

## Market Overview

Monterrey, Nuevo Leon is located in Northeast México in the state of Nuevo Leon, 140 miles southwest of Laredo, TX. It is the third largest metropolitan area in Mexico and is home to 4.5 million residents. Due to its disproportionately high concentration of business headquarters, Monterrey is known as the "Sultan of the North." It ranks second in industrial production in the nation, and leads the country in business income. Activity is due to Monterrey's well-developed communication systems, highly educated work force, one hundred years of industrial growth, and its proximity of the US.

For years Monterrey has hosted international operations for Alcoa, BASF, Brach's, Caterpillar, Daewoo, Denso, General Electric, International Navistar, Mattel, Panasonic, Parker, Sci-Sanmina, Takata, Visteon, LG, Whirlpool, Oasis, Osram Silvania, Sara Lee, Saturn Electronics, Elcoteq, Pioneer, and others.

Monterrey is also the headquarters to many of Mexico's largest national firms. These include Mexico's largest breweries (Cervecería Cuauhtemoc y Moctezuma), steel foundries, Cemex (second largest cement manufacturer in the world), Vitro (largest glass producers), Alfa and IMSA.

The office market in metropolitan Monterrey comprises six major submarkets with a total of nearly 8.3 million square feet of Class A and B space—in over 175 projects. Between 2004-2005, only two new projects were initiated due to the "overbuilt" status of the office market. Office lease rates for Class A space ranged from \$13.00 per square meter per month in San Jeronimo and Centro, to higher rates of \$21 per square meter per month in Santa Maria and Valle Oriente. Vacancy rates ranged from 16-25% during 2005 and no major changes are expected for 2006. Leasing will remain steady with Mexican national firms absorbing more than 2/3 of the space. This compares with

Mexico City where international firms often account for 50% or more of the annual leasing in Class A space. Although vacancy rates are falling slowly, rental rates will not rise during 2006. Little new construction is planned for speculative office projects for 2006.

Monterrey offers more than 30 Industrial Parks. Industrial lease rates did not rise in 2005, due to increased competition by new developers. Vacancy rates are hovering near 10%. Developers include Mexican national firms, and US institutional developers, such as CPA and Prologis. During 2006, speculative construction sizes from 100,000-200,000 square feet will be common.

The industrial market saw substantial growth during 2005. Major corporations like LG, Carrier, Rubbermaid, Mondimex, Karcher and C-Tech, have initiated new plant investments. Bridgestone recently purchased a 100-acre project for a tire fabrication operation.

Logistics is another sector driving industrial growth in the metro area. Monterrey is Mexico's second ranking rail center. Texas border cities of Laredo and McAllen lie within 2.5 hours, and San Antonio, 4.5 hours, by truck. Air service links Monterrey to major cities throughout Mexico and the world.

Large US retailers such as Wal-Mart, Sam's Club, Costco, Sears and HEB Supermarkets, have all opened stores in Monterrey. During 2005, there was a construction boom in all product types of retail centers—including specialty and strip malls. Developers added more than 1.75 million square feet in 13 new projects to the market. Monthly lease rates in 2005 ranged from \$10-30 per square meter in most submarkets, except the Valle submarket where high end retail space captures as much as \$20-35 per square meter per month. Lease rates are projected to remain the same for 2006.

## Monterrey At-A-Glance

	RENT/M <sup>2</sup> /MONTH		RENT/SF/YEAR		
	Low	High	Low	High	Vacancy
<b>DOWNTOWN OFFICE</b>					
New Construction (AAA)	\$ 18.00	\$ 22.00	\$ 20.07	\$ 24.53	19.0%
Class A (Prime)	\$ 15.00	\$ 22.00	\$ 16.72	\$ 24.53	17.0%
Class B (Secondary)	\$ 8.00	\$ 15.00	\$ 8.92	\$ 16.72	12.0%
<b>SUBURBAN OFFICE</b>					
New Construction (AAA)	\$ 18.00	\$ 22.00	\$ 20.07	\$ 24.53	19.0%
Class A (Prime)	\$ 15.00	\$ 22.00	\$ 16.72	\$ 24.53	17.0%
Class B (Secondary)	\$ 8.00	\$ 15.00	\$ 8.92	\$ 16.72	12.0%
<b>INDUSTRIAL</b>					
Bulk Warehouse	\$ 2.69	\$ 3.23	\$ 3.00	\$ 3.60	8.0%
Manufacturing	\$ 3.45	\$ 4.74	\$ 3.85	\$ 5.28	9.0%
High Tech/R&D	NA	NA	NA	NA	NA
<b>RETAIL</b>					
Downtown	\$ 5.00	\$ 37	\$ 5.57	\$ 41.25	6.0%
Neighborhood Service Centers	\$ 10.00	\$ 18.00	\$ 11.15	\$ 20.07	12.0%
Community Power Center	NA	NA	NA	NA	NA
Regional Malls	\$ 35.50	\$ 70.25	\$ 39.58	\$ 78.32	4.0%
<b>DEVELOPMENT LAND</b>					
Office in CBD (per buildable M <sup>2</sup> /SF)	N/A	N/A	N/A	N/A	
Land in Office Parks	\$ 45.00	\$ 200.00	\$ 4.18	\$ 18.58	
Land in Industrial Parks	\$ 40.00	\$ 60.00	\$ 3.72	\$ 5.57	
Office/Industrial Land - Non-park	\$ 15.00	\$ 35.00	\$ 1.39	\$ 3.25	
Retail/Commercial Land	\$ 60.00	\$ 500.00	\$ 5.57	\$ 46.45	
Residential	\$ 150.00	\$ 750.00	\$ 13.94	\$ 69.68	

Source: NAI Mexico