

Nearshoring Trend Increases Demand for Mexico's Industrial Space



According to a recent report from logistics property specialist Prologis, Mexico's industrial sector is booming as the ongoing trend of "nearshoring," drives demand for new facilities.

The recent uptick in nearshoring is a direct result of the supply chain uncertainty and difficulties of the past few years, which have led many US companies to move their manufacturing facilities and supply chains closer to home.

Growing Demand

Prologis' data shows that absorption of logistics space for nearshoring operations has grown from 3 million square feet (MSF) in 2019 to 16 million MSF in 2022. They define nearshoring in this case as "direct manufacturing capacity expansions to supply the U.S., installed in leased logistics space."

Meanwhile "Tier 2" absorption, defined as "domestic suppliers and third-party logistics providers that specialize in manufacturing warehousing" has grown from 15 MSF to 29 MSF over the same period.

Strong Fundamentals

Overall, the report shows that net absorption of industrial space has doubled in 2022 (as compared to 2019) in many of Mexico's top markets, including Mexico City, Monterrey and Tijuana.

Vacancies are also at an all-time low with only 1.1% of industrial space available as of Q1 2023. Prologis adds that around 60% of the industrial space currently under construction in Mexico is already pre-leased.

This combination of factors means that many Mexican submarkets are seeing "the highest rent growth recorded in the past 10 years."

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More Nearshoring Incoming

The good news for investors in Mexico's booming industrial industry is that this may be just the start of an even larger wave of nearshoring coming to the country.

Mexican cities like Monterrey have a long history as hubs for the automotive industry, and the recent announcement of a new Tesla facility in the city is set to drive massive new logistics demand.

Prologis states: "The expected investment (US\$5-8 billion) is larger than all Bajío original equipment manufacturer (OEM) announcements in the past decade combined," adding that the facility could result in "25 MSF or more of new logistics real estate demand" in Monterrey alone.

Border Boost

In addition to benefits in Mexico, the nearshoring wave is set to boost US border towns as well.

As the New York Times (NYT) pointed out at the start of the year, some border cities are already seeing a massive uptick in freight and logistics demand. In Laredo, Texas, for example, \$27 billion worth of freight was moved last October, an amount NYT reported as: "exceeding the flow through the twin ocean ports of Los Angeles and Long Beach, Calif., the primary gateway for American imports."

Investment Potential

Naturally, these shifts mean there are opportunities on offer for investors positioned to take advantage of the trend. As always, however, our top advice is to seek out local commercial real estate expertise to get the most up-to-date market information before making those moves.

