ECONOMIC & POLITICAL FACTORS AFFECTING

MEXICAN INDUSTRIAL REAL ESTATE

By Gerardo Ramirez, SIOR

Mexico has been increasing its industrial real estate footprint over the last 10 years, and as a result has seen a 5 percent growth. There are two main reasons for such growth. First, international Original Equipment Manufacturers (OEM), manufacturing suppliers, and distribution companies continue selecting Mexico as an optimal place to grow business. Second, international investors continue to seek a higher return on investments as Mexico has a higher cap rate, as compared to other countries. For example, in the U.S., the average cap rate for 2018 (Q3 2018) for industrial transactions was 6 percent, while in Mexico, the average industrial cap rate was 8 percent.

While the tenants and building specs remain similar around the world, the risk for companies in Mexico is minimal as the leases are dollar denominated. A large number of international investors have already established offices or joint-ventured with local developers.

To better understand this growth, I will explain the three (3) main industrial regions in Mexico.

1. Northern Region (Located primarily at the border of the United States)

This region has 60 percent of the industrial stock of Mexico and is strongly related to the U.S. economy. Mexico city and the Monterrey City metro area are the largest industrial market in Mexico and have skilled labor, young college-educated engineers, and the biggest industrial heritage in the country.

2. Bajio Region

With connections to ports all around it (inner Mexico, U.S., Manzanillo and Lazaro Cardenas in the Pacific, as well as Veracruz and Altamira ports in the Gulf), this region has received the biggest portion of investments. In this region, different clusters of industries have been created, like aerospace, car manufacturing, home appliances, food, electronics, and others. Existing infrastructure and connectivity are strong arguments to attract businesses, as well as the young, well-educated population and synergy between inner cities like Queretaro-Celaya-Leon-Aguascalientes and Guadalajara.

3. Central Region.

Mexico City metro area has been a magnet to investors. With scarce land to develop, and a growing 22 million people with purchasing power, distribution centers arrive throughout the area. Recently, Amazon and Mercado Libre leased buildings exceeding 1.1 million square feet each. These types of buildings are the most demanded by investors because of the versatility to re-lease to other tenants. Financially, Mexico City is the market with the lowest transactional cap rate at around 7 percent.

Regardless of the uncertainty of still not having a signed new North American Free Trade Agreement (NAFTA) or United States-Mexico-Canada Agreement (USMCA), these three regions in Mexico demonstrated a consistent tendency to grow and historically low vacancies.

It's not all good news. Unfortunately, it is expected that in 2019-2020, the growth of the U.S. economy will decrease to levels near 1.9 percent, impacting the industrial north region of Mexico. Landlords are working hard to keep their tenants. Also, as of early April, political issues have impacted the industrial real estate in this region. The political tension between the U.S. government and the Mexican government is slowing the pace of cross-border cargo authorizations, forcing companies to lease temporary spaces in order to avoid the long lines at the border crossing. The northern regional industrial real estate—who is already facing a shortage in spaces to lease—is being over-pressurized.

Central Region and Bajio Region have another story. Due to the new Mexican Federal Government policies, the Mexican economy has been spotted and the prediction is not favorable. It is now predicted that the Mexican Gross Domestic Product will grow at a slower pace, impacting consumption, which would impact distribution businesses. This means that Mexico's supply chain could be affected. Additionally, the trade war between the U.S. and China could soon become a benefit to Mexico—soon.