



# Mexico City Office Market

## The office market has not taken off yet

The beginning of the year has brought the 20th consecutive quarterly increase in inventory in Mexico City's Class A corporate market. This contributes to the 8 million square meter figure of net rentable office area expected to be surpassed by the end of 2022.

The new addition of office space to the market along with the persistent low occupancy -71,056 sqm during the period- has caused net absorption to interrupt its upward trend and fall once again to -72,502 sqm.

Due to the new office space the availability rate increased again during the quarter to peaked at 24.5% that means 1.9 million square meters of Class A office space is vacant and ready for occupancy.

With the apparent end of the pandemic and its rigid restrictions the long-term confinement consequences will be visible on the Mexico City's office market.

### Current Conditions

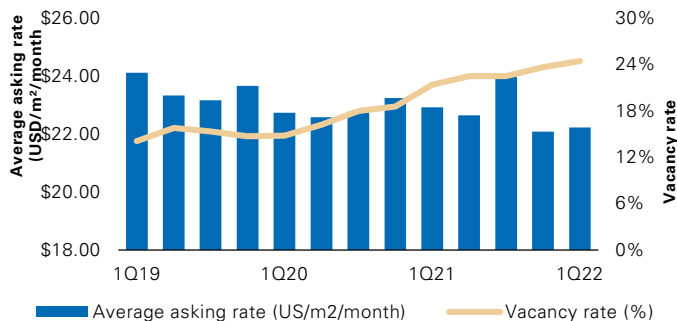
- Office inventory has increased again and is on track to reach 8 million square meters of rentable area.
- Insurgentes, Periférico Sur and Santa Fe are the three submarkets that have suffered the most from vacancies and building additions to the inventory.
- Once again, the availability rate increased and closed the quarter at 24.5%.

### Market Summary

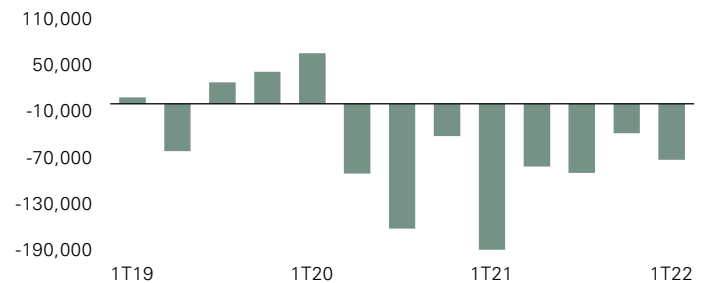
	Current Quarter	Prior Quarter	One year ago	12/month forecast
Total inventory (m <sup>2</sup> )	7,752,257	7,707,152	7,497,574	↑
Vacancy rate	24.5%	23.7%	21.4%	↑
Quarter absorption (m <sup>2</sup> )	-72,502	-38,141	-188,972	↑
Average asking rent (USD/m <sup>2</sup> /month)	\$22.23	\$22.09	\$22.92	↑
Under construction (m <sup>2</sup> )	1,407,931	1,483,267	1,248,807	↓

### Market Analysis

#### AVERAGE LEASE RATE AND VACANCY RATE



#### NET ABSORPTION (M<sup>2</sup>)



**Vacancies are on the rise again**

Although previous quarters office space vacancy rates showed a downward trend the first period of 2022 interrupted them with an increase in these rates across the board.

This increase took place in all submarkets except for Lomas Altas, Lomas Palmas and Norte which kept better numbers in this regard. On the other hand the submarkets with the highest vacancies during the quarter were Insurgentes, Periférico Sur and Santa Fe. It is important to keep in mind that the vacancy and net absorption figures include the new vacant square meters added to the inventory during the analyzed period.

**Insurgentes, downward trend**

For several years the Insurgentes submarket has been positioned as one of the most modern office submarkets in the city. Two important urban projects – Metrobus or BRT and Bando 2 an urban policy to densify the area- increased in a good measure real estate investments in developments.

Thus in Insurgentes is possible to see some of the most important office buildings in the country such as the Manacar Tower, the Mitikah complex and the Aleph Tower.

From 2015 to date, the Class A office inventory in this submarket has increased at a rate of 16.5% per year, such that the net leasable area existing today is 115% higher than in 2015. It has gone from 552,000 sq m to 1.8 million sq m in just 7 years. This is the fastest inventory growth ever in Mexico City only behind the North corridor, which increased its square footage in the market by 223% during the same period.

Of course if the economy and service business enterprises do not grow at a similar rate as office inventories steady increases will be seen in availability rates. This is precisely what has happened to the Insurgentes submarket.

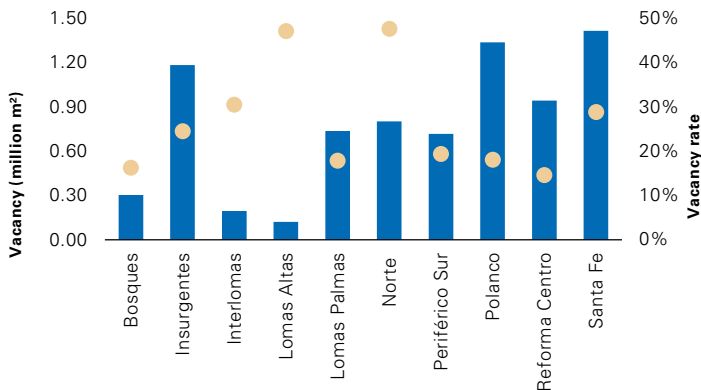
After speculation based on the health of the corporate market and the good conditions of accessibility, connectivity, infrastructure and services along the submarket, the office space demand has decreased considerably as a result of the economic slowdown and the confinement caused by the pandemic. Thus Insurgentes has presented constant increases in its availability rate for the last 8 periods reaching 24.5% today, which represents almost 300,000 m<sup>2</sup> of available space, the third largest in the entire city. This trend is not expected to continue in the medium term but it is predictable that the oversupply will continue, as there are still more than 330,000 sqm under construction to be added to the market in the near future.

**The office must meet new needs**

In the release of survey results from Newmark's post-pandemic perception of office space by employees and executives (<https://nmrk.lat/vision2022/>); is interesting that both groups identify benefits in the hybrid model. This does not leave offices aside but rather they must rethink and meet the new needs of users. This perception is beginning to materialize in the long-term decision making of some companies that have chosen to make this their permanent working model. These trends should be watched closely, as they will shape the office market in the medium and long term.

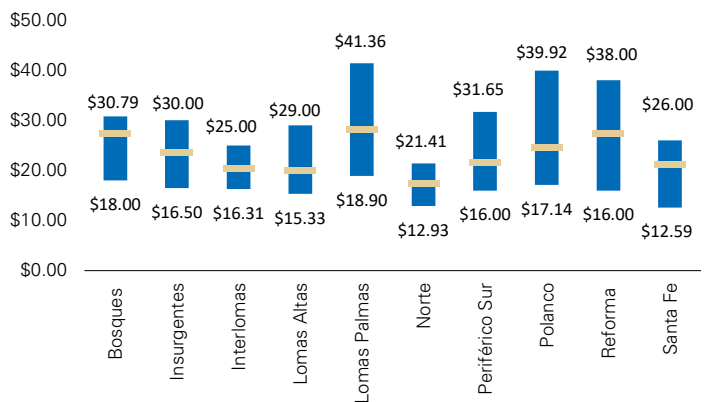
**Vacancy per Submarket**

TOTAL VACANCY : 1,895,304 m<sup>2</sup>



**Average Asking Rates Range**

MINIMUM AND MAXIMUM ASKING RATES



Submarket Stats							
	Total Inventory (m <sup>2</sup> )	Deliveries (m <sup>2</sup> )	Total Vacancy (m <sup>2</sup> )	Vacancy Rate (%)	Total Activity (m <sup>2</sup> )	Net Quarterly Absorption (m <sup>2</sup> )	Average Asking Rate (USD/m <sup>2</sup> /month)
<b>Bosques</b>	<b>304,343</b>		<b>49,411</b>	<b>16.2%</b>	<b>3,870</b>	<b>-5,323</b>	<b>\$27.24</b>
<b>Insurgentes</b>	<b>1,183,376</b>	<b>30,138</b>	<b>290,236</b>	<b>24.5%</b>	<b>24,970</b>	<b>-32,014</b>	<b>\$23.63</b>
Avenida Insurgentes Principal	631,977	13,468	171,681	27.2%	10,423	-12,683	\$23.77
Insurgentes Oriente	140,839	14,458	37,713	26.8%	5,281	-9,242	\$23.41
Insurgentes Revolución	181,946	2,212	29,063	16.0%	2,985	-2,456	\$22.64
Insurgentes Roma-Condesa	77,986		32,815	42.1%		-13,149	\$24.21
Insurgentes San Ángel	150,628		18,965	12.6%	6,281	5,516	\$23.29
<b>Interlomas</b>	<b>194,070</b>		<b>59,219</b>	<b>30.5%</b>	<b>1,367</b>	<b>-5,794</b>	<b>\$20.43</b>
<b>Lomas Altas</b>	<b>120,565</b>		<b>56,806</b>	<b>47.1%</b>			<b>\$20.04</b>
<b>Lomas Palmas</b>	<b>736,756</b>		<b>131,379</b>	<b>17.8%</b>	<b>11,729</b>	<b>-1,155</b>	<b>\$28.24</b>
<b>Norte</b>	<b>801,318</b>		<b>381,553</b>	<b>47.6%</b>	<b>8,804</b>	<b>2,827</b>	<b>\$17.33</b>
Norte Atizapán	37,524		18,546	49.4%		-2,660	\$15.35
Norte Azcapotzalco	233,666		91,130	39.0%	3,735	3,735	\$17.60
Norte Naucalpan	332,193		163,297	49.2%	2,942	2,942	\$18.62
Norte Tlalnepantla	197,935		108,579	54.9%	2,127	-1,190	\$15.50
<b>Periférico Sur</b>	<b>717,628</b>		<b>139,013</b>	<b>19.4%</b>	<b>1,689</b>	<b>-14,403</b>	<b>\$21.54</b>
<b>Polanco</b>	<b>1,336,551</b>	<b>8,812</b>	<b>241,697</b>	<b>18.1%</b>	<b>8,841</b>	<b>-6,574</b>	<b>\$24.48</b>
Polanco Anzures	83,146		25,383	30.5%	2,374	2,374	\$23.40
Polanco Granadas	664,522		104,429	15.7%	2,245	-4,358	\$25.11
Polanco Lagos	202,614		43,257	21.4%			\$19.55
Polanco Tradicional	386,269	8,812	68,628	17.8%	4,222	-4,590	\$27.36
<b>Reforma Centro</b>	<b>942,117</b>		<b>137,578</b>	<b>14.6%</b>	<b>3,489</b>	<b>1,106</b>	<b>\$27.41</b>
<b>Santa Fe</b>	<b>1,415,534</b>		<b>408,412</b>	<b>28.9%</b>	<b>6,299</b>	<b>-11,172</b>	<b>\$21.17</b>
<b>Total</b>	<b>7,752,257</b>	<b>38,950</b>	<b>1,895,304</b>	<b>24.5%</b>	<b>71,056</b>	<b>-72,502</b>	<b>\$22.23</b>

### Economic Trends First Quarter 2022

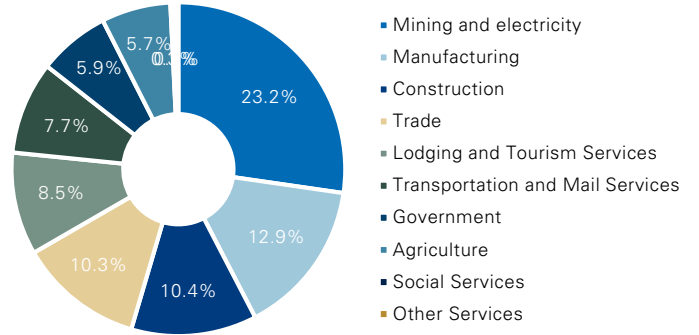
A slight recovery in growth levels was evident at the beginning of the year driven by the country's industry dynamism. However, the Bank of Mexico's forecasts show a decrease in growth forecasts establishing a value of 2.4%.

On the other hand, unemployment levels in the Greater Mexico City Area have decreased slightly compared to the last quarter of 2021.

Inflationary problems continue not only in the country but in all the economies of the world as a result of the uncertainty of the Russian intervention in Ukraine.

### Employment per Economic Sector

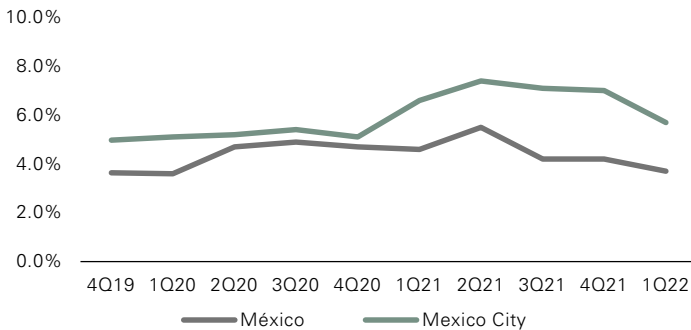
MEXICO CITY AND METROPOLITAN AREA



Source: INEGI, ENOE

### Unemployment Rate

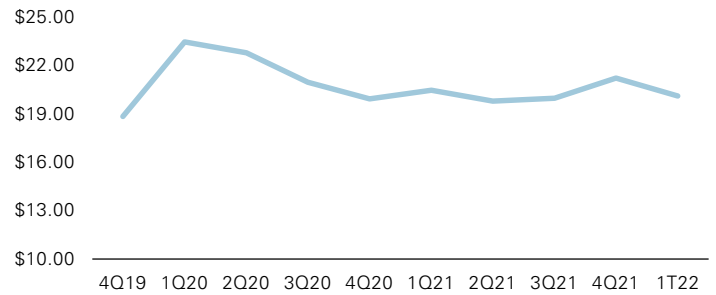
ANNUAL INDICATOR



Source: INEGI, ENOE

### Exchange Rate

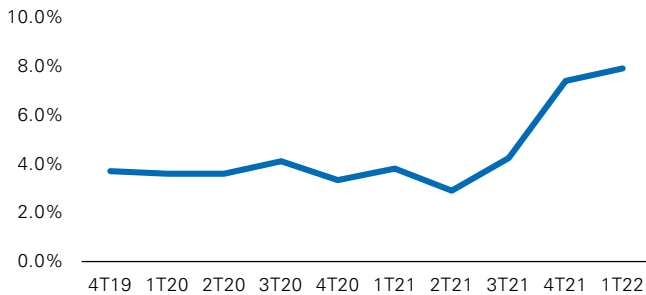
MEXICAN PESOS (MXN) PER U.S DOLLAR (USD)



Source: Banxico

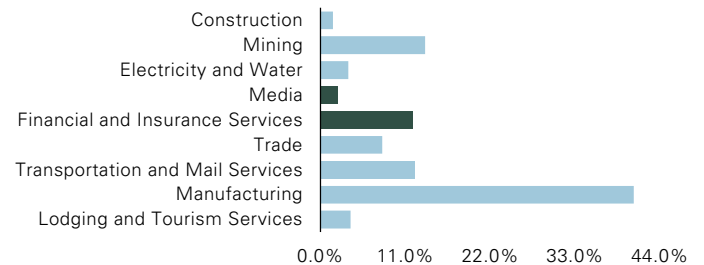
### Consumer Price Index

ANNUAL INDICATOR



Source: Banxico

### Foreign Direct Investment



Source: CEFPI

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