



LEASING GUIDELINES - MEXICO

THE LEASE

1. How long are leases generally?

Typically leases today range from three to five years in duration. Some ten-year leases are now being written in Class A+ buildings. Fifteen-year lease terms are very rare and only come about as a result of a sale-leaseback situation.

2. What form of agreement would the tenant be asked to sign?

Prior to the signing stage, a letter of intent is presented to the landlord to see if the basic business terms are acceptable. A tenant would be asked to sign a private leasing contract, which is legally binding for both parties.

The standard lease form is in almost all cases, the landlord's standard form. In Mexico, the lease is based on the French legal system and is much shorter than in the US and Canada, where the British case law system is used. The French system is based on civil code numbers and as a result negotiation between lawyers are limited.

3. Is the lease legally binding?

A lease is a legally binding document in Mexico and as such the tenant undertakes all obligations for the full term entered into. When a lease contract is fully executed the landlord must register the contract with the government authorities.

4. Are options to renew or extend the lease possible?

Yes, at least sixty days prior to termination of the lease, the tenant may choose to renew, sometimes for a period equal to that of the initial lease term. Terms of the contract are renegotiated when options to renew are exercised.

5. What regulations cover sub-leasing or assigning of leases?

The tenant may negotiate the right to sub-lease the premises or assign the lease if so stated in the leasing contract. However, these options are normally subject to the landlord's written consent, which usually cannot be unreasonably withheld.

RENTAL

1. In what monetary units are rents quoted?

Rents are quoted both in Mexican Pesos and US Dollars per square meter per month. Generally, high-end buildings quote in US Dollars. The actual payment is made in Pesos, calculated at the exchange rate of the day that rent is due.

2. When referring to rent, what does this specifically include?

The tenant pays a net rent to the landlord. Included in the net rent are real estate taxes (Predial). In addition, the tenant pays a maintenance fee, which covers common area maintenance and security for the building. The tenant also pays for the interior cleaning of the premises, all utilities, which are separately

metered and any parking spaces. All payments associated with the premises are subject to a government value added tax, which is currently 15%.

3. How is rent adjusted during the term of the lease?

Rental rates are adjusted during the term of the lease either on a semi-annual or annual basis. The increases are based on the national inflation index, depending upon the unit in which the rent is quoted.

4. How is rent paid-monthly, annually?

Rent is paid on a monthly basis, usually in advance, at the landlord's address or the landlord may collect the rent as a courtesy service.

5. What incentives are offered by the landlord?

In the past, incentives were not generally offered, however, in today's market there has been some change in attitudes allowing more flexibility in negotiations. The rental rate is the one item that has shown the most flexibility, as there are really not too many other incentives. Some free rent can be negotiated as well; in some cases landlords may offer 1 to 3 month's free rent for new office space.

FACILITIES

1. How is floor space measured?

Commercial office space is normally measured considering the net usable area. Entrance halls, stairs, corridors, maintenance rooms and washrooms are excluded when they are common areas for any other tenants. However, recently in Class A+ buildings Landlords have been quoting in Rentable Area terms, which includes a percentage of the common areas. In most instances, there is no formal standard for measuring the leased premises as in the United States and Canada, which use the B.O.M.A. standard of measurement.

2. What is generally provided by the landlord prior to occupation of the space?

In general, office space is offered in "AS IS" condition at the time of the closing. This generally means that the premises are in the condition left by the previous tenant. Landlords of new buildings will offer the space in shell form, i.e. concrete floor and ceiling with the services supplied to the premises but not distributed throughout.

COSTS

1. What costs does the tenant incur at the time of occupation?

1. One to two months rent as a security deposit, held until the termination of the lease.
2. First month's rent deposit.
3. Deposit for utilities.
4. Fianza Expense (bonding) for companies without property in Mexico as collateral.

2. Is key money charged or a security deposit required at the start of the lease?

No, it is not common practice to ask for key money in leasing office space. Sometimes landlords will ask for key money if substantial leasehold improvements are in place.

3. How are tenant improvements specified, paid for and supervised?

It is common practice for the landlord to approve any important alterations to the premises, which have to be paid by the tenant. As in almost any other condition, tenant improvements are also subject to negotiation.

4. What additional costs should the tenant budget for during the term of the lease?

There are no extra costs that the tenant has to budget for during the period of the lease with the exception of annual rental increases if applicable.

5. What costs is the tenant responsible for at the end of the lease?

The tenant is responsible for repairing any damage to the premises that may have happened during the term of the lease. If improvements are made in the leased premises without the approval of the landlord, the landlord may ask the tenant to remove the improvements at the tenants cost. At the termination of the lease the improvements become the property of the landlord.

OPTIONS

1. Can furnished office space be leased on a short-term basis?

Yes, several international firms such as REGUS have short-term office leasing facilities.

2. Is leasing the only option for foreigners wishing to establish an office?

Foreigners have the option to lease or buy office space with some legal restrictions in the borders and coastlines. Space can be purchased as a condominium.

3. Are there restrictions on foreign ownership of commercial buildings?

Yes, there are some ownership restrictions in the borders and coastal areas. In these areas, foreigners must purchase the property through a trust. Government approval is also required when the building under consideration is officially categorized as a heritage building.