

# Mexico Real Estate

## Mexico Nearshoring Tracker 2nd Edition – Solid announcements, no trade arbitration, pent-up RE demand all point in the right direction

Thematic Research | Monthly

*This is the second edition of our Mexico Nearshoring Tracker, which intends to provide a monthly report with the most important news and datapoints on this macro trend. We believe nearshoring is a potential driver of long-term growth across several industries in Mexico, one of which is real estate (particularly, but not limited to industrial).*

- **New nearshoring announcements: galore and diversified.** In the month, we identified 20 nearshoring-related investment announcements for US\$2.05bn (in-line with Jan-Sep avg.), taking the YTD figure to US\$17.2bn (vs. 2021 new FDI of US\$13.7bn). Automotive continues to be the largest driver in terms of invested amount, with VW, Continental, Pirelli and Michelin all announcing new investments; still, we should not overlook a quite diverse set of announcements this month in the sectors of HVAC, machinery, furniture, consumer, plastics, electronics and surprisingly, even textiles.
- **News flow: Auto OEMs accelerate announcements, particularly on the electric front; MX energy reform discussions continue in amicable terms.** We highlight that both VW and Audi disclosed incremental investments to increase EV production in Mexico, while Mazda announced it will bring production of the CX3 model from Japan, and BRP broke ground in its new electric motorcycles plant in Bajío, announced since last year. On the trade policy front, we saw as positive news the announcement that the U.S. reportedly decided not to initiate an arbitration panel regarding Mexico's new power sector law; we believe such a panel could lead to trade sanctions which could hamper nearshoring activity.
- **Macro datapoints: exports already ahead of pre-pandemic levels.** Data on total exports for 3Q were published last Thursday (October 27), growing 11.4% y/y in real terms and +4.1% vs. 3Q19.
- **Quantifying potential on the electronics front...** A study from Bloomberg Intelligence [found](#) that U.S. tech has the potential to reduce manufacturing supply chain dependence on China by 20-40% by 2030 (albeit supply ecosystems are needed),
- **...as well as pent-up real-estate demand.** According to Jonathan Pomerantz, CIO of MEOR, 18 different companies were looking for space in the core Tijuana market as of 3Q22, with 7.6mn sqft in unsatisfied demand. By our estimates, this is equivalent to one year of LTM demand, and compares positively with only 4.5mn sqft under construction.
- **Related CS Research content:** We discussed rent outperformance of border cities in our [3Q22 MX Industrial market statistics](#). In his recent [A&D initiation](#), Scott Deutsche noted implications of onshoring and ongoing trade tensions for the sector. We also highlight CS Research Institute's [recent piece](#) on the global effects of Asia's aging population, in which the team concludes this is unlikely to lead to insufficient labor supply (investors have noted stronger demographics as a potential driver for MX nearshoring). Finally, our APAC/Japan Semi Devices team [commented](#) on tighter restrictions for U.S. semi sales to China.
- **Vehicles with higher exposure to development outperform.** In October, the FibratC index rose 4.3%, underperforming vs. Mexbol's 11.9%. Within MX real estate, Vesta was the best performer (+14.8%, not in FibratC) followed by Funo (+11.5%) and FibratMQ (+8.6%), while Terra, FDanhos and FibratPL lagged (-0.6%, +1.2% and +3.6%, each).

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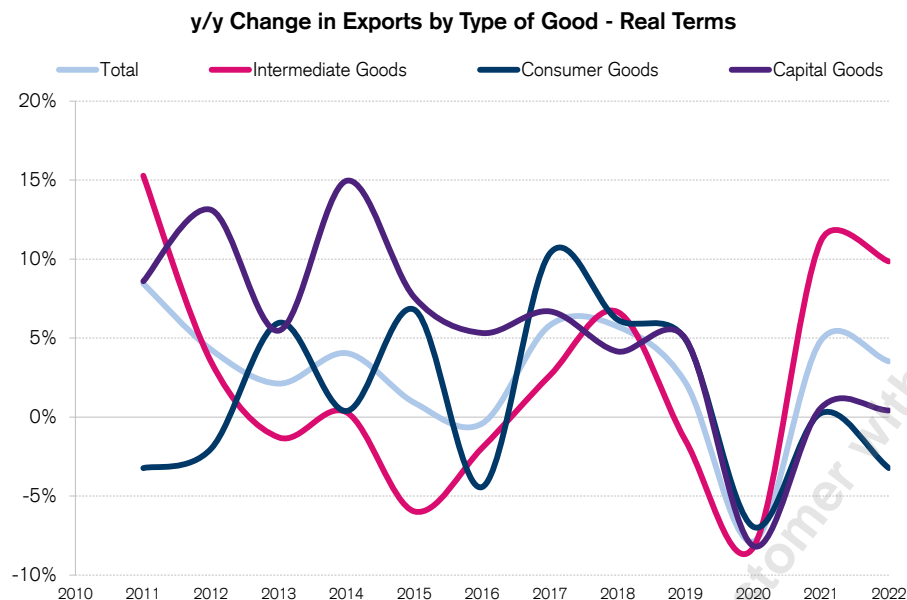
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## Key graphs

**Figure 1: Mexican exports' growth by type of good (adjusted by U.S. PPI), 2010-1H22.**  
We note that intermediate goods' real exports have grown 21% in 2019-1H22, more than offsetting the 8% 2020 fall.

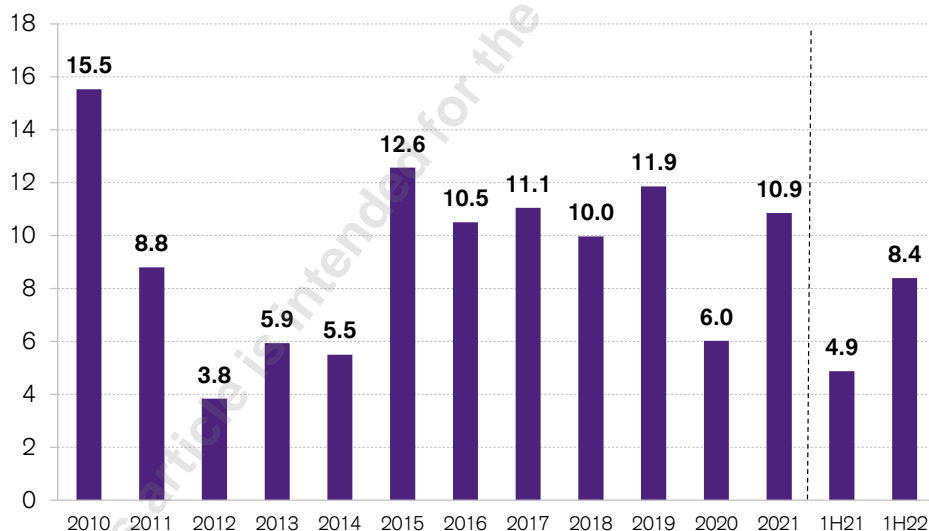
US\$ in millions unless otherwise stated



Source: Company data, Credit Suisse estimates, INEGI, SAT, BANXICO, Mexico Economy Ministry

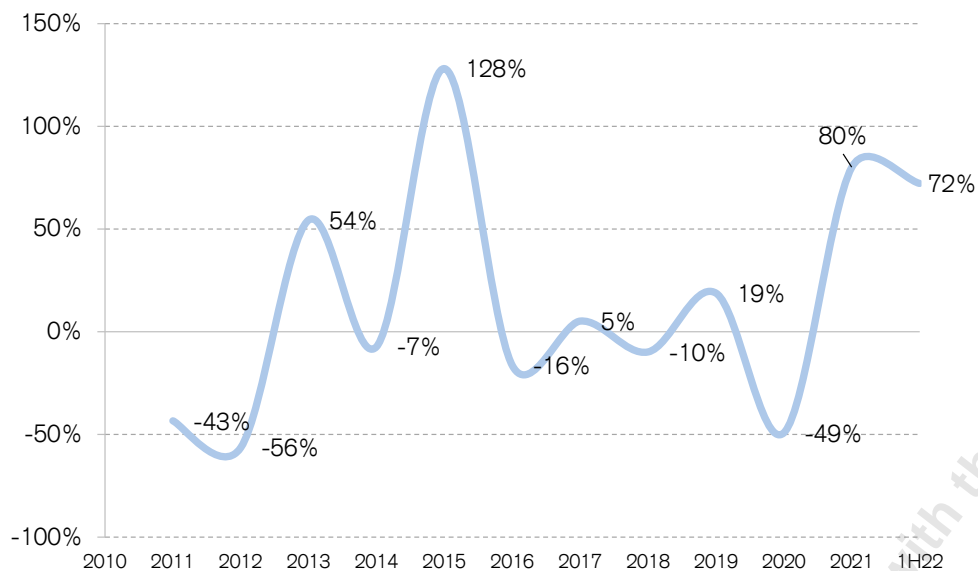
**Figure 2: Mexico new Foreign Direct Investment adjusted for inflation, 2010-1H22.**

US\$ in billions adjusted for U.S. PPI, base: 1984



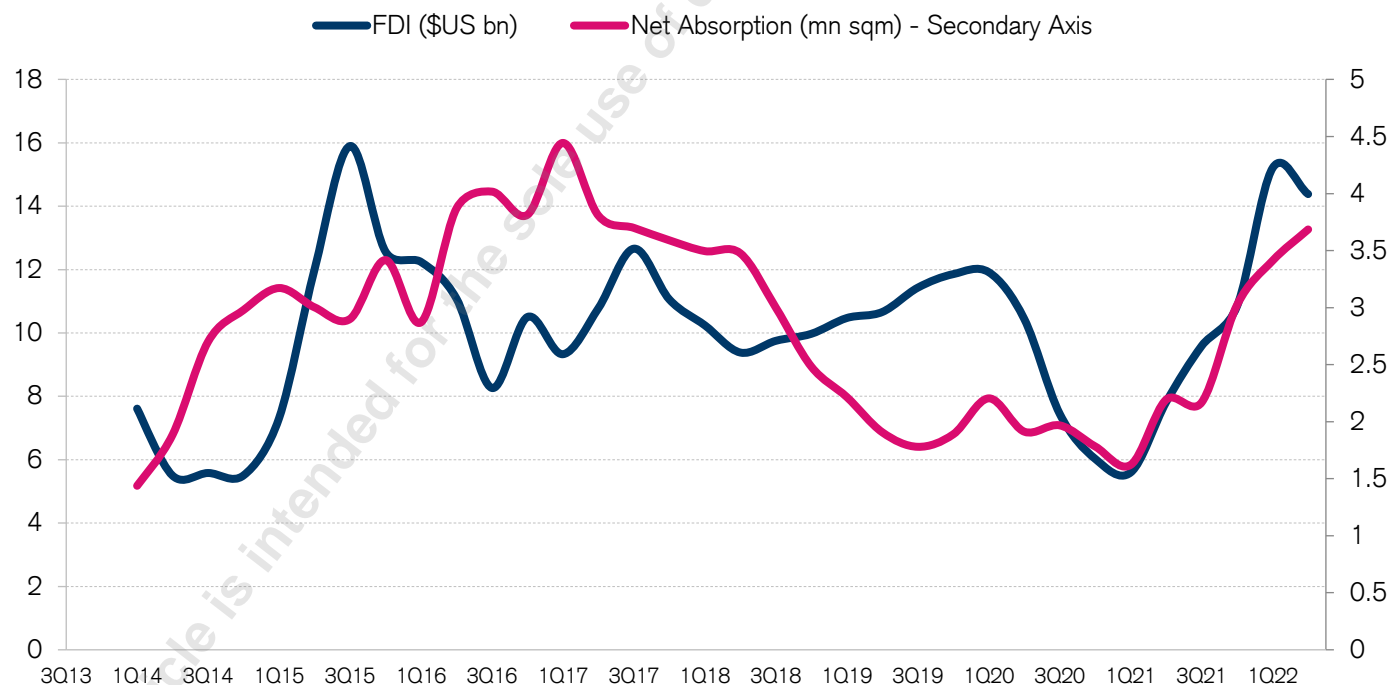
Source: Company data, Credit Suisse estimates, Mexico Economy Ministry

**Figure 3: Change in Mexico new Foreign Direct Investment adjusted for inflation, 2011-1H22.**



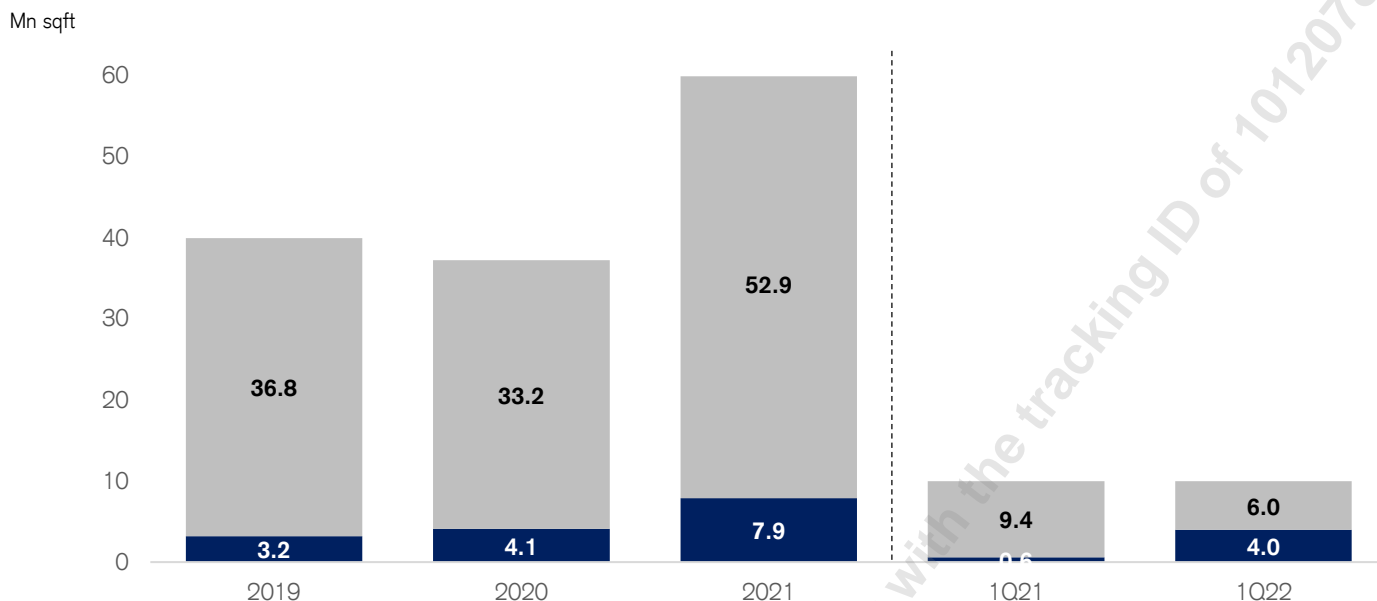
Source: Company data, Credit Suisse estimates, Mexico Economy Ministry

**Figure 4: LTM new foreign direct investment in Mexico vs. industrial net absorption, 1Q13-1H22. With the exception of the 3Q19-1Q20 period (which benefitted from some energy-related transactions such as the completion of the Tuxpan-Texas pipeline), net absorption appears to move in-line with FDI.**



Source: Company data, Credit Suisse estimates, SE

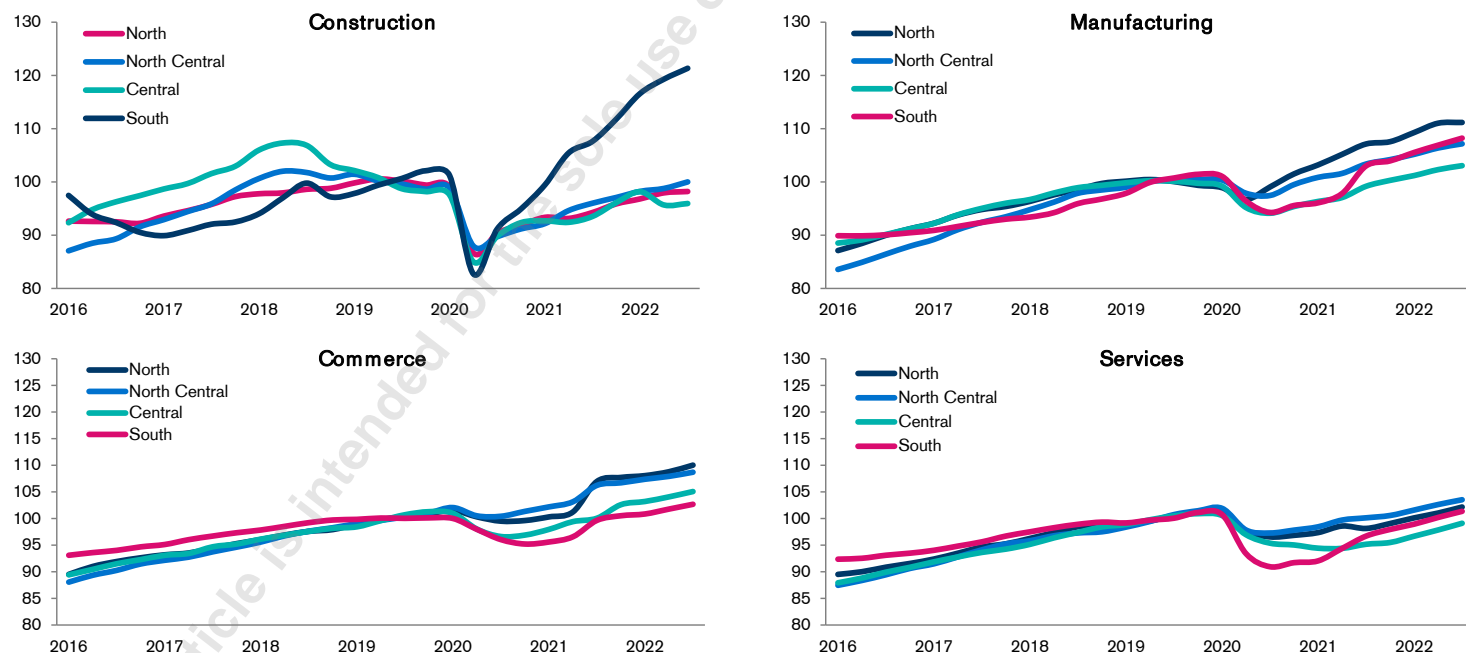
**Figure 5: Gross absorption for CBRE-tracked markets in Mexico. Nearshoring has steadily taken a larger share of the pie, representing 40% of demand in 1Q22, vs. less than 15% in prior years.**



Source: Company data, Credit Suisse estimates, CBRE

**Figure 6: Number of IMSS-registered formal jobs by region and sector, 2016-1H22. Manufacturing workers in the North region and Construction workers in the South are among the best-performing sectors, in our view, explained by nearshoring/the construction of the Dos Bocas refinery and Mayan Train.**

Index, base 2019: 100



Source: Company data, Credit Suisse estimates, Banxico

**Figure 7: Mexico nearshoring announcements identified by Credit Suisse in October 2022.**

US\$m unless otherwise stated

Sector	Region	Country of origin	Company	Investment (US\$m)
Automotive	Centro	Germany	Audi	n.a.
Manufacturing	Bajío	Germany	Bosch	140.0
Manufacturing	Norte	India	Flex Americas	300.0
Automotive	Norte	Portugal	Sodecia	36.0
Other	Centro	Switzerland	Givaudan	8.0
Manufacturing	Norte	France	Schneider	n.a.
Retail	Norte	USA	American Woodmark	65.0
Manufacturing	Norte	China	Sanhua	35.0
Manufacturing	Norte	Canada	Skyjack	80.0
Automotive	Bajío	Turkey	Standar Profil	10.0
Automotive	Bajío	USA	Molex	130.0
Technology	Norte	USA	Ametek	14.0
Aerospace	Bajío	France	Safran	120.0
Automotive	Bajío	France	Michelin	7.5
Retail	Norte	UK	Reckitt	8.9
Automotive	Bajío	Germany	Continental	210.0
Automotive	Centro	Germany	Volkswagen	763.5
Manufacturing	Norte	USA	Lakeland	5.0
Automotive	Bajío	Italy	Pirelli	114.0

Source: Company data, Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service

**Companies Mentioned** (Price as of 31-Oct-2022)

**Ametek** (AME.N, \$129.66)  
**Bosch** (BOSH.NS, Rs16114.4)  
**Continental** (CONG.DE, €52.48)  
**Fibra Danhos** (DANHOS13.MX, MXN24.5)  
**Fibra Macquarie** (FIBRAMQ12.MX, MXN26.35)  
**Fibra Prologis** (FIBRAPL14.MX, MXN50.88)  
**Fibra Uno Administracion S A** (FUNO11.MX, MXN23.12)  
**Flex Ltd.** (FLEX.OQ, \$19.58)  
**Givaudan** (GIVN.S, Sfr2990.0)  
**Mazda Motor** (7261.T, ¥1,003)  
**Michelin** (MICH.PA, €25.81)  
**Pirelli** (PIRC.MI, €3.818)  
**Reckitt Benckiser** (RKT.L, 5780.0p)  
**Sanhua Intelligent Controls** (002050.SZ, Rmb21.25)  
**Terrafina** (TERRA13.MX, MXN27.76)  
**Vesta, S.A.B. De C.V** (VESTA.MX, MXN43.06)  
**Volkswagen** (VWAGY.PK, \$19.41)

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