

MANUFACTURING TRENDS' IMPACT ON COMMERCIAL REAL ESTATE IN MÉXICO

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In the last 20 years, México has become the 11th largest economy in the world and the 3rd in the Americas, just behind the United States and Brazil. Due to its privileged geographic location, free trade agreements, competitive labor costs, and infrastructure, the world has set its eyes on México as one of the main destinations for foreign investment.

MEXICO'S STRATEGIC LOCATION

Located in North America and bordered by the United States on the north, México is the largest market in the northern hemisphere. The benefits of its geographic location places México in a strategic position. With the Gulf of México as its main access on the east, México has a natural access to and from the Atlantic Ocean, where the important seaports of Veracruz and Tampico are used for international commerce — mainly with Europe. To the west, the Pacific Ocean represents some of the most important ports of entry to Mexico. The seaports of Manzanillo and Lazaro Cárdenas are used for international trades, mainly with Asia. This privileged location has triggered international trade with South America and the rest of the world.

Due to its location, labor costs and infrastructure in seaports, railroads, and highways, México is able to provide reduced logistic costs for both exporting Mexican goods and importing international goods to or from Mexican soil. For example, a container departing from Central México, and taking an average of three days to reach Chicago would take 34 days to travel from Shanghai to Chicago. The delivering time is reduced to a fraction by having México as its base of operation. As wages in China continue to increase, qualified labor availability in Mexico becomes a major advantage for reducing overall costs of, basically, any kind of operation.

MEXICO'S FREE TRADE AGREEMENTS

México is the country with the most free trade agreements in the world. These trade agreements have benefited México, and its investors as a strategic destination for new manufacturing plants. The great flexibility offered allows for the unrestricted import and export of parts and finished goods to many markets worldwide.

The automotive industry has taken advantage of México's free trade agreements, resulting in a considerable increase in its vehicle production, from 1.8 million units in 2002 to 3 million in 2013. This makes México the 8th largest automotive producer in the world. If it continues to grow at this rate, it is set to produce 4.4 million vehicles by 2020.

The automotive industry has boomed since 2010. OEM manufacturers like General Motors, Chrysler, Daimler, Volkswagen, Nissan, Mazda, Honda, and Audi have invested in infrastructure and manufacturing capacity, or have publicly announced large investments to increase production capacity or install new assembly plants. BMW has just announced a new assembly plant in San Luis Potosi where 150,000 vehicles will be produced; similarly, KIA has officially announced their new assembly plant in Monterrey, in the municipality of Pesqueria, where 300,000 cars will be produced per year.

OEM's Tier 1 and Tier 2 suppliers are following in their clients' footsteps, opening numerous plants throughout México in order to supply their requirements. Companies such as Pirelli, Bridgestone, Continental Johnson Controls, Magna, Faurecia, Katztin, Mahle, Boesh, Delphi, and Yazaki —among many others — have either increased their footprint or started new plants, making México the world's 5th largest automotive parts supplier, just behind China, Japan, United States, and Germany.

LABOR AND INFRASTRUCTURE

In the past, Mexican labor has been referred to as cheap and low quality. Recently this has changed; Mexican qualified labor is now another one of the key elements in providing productivity for investors, (seen as high quality labor) delivering high quality production at a reasonably low cost. Ford in Hermosillo, Nissan in Aguascalientes, and VW in Puebla demonstrate a few of the success stories, because of their productivity in assembling high quality vehicles.

With an estimated population of 120 million, in 2013, México is the second-most populated country in Latin America after Brazil. Forty percent of the population is comprised of the age range 25-54 and 18.1 percent from ages 15-24, meaning Mexico possesses a considerable labor force. The average education is equivalent to junior high school. Also, México is graduating close to 90 thousand engineers and technicians per year, more than countries like Germany, Canada, or Brazil.

In terms of connectivity, México has an extensive railroad system, as well as a very large highway network. The railroad system connects to almost any city within the United States and it is operated mainly by two large carriers: FerroMex and Kansas City Southern. Local carriers serve the highway network.

Seaports play an essential role in México's international trade. Ports in the Gulf of México, as well as the ones in the Pacific Ocean, are used by many international companies as an alternative to congested ports in the United States, mainly the ones on the West Coast. The time required to unload a container in a Mexican port is a fraction of the time taken in the U.S.

There are more than 350 industrial parks in the 32 Mexican states. Most of these parks meet international standards in urbanization as well as construction facilities. Many international industrial real estate players are present in México: Prologis, Prudential, Macquarie, and Ridge compete alongside local developers in expanding their footprint and attracting new investments.

México is a developing country. Thus, most of its Class A and B facilities are only eight years old, on average. Most of its demand is for new buildings or build-to-suit. Average vacancy rates are 4 percent in the secondary and 8 percent in the primary markets. Lease rates have remained constant in recent years because of capital availability in the market, the creation of the Mexican REIT's and the flow of foreign investment in this REIT's.

The largest activity in the last 12 months has been in the markets of México City, Toluca, the Bajío Region (Queretaro, Celaya, Leon, Aguascalientes and San Luis Potosi), and Saltillo; some other markets like Tijuana, Cd. Juarez, and Monterrey have been gaining speed since the beginning of 2014.

CONCLUSIONS

México has been growing at a very constant rate in recent years and is expected to continue to grow at an even faster pace for at least the next 10 years because of its newly instated energy and tax reforms. Opportunities to do business in México exist and are expected to increase considerably in the years to come.

In real estate, we will continue to see exponential growth in industrial parks, office buildings, and retail to supply the growing demand. Expansion and transfer of operations of foreign companies for manufacturing operations in México are going to be seen more often — most of them coming from the United States and Canada.

This is an opportunity for all SIORs to expand their territory; most of their current clients might have or will wonder where to expand, and most likely México is going to be one of their top choices because of proximity, potential growth, and all the advantages mentioned in this article. ■



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