



## Mexico City

### Overview

- Mexico City is the capital of Mexico and also the financial center of Latin America.
- The city produces approximately 25% of Mexico's total GDP.
- Mexico City was ranked as the 30<sup>th</sup> largest economy in the world as of 2005.
- In 2005, Mexico's real GDP was US\$693 billion with a real growth rate of 2.5% annually.
- Because of its huge market and superior infrastructure, Mexico City attracts a substantial amount of foreign direct investment. Investors also take advantage of Mexico's relatively low operating costs and proximity to the US and the rest of Latin America.
- In the recent presidential election in July, Felipe Calderon was elected Mexico's new president. Felipe Calderon of the National Action Party pledges to continue the free market policies of former president Vicente Fox.

### Office Market

- As of 2Q 2006, the total office stock in Mexico City was 33.1 million square feet for Class A and 22.8 million sq ft for class B.
- The city's average vacancy rate for Class A office space was 10.3% and 13.7% for Class B.

#### Office Rental Rates (US\$/sq. ft./month)

	Low	High
<b>9 Submarkets</b>		
Reforma	2.32	2.79
Polanco	1.86	2.32
Lomas Palmas	2.32	2.70
Bosques de las Lomas	1.86	2.32
Santa Fe	1.67	2.32
Periferico Sur	1.86	2.32
Insurgentes	1.86	2.32
Interlomas	1.76	1.95
Lomas Atlas	1.86	2.32

### Retail Rental Rates (US\$/sq. ft./month)

	Low	High	Vacancy
<b>Retail</b>			
Downtown	1.12	2.32	15%
Neighborhood Service Centers	1.85	2.97	15%
Community Power Center	0.37	0.65	12%
Regional Malls	0.42	0.65	17%

### Retail Market

- Returns on retail investments made in Mexico City range between 13-14%.
- The retail sector is incredibly profitable in Mexico as Mexicans are consumer-driven and the Mexican economy is rising.
- Companies such as Wal-Mart, Waldo's, McDonald's, Chile's and Hooters are earning exponential profits.
- Average retail rents range from US\$1.86-\$5.25 per square foot per month.

## Industrial Rental Rates

(US\$/sq. ft./month)

	Low	High
Industrial		
Bulk Warehouse	0.33	0.57
Manufacturing	0.37	0.65
High Tech/R&D	0.41	0.65

## Logistics

- Mexico City is serviced by the largest metro system in the western hemisphere, called the *Sistema de Transporte Colectivo Metro*. An estimated 4 million people use the metro every day.
- The metro system is heavily subsidized and, as a result, is the cheapest metro system in the world. Each trip costs an estimated US\$0.19.
- The City also has an extensive network of buses that reach all the areas of the city that the metro does not. In addition, there are many privately owned busses that supplement the City's public transportation system.
- The City opened up its first bus rapid transit line, the Metrobus in 2005, in an effort to reduce pollution and decrease transit time for passengers.
- Mexico City's major airport is the Benito Juarez International Airport.
- In an effort to curb congestion, the *Hoy No Circula* law regulates who is allowed to drive on any given day based on the ending numbers on their license plates. On certain days, only cars with license plates ending with odd numbers can drive and on others, only cars with license ending in even numbers are allowed on the road.



Ford corporate building in Mexico City, Mexico

## Industrial Market

- Returns on industrial investments range from 11-12%.
- Most of the industrial activity occurs in the northern part of Mexico City's metro area.
- New construction in Mexico City's industrial center caused the highest vacancy rates in 2005.
- Depending on location, rental rates run between US\$0.29-\$0.51 per square foot per month



Mexico's stock exchange is located in Mexico City

## Multinationals

- Some automobile manufacturers that have plants in Mexico City include Volkswagen, Mercedes Benz, GM, Ford, Volvo and Daimler Chrysler.
- Information Technology and Telecommunications industries that have opened up offices in the City include IBM, Hewlett Packard, Silicon Graphics, Microsoft, Motorola, 3M and Lucent Technologies.
- Major commercial banks have expanded to Mexico City as well. Some major names include Chase Manhattan, ING Citibank, and JP Morgan.
- Other major multinationals that have offices in Mexico City include Coca-Cola, Pepsi, Honeywell, Faber-Castell, Black & Decker, Columbia Pictures, General Electric, Office Depot, Tupperware, Procter & Gamble, Philip Morris, and FedEx.
- Recent investors that have just expanded to Mexico City include DIFA, Calpers, Hines, Peabody, MetLife, and Prudential.

## Labor Market

- Mexico's unemployment rate is at 3.6% as of 2005.
- Mexico City is home to the National Autonomous University of Mexico (UNAM). UNAM was ranked as the best university in the Spanish speaking world (*The Times Higher Education Supplement 2005 edition.*)
- There are also a number of other universities including the Metropolitan Autonomous University, the National Polytechnical Institute, Universidad La Salle, Universidad Anahuac, and Universidad Iberoamericana.
- Mexico boasts a high literacy rate of 92%.
- Mexico City has a relatively well-trained workforce, and the best infrastructure and the largest consumer market in the country.

## Incentives for foreign investment

- Mexico's advantageous proximity to the US makes Mexico unique as it offers U.S. companies low production costs as well as low transportation and shipping costs.
- A large percentage of Mexico City's 20 million people are in the middle class. As a result, Mexico City offers investors an incredibly large domestic consumer market.
- The North American Free Trade Agreement (NAFTA) reduces trade barriers between Mexico, the US and Canada.
  - Investors enjoy lower import/export costs between Mexico, the US and Canada.
  - The close proximity of Mexico and the US means lower shipping costs.
  - The favorable difference in foreign exchange rates allows for lower labor and production costs.
- Mexico's existing infrastructure makes it easy for companies to expand and operate in Mexico City.
- Mexico acts not only as the gateway to the US and Canada, but also as a gateway to the rest of Latin America.

## Outlook for 2006

### Office

- Rental rates are expected to be relatively stable, in spite of a decrease in the vacancy rate.
- There are many office buildings that are currently under construction which are expected to increase the vacancy rate and possibly decrease rental rates further down the line.



### Industrial

- Due to high demand, there was a substantial increase in new construction. As a result, Mexico City's industrial market experienced its highest vacancy rate in 2005.
- The high vacancy rate was quickly balanced out by high demand. Consequently, rental rates for industrial space have remained relatively stable.
- The industrial market is seeing a trend in the development of warehousing and distribution centers in Mexico City's metropolitan areas as manufacturing and assembly operations are moving to the suburbs and surrounding locations.

### Retail

- Due to a large increase in demand and a lack of available retail space, rental rates have risen sharply.

## Short Term Outlook

Rental Rates	
Office	
Industrial	
Retail	