

Mexico City Earthquake Prompts Flight to Quality Real Estate



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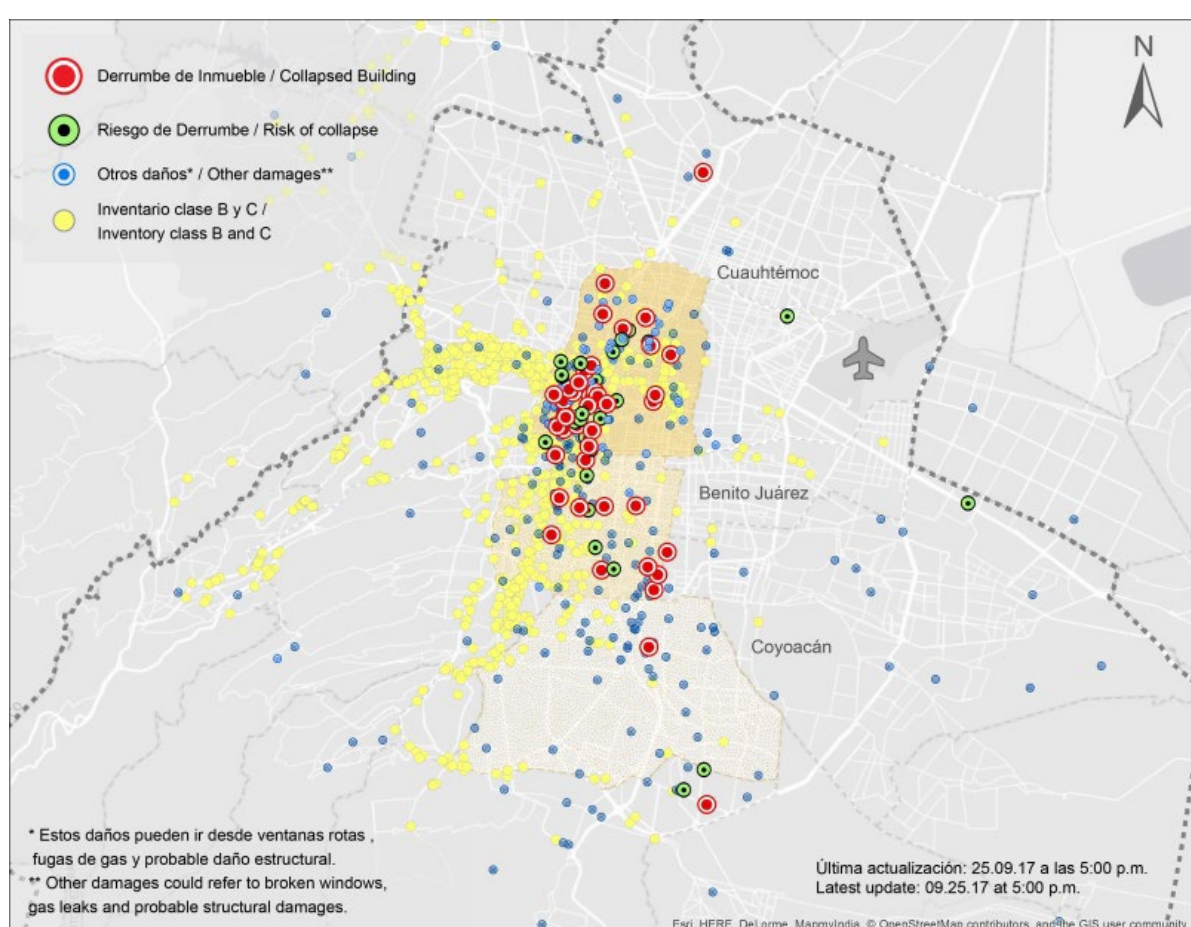
On September 19th, Mexico City – and surrounding states of Mexico, Morelos and Puebla – was stunned by a 7.1 magnitude afternoon earthquake. The affected area is home to 33 million residents, 27% of Mexico’s population, and generates more than 30% of its national GDP.

Confirmed data show at least 44 collapsed properties, with an additional 78 facing some damage or risk of collapsing. Thirty-five commercial properties are included in this total with Class B and C assets being the most affected. Furthermore, as many as 1,800 properties, mostly residential, are believed to be damaged, but most estimates remain unconfirmed.

While Mexico continues improving construction standards and codes, there are numerous properties that because of age, sediment, location, or other challenges, are structurally vulnerable to these seismic disasters.

In the earthquake’s aftermath, CBRE Research continues to assess the impact on local and national commercial real estate. Following are highlights of our initial findings.

Damaged Properties & Class B/C Inventory



Source: CBRE Research, September 2017.

Office:

The majority of collapsed office buildings were in the Class B and C category. However, less than 10% of Mexico City’s Class B & C office stock, suffered significant damage. Displaced tenants are looking for temporary, turnkey space, likely absorbing some of the 920,190 sq.m (9.8 million sq. ft.) of vacancy in the Class A leasing market. Buildings with conditioned or furnished space are receiving increasing demand from displaced Class B & C building occupiers.

Industrial:

Significant industrial damage has not been widely reported. To date, CBRE Research has identified only a handful of industrial properties with substantial damage. As part of the recovery, we expect a spike in demand for warehouse space from building supply companies, disaster relief providers and consumer-goods distributors, which will further compress vacancy in the Mexico City metropolitan area. This key distribution & logistics hub has a current vacancy rate of 2.9%.

Retail:

Neighborhood and community shopping centers in Taxqueña and Coapa, located in the southern section of Mexico City, reported the most impact. Street-level retail space in mixed-use buildings and residential buildings were also affected, especially in the Roma-Condesa submarket where as many as five buildings collapsed. Consumer goods and building supply retailers will see increased sales volume, which will supplement current growth in Mexico City retail activity, especially for home-improvement goods and grocery centers.

Hotel:

Approximately 5% of the 52,000 hotel rooms in Mexico City reported some degree of damage and occupancy dropped significantly the week following the earthquake. Long term, there will likely be no adverse impact to Mexico’s largest hotel base, which is primarily driven by business travelers.

Property Damage Count

Property Type	Confirmed			Unconfirmed
	Collapsed	Risk of Collapse	Other Damages	Different Damages *
Residential	27	13	24	1,280
Office Building	6	4	6	130
Mixed Use (Resid. / Retail)	3	6	10	72
Retail	3	1	3	53
Mixed Use (Office and Retail)	2	1	3	17
Industrial / Factory	1	-	-	7
Monument	1	-	-	22
Concert Hall	-	1	-	2
Hospital	-	1	1	8
Church	-	-	2	4
School	1	1	-	212
Hotel	-	-	-	15
Shopping Center	-	1	-	5
Total	44	29	49	1,827

Source: CBRE Research.

*/ Estimated by CBRE Research with Mexican Government and Infonavit (Mexican Institute for Housing) data. Different damages could refer to superficial or probable structural damages.

1985 vs. 2017 Earthquake Comparison

Year	1985	2017
Magnitude (Richter)	8.1 (trepidatory)	7.1 (trepidatory and oscillatory)
Date & Time	9/19/1985 7:17	9/19/2017 13:14
Epicenter (Distance from Mexico City)	600 Km (370 miles)	120 KM (75 miles)
Duration	2 Minutes	1 minute 40 seconds
Depth (Kilometers)	15	57
Mexico City Fatalities (Estimated)	10,000*	192**

Source: UNAM - Servicio Sismológico Nacional (Mexico’s National University - Mexico’s Earthquake Center), September 2017. *Estimated. **Confirmed as of September 26 at 6PM.

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