19.4333° N, 99.1333° W

MEXICO CITY

Increased trade and investment is supporting growth in Mexico City

Bolivar Street, Mexico City, Mexico

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With 80% of its exports flowing to the United States, Mexico offers a sophisticated industrial property sector with state-of-the art product, occupied by U.S. and multinational manufacturers and distributors. This sector has experienced major growth and development over the past decade, driven by foreign direct investment and a recovering U.S. economy. The vacancy rate for modern industrial space in the country is in the mid-single digits.

This surge of trade and investment is benefiting Mexico City, and in turn supporting the real estate market. Mexico City, with a population of more than 20 million inhabitants in its metropolitan area, is the country's main economic engine, generating more than half of its industrial output.

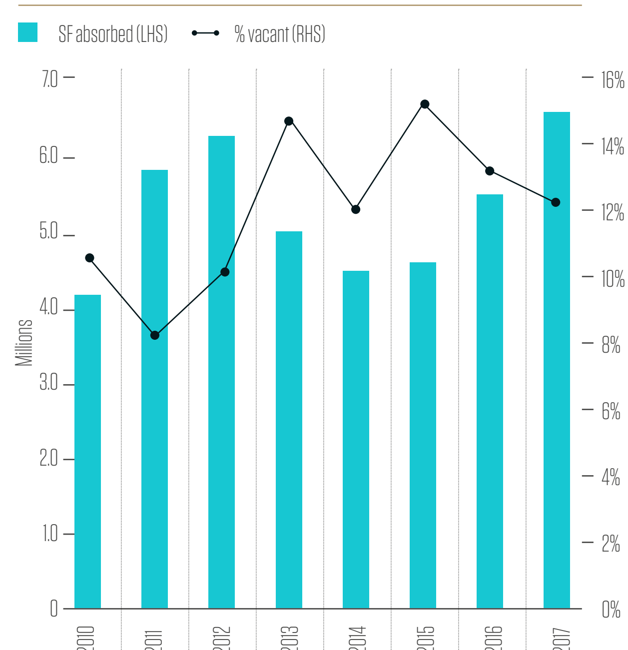
Mexico City's office market, which houses the headquarters of large domestic and international corporations, continues to grow at an impressive pace. The inventory of modern office space stands at 52 million sq ft of which 3.8 million sq ft was delivered in the past year. Another 52 million sq ft is scheduled for delivery over the next three years. About half of all recent development completions are in the CBD, specifically the Polanco, Reforma and Lomas submarkets, with the North Corridor also attracting substantial development. The vacancy is around 11%, down from 15% six quarters ago.

The flow of investment into Mexico's retail property sector is expected to top U.S.$3.5 billion by 2017, which will add 100 new shopping centers with an additional 36 million sq ft of space. About half of this development will occur in Mexico City and its environs.

Mexico is not without its challenges. The peso has declined by almost 20% against the U.S. dollar over the past year, a trend that favors exporters but could restrain consumer spending and stoke inflation as imports become more expensive. The low price of oil is creating revenue shortfalls for the government, while the simmering problems of government corruption and drug-related violence have yet to be resolved.

Despite these challenges, Mexico City continues to enjoy vibrant growth. Construction activity has remained strong through the recent economic turbulence, and—unlike many emerging markets—demand has kept pace. REITs are competing to gain market share and to develop innovative space for increasingly sophisticated occupiers. PwC forecasts that Mexico City will be the seventh richest city in the world by 2025, with a GDP of U.S.$745 billion (after Tokyo at number one, followed by New York, Los Angeles, London, Chicago and São Paulo). This increased wealth and production will create more real estate opportunities for developers, investors and occupiers.

OFFICE MARKET KEY METRICS



Source: CoStar, Newmark Grubb Knight Frank Research