

## **SPEAKING OF ALTERNATIVES**

### **S1 EP13: Let's Talk Mexican Industrial Real Estate**

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W: Speaking of Alternatives with Laurie Chan, U.S. Head of Alternative Solutions at PGIM Investments. The industrial real estate market in Mexico is a dynamic area in which to invest. While it is affected by the unpredictable nature of current trade relations with the United States, it offers multinational companies great potential for profitable growth and diversification, and it is rife with opportunities today. Laurie explores the world of the Mexican industrial real estate market with Enrique Lavin, Head of Latin America for PGIM Real Estate.

LC: Welcome to Speaking of Alternatives, the podcast where we dig deep into the many layers of the alternatives landscape. I'm your host, Laurie Chan, and today we're diving into the Mexican industrial real estate market. Nearshoring has driven significant growth in Mexico from 2022 to 2024, but we've seen a notable slowdown during the first quarter of 2025. Today, we will unpack whether this is a temporary dip, a new norm, or part of a larger trend.

We're recording this live against a backdrop of significant market uncertainty. Global trade tensions are reshaping the investment landscape making our topic not just timely, but critical for investors and industry watchers alike. To help us navigate this complex landscape, I'm thrilled to be joined by our guest, Enrique Lavin, Managing Director at PGIM Real Estate and head of LatAm. Enrique, bienvenido, welcome.

EL: Thank you, great to be here, Laurie.

LC: Before we dive into market specifics, can you share with us how you came to specialise in Mexican industrial real estate and perhaps share your journey more broadly? What got you into investment management?

EL: Well, I've been doing institutional real estate in Mexico for 20 years now. I would say that I was initially drawn to the space as a result of a keen interest I had in finance. After having some experience working in a bank doing corporate finance, I literally learned about finance and I was fascinated, including a few real estate projects that I had a chance to work with. And this interest was coupled with a world of opportunities that the industry in Mexico offered back then. As a nascent real market evolving

so fast forward, this interest has taken me through a 20-year journey in the industry in which I have enjoyed every one of them with PGIM. I've been working for almost 15 years and before being appointed Head of LatAm about three years ago, I spent some time in a variety of roles that included portfolio management, capital markets, business development. And prior to PGIM between '05 and 2010, I worked for GE Real Estate and also Credit Suisse in the Real Estate Investment Bank Division. Lastly, I will say that as Head of LatAm, my primary responsibility is to drive growth and performance for the region.

LC: Great, Enrique. I'm sure you've seen a lot of interesting deals over the past two decades. Let's dive right into the heart of recent developments. The April 2nd tariff announcement has sent shockwaves through the global markets and has evolved in the last few days with constant changing headlines. There's a lot of uncertainty out there with the global trade war and also on and off tariffs. As an expert in Mexican real estate, what's your assessment of its impact on the industrial sector there?

EL: Sure. Well, this was a key date in the Mexican calendar. And just as a quick reminder, last April President Trump announced tariffs for a large list of countries, and prior to this date, Mexico and Canada were assessed a 25 percent tariff across the board that had been postponed a couple of times. Mexico and Canada apparently got the better part of this new announcement as they were tariff exempt of any goods compliant on their USMCA. So, a few things to highlight here.

First and foremost, this outcome for Mexico is significantly better than expected. Previous consensus was that the 25 percent tariff for Mexico will hold, but that will be considered as a starting point for a negotiation with a Trump team. So, this positive and expected outcome has definitely removed a good amount of uncertainty from the system.

Secondly, with this, Mexico secures, at least for now, a leading role as a leading global manufacturing platform, which obviously is highly important for us. And lastly, as you know, China has been slapped heavy tariffs which is Mexico's traditional rival in the attraction of foreign investment. So, this is sort of the cherry on the cake as it makes Mexico more attractive in relative terms when compared to its peers.

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W: Global trends such as nearshoring carry significant opportunity. For a variety of reasons, Mexican industrial real estate is an attractive market niche.

LC: Enrique, that's offering a very constructive view for Mexico. So what are some potential macro challenges, and perhaps any other that balances view?

EL: Well, of course, we have to wonder how things evolve in this environment in which a potential recession is in the cards. I'll be happy to expand a little bit on this later, but more specifically, another challenge is for Mexico as a country as it definitely needs to step up in regard to infrastructure, particularly regarding energy. The energy supply is and has been behind the world of industry, which then translates into delays and lack of visibility for developers. While the new administration with President Sheinbaum has been very constructive and has a clear intent to address the issue, I do think we still have a way to go.

LC: Got it. So definitely some concerns, but I think overall net positive. So, if you had one minute to convince us that there is a real opportunity in the Mexican industrial real estate market right now given the macro backdrop, what would you say?

EL: Absolutely. This tariff exemption for Mexico will definitely give a renewed momentum to this nearshoring way that started about four to five years ago. And just for context, let me tell you that, as you said, between 2022 and 2024 as a result of this, the industrial real estate in Mexico had a nice run. It experienced phenomenal growth in which we saw nominal demand grow about 50 percent from 40 million all the way to 60 million of square feet year-over-year. Most importantly, this growth came coupled with double-digit rent growth as demand consistently was exceeding supply. So again, a return of nearshoring will make prospective tenants once again gravitate to Mexico as a prime destination for local manufacturing in a preferential geography that they are already familiar with, and offering the potential to integrate to existing supply chains that are already fully operational.

Additionally, I would say that it's easy to predict that now that incentives have been clearly laid out. Exporters from Mexico will have to adopt strategies to comply with that USMCA rules of origin. Let me explain, to achieve this they'll clearly have to step up the North American content. And all of these, again, offer an opportunity to boost regional manufacturing ecosystem with its corresponding real estate projects that, therefore, can achieve Day One tariff exemption from USMCA.

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W: With so much volatility in the area of U.S. trade relations currently, it can be

difficult to assess the relative risks and opportunities of any given market. As always, thoughtful evaluation of fundamentals is essential.

LC: So, I'm hearing that Mexico may come out as a relative winner despite this volatile market backdrop. Let's dig a little deeper into the specifics. Where would you say are the real areas of focus or tailwinds for you right now?

EL: When it comes to tailwinds, I think we're keen on adding exposure to opportunities that are supported by tenants in some of the following sectors, markets, and strategies that overall we see as supportive to any tariff scenario. So this is a case of semiconductors, health care, consumer staples. The growth of these sectors can be attested by the performance of the Mexico City and Guadalajara markets which really outstood and were the ones that produced rental growth in the first quarter of this year, even in the middle of all this tariff noise and uncertainty.

Similarly, we would pursue opportunities to capture expansions of existing tenants that are already operating in Mexico and know how to benefit from it. These are tenants from multinational companies that, in some cases, we've known for ten to 15 years, and we know that they have been successful in navigating all stages of the cycle. Last, but not least, tenants in that logistics and distribution business in their different formats, be it e-commerce, or third-party logistics, these are tenants whose current growth are being supported by clients that are currently doubling their requirements of warehouse space to building, so they can mitigate uncertainty from potential supply-chain disruption from potential price volatility.

LC: Great, Enrique. What are some of the key headwinds you're seeing?

EL: Well, on the other side, we remain cautious. We remain prudent on adding development projects. And I would say that this would be the case in the next six to 12 months. Vacancies have recently increased, and it may take some time to absorb. We're also cautious in the auto sector. It's still unclear how both U.S. and international vehicle manufacturers will adapt to the new trade policy. Which ones will thrive, or which ones will close is still a big unknown.

And lastly, of course, clashes with Chinese tenants with whom we've been pretty distant since more than three years ago. Since then, we felt that this model of going through Mexico as a backdoor to do that tariff arbitrage was clearly not sustainable. But overall, needless to say, that we have a

chain routine that we've been working together for almost 11 years, and a proven ability to successfully change our focus across different markets, across different sectors as we see best for investment strategy. So, we're really confident that we can execute on these opportunities and, of course, deliver attractive returns.

LC: Right. I think that was a very comprehensive overview of the opportunities and maybe some of that headwinds and tailwinds that you're seeing. At PGIM we always strive to address the most pressing concerns of our clients and partners. Our distribution teams are constantly in touch with investors and have gathered questions from the field. Let's go through a few of these right now. The first one is a question that may be on many investors' minds. Enrique, how would the scenario we've been discussing in Mexican industrial real estate play out in a more challenging backdrop, specifically, a recession in the U.S. economy?

EL: Well, nobody has a crystal ball, but I would say that in our experience at PGIM with this asset class, for example, during the global financial crisis, we saw that as revenue slowed down, production cuts, if not shutdowns, were primarily done at the high-cost facilities, namely in the U.S. in states like North Carolina, Texas, among others. Accordingly, these same companies were protecting the local manufacturing facilities based in Mexico to continue to be active and relevant even during the downturn, and more importantly, to be ready to react while the economy turned the corner and sales would pick up. But again, it's been critical for us to build from our experience that we've built in these 20 years in these markets to know what which kinds of companies, which kinds of tenants have performed during the downturn and which submarkets have proven resilient.

LC: Great. Are there any specific examples within Mexican industrial real estate that might show more resilience during a U.S. recession?

EL: Well, as I said, we find that consumer staples or basically non-discretionary consumption is highly defensive in this environment. Examples of this are Walmart, Pilgrims, the food company, that they're actually conducting expansions since the beginning of this year. Also, we see logic operators that have proven to be very active in the beginning of the year. Such is the case of Amazon, DHL. These are mostly related to the local economy. I have to say that they are of high interest for investment strategies.

LC: Yes, those are some great examples there. So Enrique, let's stay with

questions from the field. Here's one that looks at both immediate impacts and future projections. I know you're based in Mexico City and have a team with boots on the ground, what are you seeing as the short-term reaction to this recent tariff announcement? And if you had your crystal ball, what would be your long-term outlook?

EL: Sure. We've actually seen some immediate reactions. Within 48 hours of the tariff exemption announcement for Mexico, names like Volvo announced on April the 3rd that they're increasing to one billion from 700 million their investment in their truck factory in Mexico which is slated to begin production in 2026. Similarly, Lego, the toy manufacturer, announced a half-billion investment to expand its facility in Monterrey, Mexico, and it will become their largest in the world. Pilgrims Food, which I just mentioned, announced that they will lay out an investment plan of 1.1 billion in the next five years in Mexico to increase production in the country. We'll continue to monitor how things evolve in the coming days and coming weeks. However, we knew beforehand of a number of tenants on a kind of wait-and-see-mode seeking more visibility on trade policy to make investment decisions in Mexico.

But to the second part of your question in regard to our outlook for the long run, we definitely have a very high conviction in the space. We're strongly convinced that a revamped nearshoring wave is about to take off, and we're ready to capture these opportunities. And most importantly, and once again, to deliver attractive returns for investors. There's no question that Mexico's preferential position in the new trade policy will drive incremental demand for industrial real estate and will sequentially drive rent roll as well.

LC: Enrique, this has been an incredibly inciteful conversation. As we wrap up here, I'd like to summarize what I heard as the three key takeaways from our discussion today. First, while the global trade war presents volatility and uncertainty, Mexico emerges as a relative winner under the current tariff rules, strengthening its position as a global and regional manufacturing hub. Second, the nearshoring trend will continue, driven by global supply chain restructuring, although the pace may be tempered by broader economic concerns and potentially a recession. And lastly, PGIM's history in navigating multiple market cycles over the past 20 plus years, coupled with its specialized industrial platform in Mexico, positions it to capitalize on these challenges and opportunities. Gracias, Enrique. Thanks for sharing your expertise and incites with us today.

EL: Thank you, Laurie. Glad to be here and anytime.

LC: And to our listeners, thank you for tuning in to this episode of Speaking of Alternatives. We hope you found today's discussion informative and helpful. Join us next time when our guest will be Dan Matviyenko, Portfolio Manager for Healthcare Strategies at Jennison Associates. He will be here to talk about all things healthcare solutions on Speaking of Alternatives.

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