

MONTERREY OFFICE MARKET

MARKET REACTIVATION

Given the current situation, the office market in the Monterrey Metropolitan Area (MMA) had been presenting a moderate behavior in the first half of the year. This quarter there was a positive reactivation, which was reflected in the quarterly absorption. The gross absorption so far this year amounts to 163,241.54 ft², which represents a difference of 58% compared to what was added to the date of the previous year (1Q-3Q2019).

INCREASING INVENTORY AND AVAILABILITY

The inventory of class A+ and A offices in the MMA is 14,325,192.39 ft², there was an inventory increase of 16% compared to the previous year (3Q2019) and 2% compared to the previous quarter, given the delivery of 213,876.54 ft² to the office market. Valle Oriente continues to be the corridor with the most ft² in the MMA, due to the incorporation of a building with 93,538.29 ft², followed by Ricardo Margáin - Gómez Morín and Santa María, which together represent 68% of the inventory.

What happened this year has directly affected the availability of the MMA buildings, which continues to grow; it increased 0.43% compared to the previous quarter and 22% compared to the previous year (3Q2019).

ABSORPTION WITHIN THE MMA

During this quarter there was a gross absorption in rent of 163,241.54 ft² which represented an increase of 72% compared to the previous quarter (2Q2020) and an increase of 13% compared to the previous year (3Q2019). Ricardo Margáin - Gómez Morín registered the highest amount of gross absorption, which presented a closure of 53,388.94 ft², representing 33% of the closings presented. Some of the changes observed during the quarter correspond to the services area, such as tobacco, pharmaceutical, manufacturing and dental.

The net absorption (Gross absorption of rent and sale final users - market income + unemployment) calculated was -89,021.54 ft², considering vacancies (-53,091.97 ft²), income (213,876.54 ft²) and gross absorption of user rent and sale final (177,946.96 ft²), this presents a recovery of 53% compared to the previous quarter.

MARKET SUMMARY

In the next 12 months the incorporation of 25 new buildings is projected, adding 2,522,543.75 ft² to the current inventory. This quarter had a reactivation in the office sector which was reflected in the absorption presented, causing an increase compared to the previous quarters of this year (1Q and 2Q 2020). Availability will continue to increase, given the number of buildings to be delivered in this period. Therefore, the supply of office space will increase and as an effect the rental price will have a downward trend. The area delivered was less than estimated, given the delay caused by what has been experienced in the previous quarters.

ACTUAL CONDITIONS

The vacancy with which this trimester (3Q2019) closed was 25.98%; this decreased 0.31 points compared to the previous quarter (2Q2020)

Deliveries added 213,876.54 ft² during the quarter, decreasing 1,049,717.06 ft² compared to the previous year (3Q2019).

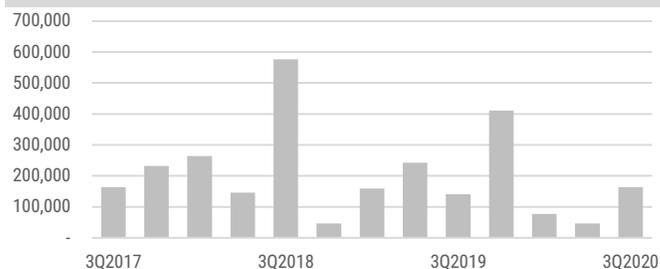
The absorption was 163,241.54 ft², when compared to the previous quarter (2Q2020) it increased 116,768.94 ft² and as for the previous year (3Q2019) it also presented an increase of 21,985.48 ft²

MARKET ANALYSIS

Average Asking Rent and Vacancy



Net Absorption (m²)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year ago Period	12 Month Forecast
Total Inventory	14,325,192	14,096,163	12,052,060	↑
Vacancy Rate	26%	26%	24%	↑
Quarterly Net Absorption	163,242	46,473	141,256	↑
Avering Asking Rent	\$17.21	\$17.55	\$17.29	↓
Under Construction	3,605,153	3,819,030	4,654,870	↓
Deliveries	213,877	172,685	463,214	↓

AVERAGE PRICE INCREASE

The average price of the MMA closed at USD \$17.21 of rent, this decreased USD \$0.34 compared to the previous quarter (2Q2020). Compared to the previous year (3Q2019) it decreased USD \$0.08 per m². The corridors with the highest weighted prices are Ricardo Margáin - Gómez Morín (USD \$24.74), Valle (USD \$17.37) and Valle Oriente (USD \$17.05), the prices of these corridors are increasing due to the incorporation of new buildings with a high starting price and the exchange rate that many of the new buildings handle (USD), given the volatility of the market. The Valle corridor enters the corridors with the highest weighted prices given the incorporation of one of its buildings with a high exit price.

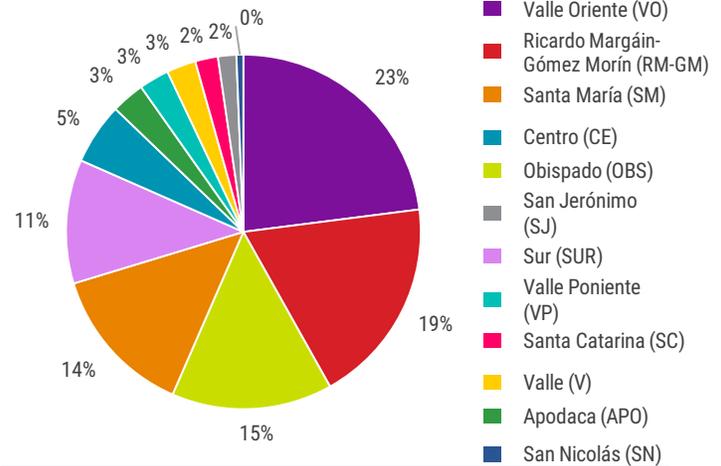
REACTIVATION IN THE OFFICE SECTOR

This quarter there was a reactivation in the office sector that was reflected in the absorption presented, prospects that had stopped their decision making are reactivated and new requirements begin to emerge; however, the needs presented by them changed. Smaller spaces (1,075-2,152 ft²), conditioned and preferably furnished, gain strength within the requirements, together with shorter-term contracts such as 1-2 years. Clients have a need for spaces; however, they have a feeling of urgency to acquire them.

The main coworking operators have taken these needs as areas of opportunity given the fulfillment of them, the clients currently do not know exactly how many ft² to occupy, nor the time they would need the space, for which they do not want to commit to contracts to long-term and these spaces provide the ease of month-to-month memberships, as well as flexibility within them.

VACANCY BY CORRIDOR

Market Vacancy: 3,347,883.72 ft²



PRICE RANGE AND AVERAGE RENT



MARKET BY CORRIDOR

Market Corridors	Inventory (ft ²)	Vacancy (ft ²)	Vacancy Rate (%)	Absorption 3Q2020 (ft ²)	Average Asking Price (USD\$/ft ² /YEAR)
San Nicolás	53,053.54	23,453.35	44%	-	\$11.30
Santa Catarina	146,690.43	77,296.21	53%	-	\$11.24
Apodaca Aeropuerto	172,868.23	112,730.22	65%	-	\$12.52
Centro	1,090,829.66	207,926.90	19%	-	\$13.92
Obispado	1,029,458.00	545,664.93	53%	1,621.58	\$16.07
Ricardo Margáin-Gómez Morín	3,141,911.58	703,178.35	22%	53,388.94	\$24.74
San Jerónimo	580,409.19	62,133.43	11%	-	\$13.88
Santa María	1,777,043.04	512,236.89	29%	8,600.36	\$15.04
Sur	901,916.33	420,641.05	47%	-	\$14.31
Valle	311,118.15	99,083.53	32%	-	\$17.37
Valle Oriente	4,782,779.66	855,066.24	18%	29,665.31	\$17.05
Valle Poniente	337,114.58	101,971.70	30%	69,965.35	\$15.03
Total	14,325,192.39	3,721,382.80	26%	163,241.54	\$17.21

ECONOMIC CONDITIONS

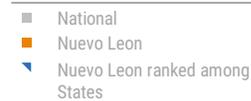
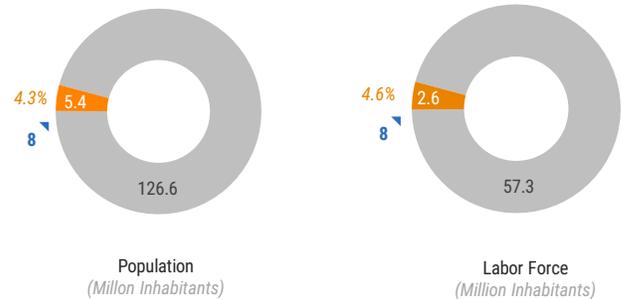
With respect to the August report of economic data from the Nuevo León Ministry of Economy and Labor, on the subject of manufacturing exports (in billions of current dollars) a national indicator of US \$ 183.0 was registered, while for the state of Nuevo León was US \$ 17.5, this being a participation of 9.6%.

Labor indicators related to the branch of economic activity stand out among the first 3 places: Other Services, Manufacturing Industry and Commerce with 38%, 23% and 18% respectively.

Foreign investment, both national and state, registered in the second quarter US \$ 17,969.3 and US \$ 1,922.6 million, respectively, with Nuevo León registering an 11% share.

PARTICIPATION OF NUEVO LEON

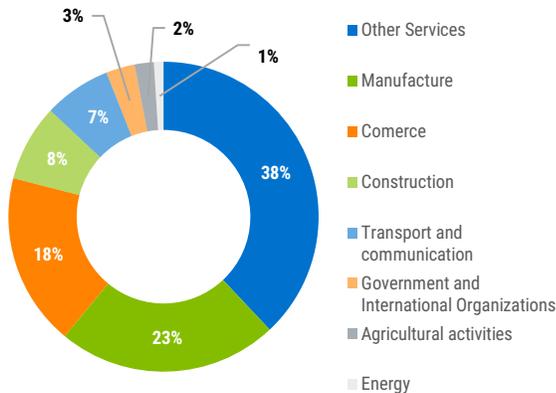
IN MEXICO



Source: INEGI. Nuevo León, 1Q2020.

EMPLOYMENT BY SECTOR

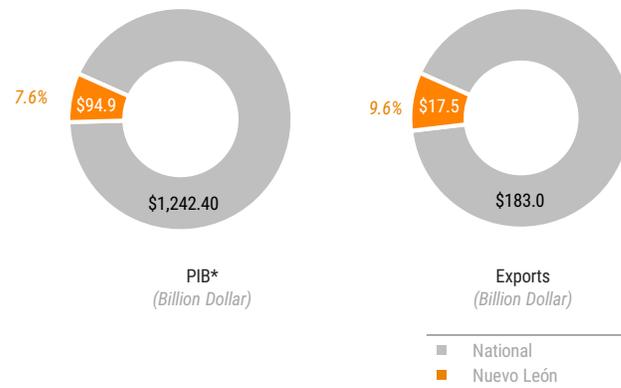
4Q2019



Source: STPS june 2020

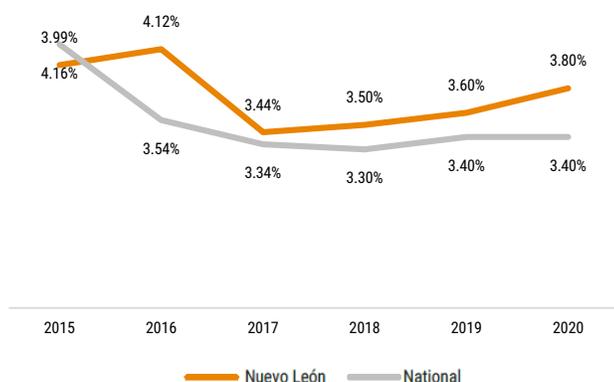
EXONOMIC POSITION OF NUEVO LEON

IN MEXICO



Source: INEGI. Nuevo León, 2Q 2020.
*2018 Source data

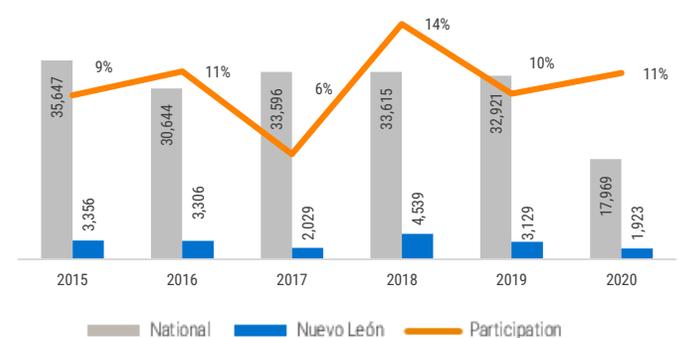
UNEMPLOYMENT RATE



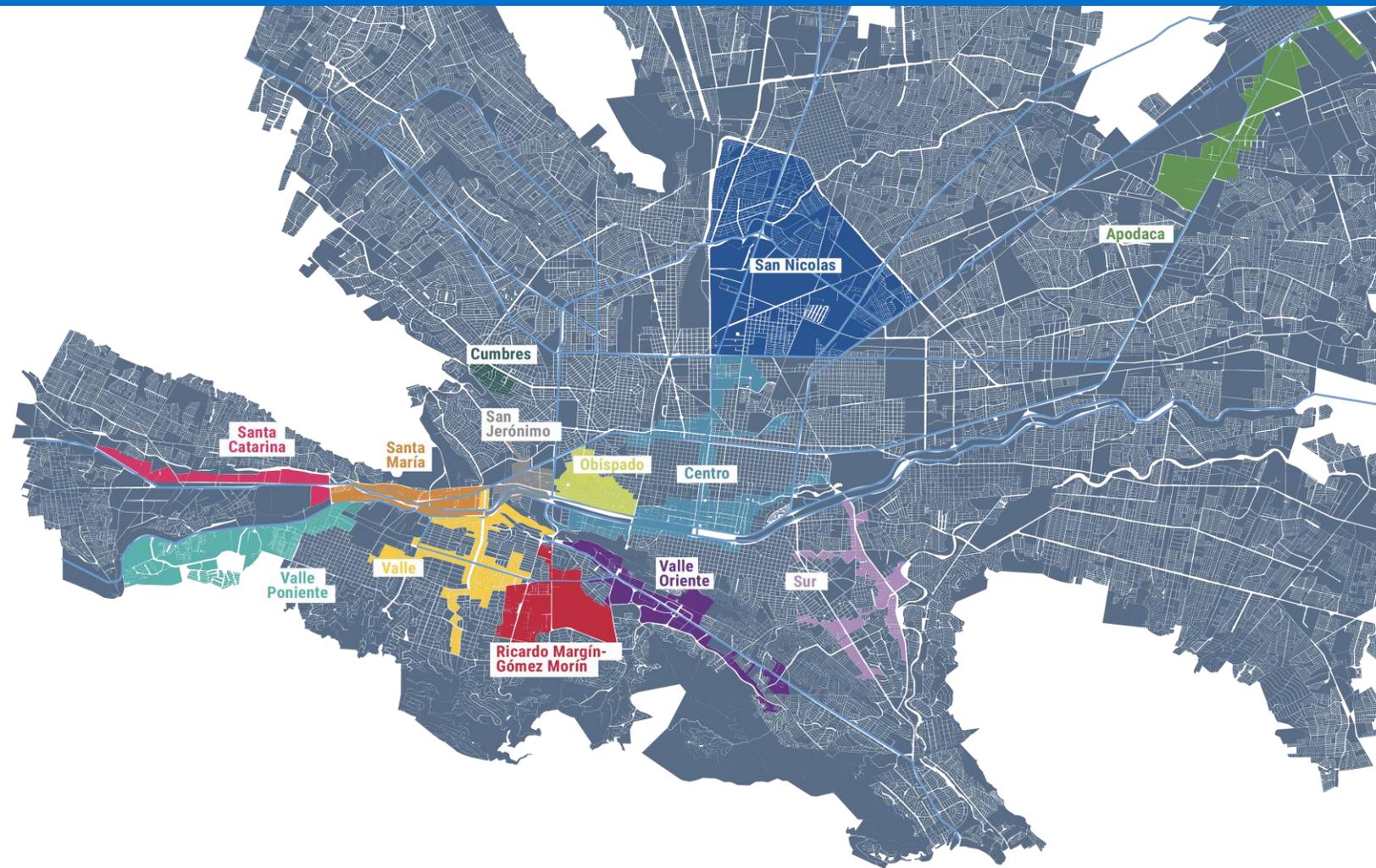
Source: STPS june 2020.

FOREIGN DIRECT INVESTMENT

\$USD Millions



Source: Secretaría Economía 2Q2020.



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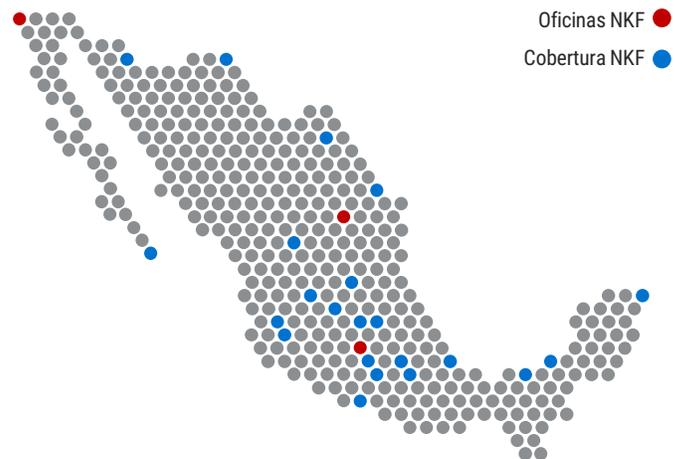
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Newmark Knight Frank ha implementado una base de datos propia y la metodología de seguimiento ha sido revisada. Con esta expansión y refinamiento en nuestros datos, puede haber ajustes en las estadísticas históricas, incluyendo la disponibilidad, precios de renta, absorción y rentas efectivas.

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