4,052,600</b>

## Construction

Due to the over-supply that will be generated in some corridors, many buildings paused their construction during the first nine months of the year, so we expect that by the end of 2017, more than 4.6 million square feet will be integrated into the inventory of offices class "A + & A".

The ABD sub-markets (Norte, Periférico Sur and Insurgentes) represent 53% of the total meters to be delivered during the next three years, while the CBD (Lomas Palmas, Polanco and Reforma) represents only 32%.



**WORK | Lomas**

The sub-market "Insurgentes" has more than 5.3 million square feet under construction, of which 20% is already pre-leased.

"Polanco" is the second corridor with the largest amount of square meters to be delivered in the next three years with more than 3.4 million sq ft in the pipeline.

### Periférico Sur 4277



## Demand

The gross demand at the end of 3Q - 2017 is 4.2 million square feet, of which 47% correspond to ABD.

By 2020 there will be more than 7.5 million square meters in A + & A class buildings.

The sub-market "Periférico Sur" is the one that has shown the most dynamism during 2017, due to the large pre-leases that it has, such as: Alsea, Citi Banamex, Janssen, Grupo Salinas among others.

It is estimated that 2017 closes with a gross absorption of 5.3 million square feet within its 10 office corridors.



### Bosques SubMarket

## Average Rent Prices

The average rent price in the Mexico City Offices market closed the third quarter of the year at \$2.4 per square feet per month, an increase of 1.4% over the same period in 2016.

The "Lomas Palmas" corridor shows an average asking price of USD \$3.0 / sq ft / month, being the highest average price for the last three years.

The submarket "Norte" has shown an increase in its asking price of 20.5% with respect to the same period of 2016.

The average asking prices in Mexico City range between

US \$1.9 and US \$3.0 per sq ft / month.

Office Buildings classes A + & A





Torre Summit - Santa Fe - 300,000 sq ft



SKY Offices - Santa Fe - 237,000 sq ft

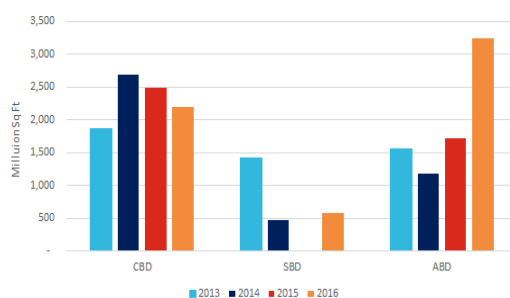


WORK | Polanco - Polanco - 226,000 sq ft

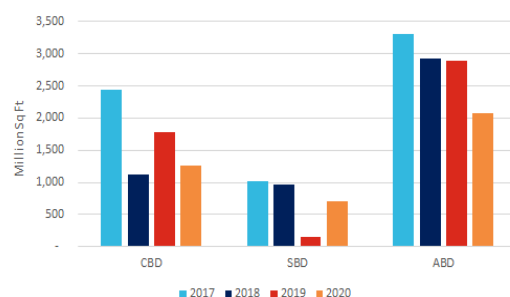
## Construction

- During the third quarter of 2017, only 227,100 square feet entered to the existing inventory of offices Classes A+ & A in Mexico City.
- The "Polanco" corridor shows the largest amount of square feet under construction for the 4Q 2017.
- In total more than 1.3 million square feet are under construction to be delivered over the next three years.
- The "Insurgentes" submarket represents 64% of the total under construction distributed in 19 A+ & A class buildings.

## Activity Under Construction 2013-2016



## Activity Under Construction 2017-2020e



## Pipeline 2017 4Q

Submarket	Building	Sq M
Interlomas	Paseo Interlomas	215,000
Lomas Altas	DENN	46,400
Norte	Skala	549,000
Insurgentes	Torre Manacar	505,500
	Revolución 756	125,900
Santa Fe	DownTown	672,700
	The Tower Park	361,500
Periférico Sur	Artz Pedregal	589,600
	Periférico 4277	187,300
Polanco	Latitud Polanco	338,100
	One Marina Park	666,800
	Torre Concreta	104,300
Reforma	Torre Cuarzo	682,000

# CBD

- Reforma - Polanco -  
- Lomas Palmas -

## 26.1

million sq ft



Corporativo Legaria



Reforma 180



Torre E3

The CBD formed by the sub-markets "Reforma, Polanco and Lomas Palmas" has 26.1 million square feet of Classes A + & A buildings.

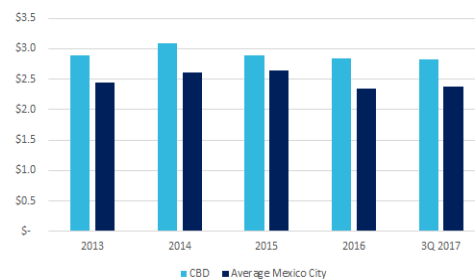
The vacancy rate closed at 8.7% which corresponds to 211,700 square meters of which Polanco represents 48% of the total available area.

The gross absorption recorded during the third quarter of 2017 was 125,100 square meters.

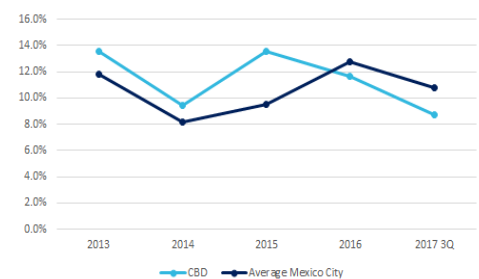
The CBD is considered the corridor with the highest prices recorded with an average of \$30.5 per square meter per month.

It has 554,800 square meters under construction, of which 58.2% are in "Polanco" and 36.1% in "Reforma".

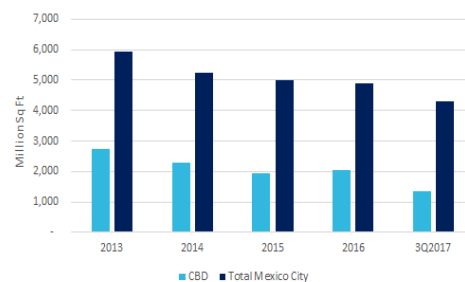
### Average Rent Prices



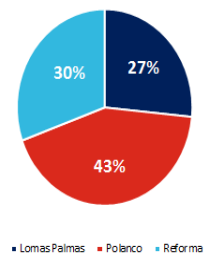
### Vacancy Rate



### Gross Demand



### Inventory / Market Share





# SBD

- Bosques - Santa Fe -  
- Interlomas - Lomas  
Altas -

## 17.8

million sq ft



Constituyentes 1070

The SBD, conformed of the "Bosques, Santa Fe, Interlomas and Lomas Altas" submarkets, has 17.8 million square feet of Classes A + & A buildings.

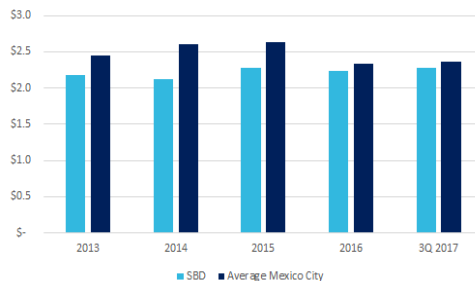
The vacancy rate closed at 7.4% which corresponds to 1.3 million square feet of which Santa Fe represents 74% of the total available area.

The gross absorption registered during the third quarter of 2017 was 933 thousand square feet, of which 71.7% correspond to "Santa Fe".

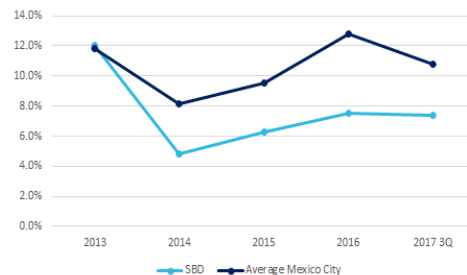
The average price of rent in the SBD is US \$2.3 / sq ft per month which showed an increase of five cents in the US dollar compared to the closing of 3Q 2016.

It has more than 2.7 million square feet under construction.

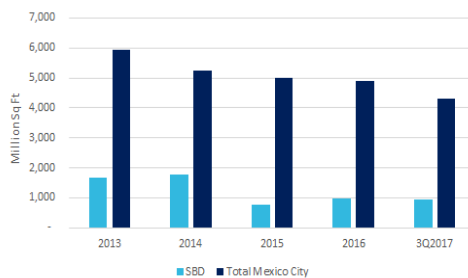
### Average Rent Prices



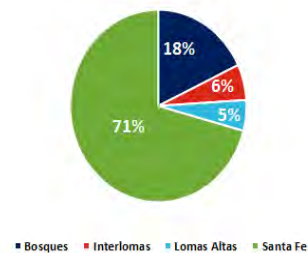
### Vacancy Rate



### Gross Demand



### Inventory / Market Share



# ABD

- Insurgentes - Norte -  
- Periférico Sur

## 18.5

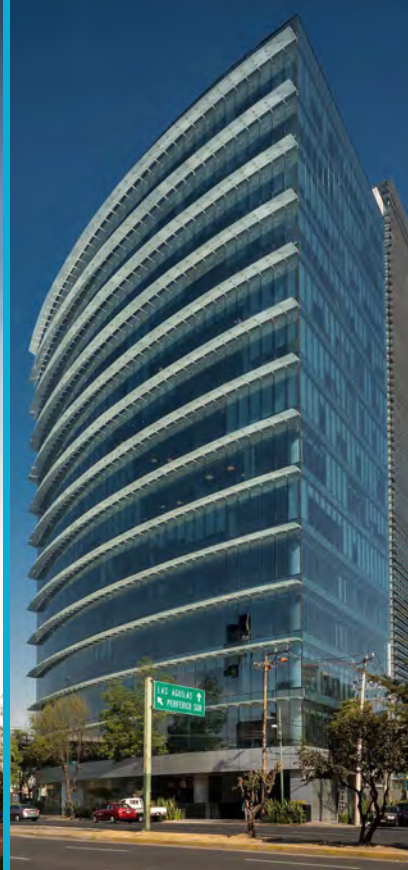
million sq ft



Torre Glorieta



Torre Norte



Element Corporativo

The ABD conformed by the sub-markets "Insurgentes, Norte and Periférico Sur" has 18.5 million square feet of Classes A+ & A buildings.

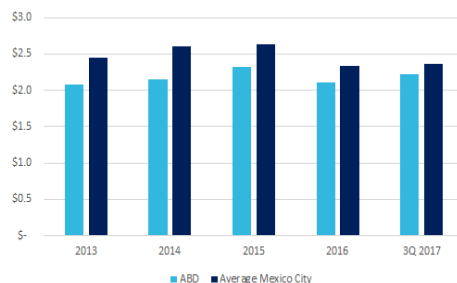
The vacancy rate closed at 16.9%, corresponding to 3.1 million square feet of which "North" represents 65% of the total available area.

The gross absorption registered at the third quarter of 2017 was 2 million square feet, which mostly correspond to pre-leases.

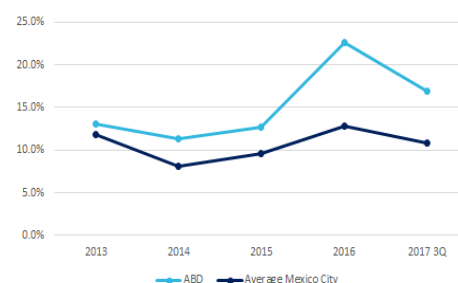
The average rental price in the ABD is US \$2.2 / sq ft per month which showed an increase of US \$0.5 per sq ft per month compared to the closing of 2Q 2017.

It has more than 9.8 million square feet under construction, of which, "Insurgentes" represents 56.5% of the total, a data never before registered in this corridor ..

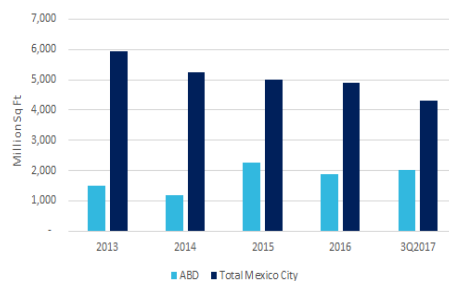
### Average Rent Prices



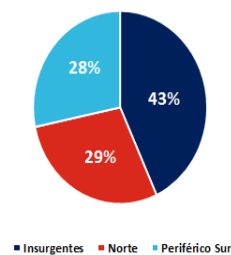
### Vacancy Rate



### Gross Demand



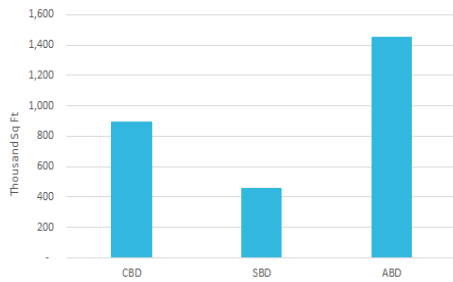
### Inventory / Market Share



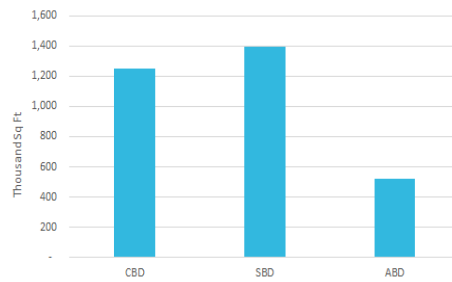


## Gross Demand

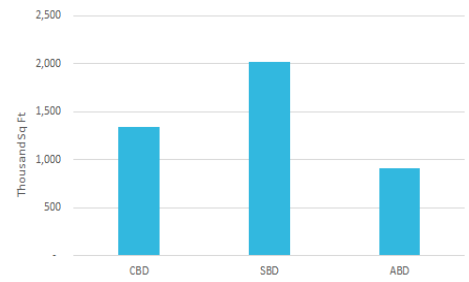
3Q 2015



3Q 2016

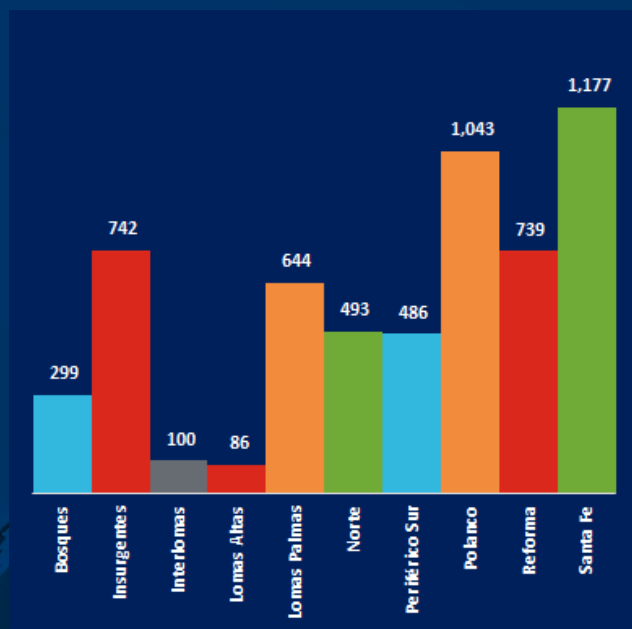


3Q 2017



## Notable Transactions 3Q 2017

Building	Sub Market	Type	Sq M	Tenant / Buyer
Periférico Sur 4277	Periférico Sur	Pre-lease	17,400	Grupo Salinas
Torre Magnvs	Santa Fe	Renewal	18,800	Ford Motor Company
Torre Centenario	Santa Fe	Renewal	9,800	Microsoft
Ampliación Paseo Interlomas	Interlomas	Pre-lease	9,700	Procter & Gamble
Reforma 265	Reforma	Renewal	4,200	Goodrich, Riquelme y Asociados
Torre Reforma 115	Reforma	Renewal	3,700	Credit Suisse
Torre Mayor	Reforma	Renewal	2,500	Castillo Miranda
Centrum Park	Norte	Relocation	2,500	INC Research
Gran Patio Revolución	Periférico Sur	Relocation	2,500	VideoJet

**4.5%**+ of Total Inventory  
compared to 3Q 2016**35.5%**+ of Gross Absorption  
compared to 3Q 2016**-9.6%**Decrease in average  
market price  
compared to 3Q 2016

### Total Inventory

Santa Fe and Polanco have surpassed the existing million square meters. Insurgentes Sur is still the corridor that shows the most amount of square meters under construction.

**350**Existing buildings  
classes A + & A**82**Buildings under Construction  
classes A + & A**60**

Buildings Under Design



## Office Market

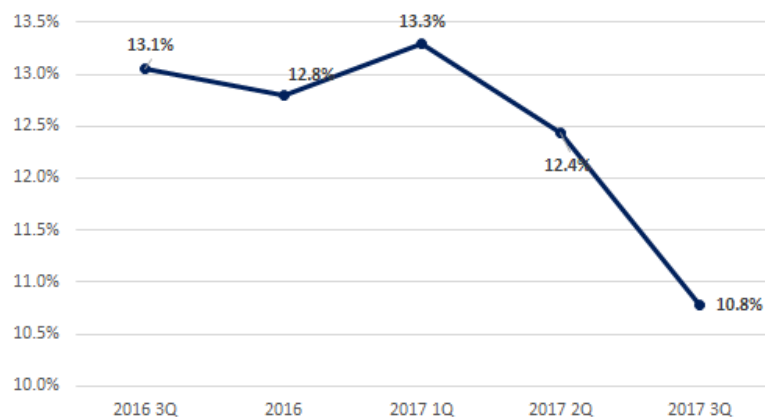
Data compared to 3Q 2016



Neuchâtel Cuadrante Polanco

### Vacancy Rate

The vacancy rate showed a decrease of 2.3 percentage points compared to the same period of 2016.



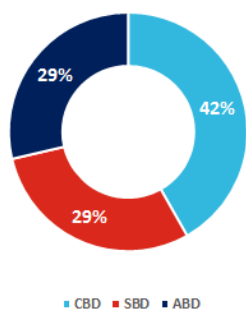
## Summary

The A+ & A office market in Mexico City has 62.5 million square feet in its 10 office corridors.

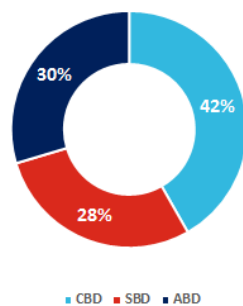
Sub - Market	# Buildings	Total Inventory	Total Available	Vacancy Rate	Gross Demand	USD / sq ft / month	Under Construction	Under Design
Lomas Palmas	64	6,926,600	376,700	5.4%	549,000	\$ 3.0	609,200	674,900
Polanco	44	11,226,700	1,088,200	9.7%	343,400	\$ 2.7	2,738,300	4,164,600
Reforma	21	7,950,200	813,800	10.2%	454,200	\$ 2.8	1,582,300	5,594,000
<b>CBD</b>	<b>129</b>	<b>26,103,500</b>	<b>2,278,700</b>	<b>8.7%</b>	<b>1,346,600</b>	<b>\$ 2.8</b>	<b>4,929,800</b>	<b>10,433,500</b>
Bosques	17	3,222,700	124,900	3.9%	59,200	\$ 2.6	-	-
Interlomas	12	1,075,300	100,100	9.3%	145,300	\$ 1.9	376,700	150,700
Lomas Altas	7	922,500	122,700	13.3%	59,200	\$ 2.5	46,300	696,400
Santa Fe	75	12,672,300	977,400	7.7%	669,500	\$ 2.2	1,588,800	2,868,600
<b>SBD</b>	<b>111</b>	<b>17,892,800</b>	<b>1,325,100</b>	<b>7.4%</b>	<b>933,200</b>	<b>\$ 2.3</b>	<b>2,011,800</b>	<b>3,715,700</b>
Insurgentes	47	7,986,800	759,900	9.5%	517,700	\$ 2.3	4,984,800	2,697,400
Norte	25	5,306,600	2,032,200	38.3%	441,300	\$ 2.0	1,706,100	750,200
Periférico Sur	33	5,231,300	345,500	6.6%	1,060,200	\$ 2.3	1,645,800	1,502,600
<b>ABD</b>	<b>105</b>	<b>18,524,700</b>	<b>3,137,600</b>	<b>16.9%</b>	<b>2,019,200</b>	<b>\$ 2.2</b>	<b>8,336,700</b>	<b>4,950,200</b>
Total	345	62,521,000	6,741,400	10.8%	4,299,000	\$ 2.4	15,278,300	19,099,400

## HISTORICAL INVENTORY

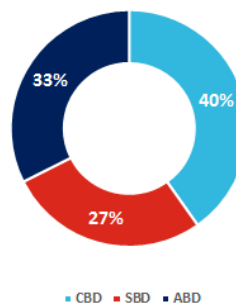
3Q 2016



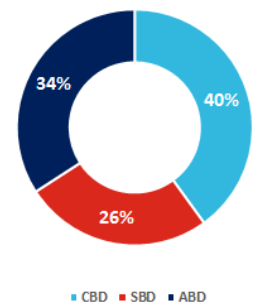
3Q 2017



3Q 2018e



3Q 2019e





## Letter from the Managing Director &amp; Principal



In the last quarter of the year (3Q) the conditions of the commercial real estate market in Mexico City experienced the effects of two events mainly.

The first one refers to the NAFTA negotiations, which continue; and the second, is the earthquake of September 19th (19S). In the first case, the uncertainty of the outcome of these negotiations and their impact on the Mexican economy has been reflected in a depressed exchange rate.

Since in most commercial real estate, sales and rent prices are tied to the dollar, operations tend to be slower as long as this uncertainty does not dissipate. However, for the moment this has not been reflected in the office market, for example, where we continue to see an absorption rate similar to last year's levels.

Likewise, uncertainty about the NAFTA negotiations causes corporations to stop investing because they do not know what the future rules of the game will be, especially in the industrial sector. However, this negative factor has been attenuated to a large extent by the logistics sector which continues to maintain a good rate of absorption. Such is the case of the operation we conducted with "Elektra", where this consumer goods company moved its distribution center to a better location of the CDMX, in order to serve better its customers. Another important operation was "Amazon" for the same purposes.

In the next report (4Q) we must see the effects of these two events. For the time being, we hope that the information contained in this report is of interest and do not hesitate to contact us for any questions or comments. Finally, we invite you to continue pending future publications of Avison Young on the booming commercial real estate market in Mexico.

Cordialmente,

Guillermo J. Sepúlveda  
Socio y Director General  
Avison Young - México

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