

# Mexico City



## Market Indicators

**343**

office buildings A+&A classes

**10**

office sub markets

**65.2**

million sq ft Total Inventory

**14.8**

million sq ft Activity Under Construction

**15%**

vacancy rate

## Market Overview

The A + & A class office market in Mexico City closed the first quarter of 2018 with an inventory of 65.2 million square feet existing within the 10 sub-markets, representing an increase of 1.7% compared to the end of last year and an increase of 4.3% with respect to the closing of the same period in 2017.

The offer registered at the end of the first quarter of the year is 9,552,077 square feet of which, the "Santa Fe", "Polanco", "Reforma" and "Insurgentes" corridors represent 63% of the total available in the market.

The sub-markets "Interlomas", "Lomas Altas" and "Bosques" (SBD) account for only 8% of the total market available in Mexico City (526,376 sq ft).

The gross demand registered during the first quarter of 2018 was 1,681,200 square feet of which 38% correspond to "CBD" (Lomas Palmas, Polanco and Reforma), 24% to "SBD" (Forests, Interlomas, Lomas Palmas and Santa Fe) and 38% to "ABD" (Insurgentes, Norte and Periférico Sur).

The total demand at the close of the first quarter of 2018 represents an increase of 12.03% compared to the closing of the same period in 2017 (+1,500,489 sq ft).

Activity under construction more than 1,194,794 square feet were delivered during the first quarter of 2018 of which "Santa Fe" and "Periferico Sur" represent 76% of the total built during this period.

Average rental prices showed an increase of 0.3% compared to the end of 2017.

# Mexico City



*In Mexico, the forecast growth for 2018, at 20%, remains without changes, driven by private consumption and export consolidation. In 2017 the primary balance of the public sector for the first time was positive since 2008. After the temporary increase in 4Q17, inflation resumes its downward trend in 1Q18 as we expected.*

*BBVA Research - En resumen*

In Mexico, we maintain our forecast for growth in 2018 at 2.0%, driven by private consumption that is strengthened by an environment of lower inflation and the consolidation of exports as a result a better performance of the industrial sector in the US. UU., Especially manufacturing activities. In 2017, the economy grew 2.3%, as a result of a bounce in growth in the fourth quarter, of 0.8% motivated by trade and services that showed a rapid recovery after the September earthquakes and primary activities that registered a greater dynamism in 4Q2017.

Inflation returns to its downward trend in 1Q18 as we anticipated. The data in the first two months (January two and the first of February) clearly indicate that both general and core inflation are moderating and suggest that, as we expected, it will continue to decline at a good pace. The main risk continues to be associated with the NAFTA renegotiation process. Slow progress, if extend over time will continue, affecting the exchange rate. In fact, the uncertainty surrounding a possible NAFTA 2.0 has prevented further appreciation of the peso. This week began the seventh round of negotiations. Expectations are low; Big advances are not foreseeable. Non-controversial chapters will continue to be closed, but there will be hardly any important approaches on the crucial issues put on the table by the US: the rules of origin in the automotive sector, the automatic termination clause every five years, and the resolution of controversies. Both Mexico and Canada know that a NAFTA 2.0 will not be reached without changes in the rules of origin of the automotive sector, and for the moment, the US does not show flexibility. The risks of a breach continue to decrease, but those of prolonged negotiation have increased.

*Fuente: BBVA Research*





# Mexico City

Office Market Overview A+ & A

## 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	Available	Vacancy Rate	Gross Demand	USD / sq ft / month	Activity in Construction		
						2018 e	2019e	2020e
CBD	26,093,900	3,595,400	14%	631,800	\$2.8	1,504,277	156,959	712,290
SBD	18,461,200	2,315,200	13%	408,100	\$2.2	4,303,127	3,339,694	1,797,700
ABD	20,680,000	3,641,500	18%	641,300	\$2.2	2,040,771	1,653,098	2,236,738
<b>TOTAL</b>	<b>65,235,100</b>	<b>9,552,100</b>	<b>15%</b>	<b>1,681,200</b>	<b>\$2.4</b>	<b>7,848,175</b>	<b>5,149,751</b>	<b>4,746,729</b>

including 1Q2018

## Activity Under Construction

During the first quarter of 2018, more than 1.1 million square feet of offices were delivered and included in the existing total inventory of Mexico City of which 76% were only four buildings in the corridors "Santa Fe" and "Periférico Sur"

We estimate that more than 14.8 million square feet will complete their construction during the following three years, with the "Insurgentes" submarket being the one that shows the most meters to be included in its inventory (+4,843,759 sq ft).



**Artz | Periférico Sur**

"Reforma" and "Polanco" have more than 4.6 million square feet near to be delivered, which represents 32% of the total activity in construction.

The "Interlomas" submarket shows activity under construction that had not been done since 2014.

### Downtown Santa Fe



### Demand

The gross demand at the end of the first quarter of 2018 was 1.6 million square meters.

2018 begins with good activity in the commercialization of spaces of buildings class A and A +

The "Insurgentes Sur" submarket is the one that showed the greatest dynamism in absorption with more than 441,320 square feet in demand during the first quarter of 2018, followed by the "Santa Fe" corridor with more than 365,972 square feet commercialized.

The corridors "Bosques", "Interlomas" and "Lomas Altas" account for only 2.4% of the total commercialized during this period.



**The Point**

### Asking Rent Prices

The weighted average price of rent in the market of Offices of the City of Mexico closed the first quarter of the year in \$ 2.4 per square meter per month.

The "Lomas Palmas" corridor continues to be the one that shows the highest price with USD \$ 2.9 followed by "Reforma" with USD \$ 2.8 / m<sup>2</sup> per month.

The submarket "Lomas Altas" showed a decrease of 7.8% with respect to the end of 2017 and "Insurgentes" decreased by 7% with respect to the same period.

The "Periférico Sur" corridor showed an increase of 7.9% with respect to 2017.

Average rental prices in Mexico City range between US \$ 1.7 and \$ 2.9 / m<sup>2</sup> / month.

Buildings classes A + & A





Central Interlomas - Interlomas - 161,458 sq ft

## Activity Under Construction

During the first quarter of 2018, more than 1,202,974 square feet finished its construction and were added to the existing inventory of A+ & A Classes offices in Mexico City.

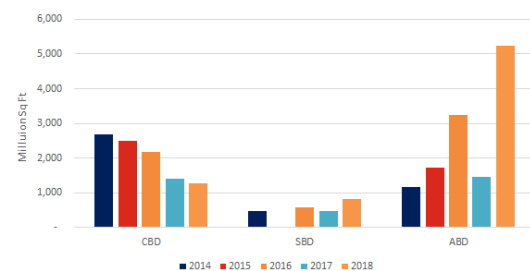
The "Periférico Sur" corridor showed the highest number of finished square meters, by integrating the "Artz Torre II and III" inventory with a total of 419,792 rentable square feet, of which 84.5% is already occupied.

It is estimated that over the next three quarters of 2018, more than 5,381,955 square feet of buildings will be added to the inventory, with classes A+ & A, of which 4% are located in the ABD (Alternative Business District).

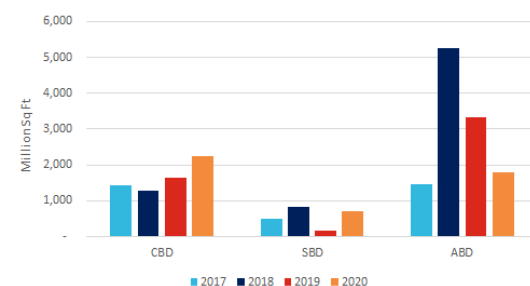
The "Insurgentes" sub-market shows the most activity under construction with more than 4,736,120 square feet to be delivered in the next three years followed by the "Polanco" and "Reforma" corridors with more than 2,152,782 square feet respectively, as well as the "Norte" submarket "with more than 2,012,851 square feet to be delivered.

In total, more than 14.8 million square feet are under construction so it is estimated that by the end of 2020 the total inventory of offices will surpass the 75.3 million square feet existing.

## Construction Activity 2014 - 2018



## Construction Activity 2018 - 2020e



# CBD

- Reforma - Polanco -  
- Lomas Palmas -

## 26.0

million  
square feet



Cervantes 169



Torre Cuarzo



Sanborns Palmas

The CBD conformed by the "Reforma, Polanco and Lomas Palmas" sub-markets has 26,093,900 square feet in buildings Classes A + & A.

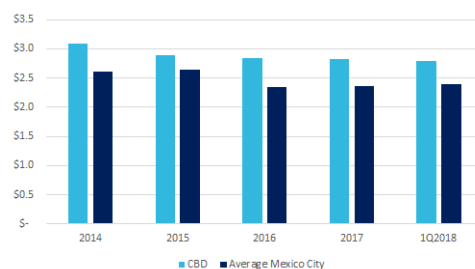
The availability rate closed at 14% which corresponds to 3,595,400 square feet of which Reforma represents 16.6% of the total available area.

Gross absorption registered at the end of the first quarter of 2018 was 631,800 square feet.

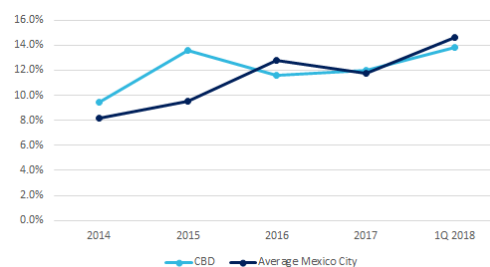
The CBD is considered the broker with the highest prices recorded with an average of \$ 2.8 sq ft per month.

It has 4,982,100 square meters under construction, of which 47.4% are in "Polanco", 47.3% in "Reforma" and 5.2% in "Lomas Palmas".

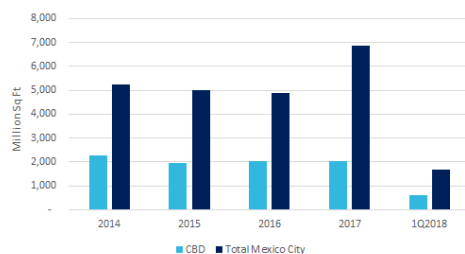
## Average Rent Prices



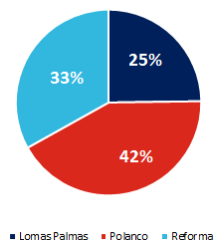
## Vacancy Rate



## Gross Demand



## Inventory / Market Share





# SBD

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

## 18.4

million  
square feet

Arcos Bosques



Samara



Paseo Interlomas Ampliación



Corporativo DENN

The SBD conformed by the submarkets "Bosques", "Santa Fe", "Interlomas" and "Lomas Altas" has 18,461,200 square meters existing in buildings Classes A + & A.

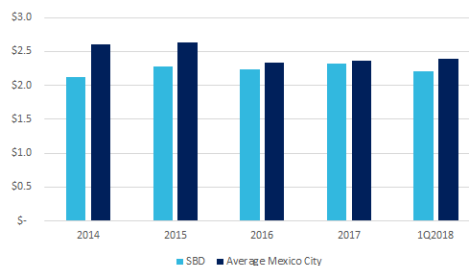
The availability rate closed at 12.5% which corresponds to 2,315,200 square meters of which "Santa Fe" represents 77.2% of the total available area.

Gross absorption registered during the first quarter of 2018 was 408,100 square meters, of which 89.8% correspond to "Santa Fe".

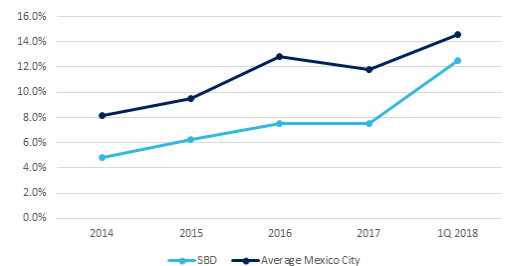
The average rent price in the SBD is US \$ 2.2 sq ft per month, showing a decrease of 4.4% compared to the end of 2017.

It has more than 3,677,300 square meters under construction, of which 76.1% corresponds to "Santa Fe".

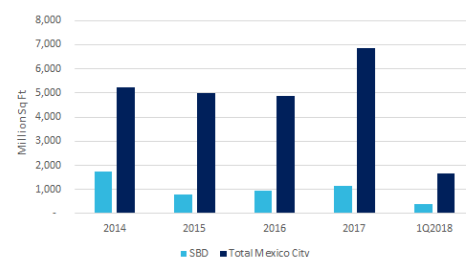
## Average Rent Prices



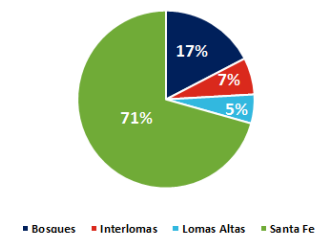
## Vacancy Rate



## Gross Demand



## Inventory / Market Share



# ABD

- Insurgentes - Norte -  
- Periférico Sur -

## 20.6

million  
square feet



One Marina Park



Panorama Pedregal



Torre Manacar

The ABD formed by the submarkets "Insurgentes", "Norte" and "Periférico Sur" has 20,680,000 square meters existing in buildings Classes A + & A.

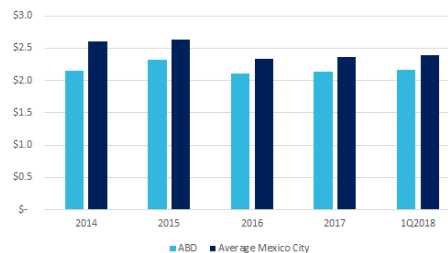
The availability rate closed at 17.6%, which corresponds to 3,641,500 square meters of which "North" represents 73.2% of the total available area.

Gross absorption registered during the first quarter of 2018 was 641,300 square meters, of which 69.4% correspond to "Insurgentes".

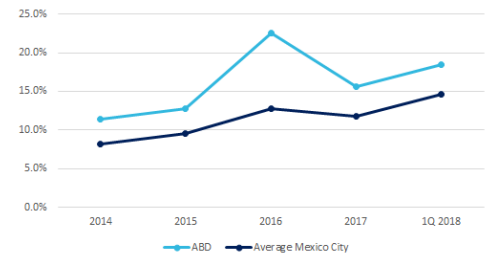
The average rental price in the ABD is US \$ 2.2 sq ft per month, which showed an increase of 1.3% compared to the end of 2017.

It has 8,243,800 square meters under construction, of which, "Insurgentes" represents 57% "Norte" 24% and "Periférico Sur" 19% of the total.

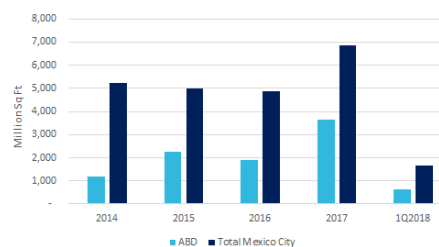
## Average Rent Prices



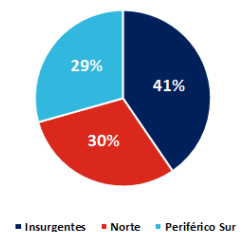
## Vacancy Rate



## Gross Demand

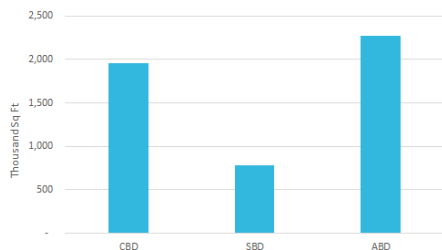


## Inventory / Market Share

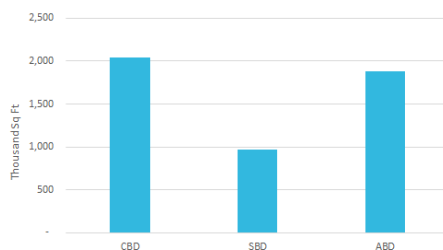




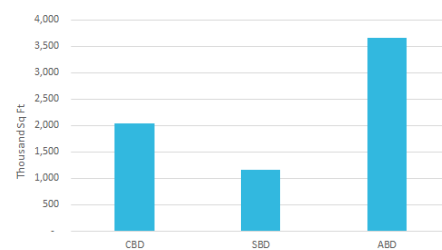
## Gross Absorption 2016



## Gross Absorption 2017



## Gross Absorption 1Q 2018



## Notable Transactions 1Q 2018

Building	Sub-Market	Operation	Sq Ft	Tenant / Buyer
Torre Aleph	Insurgentes (ABD)	Pre Lease	182,265	Nissan
Insurgentes 810	Insurgentes (ABD)	New	97,843	Consejo Nal de Evaluación de la Política de Desarrollo Social
Punto Polanco	Polanco (CBD)	Relocation	57,220	Du Pont
Artz Torre III	Periférico Sur (ABD)	Expansion	55,983	Santander
Tecnoparque E	Norte (ABD)	Expansion	38,179	Compañía Mexicana de Procesamiento
One Marina Park	Norte (ABD)	New	36,414	AN Digital
Patriotismo 435	Insurgentes (ABD)	Relocation	35,693	Afore Sura
Plaza Carso	Polanco (CBD)	Renewal	33,486	Huawei
Corporativo Dos Patios	Polanco (CBD)	New	29,633	Getronics (México)
World Plaza	Santa Fe (SBD)	Renewal	27,480	Lockton
Periférico 261	Periférico Sur (ABD)	Relocation	27,243	Fincomun
Centrum Park Edificio A	Norte (ABD)	Relocation	26,877	Inc Research Clinical Services Mexico Limited
Centrum Park Edificio E	Norte (ABD)	Relocation	25,284	AT&T
Altezza II	Lomas Palmas	New	22,668	IOS Offices de Mexico
Torre Esmeralda II	Lomas Palmas /546fi	Renewal	19,848	Thomson Reuters de México
CEO Corporativo	Santa Fe (SBD)	Expansion	16,081	CIH Holdings
Parques Plaza Torre B	Polanco /546fi	Sale	15,596	Grupo KC Agente de Seguros
Corporativo SONY	Santa Fe (SBD)	New	15,069	Mexico Proyectos y Desarrollos Servicios
Cervantes 169	Polanco /546fi	Relocation	13,917	Covestro
Insurgentes 1431	Insurgentes (ABD)	Relocation	13,842	La Madrileña
Carso Palmas	Lomas Palmas /546fi	Relocation	13,454	Confidential
Torre Esmeralda II	Lomas Palmas /546fi	Relocation	13,078	Bureau Veritas Mexicana
Corporativo Dos Patios	Polanco /546fi	New	12,669	Oberthur Technologies de México
Insurgentes 810	Insurgentes (ABD)	Relocation	12,001	Doterra
Torre Esmeralda I	Lomas Palmas /546fi	Renewal	11,129	Atco
Downtown Santa Fe II	Santa Fe (SBD)	Expansion	11,076	IMMONUTEC

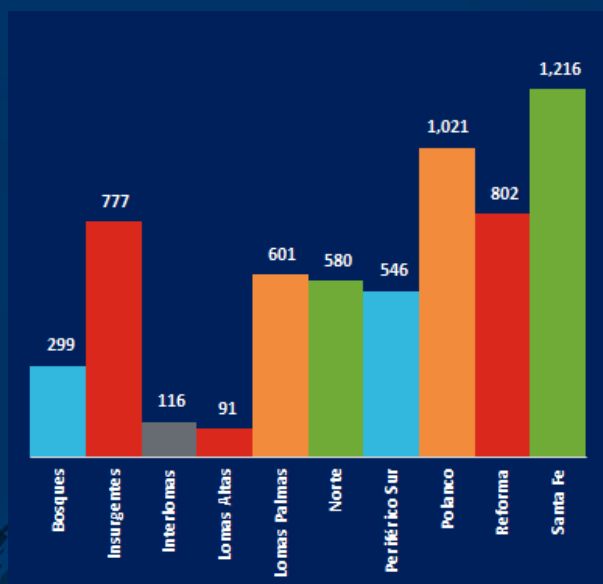
5.5 %

+ Total Inventory  
compared to 1Q 2017

+12.3 %

+ Gross Demand  
compared to 1Q 2017

-1.5 %

Decrease in average  
market price compared  
to 1Q 2017

## Total Inventory

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

343

Existing buildings  
classes A + & A

74

Buildings Under Construction  
classes A + & A

75

Buildings Under Design



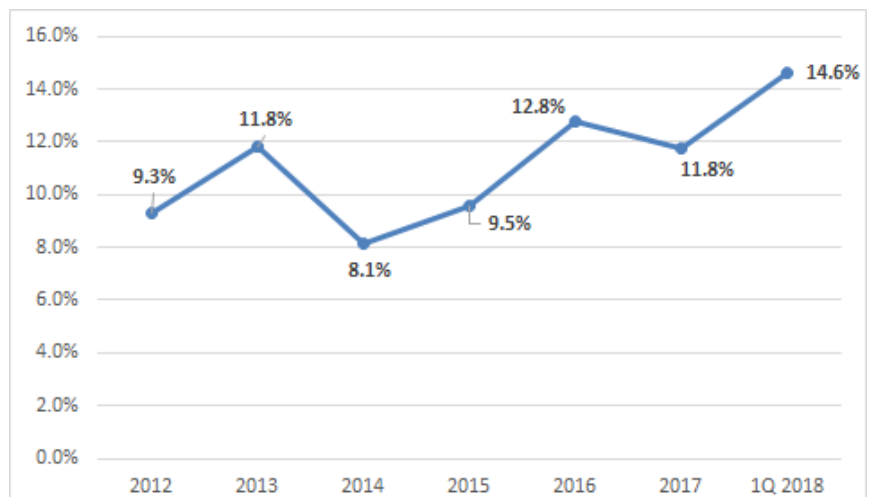
## Office Market

Data compared to 1Q 2017



### Vacancy Rate

The vacancy rate showed an increase of 9.7% compared to the same period of 2017 and an increase of 23.7% compared to the end of 2017.



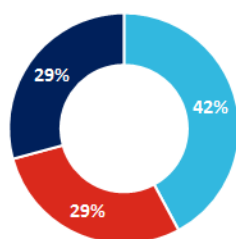
## Summary

The A+ & A office market in Mexico City has 65,235,100 million square meters within 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	56	6,467,500	747,400	11.6%	314,200	\$ 2.9	260,200	674,800
Polanco	46	10,993,900	1,418,600	12.9%	254,500	\$ 2.6	2,365,100	4,778,300
Reforma	23	8,632,500	1,429,400	16.6%	63,100	\$ 2.8	2,356,800	7,136,600
<b>CBD</b>	<b>125</b>	<b>26,093,900</b>	<b>3,595,400</b>	<b>13.8%</b>	<b>631,800</b>	<b>\$ 2.8</b>	<b>4,982,100</b>	<b>12,589,700</b>
Bosques	17	3,222,700	169,400	5.3%	15,200	\$ 2.6	-	-
Interlomas	12	1,245,300	237,600	19.1%	20,500	\$ 1.8	395,800	448,400
Lomas Altas	8	974,400	119,400	12.3%	5,900	\$ 2.3	-	360,600
Santa Fe	70	13,018,800	1,788,800	13.7%	366,500	\$ 2.1	1,262,100	2,868,300
<b>SBD</b>	<b>107</b>	<b>18,461,200</b>	<b>2,315,200</b>	<b>12.5%</b>	<b>408,100</b>	<b>\$ 2.2</b>	<b>1,657,900</b>	<b>3,677,300</b>
Insurgentes	51	8,553,000	658,600	7.7%	445,100	\$ 2.4	4,741,800	2,934,400
Norte	27	6,244,600	2,667,000	42.7%	96,100	\$ 1.7	2,019,700	750,700
Periférico Sur	36	5,882,400	315,900	5.4%	100,100	\$ 2.4	1,482,300	1,408,100
<b>ABD</b>	<b>114</b>	<b>20,680,000</b>	<b>3,641,500</b>	<b>17.6%</b>	<b>641,300</b>	<b>\$ 2.2</b>	<b>8,243,800</b>	<b>5,093,200</b>
<b>Total</b>	<b>346</b>	<b>65,235,100</b>	<b>9,552,100</b>	<b>14.6%</b>	<b>1,681,200</b>	<b>\$ 2.4</b>	<b>14,883,800</b>	<b>21,360,200</b>

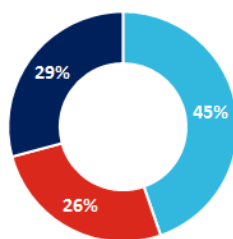
## HISTORICAL INVENTORY

2017



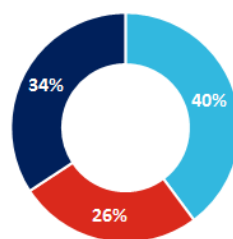
■ CBD ■ SBD ■ ABD

2018e



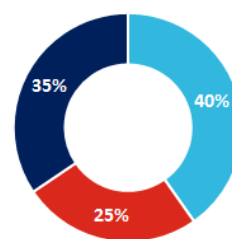
■ CBD ■ SBD ■ ABD

2019e



■ CBD ■ SBD ■ ABD

2019e



■ CBD ■ SBD ■ ABD



## Letter from the Managing Director &amp; Principal



The Office Market in Mexico City has maintained stable growth, due to a recovery in investments; We believe that as the uncertainty about the future of the North American Free Trade Agreement (NAFTA) and the outcome of future presidential elections dissipates, expansion will accelerate.

At the end of the first quarter of 2018, the office real estate market in Mexico City shows a total inventory of class "A" buildings of 6.06 million square meters.

The availability rate at the end of the first quarter of the year was 14.6%, which is equivalent to a little more than 887 thousand square meters available within the 10 sub-markets.

The total absorption registered in this period is just over 156 thousand square meters commercialized.

The average rental rates have remained stable, the Lomas Palmas, Reforma and Polanco sub-markets show the highest prices with an average of \$ 30.0 USD per square meter. In contrast, the Norte and Interlomas brokers have average prices below \$ 20.0 per square meter.

Sincerely your,

Guillermo J. Sepúlveda  
Managing Director & Principal  
Avison Young - México

Mexico City  
Contacts

Guillermo Sepúlveda  
Principal  
+52 55 4123 4570  
guillermo.sepulveda@avisonyoung.com

Emile Sarraf  
Principal  
+52 55 4123 7571  
emile.sarraf@avisonyoung.com

Silvia Gómez  
Research Director  
+52 55 4742 3920  
silvia.gomez@avisonyoung.com

For more information on this report please contact:

Silvia Gómez  
Research Director  
+52 55 4742 3920  
silvia.gomez@avisonyoung.com

Avison Young - México  
Prol. Paseo de la Reforma No. 1015  
Torre "A" Piso 18 Col. Santa Fe  
C.P. 01326 Ciudad de México



avisonyoung.com

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