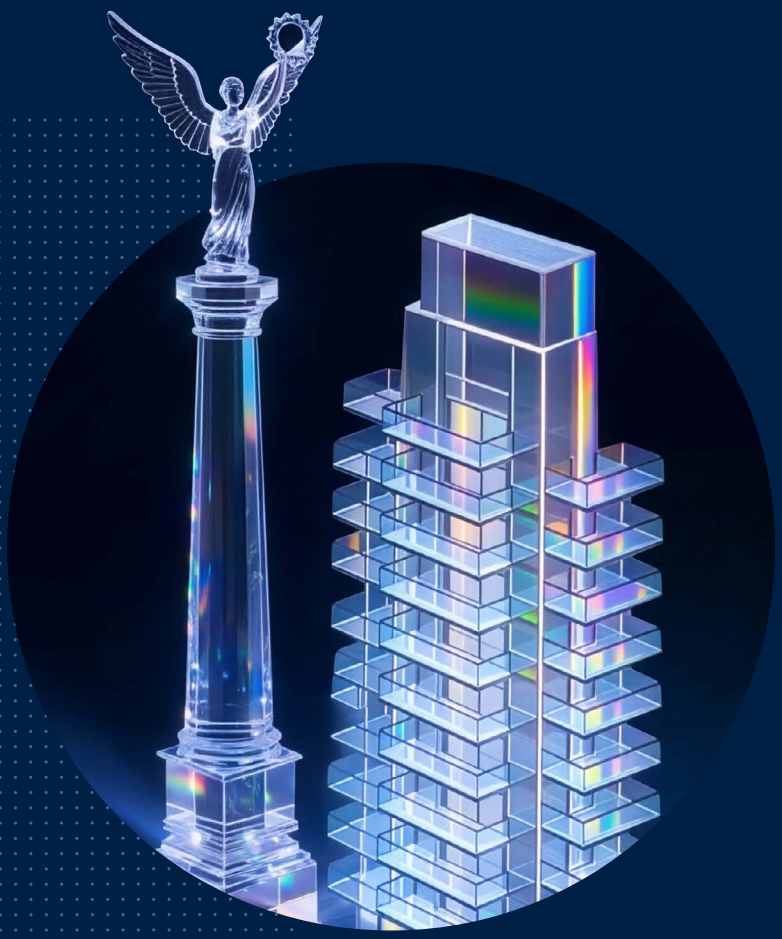
PGIM

2026 REGIONAL REAL ESTATE VIEWS

MEXICO



June 2026

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All investments involve risk, including possible loss of capital.

KEY TAKEAWAYS

Mexico industrial remains an attractive opportunity, driven by nearshoring demand, improving supply-demand fundamentals, and a growing e-commerce market.

Here are three key takeaways from the report:

01 **Position for a rebound as supply pressure fades.** Falling deliveries and moderating trade-policy uncertainty may allow rent growth to reaccelerate.

02 **Prioritize manufacturing hubs, especially where advanced technology production is growing.** Markets that capture migration towards higher value-add supply chains and other nearshoring momentum are best positioned to benefit from rising U.S. demand.

03 **Invest in urban logistics tied to domestic consumption.** Mexico's rapid e-commerce growth is creating a strong demand driver, beyond nearshoring, supporting industrial space tied to fulfilment, distribution, and fast delivery.

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PART 01

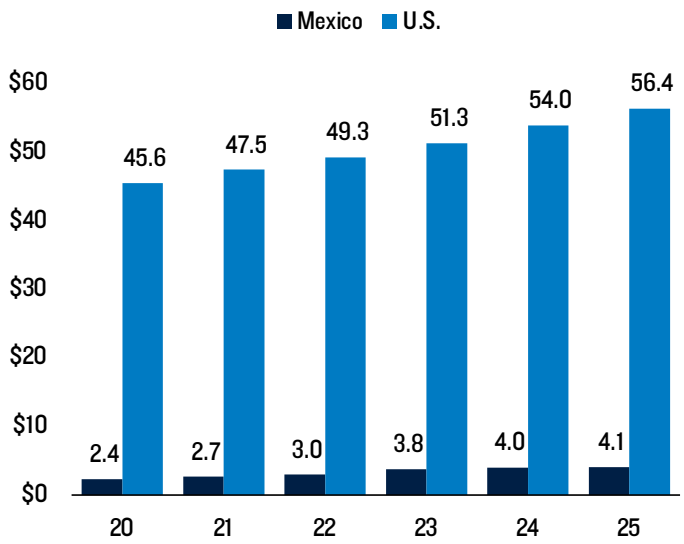
MEXICO OVERVIEW

STRUCTURAL DEMAND FROM NEARSHORING IS INTACT

Rising preferences for shorter and more resilient supply chains is a structural demand driver that should continue to make Mexico industrial a compelling investment.

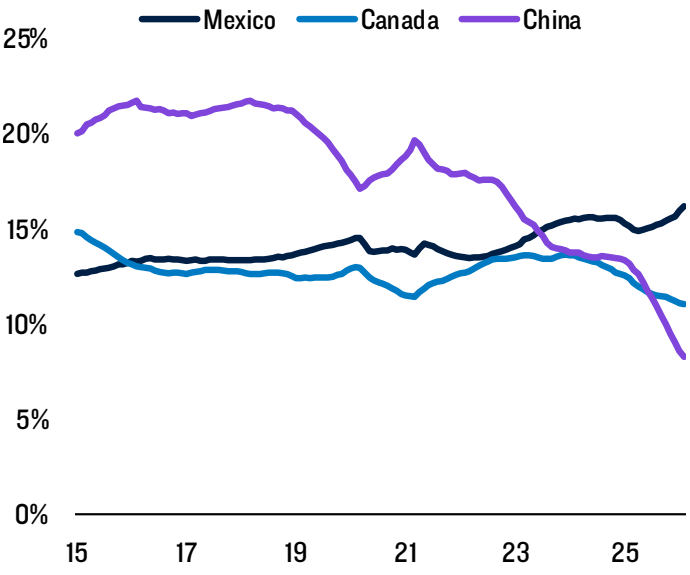
- **The COVID-related supply chain disruptions were a structural turning point for Mexico's industrial market.** U.S. manufacturers recognized vulnerabilities from dependence on long-distance trading partners, especially in Asia.
- The **labor dynamics in Mexico are favorable.** Wages are much lower relative to the U.S. and a growing share of the workforce is trained in export manufacturing, boosting their productivity.
- **The USMCA also reduces political and regulatory risk that would exist in other nearshoring destinations.** There is tariff-free access to the U.S. for qualifying goods, as well as legal protections that would increase the likelihood of business investment.
- As a result, **Mexico has been the largest source of U.S. imports since mid-2023, and imports from Mexico continues to increase.**
- Furthermore, Mexico is moving up the manufacturing value chain. U.S. imports of advanced technology products (ATP) from Mexico have doubled in the last two years. **Tenants producing higher value goods, including ATP, are associated with higher profit margins that should allow them to pay higher rents.**

Average Hourly Wages (USD)



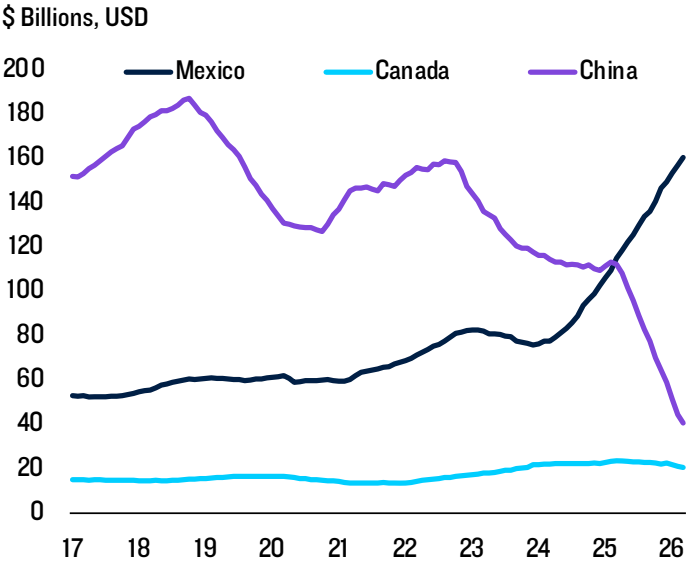
Sources: Oxford Economics, PGIM. As of June 2026.

U.S. Imports by Country of Origin (%)



Sources: Moody's Analytics, PGIM. As of June 2026.

U.S. Advanced Technology Products Imports (12-Month Total)

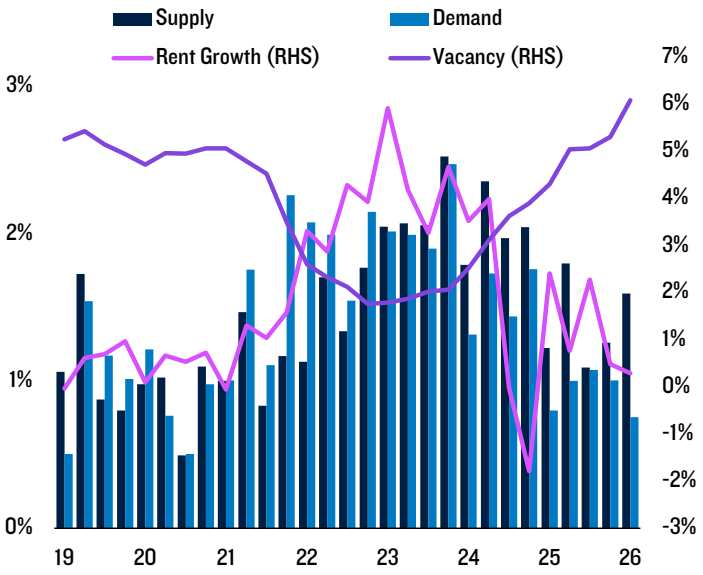


Sources: US Census, PGIM. As of June 2026.

EASING SUPPLY AS POLICY PRESSURES NORMALIZE

Headwinds are softening as the supply pipeline dwindles down and trade policy uncertainty begins to normalize. Rent growth is expected to accelerate as vacancy rates trend down.

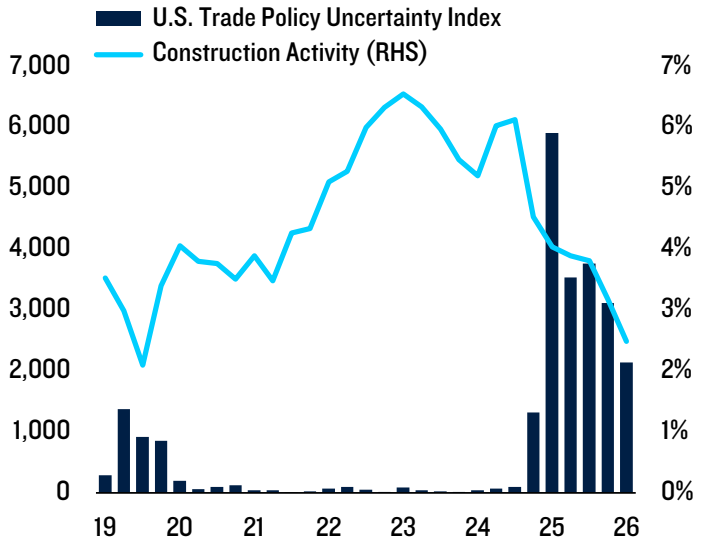
Quarterly Supply Growth, Demand Growth, Rent Growth, and Vacancy



Sources: AMVO, PGIM. As of June 2026.

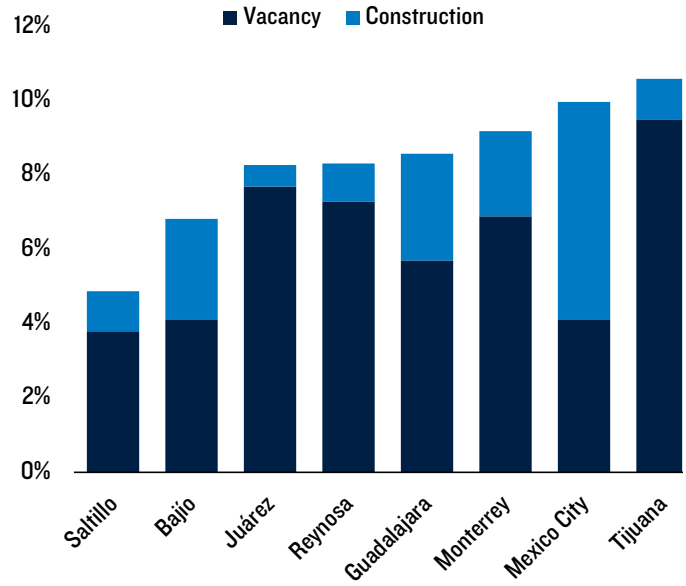
- As rents surged and occupancies hit new heights, developers started to deliver historically high levels of supply, causing vacancies to rise. Exacerbating the trend, trade policy uncertainty in the United States skyrocketed toward the end of 2024, slowing down leasing activity and business investment. As a result, vacancy rates rose from 2% to over 6%, and rent growth slowed.
- However, **U.S. trade policy uncertainty has trended downward over the last year, which should spur business activity and leasing,** presenting potential upside for industrial demand growth.
- Furthermore, **supply deliveries should continue to pull back.** Construction activity has already declined to 2.5% of stock, the smallest construction pipeline since 2019. Should demand growth hold up at its current pace of 1% per quarter, vacancies, would return to historically normal levels by 2027.
- **Landlords should regain pricing power as fundamentals improve,** most quickly in markets with already low vacancies including the Bajío and Mexico City.

U.S. Trade Policy Uncertainty Index and Mexico Industrial Construction Activity



Sources: AMVO, Economic Policy Uncertainty, PGIM. As of June 2026.

Under Construction (% of Stock) by Submarket Tier



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PART 02

INVESTMENT THEMES

FOCUS ON REAL ESTATE FOR EVERYDAY LIFE AND INVESTING INTO CYCLICAL MOMENTUM

Elevated uncertainty calls for a portfolio tilt toward the living sector to benefit from structural demand growth and resilient cash flow generation. At the same time, looking beyond near-term risks, low valuations and capex shortfalls mean today's market represents an attractive entry point for strategies that capitalize on market momentum.

EQUITY & CREDIT

Everyday Life

Nature of Opportunity

Real estate investment opportunities that lean into the resilience of basic needs demand, comprised predominantly of strategies focused on delivering the living space and critical urban infrastructure that households need for everyday life.

Three Key Structural Drivers

- Housing shortages
- Aging demographics
- Digitalization/AI penetration

Capital Deployment Approaches

CORE/CORE +
- Buy-and-hold
- Build-to-core
- Senior lending

VALUE-ADD
- Development financing
- Operating platforms
- Mezzanine debt

CREDIT-SPECIFIC
- Bridge-to-agency

Mexican Target Sectors

- Urban logistics

Market Momentum

Nature of Opportunity

Despite elevated global risks, liquidity is improving and there are significant opportunities related to the anticipated upward momentum of cyclical valuations, supporting strategies targeting leasing growth, capex deployment, and capital stack restructuring.

Three Key Tactical Drivers

- Leasing upswing
- Capex shortfalls
- Debt refinancing/restructuring

Capital Deployment Approaches

CORE/CORE +
- Active asset management
- Reversionary growth
- Senior lending

VALUE-ADD
- Conversions/modernization
- Institutionalization
- Mezzanine debt

CREDIT-SPECIFIC
- Transitional finance

Mexican Target Sectors

- Big box/manufacturing logistics

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INVESTMENT OPPORTUNITY: SUMMARY TABLE

Variations in such factors as the exposure to global risks, cyclical dynamics, the degree of institutional participation, and exit liquidity mean that the opportunity set differs across sectors and geographies. While the opportunity set is broad early in the cycle, investors need to remain focused on the parts of the market that can deliver resilient returns and are conducive to value creation.

			Geography			
Theme	Strategy	Target Sector	U.S.	Mexico	Europe	APAC
EVERYDAY LIFE	Living	**Senior living**	●	○	●	●
		Multifamily	■	○	●	●
		Single family	■	○	●	○
		Manufactured housing	●	○	○	○
		Student/co-living	■	○	●	■
	Critical urban infrastructure	**Urban logistics**	●	●	●	●
		Low latency data centers	●	○	●	●
		Necessity retail	●	○	●	●
		Medical office	●	○	○	○
		Self storage	■	○	●	○
	Credit-specific	Bridge-to-agency	●	○	○	○
MARKET MOMENTUM	Leasing upswing	**Big box/manufacturing logistics**	■	●	▲	■
		Hotels	○	○	●	●
		Open-air hospitality	○	○	●	○
		Discretionary retail	■	○	■	▲
		Office	■	○	■	■
	Capital injections	**Conversions e.g. office to living/hotel**	●	○	●	●
	Credit-specific	Transitional finance	●	○	●	●

Note: Global target sectors shown in **bold and blue**.

Key to Table
- ● **Highest conviction strategies,** most resilient to evolving market conditions.
- ■ **Contingent strategies,** apply broadly but some caution required given market risks.
- ▲ **Selective strategies,** market risks and headwinds potentially affect execution.
- ○ Strategy not under consideration in that geography.

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KEY INVESTMENT THEME

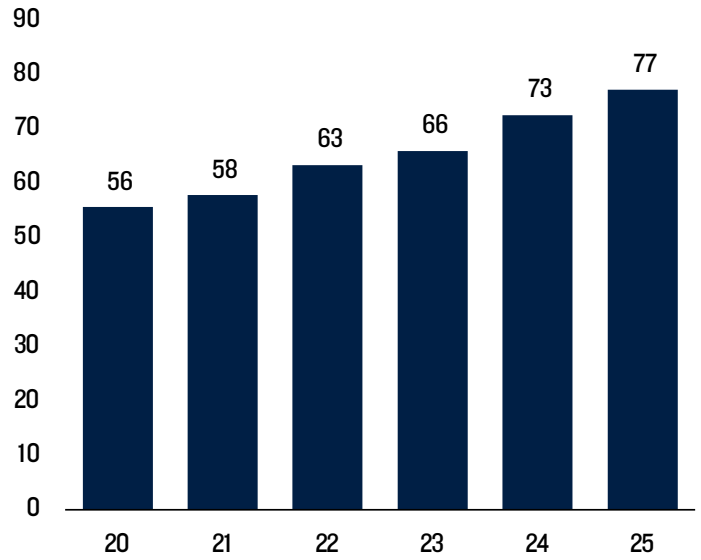
EVERYDAY LIFE

Opportunities that lean into the resilience of basic needs demand, comprised predominantly of strategies focused on delivering the living space and critical urban infrastructure that households need.

URBAN LOGISTICS

Mexico's e-commerce market has experienced significant growth over the past five years, creating a favorable and non-U.S. dependent backdrop for urban logistics.

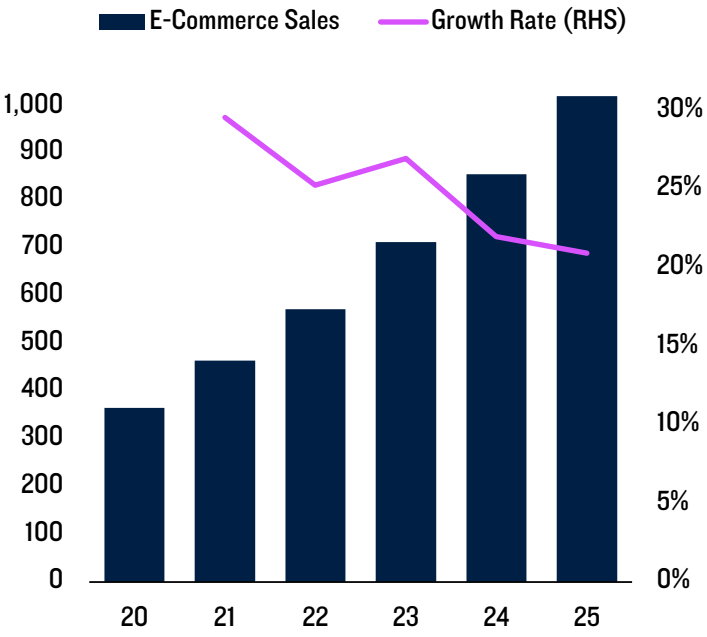
Digital Shoppers in Mexico (Millions, Age 18+)



Sources: AMVO, PGIM. As of June 2026.

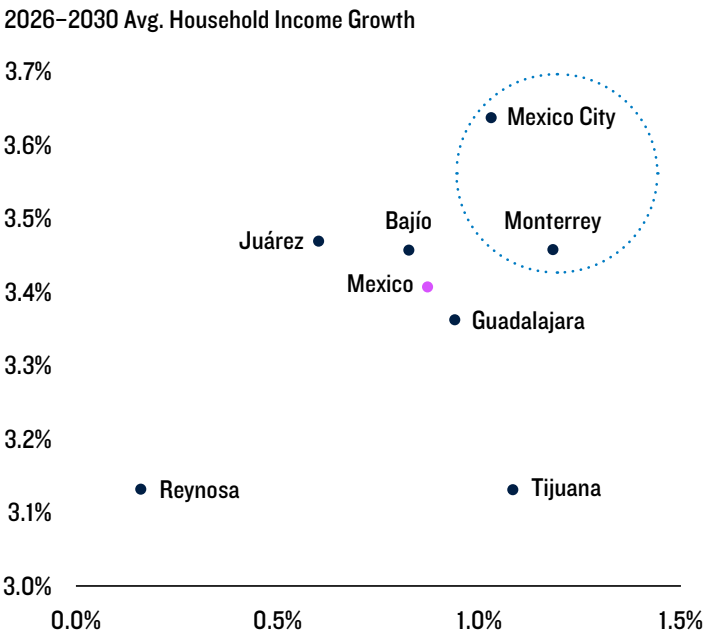
- The number of digital shoppers in Mexico grew from 56 million to 77 million over the last five years, a 38% increase.
- The growth story is not limited to user adoption alone. E-commerce sales have grown even faster than the number of shoppers. On a five-year basis, e-commerce sales in Mexico nearly tripled, rising from MXN$338 million to MXN$941 million. This means that **the average online buyer is either transacting more frequently, increasing average order values, or both.**
- **As e-commerce penetration deepens, retailers and third-party logistics providers will require more industrial space to support faster delivery times and reduce transportation costs.** This is supportive of last-mile and infill industrial facilities, which are critical in enabling rapid delivery to dense urban populations.
- **The Mexico City and Monterrey industrial markets are well positioned to benefit from this trend.** They are expected to see employment and household income growth outpace the national average over the next five years, supporting the growing consumer base and discretionary spending.

Mexico E-commerce Sales (Millions MXN)



Sources: AMVO, Economic Policy Uncertainty, PGIM. As of June 2026.

Employment and Avg. Household Income Growth



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KEY INVESTMENT THEME

MARKET MOMENTUM

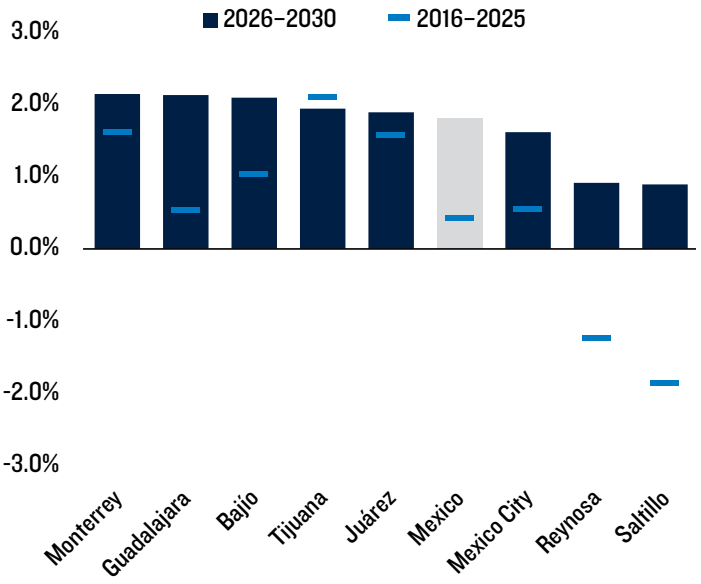
There are significant opportunities related to the anticipated upward momentum of cyclical valuations, supporting strategies targeting leasing growth, capex deployment, and capital stack restructuring.

MANUFACTURING HUBS AND BORDER MARKETS

Over the long-term, the most attractive industrial markets in Mexico are those that can capture both production growth and trade-related logistics activity. While trade policy uncertainty can cause temporary disruptions, the long-term growth trajectory in these markets remains intact.

- **Mexico's leading manufacturing hubs and border markets will benefit from stronger goods production and increased trade with the U.S.**
- Mexico's industry sector (manufacturing, utilities, and construction) is projected to grow at an inflation-adjusted rate of 1.8% per year from 2026 through 2030, which compares favorably to 0.4% over the prior decade, suggesting a more supportive macroeconomic backdrop for industrial demand.
- **Faster growth in goods production should drive demand in key manufacturing hubs such as Monterrey, Guadalajara, Bajío, Tijuana, and Juárez** where real industry GDP is expected to outperform.
- **Border markets, like Tijuana and Juárez, will also benefit as the increased movement of goods between Mexico and the U.S. generates demand for industrial space near major ports of entry.**
- While truck border crossing stalled in 2025 due to trade policy uncertainty, this likely is a temporary disruption to a long-term growth trajectory. Over time, the underlying advantages supporting Mexico-U.S. trade will drive freight volumes higher.

Manufacturing, Utilities, and Construction Real GDP Growth



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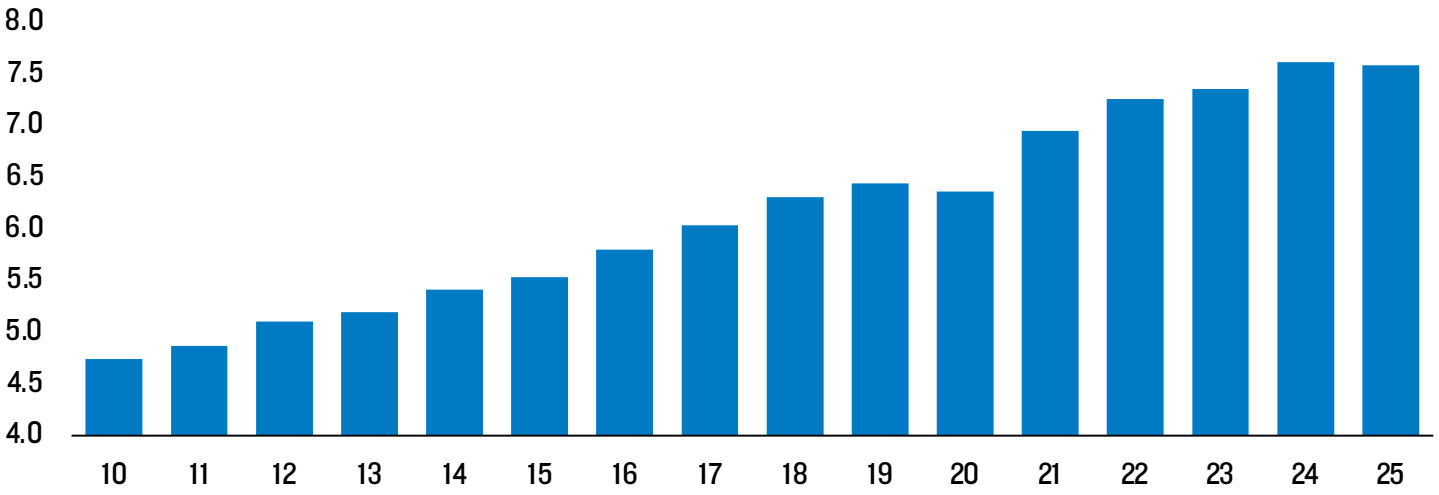
Mexico-U.S. Border Crossing Entries (Millions, Trucks)



Sources: Department of Transportation, PGIM. As of June 2026.

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