PGIM REAL ESTATE

INVESTMENT RESEARCH

2025 SPOTLIGHT ON MEXICO

Generating Resilient Income Growth Amid Uncertainty

JULY 2025

MEXICO 2025 KEY TAKEAWAYS:

1 THE TIME IS STILL NOW.

Against an uncertain backdrop, Mexico's long-term structural story remains compelling, supported by low vacancy and expectations for ongoing rental growth.

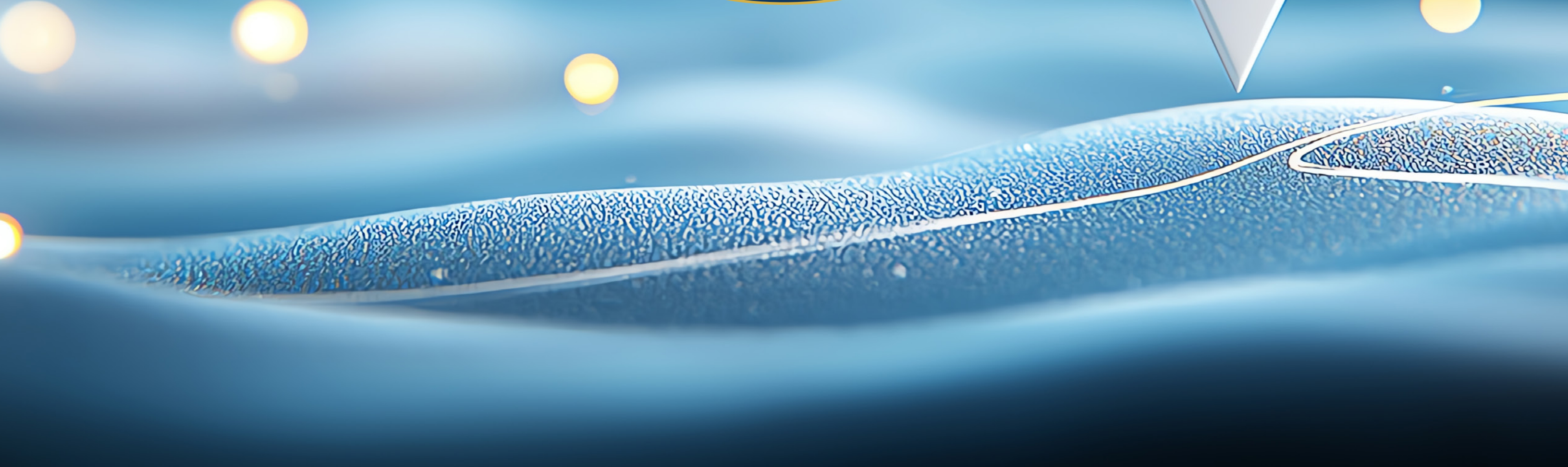
2 INVESTORS NEED TO DIFFERENTIATE THE SIGNAL FROM THE NOISE.

Exposure to trade policy uncertainty means investment conditions are evolving rapidly. Mexico maintains its competitive edge with preferential tariff treatment, thanks to the USMCA.

3 THE OUTLOOK VARIES BY GEOGRAPHY.

There are big variations in current performance and forecasts across markets in Mexico, linked to sector exposure, vacancy and demand differences.

Heightened uncertainty is weighing on the near-term outlook for Mexican real estate markets, but it has not derailed the GROWTH story.



PART I

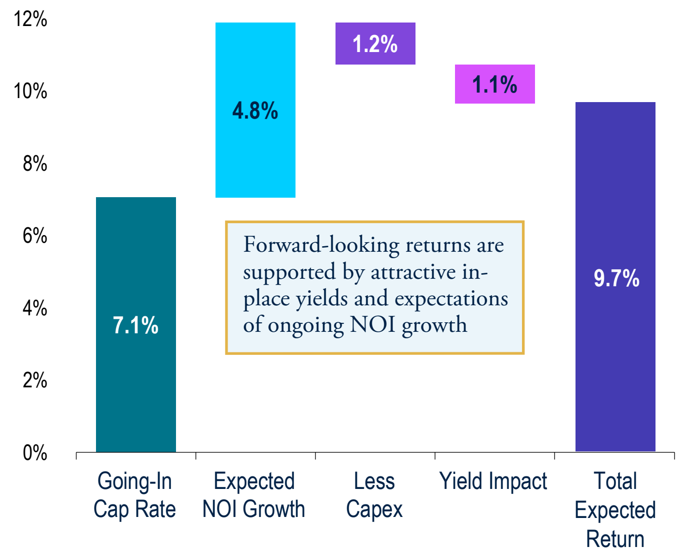
MEXICO OVERVIEW

Industrial Real Estate Remains Compelling

Mexico emerges as a relative winner, despite the challenging global policy landscape, with a compelling long-term structural story. Market fundamentals remain strong, leasing momentum has increased since April 2 and growing NOI from high-quality international tenants drives forecasts for elevated returns.

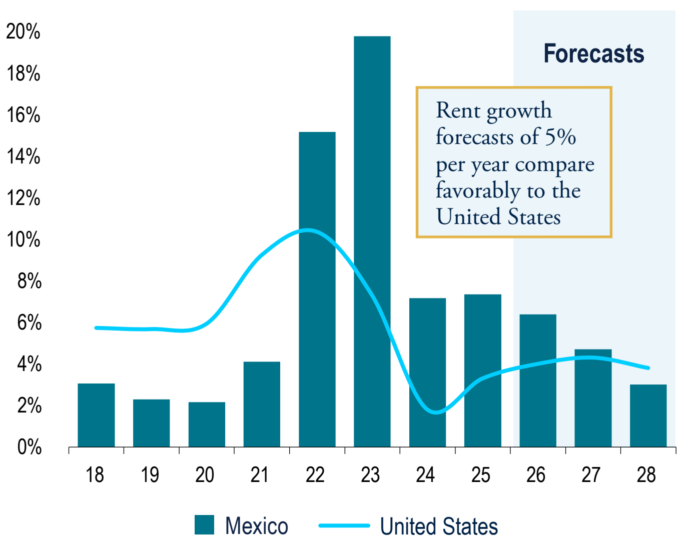
- After years of strong performance, our base case is that Mexican industrial continues to deliver elevated returns, primarily driven by ongoing rent growth together with yields of about 7%.
- Rental growth has slowed from rapid levels recorded in 2022-23 on the back of tariff uncertainty and the potential renegotiation of the USMCA.
- While the policy backdrop is set to remain challenging in the near term, our long-term conviction in Mexico's investment market remains firm, reflecting several factors:
    - Tightly integrated North American supply chains.
    - Mexico's skilled and available labor force in advanced manufacturing.
    - Proximity and linkages to the U.S. market.
- In our outlook, availability remains low against a backdrop of rising demand – forecasts for rental growth of 5% per year compare favorably with the United States.

BUY-AND-HOLD UNLEVERED PRIVATE REAL ESTATE IRR FORECAST (%)



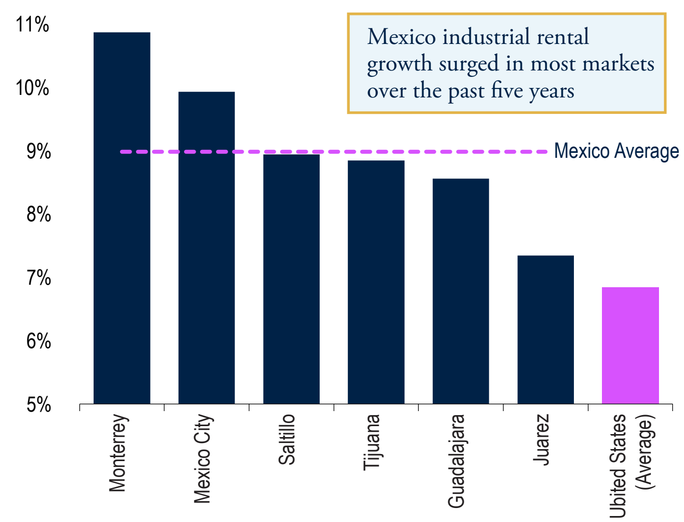
Sources: CBRE, PGIM Real Estate. As of June 2025.

ANNUAL INDUSTRIAL RENTAL GROWTH (%)



Sources: CBRE, PGIM Real Estate. As of June 2025.

ANNUAL RENTAL GROWTH BY MARKET (2020-24, % P.A.)



Sources: CBRE, PGIM Real Estate. As of June 2025.

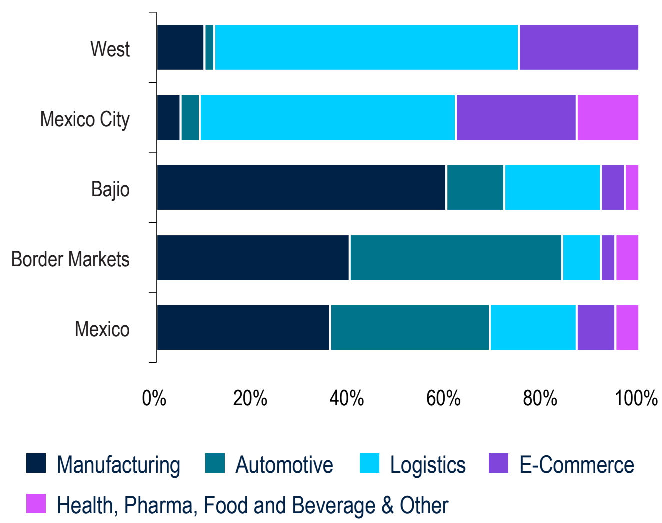
Forecasts are not guaranteed and may not be a reliable indicator of future results.

Structural Growth Drivers Persist

Mexico is a strategic manufacturer with a diversified tenant base of international corporations and exposure to both resilient and cutting-edge sectors. Dating to 1967, the highly skilled manufacturing labor force has taken decades to build.

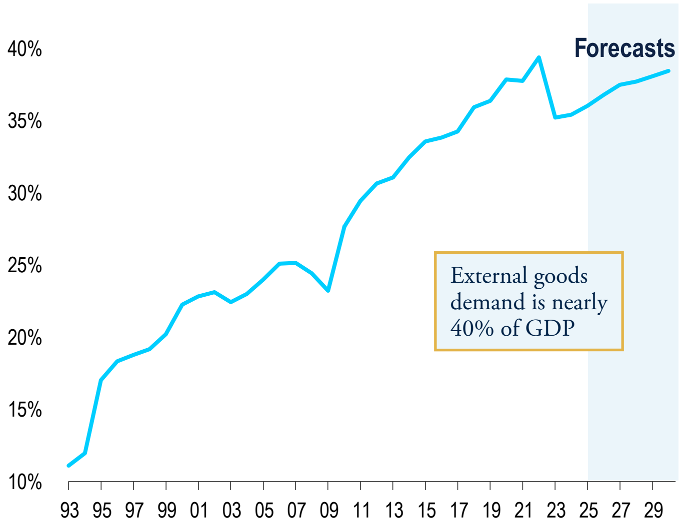
- Mexico is a strong beneficiary of nearshoring. After targeted U.S. tariffs on China took effect in 2018, Mexico (and Vietnam) became the leading alternate sources of goods for the United States, a trend we expect will continue to benefit Mexico.
- About 85% of Mexico's industrial base is in logistics and advanced technical manufacturing according to CBRE, a trend that we expect will deepen. Exports as a share of GDP have quadrupled over the past 30 years, increasing to nearly 40% in 2022.
- What is more, Mexico's manufacturing orientation (as a share of GDP) is on par with that of manufacturing-led economies like Germany and Japan.
- Leases on industrial properties are commonly denominated in U.S. dollars and signed by leading multinational companies.
- Regional value content requirements in the USMCA strengthen demand for Mexican facilities to make auto part and vehicle production USMCA-compliant, while new labor value content rules require integrated cross-border supply chains.

SHARE OF INDUSTRIAL DEMAND BY SECTOR – 2024 (%)



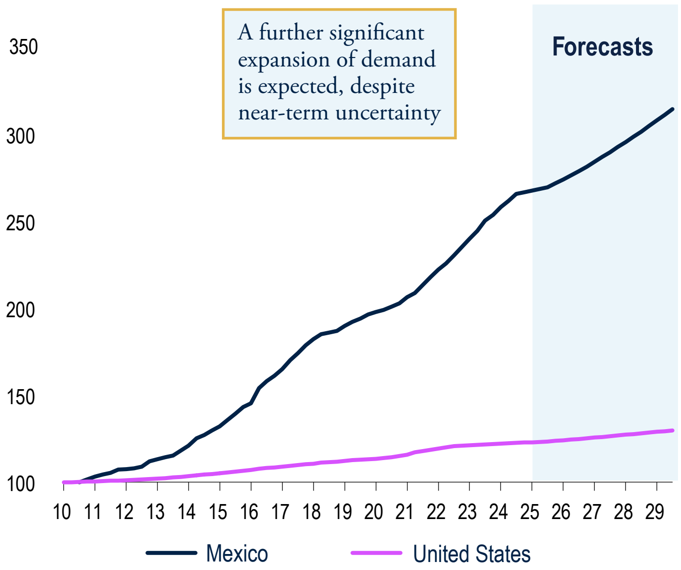
Sources: Oxford Economics, CBRE, PGIM Real Estate. As of June 2025.

EXTERNAL GOODS DEMAND (% MEXICAN GDP)



Sources: Oxford Economics, PGIM Real Estate. As of June 2025.

INDEX OF INDUSTRIAL DEMAND (2010 = 100)

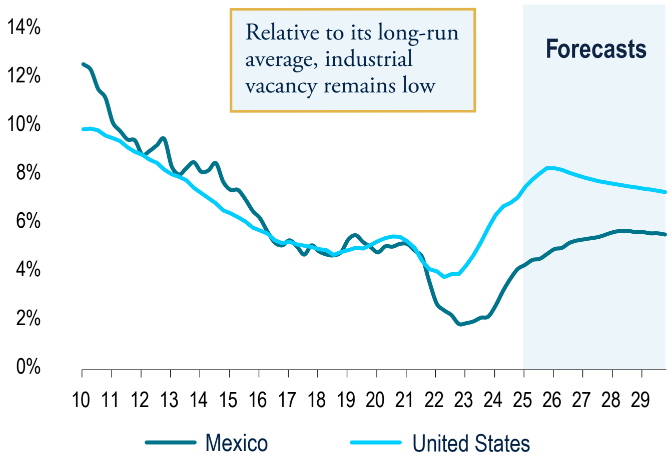


Sources: Oxford Economics, CBRE, PGIM Real Estate. As of June 2025.

Industrial Vacancy Is Contained, Driving Rental Growth Prospects

Mexico's industrial markets are benefiting from structural demand increases set against a slowing supply pipeline, which is keeping vacancy contained at levels consistent with ongoing rental growth.

MEXICO INDUSTRIAL VACANCY RATE (%)



Sources: CBRE, CoStar, PGIM Real Estate. As of June 2025.

- Set against a backdrop of structurally increasing demand, Mexico's current industrial vacancy of 4% is below its historical average. In a structural shift, vacancy is forecasted to remain tighter than in the United States over the rest of the decade.
- Renewal rates remain very high as well, meeting historical retention rates of ~85%, and many existing tenants are seeking expansions at renewal
- Vacancy did increase over 2024 due to trade policy uncertainty slowing the pace of decision making, yet the capacity utilization of existing industrial space is higher than ever. Pent-up demand could surge in a scenario where policy uncertainty is resolved.
- Vacancy rates across Mexico have recently had a mixed performance. In some markets, vacancy has increased, while others (like Mexico City and Guadalajara) have tightened. And some properties without sufficient infrastructural support will remain less competitive to discerning tenants.

In Focus: Setting Out Our Narrative

- The opening months of 2025 have been fast-moving in terms of establishing a macroeconomic outlook that acts as a backdrop for real estate investment strategy and decision making.
- Events can clearly move quickly, but **there are several factors that we can use to underpin our outlook:**
    - Global policy uncertainty is high and will remain so for the foreseeable future.
    - Recession risks have risen in the United States and its close trading partners like Mexico, but our base case is for a slowdown in growth rather than an outright contraction.
    - Interest rate uncertainty has increased too, notably in the United States where tariffs are pushing up core inflation. The long-term interest rate outlook remains broadly unchanged.
- **There will be an impact on real estate demand,** especially in commercial sectors including industrial, as tenants will likely delay decision-making activity around investment, expansion or committing to long leases.
- Similarly, investors are delaying decisions about allocating capital and investing – real estate liquidity is set to remain lower than previously anticipated.
- The overall impact is to delay the recovery story for real estate from a low base, via slower rental and capital growth, but not completely derail it.
- **Some factors remain broadly unchanged in support of the real estate outlook:**
    - Values are low and a lot of bad news is already priced in. Yields are at fair value in Mexico.
    - Supply growth is low giving resilience to the occupier market outlook even if economic growth slows.

Forecasts are not guaranteed and may not be a reliable indicator of future results.

PART II | MEXICO

PORTFOLIO CONSTRUCTION

MEXICO VALUE-ADD STRATEGIES

Favorable long-term demand trends mean that elevated ingoing yields and NOI growth potential are supporting the outlook for value-add returns in Mexico industrial. We identify three key factors that define the opportunity set today.

HOW TO DEPLOY?

Target sectors

- Markets supporting local consumption, healthcare and pharma, rising e-commerce demand and semiconductor manufacturing are better positioned at present.

Cashflow growth

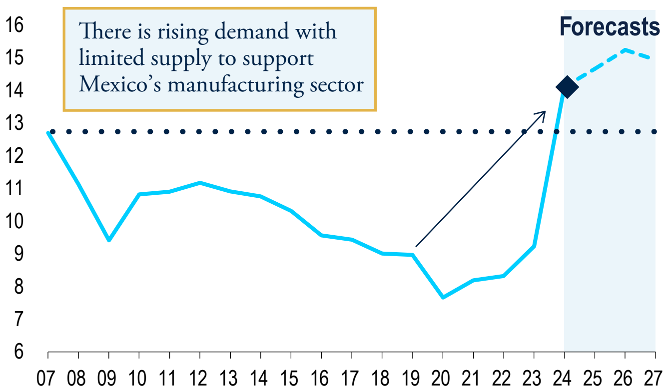
- There is an opportunity for investors to re-tenant existing properties with in-place cash flow, delivering growth as rents reset to market.

Capex for repositioning and develop to core

- Develop new or reposition older assets to meet growing demand from international occupiers including Europe, Asia, the United States and Latin America.

1 LIMITED SUPPLY SUPPORTS ACTIVE ASSET MANAGEMENT

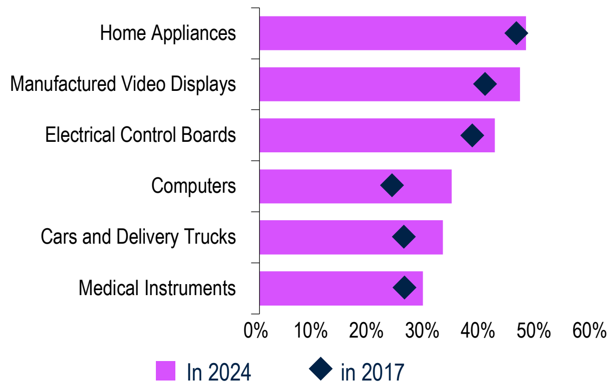
EXPORTS TO THE UNITED STATES– LOADED CONTAINERS PER 1000 SF INDUSTRIAL SPACE



Sources: CBRE, MSCI, Banorte, US Census Bureau, US Department of Transportation, PGIM Real Estate. As of June 2025.

2 TARGET TENANTS FOR DIFFERENTIATED PERFORMANCE

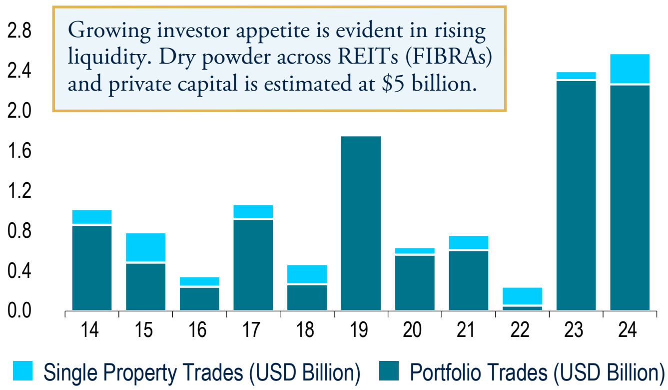
MEXICO'S SHARE OF U.S. IMPORTS, TARGET SECTORS IN ADVANCED MANUFACTURING



Sources: CBRE, MSCI, Banorte, US Census Bureau, US Department of Transportation, PGIM Real Estate. As of June 2025.

3 IMPROVING LIQUIDITY

ANNUAL TRANSACTION VOLUME – MEXICO INDUCTRIAL ($ BILLIONS)



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PART III | MEXICO

KEY INVESTMENT THEMES

WHAT DRIVES INVESTMENT OPPORTUNITIES IN MEXICO?

Despite near-term uncertainty, high conviction themes for Mexico are focused on its industrial markets that are benefiting from structural demand increases.

	Theme		Rating	Real Estate Approach	United States	Mexico	Europe	Asia Pacific
STRUCTURAL TRENDS	Living	Traditional	Highest conviction	Apartment/multifamily	✓		✓	✓
			Highest conviction	Single-family rentals	✓		✓	
		Operational	Highest conviction	Student/co-living			✓	✓
			Highest conviction	Senior housing	✓		✓	✓
		Related urban infrastructure	Highest conviction	Urban/infill logistics	✓		✓	✓
			Contingent	Self storage			✓	
	Data Centers		Highest conviction	Colocation			✓	✓
			Contingent	Hyperscale	✓			✓
	Credit		Highest conviction	Senior/whole loan	✓		✓	✓
			Highest conviction	Subordinated	✓		✓	✓
			Contingent	Development finance	✓		✓	✓
	Logistics		Selective	Big box/supply chain	✓	✓	✓	✓
			Contingent	Trade-driven		✓		
			Contingent	Manufacturing-related		✓		
TACTICAL OPPORTUNITIES	Cyclical / Recovery	Hospitality	Contingent	Hotels			✓	✓
			Highest conviction	Open-air accommodation			✓	
		Retail	Contingent	High street/luxury				✓
			Contingent	Discount formats			✓	
		Office	Selective	CBD office			✓	✓
			Contingent	Medical office	✓			
		Public markets	Highest conviction	Undervalued REITs	✓			

KEY TO RATINGS:

- **HIGHEST CONVICTION THEMES,** most resilient to uncertain market conditions.
- **CONTINGENT THEMES,** more caution and selective approach needed while uncertainty is elevated.
- **SELECTIVE THEMES,** market uncertainty causing significant headwinds that affect execution.

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LOGISTICS AND INDUSTRIAL

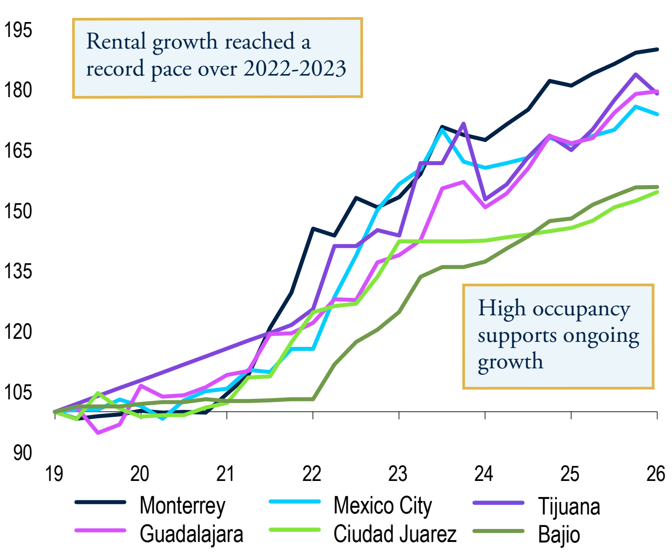
Fundamentals support NOI growth, as high occupancy supports in-place income growth for years to come; yet forward rent growth will be at a more sustainable pace.

TOP INVESTMENT PICKS

- Big box and supply chain logistics
- Trade-driven industrial
- Manufacturing-related assets

- E-commerce penetration continued its upward trend in Mexico (+25% year-on-year growth in 2024), supporting industrial absorption in Mexico City, Guadalajara and Monterrey.
- Healthcare, pharmaceuticals and semiconductor and electronics manufacturers are concentrated in Monterrey and Guadalajara, as well as Tijuana and Juarez along the Mexico-U.S. border. Intel anchors the Guadalajara semiconductor manufacturing cluster, where Foxconn recently announced a planned facility to assemble chips for Nvidia.
- Occupancy is above the long-run average in three-quarters of Mexico's markets. Occupiers in these dynamic situations often accelerate their leasing decisions to secure space they'll need in the future. We expect rent growth in Mexico City, Guadalajara and Monterrey to outperform over the near term.
- Leasing interest has inflected upwards and high tenant renewals show tenant stickiness in tightly integrated supply chains. A record trailing five-year rent growth of 9%, annualized, leaves well-leased properties with attractive embedded income growth.
- Rent growth in the mid- to high-single digits over 2025 and 2026 is decelerating from the robust pace of 2022-23, yet PGIM Real Estate Research believes growth will average from 4% to 9% p.a. across our target markets.

INDUSTRIAL RENTS BY MARKET (2019 = 100)

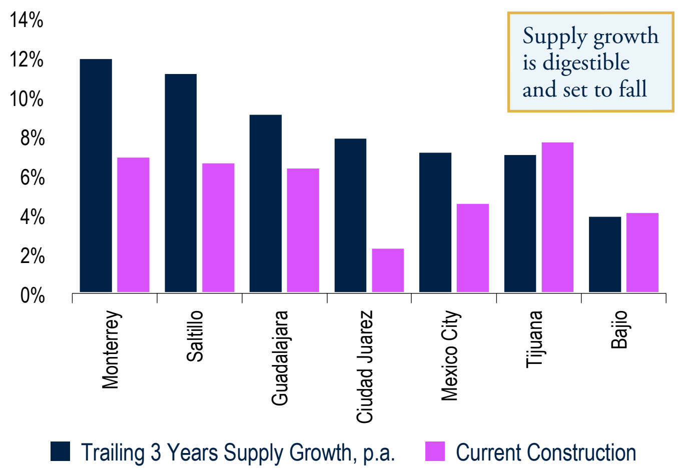


Sources: CoStar, PGIM Real Estate. As of June 2025.

INDUSTRIAL OCCUPANCY BY MARKET (%)

Sources: CBRE, PGIM Real Estate. As of June 2025.

ANNUAL SUPPLY GROWTH AND PIPELINE UNDER CONSTRUCTION (%)



Sources: CBRE, PGIM Real Estate. As of June 2025.

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