

Industry Insights

Nearshoring in Mexico



Introduction

In this edition of our Industry Insights, we examine and analyze prevailing macroeconomic indicators, commercial trade metrics, and demographic figures encouraging the relocation of top-tier international companies' production and supply chains into Mexico, denominated as the Nearshoring phenomenon.

Nearshoring has not only catalyzed a surge in foreign direct investment across the nation but also harnessed the potential of Mexico's advantageous geographical position, its robust commercial partnership with the United States, the increasing growth of the industrial real estate sector, and its vast qualified and cost-efficient labor force.

These mentioned dynamics have boosted the country's economic performance, leading to significant increases in GDP volumes, and driving the expansion of high-value goods production while placing the country within the top percentiles of global growth.

Key Takeaways

- Mexico dominates industrial real estate development in Latin America, benefiting from strategic proximity to the US, free trade agreements with several countries, a solid transport infrastructure, and cost-efficient labor costs, contributing to a total market size of US\$ 52 Bn, with the Nearshoring phenomenon as one of the leading catalysts.
- The North and Bajío⁽¹⁾ regions have become the most appealing investment destinations, with demand for industrial real estate exceeding supply and agents seeking suitable land space to leverage on Mexico's commercial benefits.
- Nearshoring spurred a 10.2% annual growth in property construction, highlighting industrial developers' swift actions. Mexico needs to build over 25 industrial parks by 2024 to respond to the increased space demand.
- Manufacturing activity led Foreign Direct Investment (FDI) attraction in H1 2023, with a 21.5% increase over 2022's full-year values, as international investors sought Mexico's multiple trade and cost advantages for industrial development.

(1): The Bajío is a geographical and economic region of north-central Mexico including the states of Aguascalientes, Jalisco, Guanajuato, Querétaro, San Luis Potosí, Michoacán, and Zacatecas.

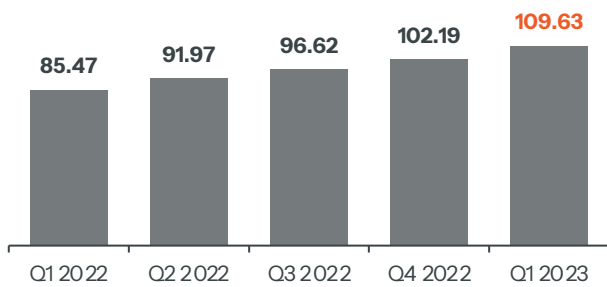
Key Performance Indicators

Industrial Real Estate | Mexico

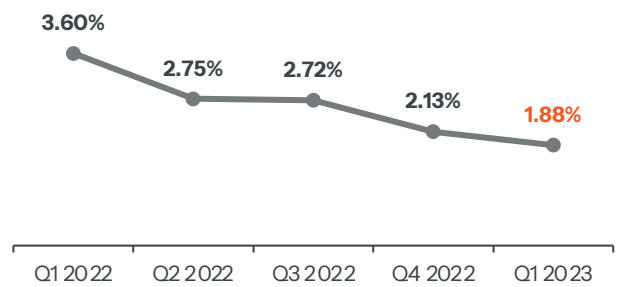
Latest Activity | Q1 2023

Total Active Land Size 109 ▲ Million m ²	Vacancy Rates 1.9 ▼ %	Land Availability 2.1 ▼ Million m ²	Under Construction 5.2 ▼ Million m ²	Avg. Asking Rent 5.8 ▲ U\$/m ² /month	Industrial Parks 430 ▲ Count
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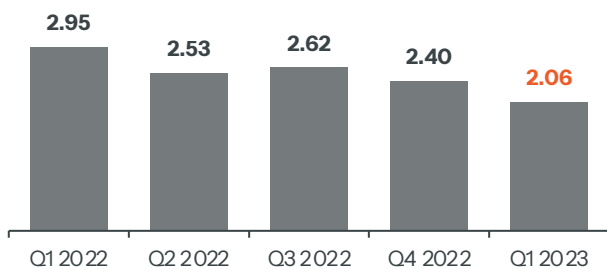
Total Active Land Size (Million m²)



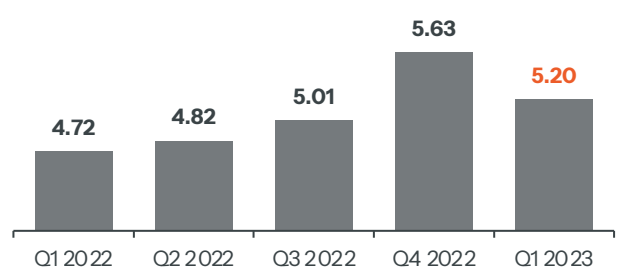
Vacancy Rates



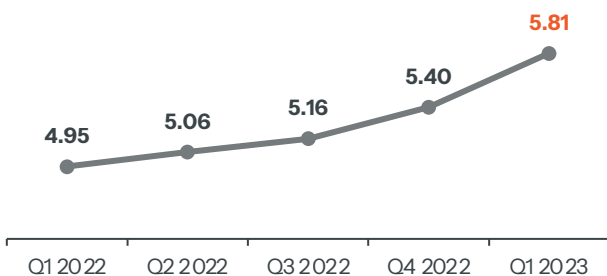
Land Availability (Million m²)



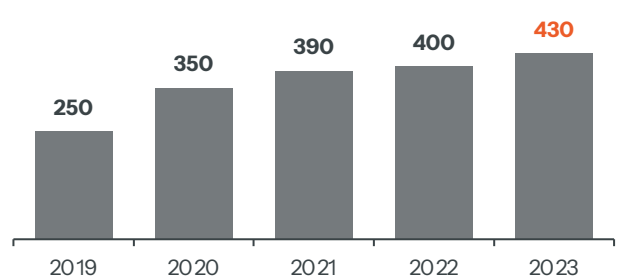
Under Construction (Million m²)



Avg. Asking Rent (U\$/m²/month)



Industrial Parks Count



Source: NAI Mexico / AMPIP/ Cushman & Wakefield

A Sustained Upswing in the Mexican Industrial Real Estate (IRE) Sector

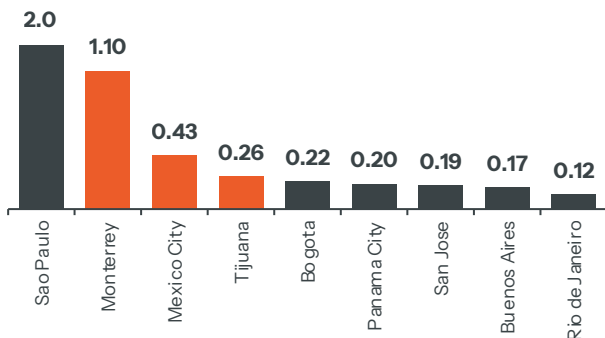
Following the post-pandemic recovery stage and economic activity resuming, industrial space demands from global manufacturing agents began to increase at unprecedented levels, as key companies aim to expand operations and target more key consumption markets to attain supply chain disruptions and optimize operations.

Having access to well-located IRE has become a critical component of global supply chains to facilitate trade and e-commerce while also ensuring the efficient movement of goods from one market to another. The current global supply chain crisis has opened an unbeatable opportunity for the Latin America region (LatAm) to position itself as one of the newest manufacturing hubs in the world.

With demand for IRE space increasing and agents seeking cost-effective and strategic geographic locations, rental prices in LatAm continue to rise, as availability and vacancy rates drop. Also, already settled agents continue to experience significant profit expansion due to multiple advantages Mexico offers in the sector.

Looking to seize future opportunities and to increase market share, Mexico intensified the construction of IRE, amounting up to 2 million square meters (Mn m²) in three main cities, aiming to cover the increase in demand prompted by foreign firms' expansion objectives.

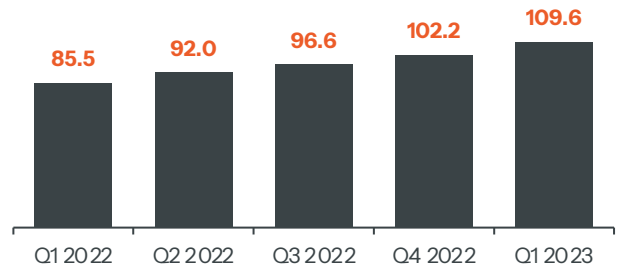
IRE Under Construction in 2023 (Mn m²)



Source: Newmark Industrial R.E. Report

Mexico and Brazil are the largest LatAm players for IRE development; however, Mexico has a clear advantage due to its favorable geographics with +3k km of shared border with the US, supply chain efficiencies, cost-effective labor opportunities and vast transport infrastructure, valuing the IRE market in ~US\$ 52 billion.

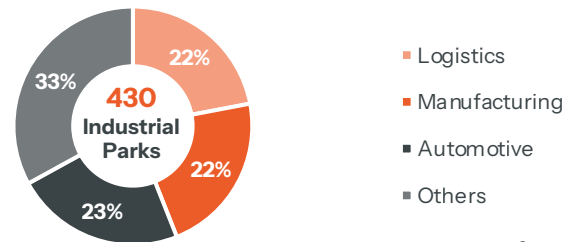
Mexican IRE Active Land Size (Mn m²)



Source: NAI Mexico

Mexico's IRE sector is widely expanding, amounting to 430 industrial parks, strategically located where logistics, infrastructure, and costs maximize efficiency. Following a threefold increase in post-pandemic occupancy rates, Mexico has emerged as a prominent player among leading countries in the establishment of new manufacturing, logistics, and automotive centers; with the Nearshoring phenomenon contributing to the upward trend.

Submarkets by Industrial Parks in Mexico (Q1 2023)



Source: AMPIP

Evolution of the Nearshoring Market in Mexico

Nearshoring has raised as a definitive alternative to optimize supply chains around the world, not only focusing on processes and synergies but also offering cost-efficient solutions within a price-escalating environment.

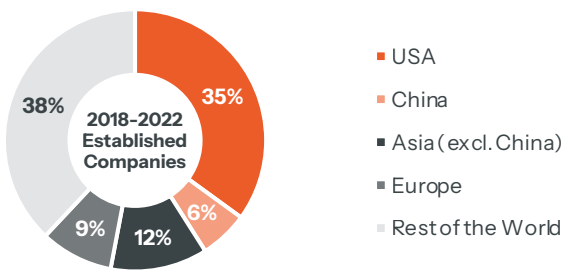
Global investors have been considering Mexico as a strategic manufacturing hub to settle part of their productive operations. Besides the country's unique geographic location, infrastructure, and low-cost qualified labor force, Mexico has direct connection with more than 50 countries, through 14 Free Trade Agreements, being the US its foremost commercial ally.

Political and commercial tensions between the US and China have prompted many companies to undertake factory relocation. Players in Europe and Asia are eyeing Mexico's competitive advantages in terms of global trade policies, regulations, and fiscal incentives.

Mexico has a historic opportunity due to the Nearshoring boom; with this movement expected to play out over decades, as local economies build the required infrastructure and expertise.

During the 2018-2022 period, a total of 830 new companies relocated to Mexico, which translates into an average of 207 new companies per year; nevertheless, during 2024-2025, a total of 453 new companies are expected to relocate to Mexico, an overall increase of 9.4% on a yearly basis over the figure recorded in 2018-2022.

Origin of Established Companies in México

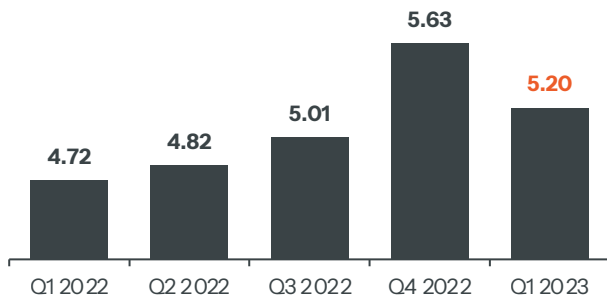


Source: NAI Mexico

Northern and Bajío regions have become the greatest investment attractors in the country, where demand for IRE is outpacing supply.

According to FAM⁽¹⁾, Mexico needs to build ~25 industrial parks, by the end of the current presidential term, to meet the increasing demand driven by Nearshoring. This presents a huge opportunity for investors to expand their project portfolio and increase profits in line with the recent price upswing, in the mentioned regions.

Mexico's IRE Under Construction (Mn m²)



Source: NAI Mexico

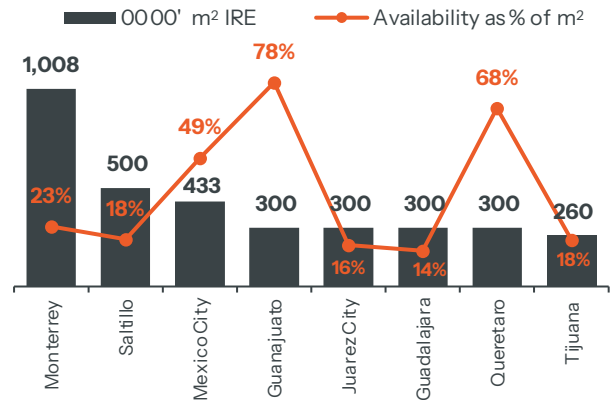
The imminent tsunami of foreign supply chain relocations fostered the 10.2% annual increase in property construction in Q1 2023, proving industrial developers' efforts to rapidly building

(1) FAM: Foreign Affairs Ministry

suitable assets, aligned with international agents' requirements to maximize profit generation.

Outstanding cities for property development such as Guanajuato and Monterrey, have the highest availability in terms of m². With +5.2 Mn m² of projects under construction, these cities are leading most of the IRE developments in 2023 and will be the main Nearshoring attractors.

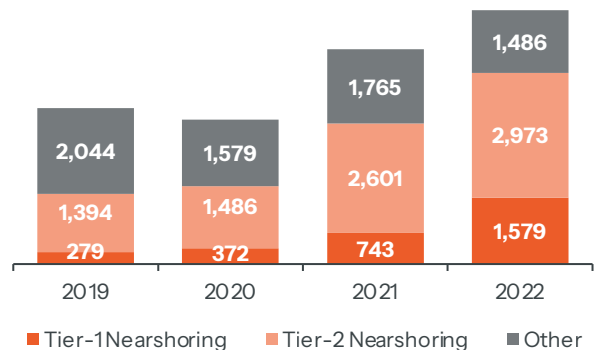
2023 IRE Under Construction by City



Source: NAI Mexico

Every major industrial city in Mexico has a positive net absorption rate, signaling confidence in the market and high demand for IRE, especially in the Northern Region. Nearshoring-related gross land absorption has been increasing at an average 42.4% rate since 2019, evolving from a 45%, up to a 75.4% participation of total gross absorption. This shows how Nearshoring influenced real estate focus in the country, with industrial rental prices increasing, and consumption progressing in key markets.

Total Gross Absorption in Mexico (m²)*



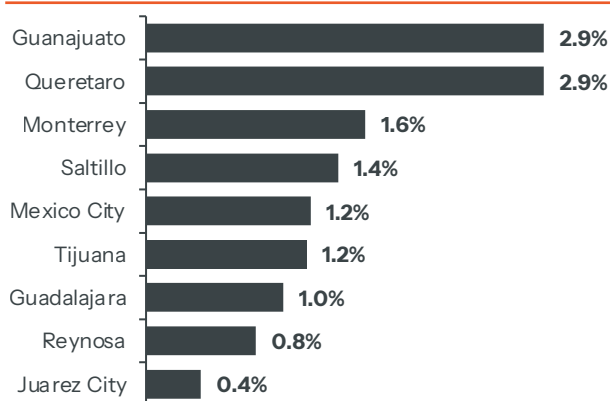
Source: Prologis

*Note: Tier-1 = New absorption for manufacturers arriving in Mexico to serve North America.
Tier-2 = Includes B2B logistics' providers focused on import/export activity, as new space absorbed by local companies

Similarly, the mentioned growth proves the thriving need for international companies to re-settle their supply and logistic chains along the Mexican territory, to produce at lower costs and expand their portfolios. Potential international manufacturing tenants remain keen on aiming towards the Mexican territory, as the risk for settlement is minimal due to the dollar-denominated leasing schemes.

Therefore, global investors will most likely be shifting their strategies focusing on better investment returns in Mexico, as IRE projects in the country preserve higher cap rates than other comparable properties in the sector.

Vacancy Rates Q1 2023, IRE



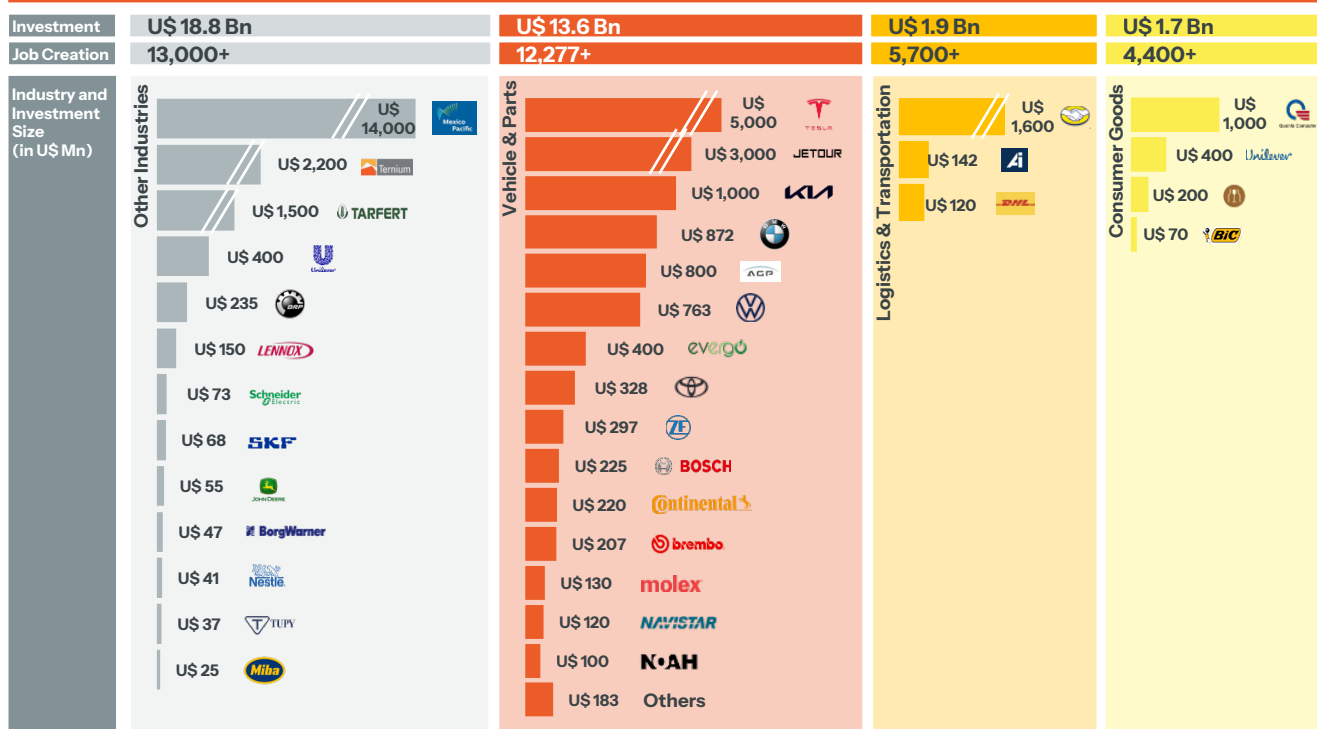
Source: Prologis, CBRE

To showcase this upper performance, during Q1 2023, the average capitalization rates (cap rates) for A+/A Office Buildings were situated within the [9-11%] range, while Industrial A-Developments experienced cap rates ranging from [8.5% -10%] in the same period.

Several international agents have already established offices and production centers around the main cities in the country. Hence, vacancy rates have never been lower, averaging 1.5% in major cities, with manufacturing companies looking to relocate their business and production centers, as all mentioned advantages in Mexico vastly surpass Latin American peers.

Nearshoring presents Mexico with a momentous and unprecedented opportunity, capitalizing on the nation's strategic geographical advantage and appealing labor conditions. This convergence of factors has spurred an unprecedented surge in demand for IRE, propelling availability rates to historic lows, swelling prices, and instigating a remarkable upswing in new project developments across the entire nation, with the Northern Region standing out as a noteworthy hotspot for investment development especially within the vehicle and logistics industries while enhancing job creation.

H1 2023 Nearshoring Investment and Employment Impact in Mexico

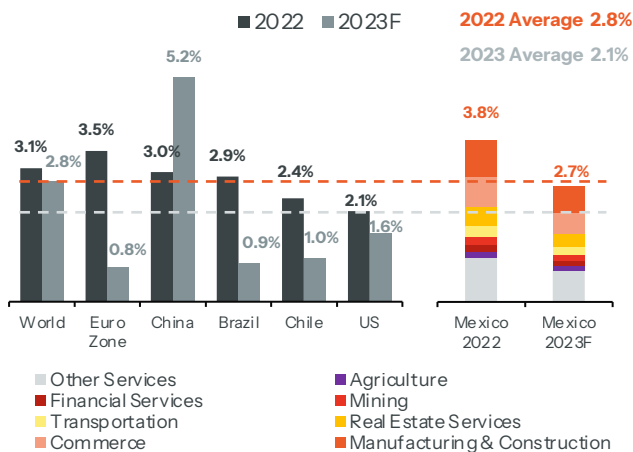


A Glimpse of the Promising Economic Horizon for Mexico

During the recent post-pandemic recovery era, global economies' efforts to regain previous superfluous growth trends were hampered by Russia's invasion of Ukraine, sky-high inflation levels, supply-chain bottlenecks, and persistent interest rate increases led to a harsh investment environment in which capital markets highly drifted from previous levels, while recession fears in the US economy persist.

However, Mexico has experienced a wide-ranging performance towards top economies and its main peers, in terms of gross domestic product (GDP) growth and headline inflation control. In 2022, the country's GDP experienced a 3.8% increase over the previous year, outperforming not only the US and China but also global performance. In terms of GDP value, Mexico remains as the 2nd major country in Central and Latin America, only behind Brazil.

Mexico GDP Growth vs World (Annual % Change)

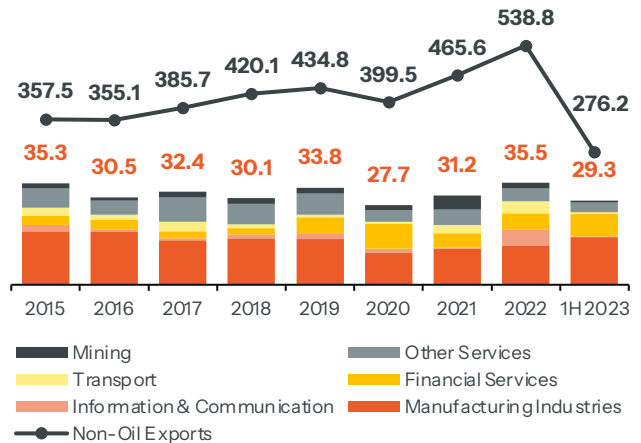


Source: Banxico, IMF, OECD

While global economies continue to struggle with sticky inflation, condensed industrial activity, and low investment levels, Mexico's monetary policies, combined with prudent fiscal decisions have effectively held the surge in major product prices, while keeping FDI levels steady to sustain economic growth.

Mexico has leveraged private investments in the manufacturing and commercial sectors, as international companies seek to relocate their production centers to alleviate supply chain bottlenecks.

Mexico's FDI by Sector & Non-Oil Exports (US\$ Bn)



Source: Ministry of Economy

The manufacturing industry continues to influence FDI attraction, covering 48.6% of annual amounts on average. As the leading contributor, the sector's 2022 FDI values improved by 21.5% against its pandemic levels, significantly stimulating non-oil exports growth; moreover, it led the FDI abrupt surge in H1 2023, with a 20.5% increase over 2022's full-year values, as international investors sought safe and promising countries in the aftermath of the Russia-Ukraine events.

Significant FDI inflows from the US, Canada, and the UK were directed toward new developments and profit reinvestment, confirming investors' confidence in Mexico's economic prospects as Nearshoring continues to expand.

These factors have boosted the country's productivity, expanded production and positioned the unemployment rate at its lowest point in history; while placing the country within the top percentiles of global growth.

Although the monetary hawkish trend is estimated to prevail through 2023, significant interest rate cuts will occur if inflation continues to fall. As a result, a more favorable economic environment will most likely boost investment confidence, as companies look forward to financing new infrastructure projects while employing a larger labor mass to sustain their growth ambitions.

Mexico's GDP is expected to grow at a 2.7% annual rate in 2023, with an estimated 8% growth potential over the next 5 years, with Nearshoring development being one of the key catalysts for the upcoming years.

A Powerful Commercial Ally for the US

Exports and commercial relationships have strengthened by more than 122% during the last decade with key markets around the globe. Given the vast number of free trade agreements, the country has excelled in producing all-type passenger cars, charge vehicles, as well as electrical equipment with a great market value.

Mexico's active commercial relationship, industrial performance, and product variety have propelled the country to become the US's second-largest trading partner and the number one exporter in Latin America for the 35th consecutive time, encompassing more than 31% of the total exported goods in 2022.

2022 Exports Value (Mexico vs LatAm & Caribbean)



*As of total Latin America & Caribbean Exports

Source: World Bank

The US continues to rely on Mexico for a huge amount of its imported goods, as the country owns a wide production portfolio with a solid international regulatory framework, fostering high-value product trade year after year.

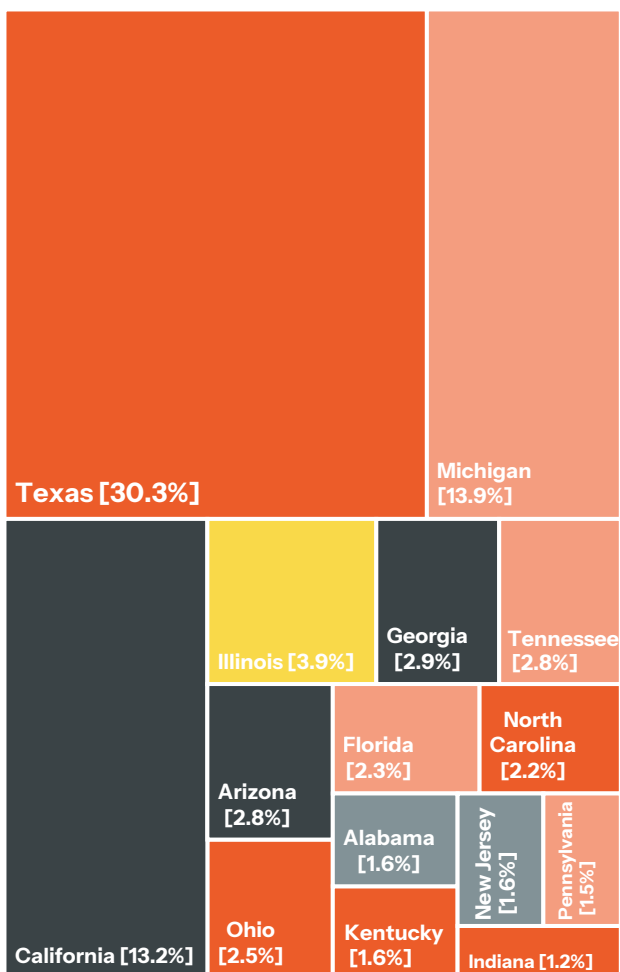
During the first half of 2023, US imports from Mexico increased by 5.4% compared to the same period in 2022, with near 50% of total imports going directly to US border states with Mexico, implying a huge infrastructure and logistics advantage between both countries, resulting in optimal product delivery.

Hard Machinery, Vehicles & Parts, and Electric Machinery & Electronic Equipment are the top imported products within US states. With this diverse import portfolio, Mexico proves its huge thrive to export cutting-edge technological and construction-related products that are critical for industrial development in the US.

(2) CAGR: Compound annual growth rate

H1 2023 US Imports from Mexico (Top-15 States)

236 US\$ Bn - Total US Imports



- Hard Machinery
- Vehicles & Parts
- Fuel & Minerals
- Electric Machinery & Electronic Equipment
- Beverages & Spirits

Source: US Census Bureau

The 5-year CAGR⁽²⁾ for exported products is about 8.0%, with Hard Machinery and Vehicles leading the upswing.

Mexico's remarkable economic performance, bolstered by its robust trade relationships and competitive advantages, paints a promising outlook for Nearshoring consolidation.

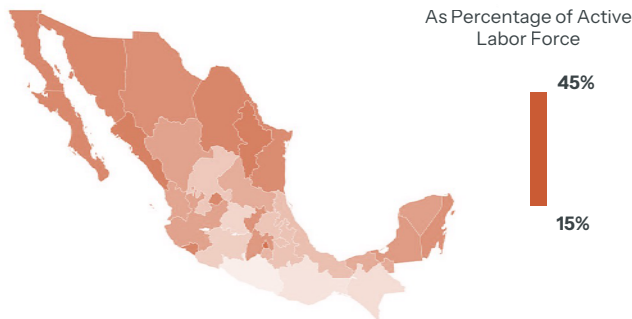
Nearshoring will solidify Mexico's position as the leading exporter in LatAm while diversifying its portfolio of high-value products to remain a reliable source of imported goods for the US and increase the attraction of investments from top international agents within the industrial sector.

Qualified and Competitive Labor Force to Enhance Nearshoring Boom

Mexico stands out with its vast and highly skilled labor force, a cornerstone that consistently bolsters its competitive edge in production factors and beckons foreign investments.

As the 10th most populous nation, Mexico covers 1.6% of the global population with a favorable demographic pyramid of 47% of people in the range of 15-64 years, considered within the country's workforce mass. The Northern Region is the most appealing regarding qualified labor mass, as +30% of the region's workforce has superior education, which signals a reservoir of potential for economic growth and development

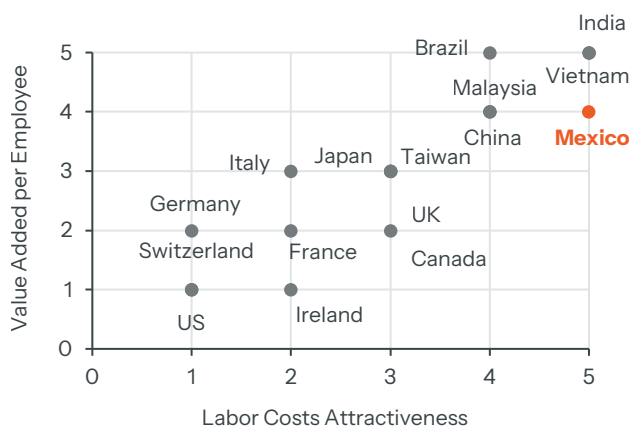
2022 Mexico's Qualified Labor Force*



(*) People counting with superior education and above.

Source: INEGI

Ranks for Quality & Cost of Labor (5 - Being Best)



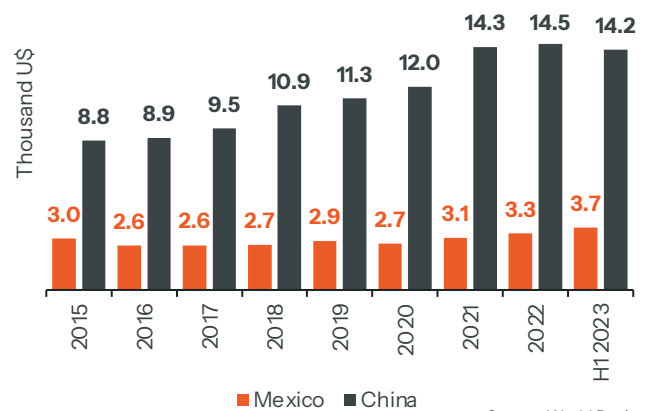
Source: Cost of Manufacturing Operations Around the Globe

The level of professional training exhibited by the labor force, coupled with an advantageous cost-productivity ratio per employee, positions the country among the top three nations for employee salaries and work efficiency per hour.

Notably surpassing economic powerhouses such as China and Taiwan, Mexico showcases a remarkable equilibrium between compensation and output, fostering an environment ripe for sustainable and efficient production.

Mexico's undeniable strengths in the realm of Nearshoring stand as a gateway to remarkable advantages. The nation's skilled workforce, coupled with its industry-specific expertise, offers a potent recipe for achieving cost-efficiency without any sacrifice to productivity.

Avg. Annual Salary for Manufacturing Workers



Source: World Bank

In fact, 2022 saw the average Chinese manufacturing worker earning around US\$ 14.5K, while a Mexican worker earned a significantly more competitive US\$ 3.3K on a yearly basis. During the H12023 Chinese wages experienced a small decrease; nevertheless. The wage differential persisted, which combined with Mexico's strategic geographical proximity to the US, creates a fertile ground for businesses aiming to optimize costs while maintaining operational excellence.

Mexico emerges as the leading player for Nearshoring potential, encapsulating cost-effective production, a promising ecosystem for manufacturing, and a bridge to connecting innovation across borders. As businesses contemplate expansion strategies, Mexico's compelling advantages beckon as a catalyst for sustainable economic growth and employment opportunities, positioning the country in the top percentiles of overall development.



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We provide expert guidance to clients seeking business/asset acquisitions or investments by identifying suitable opportunities, market analysis, and conducting due diligence, structuring deals, to ensure the transaction. Assisting clients in making informed decisions, optimizing their investment strategies, and achieving their growth objectives.

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