

# KANAN



## Investment Climate Nearshoring in Mexico | April 2024

### Introduction

The current electoral period will shape the landscape for Mexico's upcoming investment movement, as businesses seek initiatives with broader fiscal and industrial incentives to relocate their supply chains to the country.

The construction sector has demonstrated strong performance, with a 27.3% increase in annual production value, particularly in the northern region, ensuring its position as a focal point for leasing activities across the country.

The Bajío Region has performed well, with Queretaro standing out as a key contender due to its abundant power supply, proximity to Mexico City, and government openness to foreign investment. Amazon Web Services' investment in the state is the highest-value investment in the first quarter, solidifying its position.

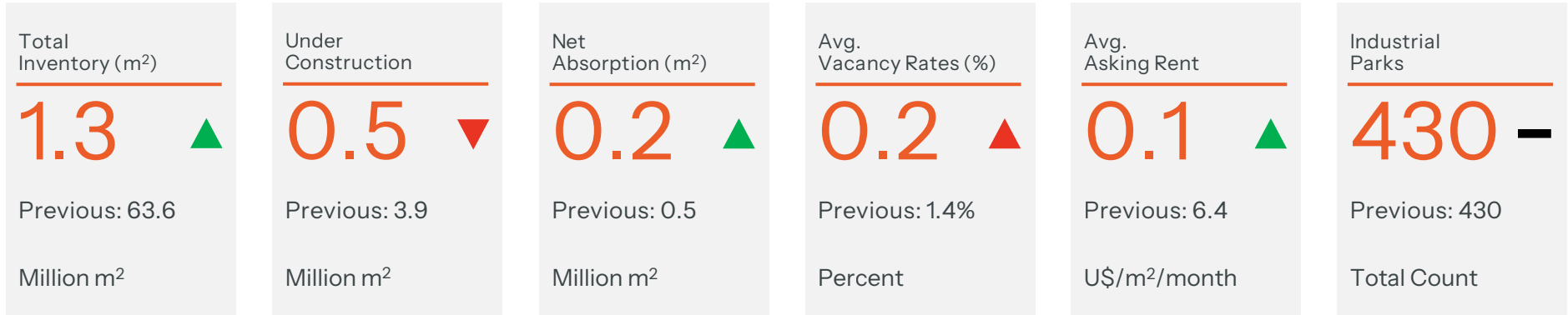
### Key Takeaways

- Mexico is ranked among the top 25 best countries for foreign direct investment globally due to its multiple trade and labor mass advantages. Mexico has surpassed China as the main source of US imports, accounting for 15.4% of the total.
- In January, Mexico's construction sector increased by 27.3% year on year, owing to government projects, a rebound in overall industrial activity, and the momentum of the industrial real estate sector, where nearshoring is emerging.
- In the first quarter, international companies reported USD 31,000 million in investments in Mexico, with FEMSA leading the way with USD 9,965 million, Amazon with USD 4,963 million, and DHL Supply Chain with USD 4,000 million.

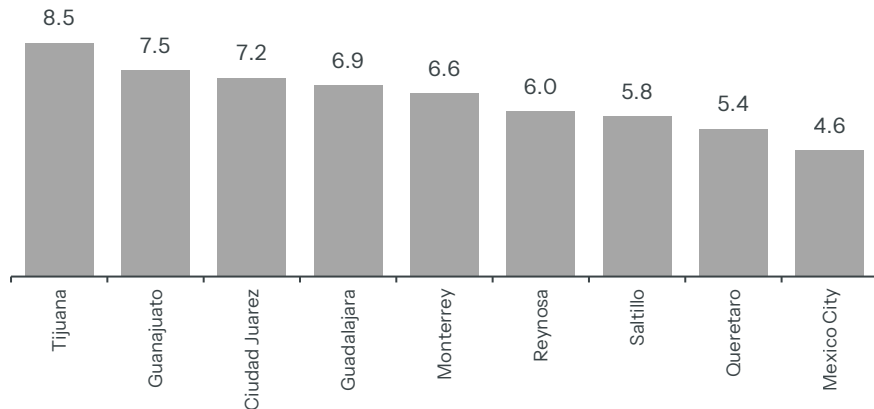
# Industrial Real Estate Key Performance Indicators

Rental prices and net absorption of industrial spaces continued to increase during the Q4 2023 in the key industrial markets in Mexico, with Monterrey and Saltillo dominating the demand absorption in this period

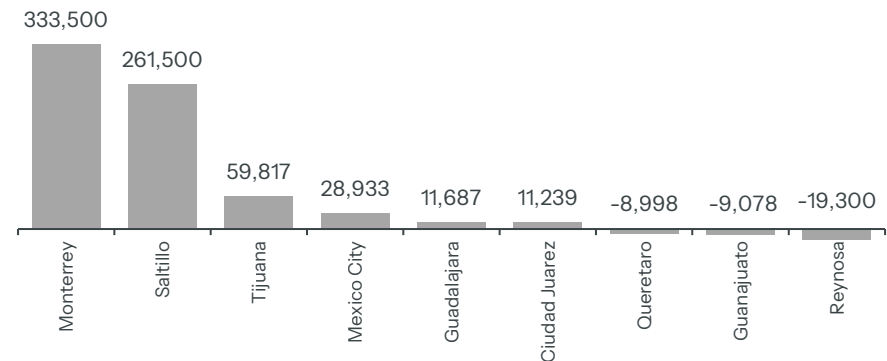
Latest Activity in Key Industrial Markets in Mexico | Q4 2023 vs Q3 2023



Q4 2023 Average Asking Rent (U\$/m<sup>2</sup>/month)



Q4 2023 Net Absorption (thousands of m<sup>2</sup>)



Note: Displayed values are based on figures of the following key regions in Mexico: Saltillo, Monterrey, Mexico City, Guanajuato, Queretaro, Guadalajara, Reynosa, Tijuana and Ciudad Juarez

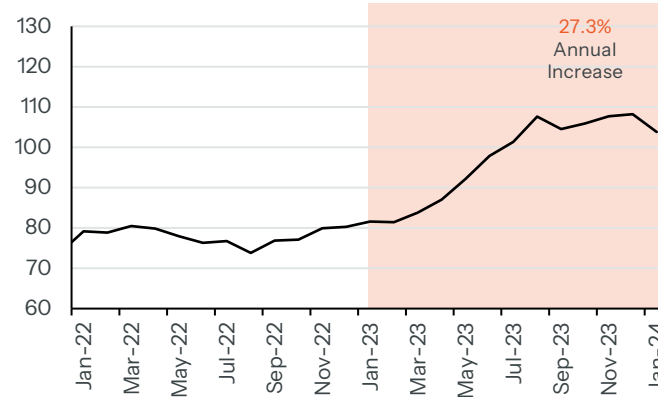
Source: Newmark / AMPIP

# Macroeconomic Outlook

Construction sector could suffer a downturn following the completion of public projects in 2024, the holding of presidential elections and the next government's fiscal deficit

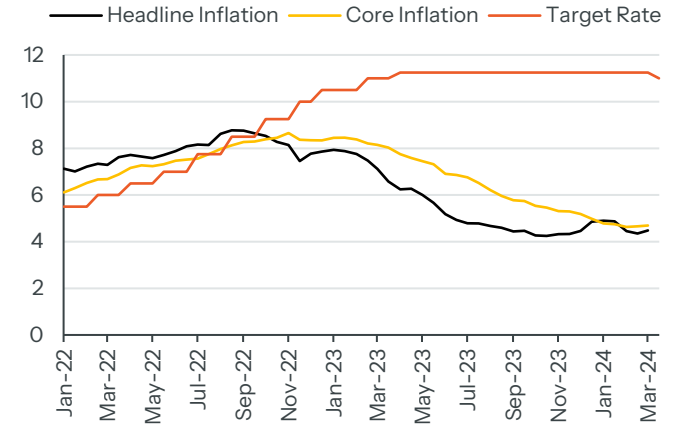
- Growth in the construction sector is primarily due to large public spending in infrastructure, a recurring activity at the end of a six-year period of government. However, once public construction projects are completed this year, the next administration will face a fiscal deficit and that may decrease construction spending, and ultimately leading to a slowdown in the sector.
- Data showed annual inflation in the first half of March was 4.5%, representing a progress compared to the 7.2% rate of the previous year.
- The Mexican Central Bank decided to cut their interest rate in 25 basis points after 3 years of continuous increases. Although this does not necessarily imply that consecutive cuts will follow.
- In February, total exports increased 13% annually, totaling USD 50,721 M, representing the highest monthly increase since March 2023.

Production Value, Construction Sector<sup>1</sup>



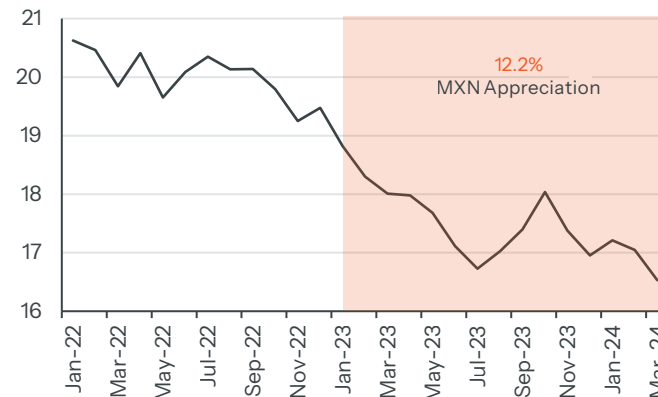
Source: Banxico

Inflation vs. Interest Rates



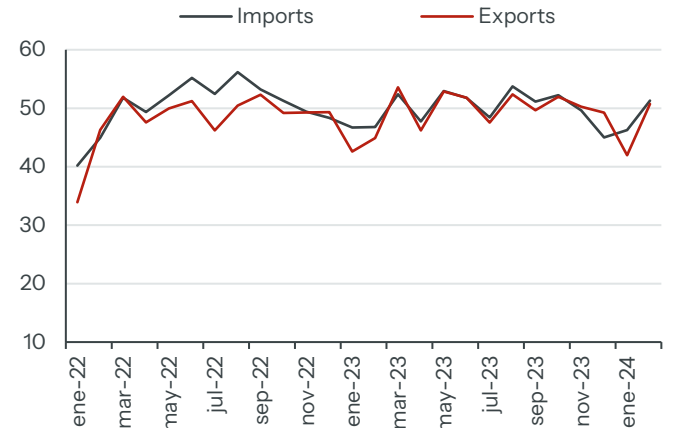
Source: INEGI

Exchange Rate (USD/MXN)



Source: Banxico

Trade Balance (Billion USD)

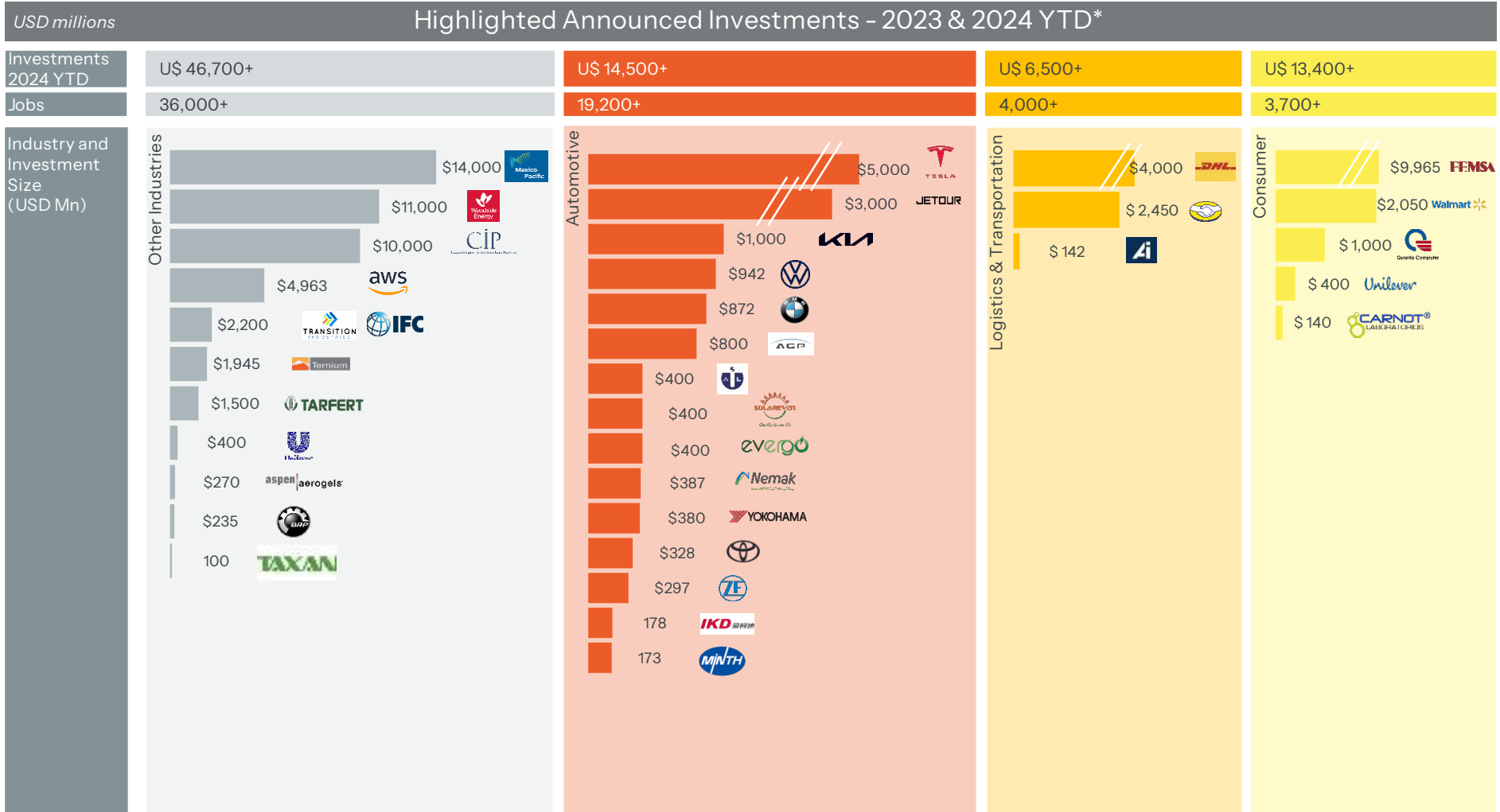


Source: INEGI

<sup>1</sup>: Base Index= 100

# Leading Investments

The country's situation remains attractive for foreign companies thanks to its geographical position, the quality of its labor force, rich natural resources and openness of the government



\*Note: The information included in this slide is based on public announced investments \*YTD= Year to Date

# Recent Investments

The investment announced by Mercado Libre is the largest in the last three weeks, further promoting Mexico's e-commerce growth and its technological innovation

USD millions							Latest Investments Announced in 2024						
Investment Type	Investment Size (USD)	Sector	Announcement Date	Company	Location	Details							
Logistics & Innovation	2,450 Mn	E-Commerce	14/03/2024		Mexico	This represents the biggest investment made by the company in the country. In 2023, Mexico positioned itself as the country with the highest retail e-commerce growth in 2023, with an increase of 24.6% compared to 2022. This investment will be used mainly to improve logistics, technological innovation and marketing improvements.							
Production Plant	380 Mn	Automotive	27/03/2024		Saltillo	The car tire production plant will have an annual production capacity of 5 million tires. The plant will have access to a major rail line and highway that facilitating the timely supply of tires to customers across North America.							
Automotive Parts Production	178 Mn	Automotive	12/03/2024		Guanajuato	The intended application of the investment remains pending confirmation; however, one potential allocation involves the establishment of a new industrial plant. This consideration is underscored by the ongoing construction of a 30,000 m <sup>2</sup> space designated for company use. IKD's products include windshield wiper systems, steering, engine, among others. This investment will generate approximately 1,000 new jobs.							
Production Plant	173 Mn	Automotive	11/03/2024		Aguascalientes	The automotive industry represents around 24% of the state's GDP. The investment will be used for the construction of two plants, one plant dedicated to the manufacture of EVs <sup>1</sup> batteries and the other for auto parts painting processes.							
Production Plant	100 Mn	Manufacturing	11/03/2024		San Luis Potosí	TAXAN is a manufacturer of electronic microcomponents which announced last month an expansion project with the development of two new plants in the state in order to expand its electronic card manufacturing capacity.							

<sup>1</sup>EVs: Electric Vehicles

\*Note: The information included in this slide is based on public announced investments

# Relevant News

The continuous growth in the electric vehicle market remains, leading a struggle among different countries seeking to maintain a competitive position in the automotive sector

## Real Estate M&A

Fibra<sup>1</sup> Prologis proposed to acquire Fibra Terrafina through a takeover bid in February for up to 100% of Terrafina's CBF<sup>2</sup>. In this way, Fibra Prologis will reach a share in terms of industrial space of around 8% of the industrial real estate sector, totaling 88.9 M ft<sup>2</sup> distributed in 455 properties. The company will discuss this matter during the next annual meeting scheduled for early April.



Recent Developments

## Chinese Electric Vehicles

US government is considering measures to exclude Chinese EVs from its market, based on concerns related to unfair competition and national security. The intention of BYD to establish a plant in Mexico has raised concerns about its eventual access to the US market. In parallel, an investigation into the potential security risks associated with highly connected Chinese EVs is ongoing.



## Battery Trends

The Department of Energy in the US has preliminarily approved financing for USD 710 M to projects managed by companies in the EV<sup>3</sup> and semiconductor sector, which states a growth in the development of battery manufacturing plants of EVs in the US and a national increase in semiconductor manufacturing, leading to an ever-growing competition in the manufacture sector.

## Foreign Direct Investment Statistics

Mexico has reestablished its position in the top 25 most attractive countries for Foreign Direct Investment at a global level. After a period of four years outside this ranking, the country now occupies 21<sup>st</sup> place. This recovery is expected to continue owing to an increase in the flow of capital from abroad and the consolidation of the country as a nearshoring destination.

<sup>1</sup>FIBRA: Real Estate Investment Trust (for its acronym in Spanish)  
<sup>2</sup>CBFI: Real Estate Trust Stock Certificate (for its acronym in Spanish)  
<sup>3</sup>EVs: Electric Vehicles

# About Us

Kanan provides a comprehensive approach and offers an extensive array of corporate finance, investment banking, and restructuring solutions tailored to meet the needs of investors, companies, and lenders across all company life stages.

For more information and additional inquiries regarding this report please contact the following professionals:

Daniel Alejo  
Managing Partner, *Head of IBD*  
[D.Alejo@KananFinancial.com](mailto:D.Alejo@KananFinancial.com)

Mauricio Espinosa  
Partner, *IBD*  
[M.Espinosa@KananFinancial.com](mailto:M.Espinosa@KananFinancial.com)

Carlos Aguilar  
Associate, *IBD*  
[C.Aguilar@KananFinancial.com](mailto:C.Aguilar@KananFinancial.com)

Alonso Silva  
Associate, *IBD*  
[A.Silva@KananFinancial.com](mailto:A.Silva@KananFinancial.com)

Kenya Robles  
Intern, *IBD*  
[K.Robles@KananFinancial.com](mailto:K.Robles@KananFinancial.com)



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