



PGIM REAL ESTATE

MEXICO

2025 Real Estate Outlook

Investment Research

EXECUTIVE SUMMARY

MEXICO INDUSTRIAL

Mexico's industrial market benefits from the structural shift toward more production close to the United States.

Pricing is attractive on a risk-adjusted basis, with high income and rental growth offsetting country-level risks, including current uncertainty about U.S. tariffs.

Value-add investments are supported by positive rental growth, as manufacturing becomes more technologically intensive.

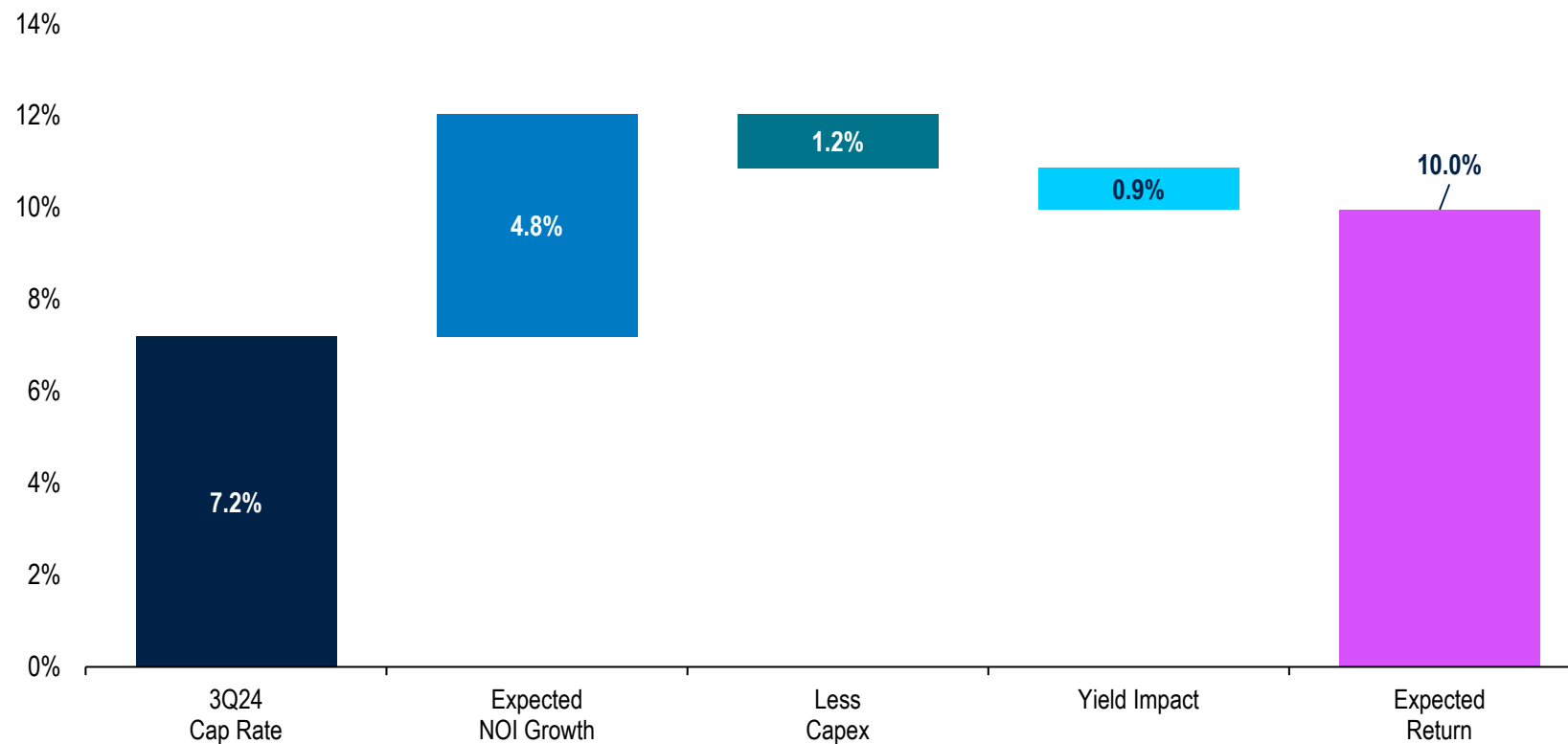
MARKET OUTLOOK

Industrial returns will be supported by tight vacancies and continued rental growth, as manufacturers invest and expand to capitalize on export demand from the United States.



Mexico Industrial Is Poised for Positive Returns. . .

Mexico Industrial Buy-and-Hold IRR



Cap rates average 7.2% across Mexico, providing an income base augmented by rental growth that we expect to run above historic averages.

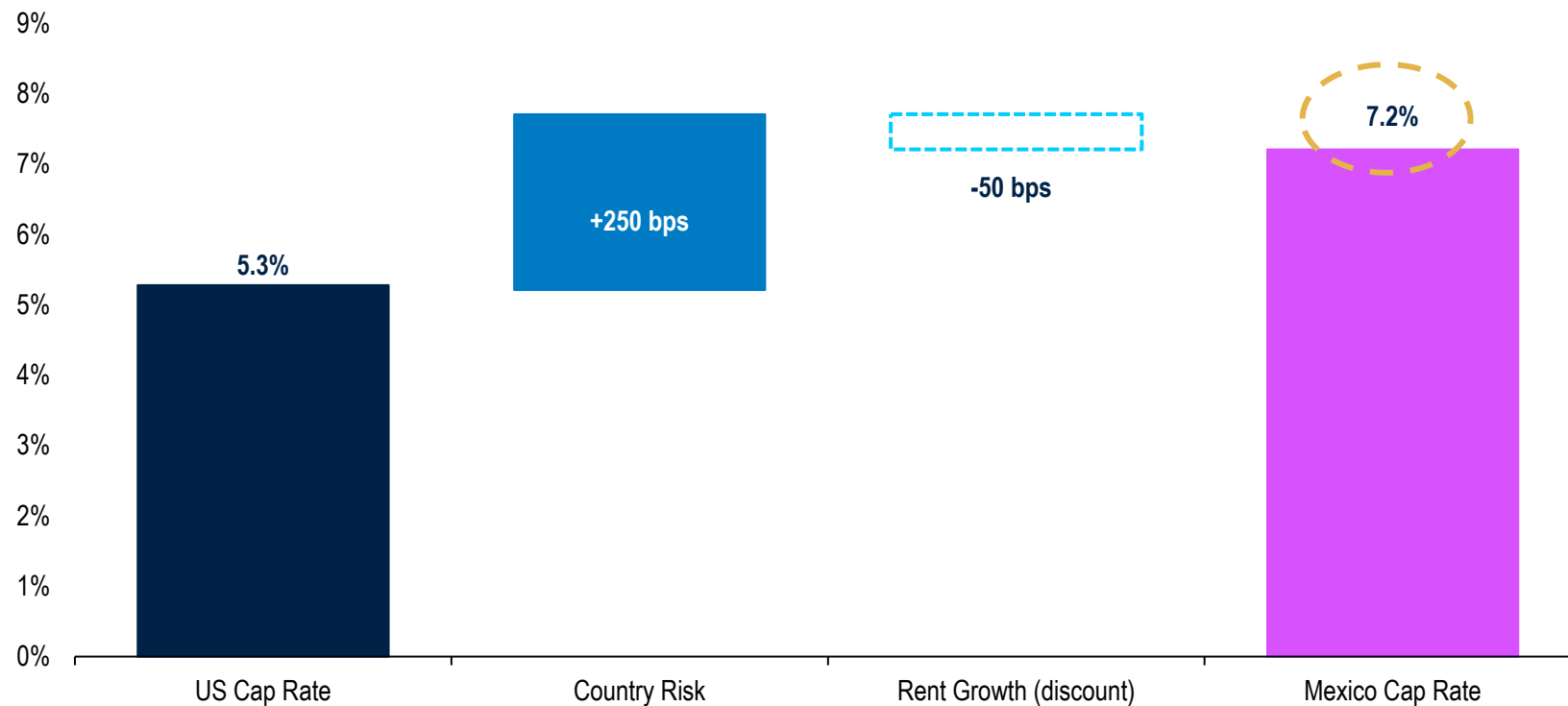
That income is offset by expected capital expenditures and a slight expansion in average cap rates, reflecting a higher interest rate environment.

This nets to a 10% unlevered return expectation for stabilized properties.

MEXICO MARKET OUTLOOK

... Both Absolute and Risk-Adjusted

Third Quarter 2024 Mexico vs. U.S. Cap Rate Spread Attribution



Our rationale for Mexico industrial's current fair value is as follows:

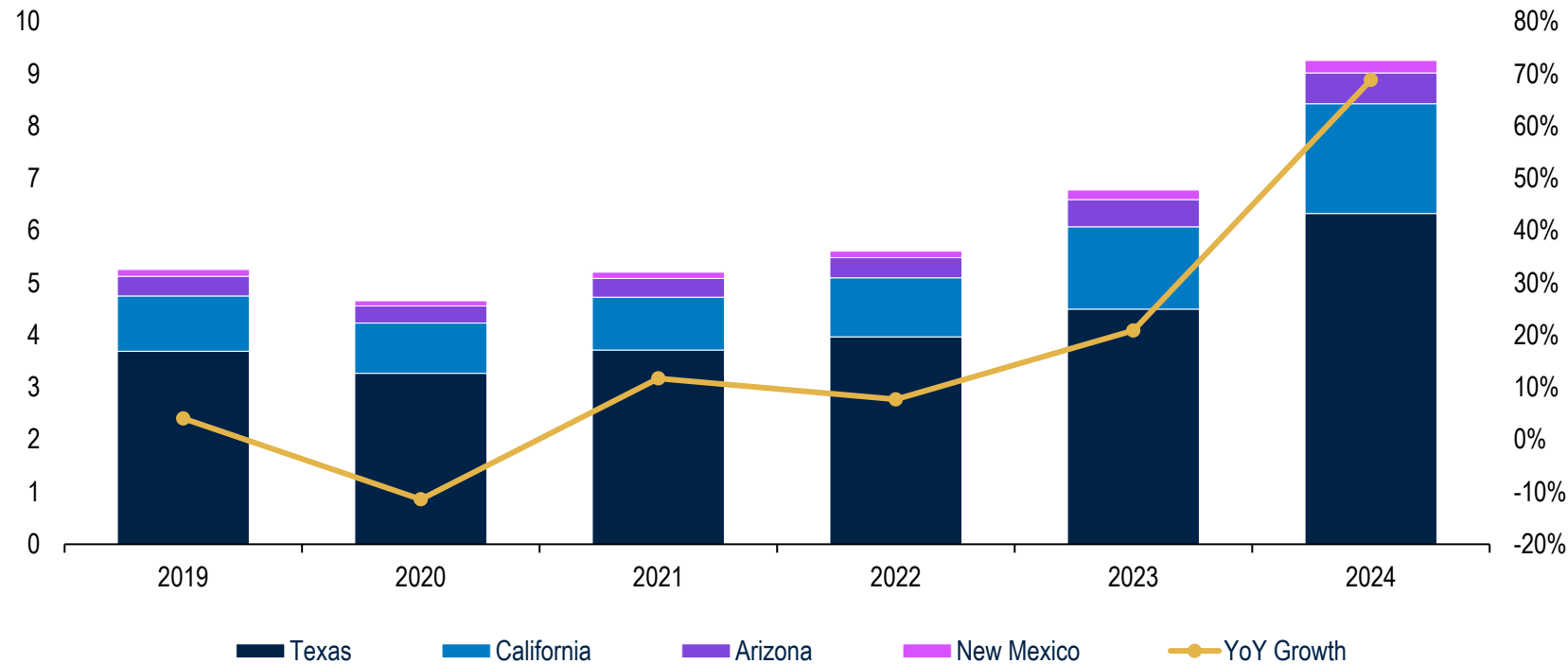
We start with the average U.S. cap rate of 5.3%, i.e., the “risk-free” alternative.

We add a 250 basis point risk premium, to account for general country risk, including the current uncertainty around U.S. tariffs.

We then reduce the required cap rate to account for stronger expected rental growth than the United States, to arrive at our estimate of 7.2%.

Tenant Demand Is Surging . . .

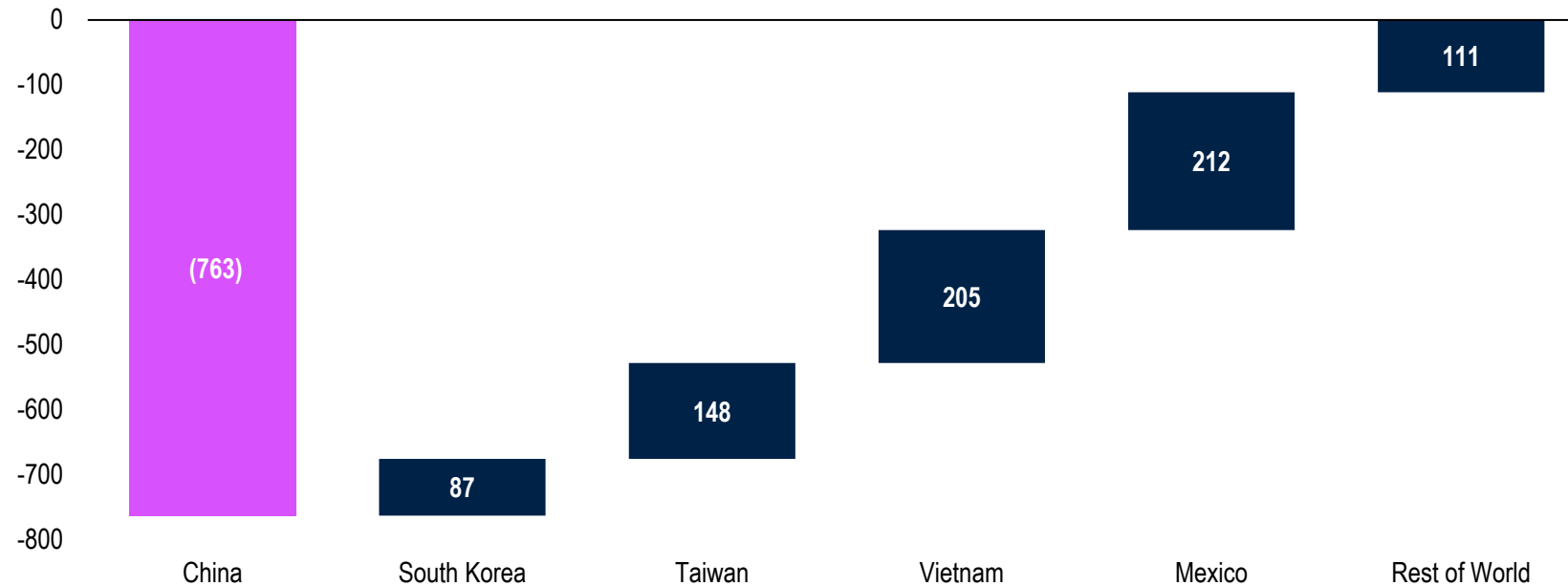
Loaded Trucks and Railcars Entering from Mexico (Millions)



Mexican export growth has surged across all land ports of entry, reflecting increases across a wide range of manufactured sectors.

. . . As Manufacturers Nearshore More U.S. Exports . . .

Change in Share of U.S. Imports from 2016 to 2024 (bps)

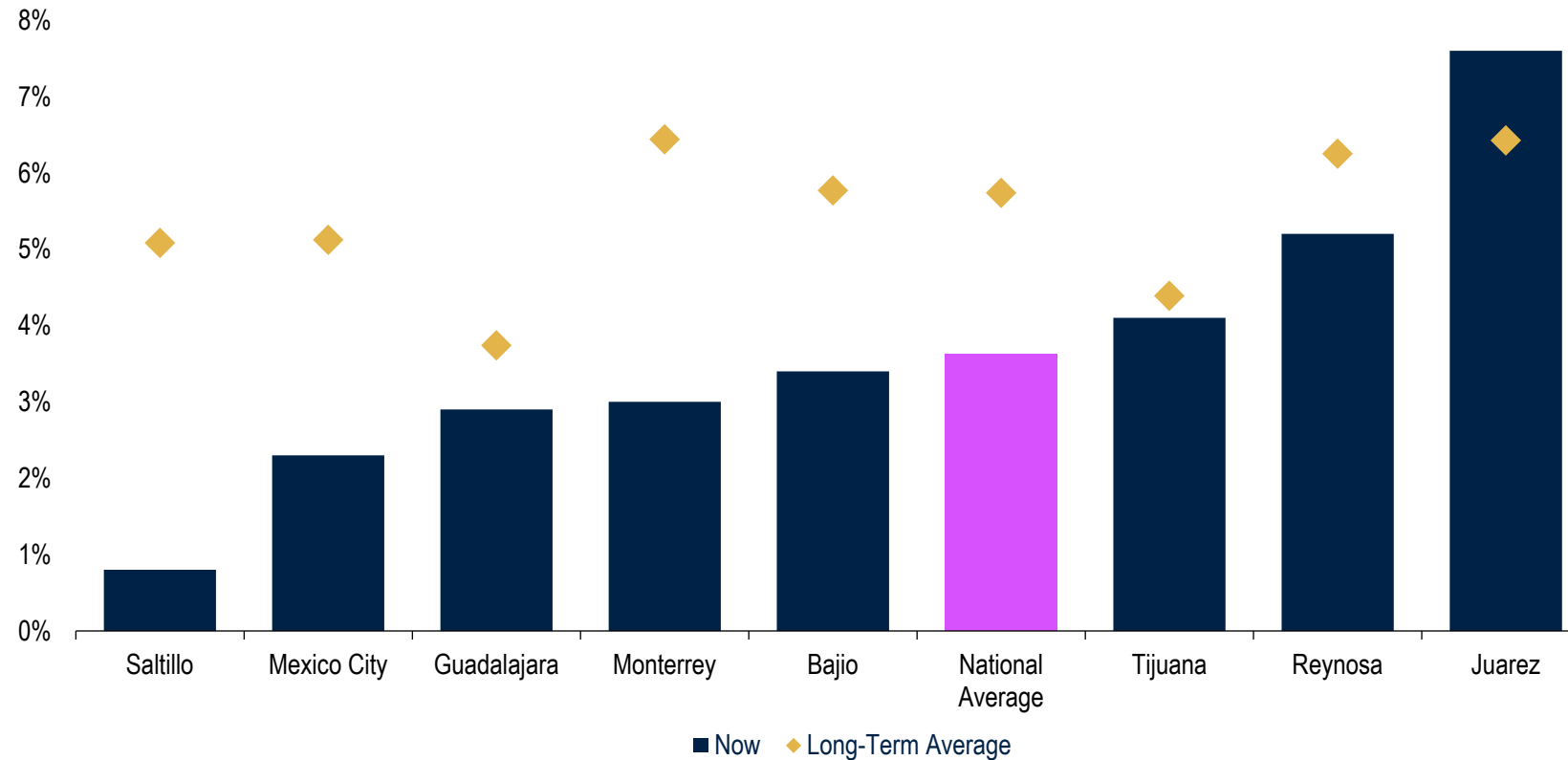


The U.S. share of imports coming from Mexico has increased by more than any other country since 2016.

MEXICO MARKET OUTLOOK

... Driving Vacancy Rates Lower

Vacancy Rate by Market

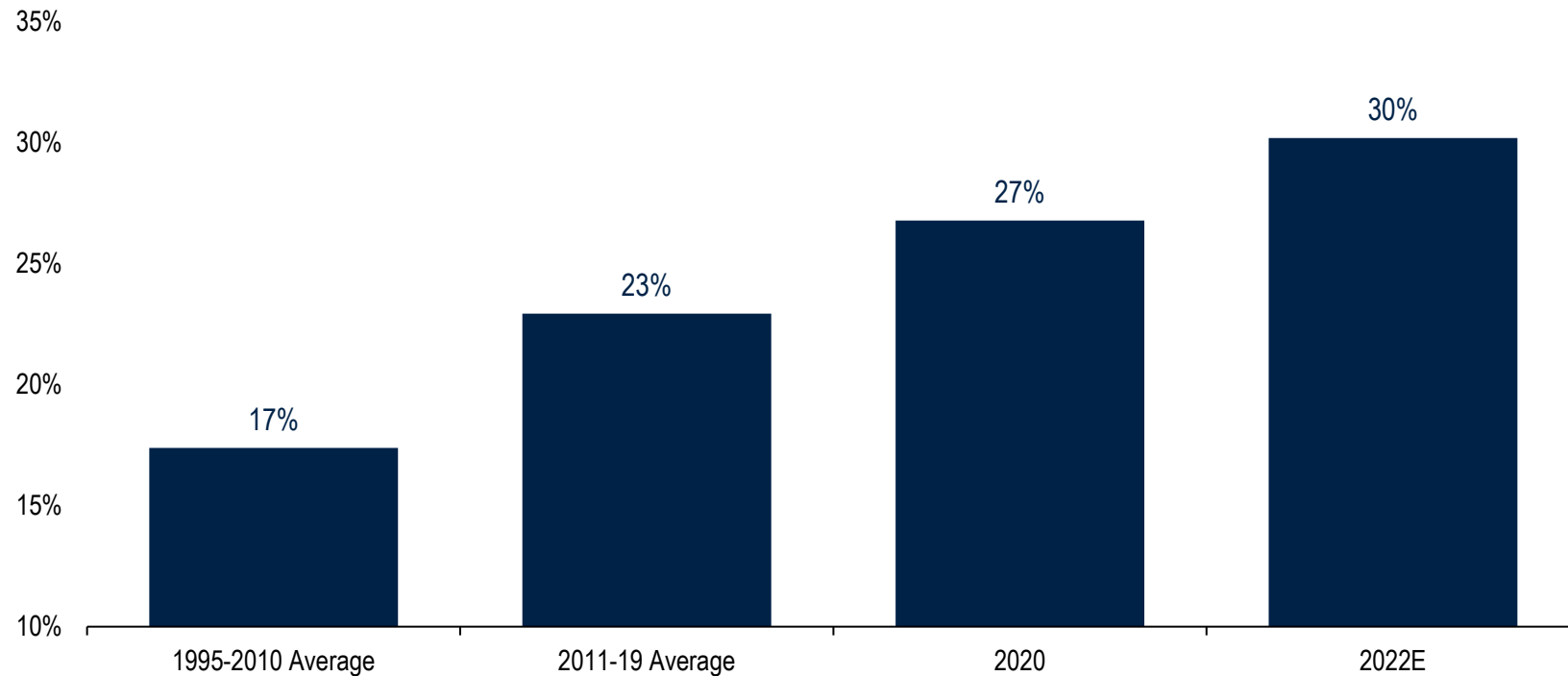


Tenant demand has increased to keep up with expected export growth, pushing vacancy rates well below historic averages in most locations.

Sources: CBRE, PGIM Real Estate. As of November 2024.

As Tenants Move Up the Value Chain . . .

Mexico's Exports: Share of Domestic Value-Added Embodied in Foreign Final Demand



In the 1990s, Mexico's export-focused manufacturing industries mostly relied on inputs made elsewhere.

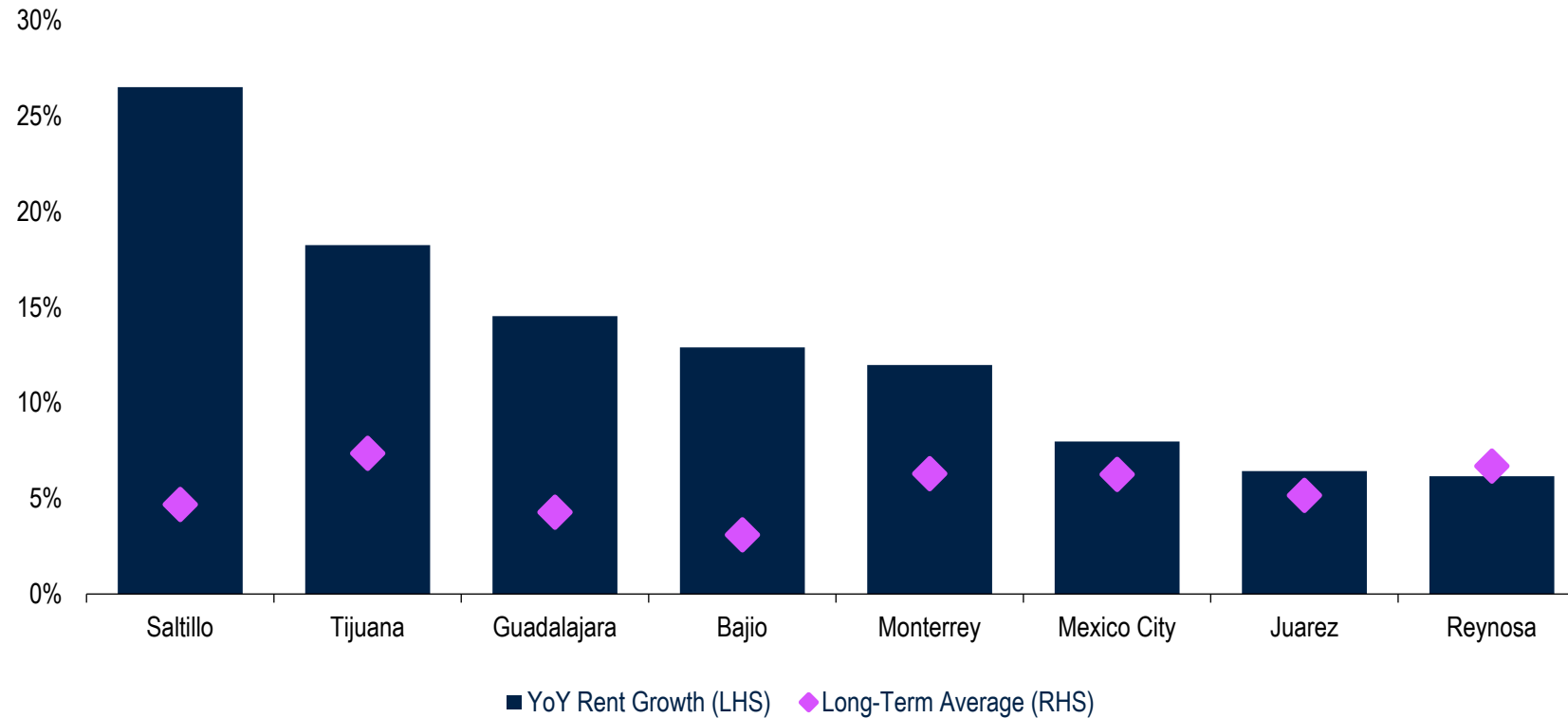
Since then, the share of domestically-produced inputs has nearly doubled, which creates additional demand for manufacturing space.

Sources: OECD Statistics working papers, Nowcasting Trade in Value-Added Indicators, September 2023; Martinez, Terrazas-Santamaria, Beyond Nearshoring: the Political Economy of Mexico's Emerging Electric Vehicle Industry (preprint), PGIM Real Estate. As of November 2024.

MEXICO MARKET OUTLOOK

... They Are Able to Pay Higher Rents ...

Mexico Industrial Rental Growth

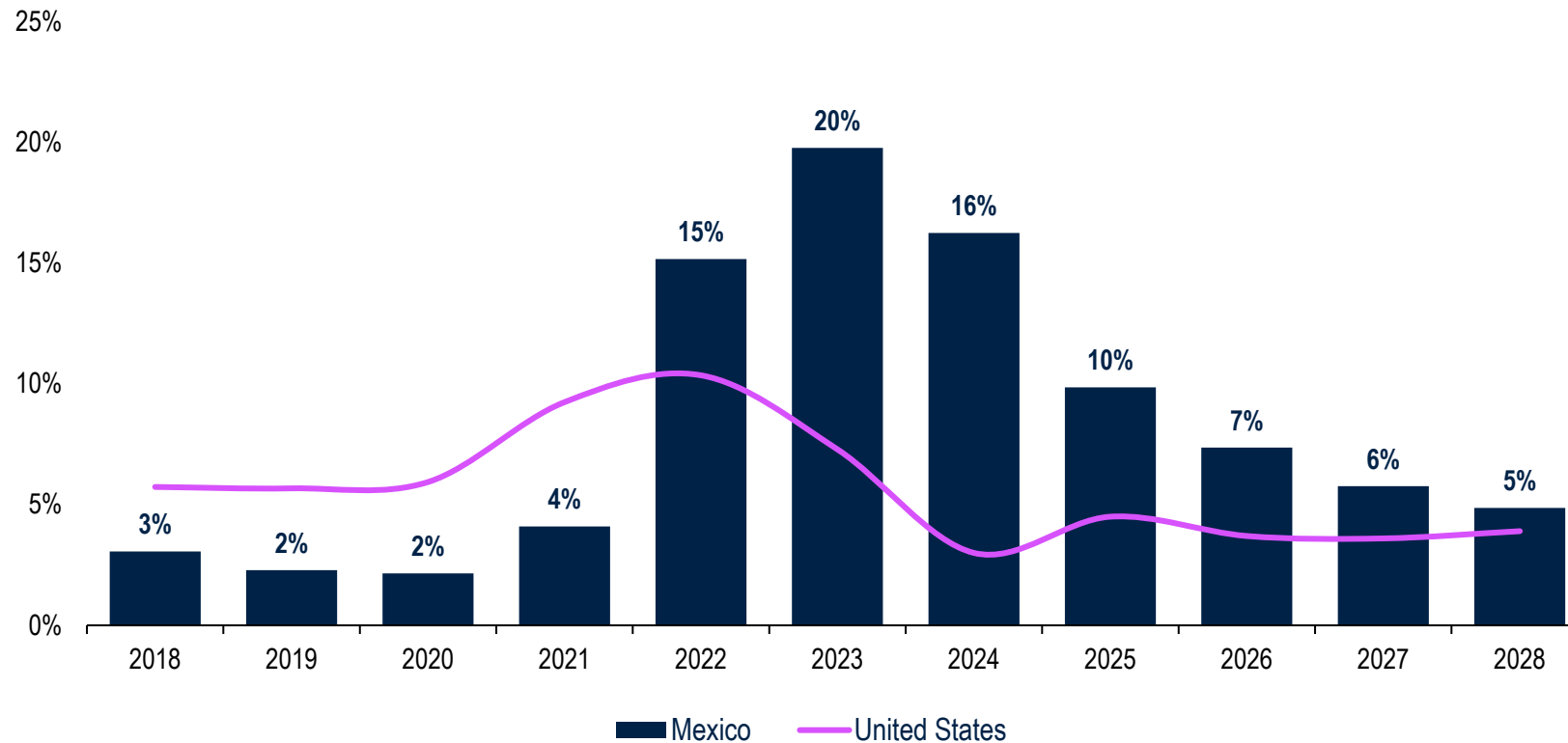


The move up the value-added spectrum means Mexico's industrial tenants are able to pay higher rents.

MEXICO MARKET OUTLOOK

... With More Rental Growth Coming

Annual Logistics Rental Growth



Rental growth has surged since 2021, as strong tenant demand outstripped available supply.

We expect Mexico industrial rents to continue growing more than historic norms and rents in U.S. industrial markets.

Forecasts are not guaranteed and may not be a reliable indicator of future results.

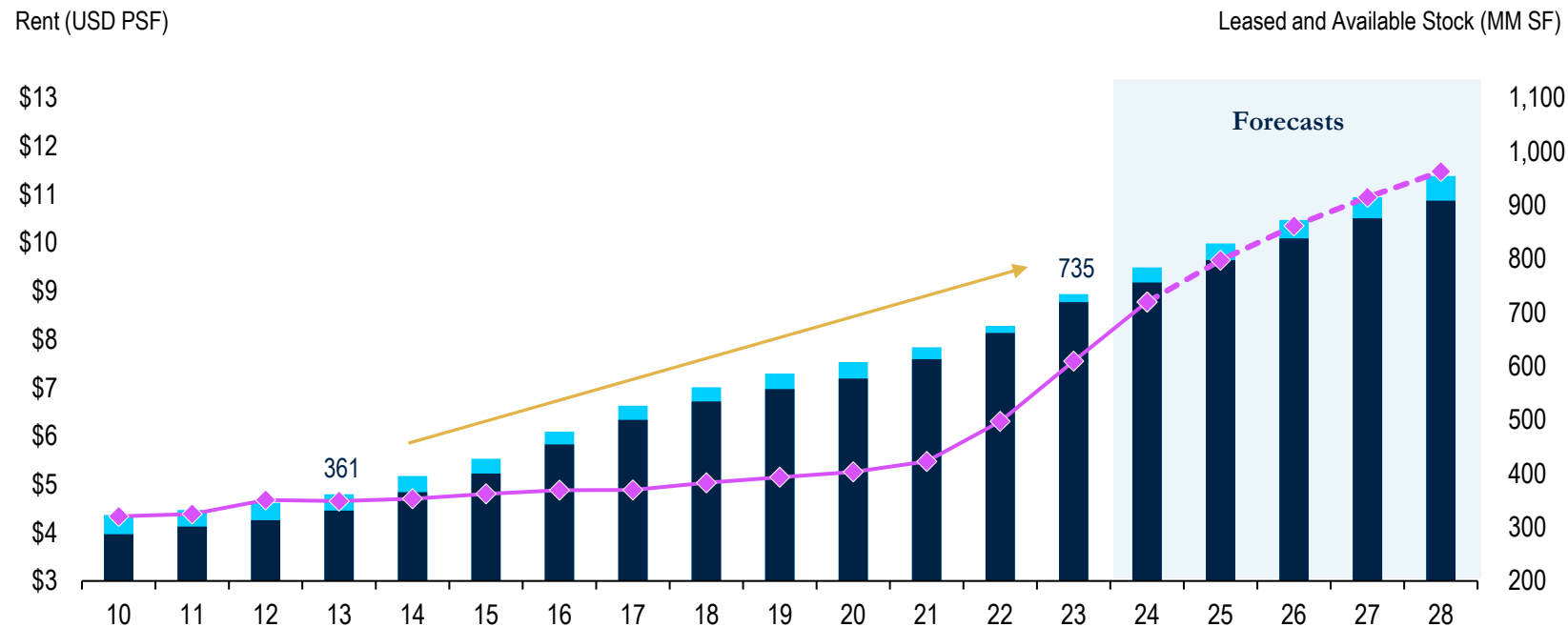
Sources: CBRE, PGIM Real Estate. As of November 2024.

VALUE-ADD INVESTMENT STRATEGIES



Value-Add Investing Supported by High Rents. . .

Mexico Industrial Inventory and Rent



Industrial stock doubled over the 10 years to 2023, and rents have increased by 10% per year over the past five years.

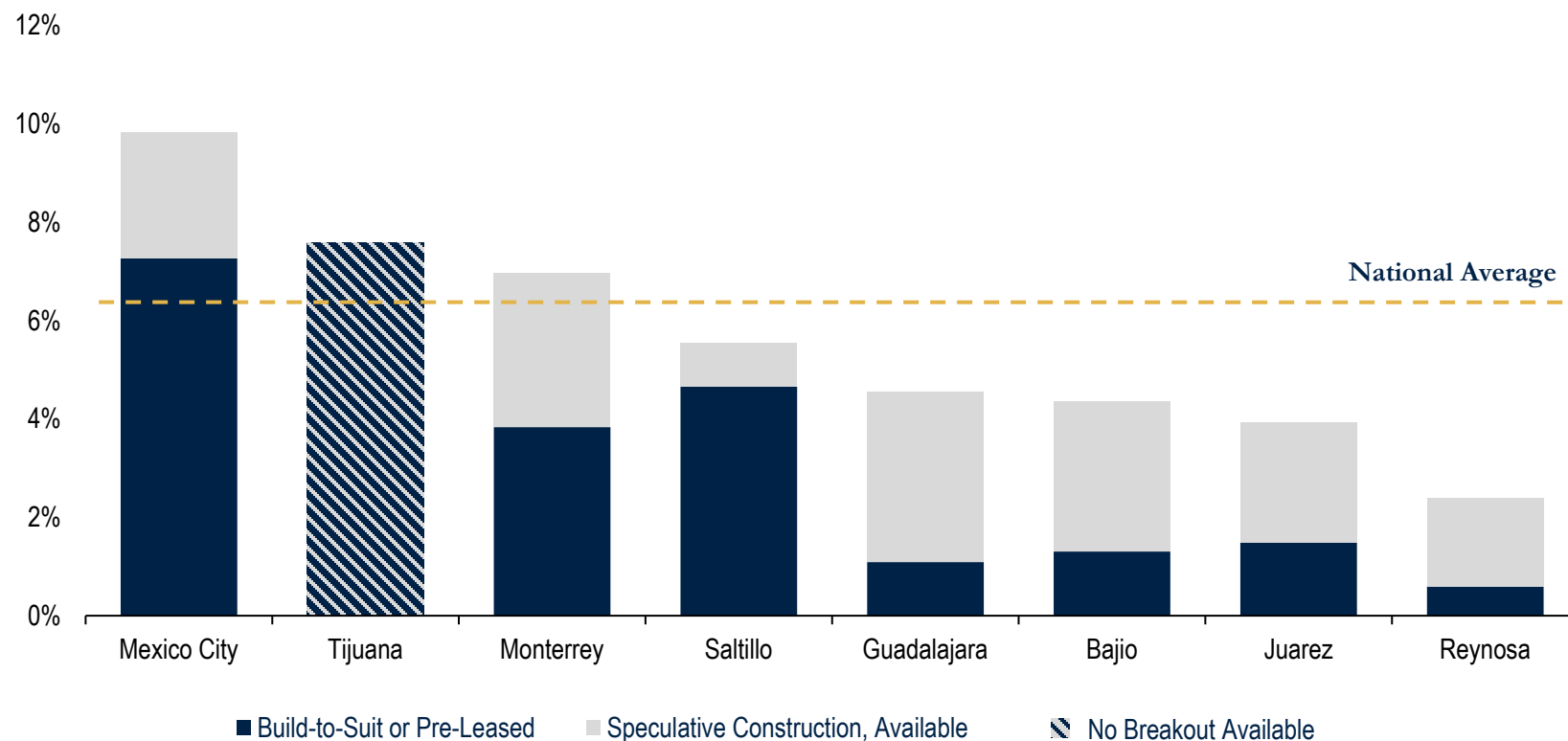
Today’s rent levels – plus our expectations for further rent gains – justify continued acquisition and development of new space over the next five years.

Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: CBRE, PGIM Real Estate. As of November 2024.

... Including Speculative and Build-to-Suit Development

Construction Activity (% of Stock, as of 3Q24)



Development strategies vary, with the highest returns available for speculative development.

In many regions, tenant needs can be met with space built-to-suit, providing above-core returns without taking leasing risk.

ADDITIONAL INSIGHTS

Spotlight on the Opportunity in Mexico

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Industrial Real Estate: The Case For Mexico

Executive Summary

- Mexico industrial rent growth is **surging** and we expect it to continue – even after impressive rent uplift
- Nearshoring needs and the USMCA elevated Mexico as an important manufacturing location for U.S. demand, supporting ongoing expansion and industrial demand
- Mexico's country risk premium and expected rent growth have increased over two years, balancing each other and supporting fair market pricing today
- The incoming Trump administration will push for higher trade barriers with Mexico (see page 4 for more background), raising downside risks to our base case outlook for high rent growth and investor demand

Mexico Industrial Market Fundamentals Are Booming
Rent and Vacancy Rates by City (As of September 30, 2024)

City	Vacancy	YOY Rent
Tijuana	4.1%	+15.2%
Sotillo	0.0%	+26.5%
Aguascalientes	1.6%	+15.1%
Guadalajara	2.9%	+14.8%
Oaxaca	1.1%	+12.9%
Queretaro	4.4%	+11.1%
Mexico City	2.5%	+8.0%
Reynosa	5.2%	+5.2%
Monterrey	9.2%	+12.0%
San Luis Potosi	3.1%	+17.6%

LEADING EXPORT CATEGORY

- Electronics
- Automotive
- Machinery

NAFTA Highway

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