



Mexico City Office Market

The Office Market continues to struggle as the health crisis drags on.

By the end of 2020, the office market in Mexico City continued to struggle and some indicators recorded historic lows. In the last quarter of 2020, the corporate market saw the highest vacancy rates since Newmark began monitoring this market in Mexico City. The 1.38 million square meters of vacant space translate into a record-high 18.6% vacancy rate of a 7.44 million-square-meter market of Class A and A+ inventory.

The high vacancy rates stem from businesses reduced ability to continue leasing space for their operations. Additionally, demand for Class A space has been deeply affected by the health crisis. The market activity registered the seventh consecutive fall in the fourth quarter of 2020 and saw its lowest point in two years. In this regard, the total market activity was recorded at 396,006 square meters, slightly over 50% of the total absorption recorded throughout 2019.

Current Conditions

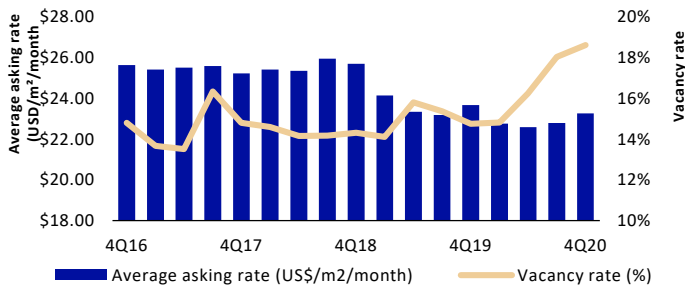
- The vacancy rate was recorded at 18.6%, equivalent to 1.38 million square meters.
- The inventory keeps increasing and it currently stands at 7.44 million square meters.
- Absorption recorded a historic low in 4Q20 at only 24,862 square meters.

Market Summary

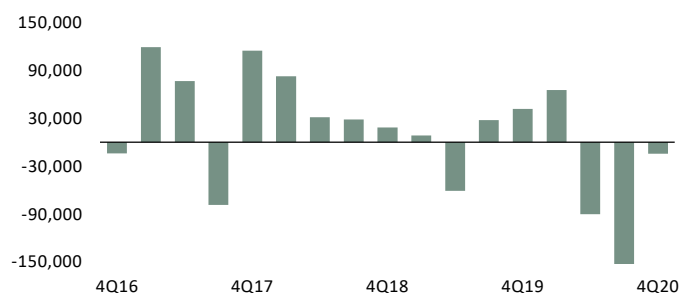
	Current Quarter	Prior Quarter	One year ago	12-month forecast
Total inventory (m ²)	7.44M	7.42M	7.16M	↑
Vacancy rate	18.6%	18.0%	14.7%	↑
Quarterly absorption (m ²)	(41,726)	(161,632)	41,634	→
Average asking rent (USD/m ² /month)	\$23.24	\$22.77	\$23.68	→
Under construction (m ²)	1.25M	1.23M	1.32M	↑

Market Analysis

AVERAGE LEASE RATE AND VACANCY RATE



NET ABSORPTION (M²)



Inventory Growth Continues, but Slows Down

Mexico City's office market has seen constant growth quarter in-quarter out over the last five years. During the COVID-19 health crisis, construction activity has not stopped, but its pace has significantly declined. In this regard, Corporativo Vertice, located in the Polanco Anzures submarket, was the only building added to the inventory during the quarter for a total increase of 27,000 square meters.

The decline in the construction rate is not surprising given the decline in office space absorption since the start of the health crisis which has led to high vacancy rates. This is an alarming sign for developers who normally prefer to stop construction of new buildings rather than completing them and compete with a new product in an uncertain market. Unfortunately, this kind of decisions negatively impact the construction industry as one of the main drivers of Mexican economy.

Vacancy Rates Rise Considerably

As mentioned above, the vacancy rates in the Mexico City office market posted historic highs during 2020, and especially during the last quarter of the year. The vacancy rate was recorded at 18.6% equivalent to 1.3 million square meters. The highest vacancy rates were posted in the Norte and Santa Fe submarkets, which together account for 23.2% and 20.0% of the total vacancy in the market, followed by the Insurgentes and Polanco submarkets. Each of the latter two submarkets accounts for 13.0% of all the vacant space in the market. These four submarkets account for nearly 1.0 million square meters, equivalent to 69.0% of all the vacant space in Mexico City.

Net Absorption Recovers, Gross Absorption Falls

In terms of net absorption, the market saw major recovery from

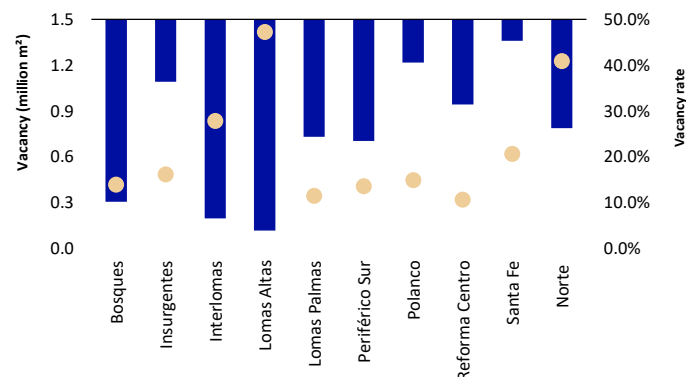
negative 161,632 square meters to negative 41,726 square meters in the fourth quarter of 2020. Nevertheless, this indicator is far from being robust, since all submarkets, with the exception of Periferico, recorded negative absorption. This scenario is alarming considering that the only building added to the inventory was delivered in the Polanco submarket. In conclusion, the year ended with low market activity and vacated spaces.

Regarding the market activity or net absorption recorded its lowest point in at least two years. The total absorption for 2020 was estimated at 396,006 square meters, while the fourth quarter posted absorption of 24,862 square meters. These numbers are extremely low considering that 2019 saw absorption levels of 762,774 square meters and the year-ago period recorded absorption for 256,760 square meters.

On the up side, the office market is expected to begin recovering in 2021. This will be a long process which will depend on how soon governments will get the population vaccinated. This process has begun which translates as a positive sign for the market.

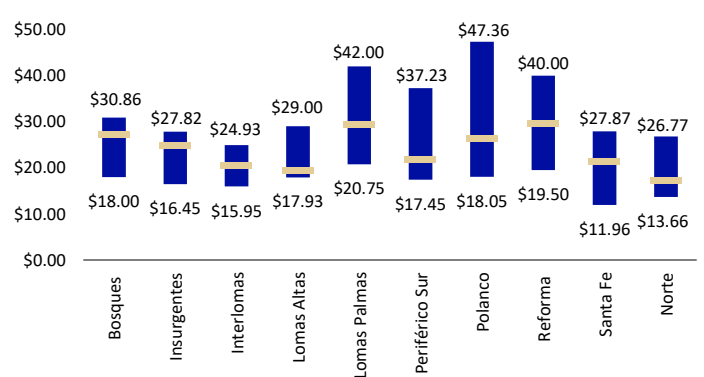
Vacancy per Submarket

TOTAL VACANCY: 1,383,739 m²



Average Asking Rates Range

MINIMUM AND MAXIMUM ASKING RATES



Submarket Stats							
	Total Inventory (m ²)	Deliveries (m ²)	Total Vacancy (m ²)	Vacancy Rate (%)	Total Activity (m ²)	Net Quarterly Absorption (m ²)	Average Asking Rate (USD/m ² /month)
Bosques	304,343		42,131	13.8%	0	(2,694)	\$27.32
Insurgentes	1,090,747		175,595	16.1%	1,326	(10,266)	\$24.97
Avenida Insurgentes Principal	580,827		107,062	18.4%	287	(4,559)	\$25.03
Insurgentes San Ángel	144,412		22,090	15.3%	0	(1,022)	\$26.04
Insurgentes Revolución	167,942		9,563	5.7%	232	(5,190)	\$22.25
Insurgentes Roma-Condesa	77,986		19,571	25.1%	0	(302)	\$25.28
Insurgentes Oriente	119,580		17,309	14.5%	807	807	\$24.77
Interlomas	194,070		53,865	27.8%	0	0	\$21.10
Lomas Altas	114,461		54,047	47.2%	0	(2,864)	\$19.19
Lomas Palmas	730,381		83,348	11.4%	659	(1,644)	\$29.03
Periférico Sur	703,207		94,768	13.5%	1,886	828	\$22.75
Polanco	1,217,468	27,000	180,327	14.8%	17,020	(11,501)	\$27.42
Polanco Tradicional	366,696		42,700	11.6%	0	0	\$24.34
Polanco Granadas	597,975		96,330	16.1%	0	(1,520)	\$27.62
Polanco Anzures	83,146	27,000	23,296	28.0%	17,020	(9,981)	\$22.09
Polanco Lagos	169,651		18,001	10.6%	0	0	\$31.01
Reforma Centro	942,117		99,243	10.5%	2,971	(802)	\$29.45
Santa Fe	1,360,065		279,157	20.5%	1,000	(11,595)	\$21.65
Norte	786,892		321,258	40.8%	0	(1,188)	\$18.59
Norte Azcapotzalco	233,666		55,130	23.6%	0	0	\$17.73
Norte Naucalpan	329,803		158,683	48.1%	0	(472)	\$18.45
Norte Atizapan	37,524		14,441	38.5%	0	0	\$20.73
Norte Tlalnepantla	185,899		93,004	50.0%	0	(716)	\$15.14
Total	7,443,750	27,000	1,383,739	18.6%	24,862	(41,726)	\$23.24

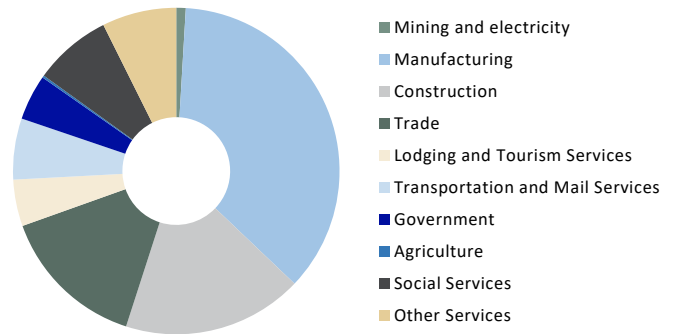
Recovery is Underway

Despite the current global economy, key indicators of the Mexican economy show a recovery during the last quarter of 2020 over the previous quarter. This was mainly driven by the “Buen Fin” (The Good Weekend equivalent to Black Friday) in the U.S) in November. This incentive led to favorable indicators such as a decline in the inflation rate and the strengthening of ecommerce which had a positive effect on the manufacturing, transportation and trade sectors.

Some projections for 2021 estimate that the Bank of Mexico will continue applying monetary policy measures such as the reduction of the reference interest rate. Additionally, the exchange rate will be favored by a weak dollar and a surplus in the current account of the balance of payments.

Employment per Economic Sector

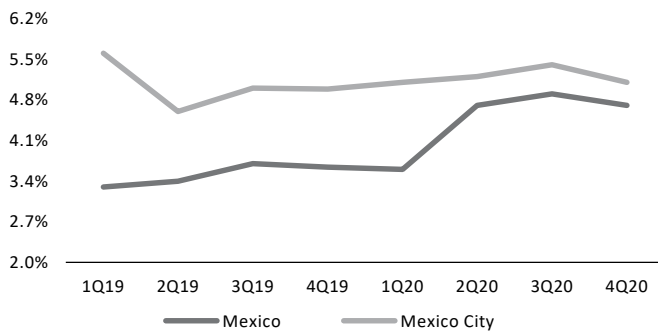
MEXICO CITY AND METROPOLITAN AREA, DECEMBER 2020



Source: INEGI, ENOE

Unemployment Rate

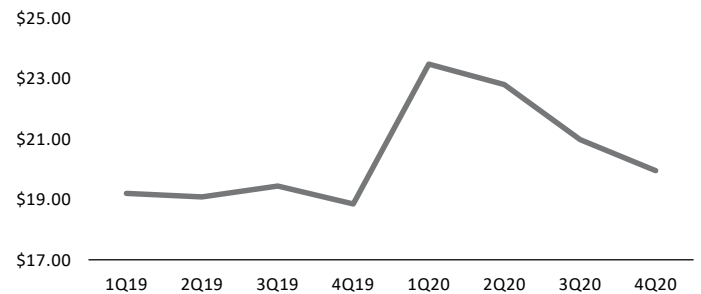
ANNUAL INDICATOR



Source: INEGI, ENOE

Exchange Rate

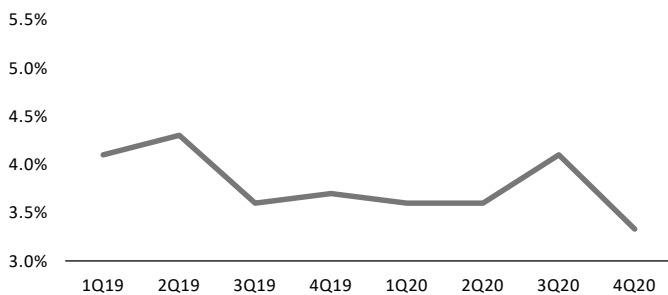
MEXICAN PESOS (MXN) PER U.S DOLLAR (USD)



Source : Banxico

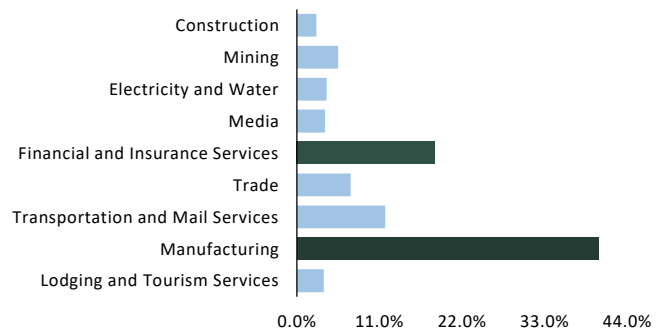
Consumer Price Index

ANNUAL INDICATOR



Source: Banxico

Foreign Direct Investment



Source : INEGI, ENOE

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