MEXICO INSIGHTS

Key Themes

- Is Mexico Gaining Share of Advanced Manufacturing?
- Are Industrial Tenants Looking Past Uncertainty?

Is Mexico Gaining Share of Advanced Manufacturing?

If your image of Mexico's exports to the United States is clothing and building materials, it needs updating. Mexico's manufacturers continue to upgrade their capacity to produce higher value-add goods, and they need more space to produce them.

Exhibit 1 compares Mexico's share of U.S. imports across products. There are three important things to note:

1. As compared with 2017, Mexico has mostly gained market share of imports to the United States in multiple categories. This demonstrates that the nearshoring thesis for Mexico industrial remains intact.

Exhibit 1: Advanced Goods Are Increasingly Important Exports

Sources: U.S. Census Bureau, Federal Reserve Board of Dallas, PGIM Real Estate. As of September 2025.

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2. However, the categories where Mexico has barely maintained or lost market share are mostly lower-value, such as insulated wire, plastics, refrigerators and commodities. The biggest gains have been in segments that require advanced manufacturing, including computers, medical instruments and, most importantly, cars.

3. The past year has been more of a mixed bag, with demand for household goods such as refrigerators and air conditioners rising, whereas the tough car sales environment has taken its toll. This is consistent with U.S. consumers waiting on bigger purchases while job growth slows.

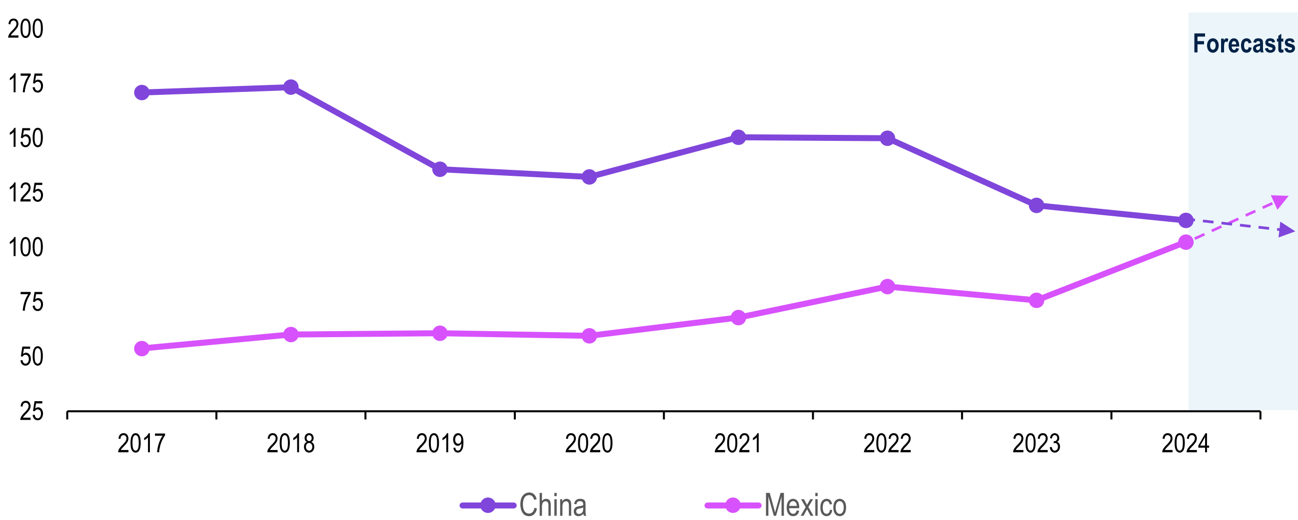
This adds up to a "yes, *and*" picture of Mexico's industrial tenant demand. Mexico retains its edge in producing lower value-add products. Even in categories where Mexico's market share is down slightly over the past eight years, on an absolute basis export volumes are still growing.

And, over the longer term, Mexico continues to increase its share of higher value exports, which generally require larger and more complex supply chains. Those supply chains require inputs from specialist manufacturers, which creates additional demand for real estate.

As further evidence of Mexico's increased capacity, look to its exports of advanced technology products relative to China, another country that continues to significantly upskill its manufacturing sector. As shown in **Exhibit 2**, as recently as 2017 China accounted for more than three times the advanced technology exports to the Unites States versus Mexico. They have nearly converged, with a shift in position likely as soon as this year.

Exhibit 2: The Advanced Technology Gap Has Closed

U.S. Imports of Advanced Technology Products (US$ Billion)



Sources: Oxford Economics, INEGI World Bank, PGIM Real Estate. As of September 2025.

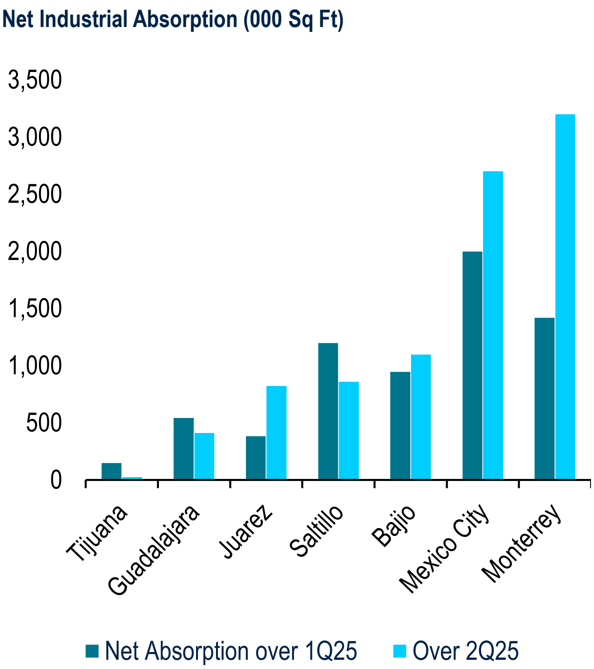
Forecasts are not guaranteed and may not be a reliable indicator of future results.

Are Industrial Tenants Looking Past Uncertainty?

After three years of rent spikes and near-zero vacancies, industrial demand slowed dramatically beginning at the start of this year. Trade policy uncertainty is a convenient explanation for the shift. However, based on what happened in the second quarter, it appears there are plenty of tenants willing to look past that uncertainty to make leasing decisions.

After stalling in the first quarter, net absorption picked up in most markets, notably including the large Monterrey market, as shown in **Exhibit 3**. Given the "Liberation Day" announcement of U.S. tariffs three days into the quarter, that might seem surprising.

Exhibit 3: Despite Tariff Noise, Demand Has Picked Up



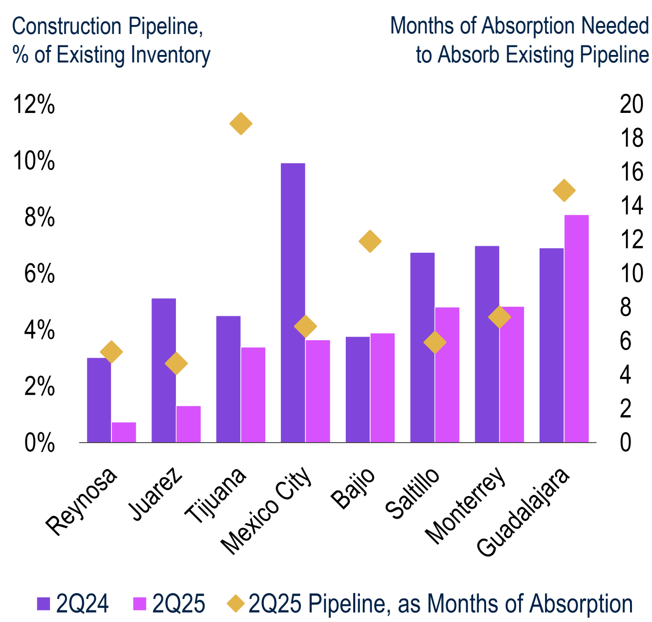
Sources: CBRE, PGIM Real Estate. As of September 2025.

The fine print in Liberation Day provides some context. While Mexican exports were subject to the same 10% minimum tariff as the rest of the world, goods covered under the United States-Mexico-Canada (USMCA) agreement were exempted. We estimate that 55% of exports are already shipped tariff-free to the United States under the USMCA, and another 37% could be reclassified as covered.

This gives Mexico, at least as long as the USMCA remains in effect, a distinct advantage over other countries not named Canada.

That advantage also comes at a good time for property owners, given the pause in demand at the beginning of the year succeeded a supply spike last year. That supply pipeline has already shrunk, as shown in **Exhibit 4**, leaving most markets a year or less away from absorbing the space that's currently being built.

Exhibit 4: Supply Pipelines Are Thinning



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

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Note that our estimates of absorption needed to fill the space underway are based on the average pace of the last two years. That may be too conservative of an estimate. Why?

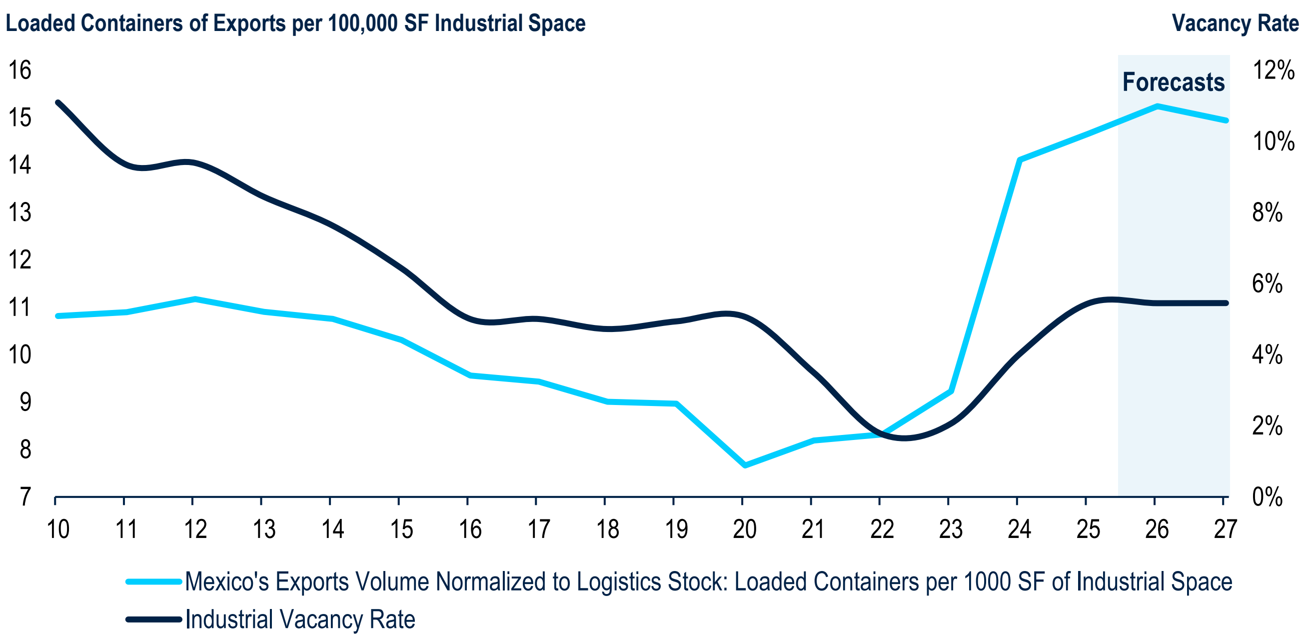
Consider **Exhibit 5**, which shows loaded containers for exports per 100,000 square feet of industrial space. Exporters are using their space more efficiently than they have in the past. Earlier in the decade, 100,000 square feet of industrial space produced seven or eight loaded containers of exports. That has nearly doubled since, given the boom in exports from Mexico and a period when there simply wasn't much new space to lease.

Assuming exports from Mexico continue growing, we expect exporters will need more space to manufacture them. The ratio of loaded containers to industrial space should not be able to keep growing indefinitely.

In this sense, the elevated vacancy rate versus the 2020-2023 period is beneficial, since it indicates there will be space available for these exporters to lease. And our near-term forecast of national vacancy rates between 5% and 6% is still below pre-2020 norms, which should allow owners to raise rents.

Tariff policy should continue to evolve, and surprises are more likely than a continuation of the status quo. Nevertheless, industrial tenants in Mexico are already looking past this uncertainty, which we expect to add leasing momentum in the remainder of this year and beyond.

Exhibit 5: Pent-Up Demand Is Building



Sources: CBRE, INEGI, U.S. Census Bureau, PGIM Real Estate. As of September 2025.

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