

The Weekly Take

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Spencer Levy

Current events have shined a spotlight on our southern border. Today, we are casting that light onto the important business relationship between the U.S. and Mexico and an interesting real estate story that's unfolding in the industrial sector. On this episode we pick up a recent CBRE flash call featuring members of our team who cover the industrial market on both sides of the border.

Emcee

Welcome to the Crossroads of Opportunity.

Spencer Levy

Coming up: Crossroads of Opportunity, the industrial boom along the U.S.-Mexico border. I'm Spencer Levy, and that's right now on The Weekly Take.

Spencer Levy

Welcome to the Weekly Take. Let me begin our look at the industrial opportunities on the U.S.-Mexico border with a macroeconomic scene-setter that, as a participant in the flash call, I shared with attendees and offer here again for you. The opportunity right now in cross-border trade between Mexico and the United States is significant. A positive mood swing over the last four months, after lots of tariff noise back in the spring. The trade relationship has gotten more certainty. For sure, there will be short-term challenges, but despite this, leasing volumes within industrial, once forecasted at negative territory, will probably be up slightly this year. Some of that is shifting from older facilities to new facilities, and at this point, our optimism is particularly high in port areas. Okay, with that context as a foundation, let's move on to our specialists for more depth. We begin with the goods on cross-border supply chain.

James Breeze

So to start it off, the need to protect supply chains has really been a primary demand driver for industrial for many years. And it's really only accelerated the last five years.

Spencer Levy

That's James Breeze, CBRE head of industrial and retail.

James Breeze

One way to protect supply sourcing is, like we're going to talk about a lot, on-shoring manufacturing in the U.S., but significantly in Mexico. And it's happened a lot over the last five years. That's increased imports into the U.S. for Mexico quite a bit. Right now, over 51% of goods imported for Mexico come through the Laredo crossing. And in 2024 on a monetary value. Imports ranking of all the ports in the US, Port Laredo is actually

number one import location in the U.S., more than the Port of Los Angeles or JFK's Air Cargo Hub. So this import volume over the past few years has really had a positive demand effect on markets both sides of the border, but really a good effect on leasing activity on markets what we call the NAFTA Superhighway or Interstate 35. If you take a look at every market along I-35, leasing activity in 2024, compare it with 2023. That leasing activity was 10% higher last year than in 2023. The primary beneficiaries are really those three big markets along I-35, Dallas, Chicago, all demand, but the really big beneficiary is that market right in the middle, and that's Kansas City. Kansas City finished 2024 as the top growth market, which means they absorbed the highest percentage of their existing inventory compared to any market last year. That was last year. Another thing that we're going to talk about a little bit is uncertainty from tariffs. USMCA coming up for expiration essentially in 2026 or renegotiation. That has caused demand to decrease a bit in those I-35 focused markets. Again, if you add all those markets up, it's down about 6% compared with this time last year, and we've also seen a dip in import volume through Laredo where JFK and O'Hare has actually passed. Net absorption down in border markets, Laredo is down about 16% this year, El Paso is down about 25% this year. That 3PL activity from companies that focus on cross-border trade has slowed down some. Most of these companies are tied to European and Asian manufacturing. They're definitely on a wait-and-see approach right now. Good news is if we get some of that trade clarity, which I think is already happening, we could see a turnaround there. In terms of other markets with ties to Mexico trade, we see less impact as we go further north. Leasing's up in Chicago 10%. Kansas City's still one of the best performing markets. Leasing is up 28%. Lot of growth in U.S. Manufacturing, overall 3PL demand.

John Kirkman

As James mentioned, new supply chain reality, right? Laredo surpassed Los Angeles as a kind of a key trade port for us.

Spencer Levy

John Kirkman is a Senior Managing Director and serves as leader of CBRE's Supply Chain Advisory.

John Kirkman

And these are a lot of engineered like high-value, fast-moving, high-engineered parts, produce, medical devices. All of these are very time-sensitive. This is also a new network archetype. But as we kind of think through the classic Asia to port to DC model in this notion of coming through alternate ports in Mexico up through the US, through major cities that James had pointed out, you become a new kind of archetype for how we're thinking about supply chain. And then over 14 million square feet is under construction already in El Paso and greater focus on buildings that differentiate things like automation ready, cold storage, opportunities for free trade zones, and we'll get into that. But these are just kind of differentiated buildings that are being put up along the border. They really kind of have an opportunity for us to leverage a new type of supply chain. Free trade zones offer a opportunity for labor tariff arbitrage and really kind mediate and mitigate some of the massive boost in uncertainty. The North-South supply

chain versus West to East I mentioned before. The merger of Canada Pacific Rail and Kansas City Rail offer an entire rail system, a unified rail system from Monterey all the way up to Toronto. This is the first time we've had that and obviously it stops off in Kansas City. Again, accelerating that is a super note. So as we think about Kansas City, easy access to rail yards in Kansas city, free trade zones are popping out. Ameri-Cole just spent \$127 million building out cold storage facilities. And obviously the key quarters for I-35 and I-70 are aspects of that as well. There are challenges though, right? So as we think about that dwell times along the border are increasing, as the traffic and as things move across the border, there's a lot of variability and variance in terms of dwell times, and that has high impact to these fast moving time sensitive items. As mentioned before from our colleagues, the growth is far outpacing our infrastructure capabilities. So as kind of understand that, the infrastructure is actually struggling to keep pace. That's changing. Investments are being made to allow that to open up new opportunities, but it's still something we're paying attention to. And then lastly, the uncertainty. I think as we consider this the uncertainty of where tariffs are going, which way they're going, we have a little bit more clarity now. But as we monitor that, it does have impact on how we think about the supply chains coming across the US border. Lots of opportunity, new supply chain archetypes, some challenges, but plenty of opportunity. And we're certainly bullish on that.

Spencer Levy

When it comes to challenges and opportunities, labor, the availability of workforce talent is a critical aspect of this discussion. To address that is Kristin Sexton, Executive Vice President, CBRE's Americas Consulting, a labor analytics specialist based in Phoenix.

Kristin Sexton

First and foremost, there is a very well-established, stable, and productive workforce on both sides of the border that I think most companies can take advantage of, both in the sense of that stable and longevity of workforce, but also looking at the cost-effectiveness of delivering at the border. We're seeing continued evolution in the skill sets that are required to run the factory side. We're looking at manufacturing, a lot more adoption of robotics, AI. The workforce is training along with those requirements, we're seeing advancement in what the labor force is capable of doing and continued investment in the region in elevating those skill sets. So that's a very positive indicator in addition to the more traditional manual production work and distribution work. Because of the focus on onshoring and bringing some of these jobs closer to the border and supply chain, there is a decent level of saturation and competition in these markets as you would expect. It kind of becomes a bottleneck for the supply chain feed, and there's only so much workforce there. However, they're still sizable workforce bases. It's really about understanding how you come in to be competitive in that market and to operate in that as an employer of choice. Even with that level of competition, most of the wages are still running at a 70% discount to most US markets. On the US side, probably closer to 20 to 30% than most major high-cost markets. It is a little bit more expensive in those border markets than other parts of Mexico. If we're going to go into more, you know, emerging locations or mid Mexico, it's about a 12% premium to be near the border, but still again,

about a 70% savings to most U.S. major markets. From a labor perspective, we're seeing a lot of adoption around automotive, aerospace, and electronics. And of course, some major openings over the last five years really driving some of that workforce growth. From a metric perspective, looking at just what the size of these workforces are, I think, is important. So most of these major markets have a population of manufacturing skills, as an example, well over 240, 250,000 people. So a lot of skill-based talent, as we discussed, sustainable, scalable market for these positions. We see that as well on the transportation side.

Christian Perez-Geiss

We believe we are in the middle of one of the most dynamic shifts in the global supply chain that we're going to see in our career.

Spencer Levy

Christian Perez-Geis is an industrial broker who serves as director of the CBRE El Paso and Ciudad Juarez office and has a front row seat to the routine activities and macroeconomic trends. That includes things like nearshoring and one definition you may need to have, namely of the so-called twin plant model. It's a manufacturing process that involves complementary or twin facilities on either side of the border. They share raw materials, components and operations prior to the export of a finished product. And by agreement, it can be friendly in terms of tariffs. The twin plant model has been used in industry such as automotive, textiles, and others.

Christian Perez-Geiss

It's a shift of manufacturing back to the US-Mexico border and a revitalization of the twin plant model that has fallen out of favor as a terminology, but I think we're seeing a reinforcement of that. And this shift that we're seeing right now has a much broader reach than what we've seen in past cycles. Kirsten talked very clearly about the labor advantages. I think those labor advantages... Along with what John Kurtzman discussed on the logistics, are the two fundamental drivers of what continues to be the importance of the U.S.-Mexico border markets, and those haven't changed in the last 50 years. I think if anything, as we're talking about labor availability and skill availability in the United States, Mexico being a shop floor with an incredibly talented and increasingly sophisticated workforce just begins to play a much more important part. In the North American perspective of how we begin to make things and how we secure our supply chains. The Northern border markets are dominated by Monterey, Juarez, and Tijuana. Each market has a distinctive character and our clients are making pretty clear decisions on where they want to go and why they're choosing one market over the other. And they're in many cases complementary. The secondary markets that we have largely serve as an overflow market when real estate or labor becomes tight. There's some important clusters in certain areas, like on the automotive in Saltillo. And in Chihuahua City, we have a large aerospace cluster. The key story here is combined, these markets equal a decent sized American industrial city. It's spread over 2000 miles and in 13 different cities. And if you look at the opportunity for growth in these areas, and importantly, you look at the growth that we have seen, which I'll get to in one moment. The setup is almost perfect for the next wave of near-shoring that's coming in.

The general shift towards an improvement in these northern border markets, using Juarez as an example, fundamentally started when China and Mexico had some wage equalization starting in 2011 and 2012, coming out of the global financial crisis. And we were on a pretty normal path going into 2018. The reason that we mainly had this huge drop in the vacancy rate wasn't necessarily because of overall demand being strong, but we didn't have modern construction that was going on in these border markets to the degree that we've seen since 2018. And 2018 is a very important pivot point for this wave. And I believe that marks the beginning of the first wave of modern nearshoring. And the reason that I call this modern nearshoring is we are seeing different types of facilities, different types users, and different types of products coming into the market. A key point for me is getting out of China. This is a comment that comes up from clients time and time again, as we're out touring these markets. And when you start to dig into why they are looking at putting a factory into Mexico, there is some version of our customer or our client is telling us to move manufacturing production out of China. This was triggered by the 2018 tariffs, which we've talked about. And the first movers here were very clearly the Chinese, the Taiwanese, and other Asian firms that were directly impacted by those 2018 tariffs and had to get their production out of China quickly. The activity showed up, the real estate activity and that absorption showed up in the border markets coming out of COVID. And in many cases, there's been a discussion of really being a COVID-driven supply chain change that has driven it. I think this is wrong; we've really been focused more on the tariffs, and the tariff impact is what we've yet to see fully play out. The COVID impacts have yet to be felt by the US and the European firms who were about to make their moves into Mexico, but ran into challenges with an expected recession in 2022, the Mexican elections and some follow-on issues, the US elections, and our tariffs and the continued 90-day pauses that we're seeing. These macro events over the last two years have dramatically slowed client relocation and production decisions. And then the inflationary pressures on labor and real estate in Northern Mexico has caused for the cycle of older, less valuable production to begin moving out while the relocation of new investment coming in has stalled. And that's one of the key challenges that we're gonna see as this second wave begins to reactivate. It is a great setup for tenants needing available labor and real estate, but it's certainly causing challenges for investors who own real estate right now, and we're seeing a pretty dramatic drop-off in real-time leasing activity. I think the fundamentals of what we're seeing is really a revitalized twin plant model. The link between Mexico and the US border markets is only getting stronger. El Paso, Laredo, Ota Mesa are playing incredibly important roles in the relationship between real-time manufacturing in Mexico and what we're seeing happening on the U.S. side as it extends those supply chains into the interior border markets. And the way that that's showing up in a lot of these markets is an additional distribution component being overlaid with our warehousing. And this is causing a flight to size on the US side of the border. More sophisticated manufacturing on the Mexican side is creating clients to make a more sophisticated distribution-focused decision for their product once its crossed the border.

Spencer Levy

Now we head further into three markets on the cross-border zone that have emerged as key industrial players. Monterrey, Juarez, and Tijuana. We start in Monterrey, a growing

metropolitan area with a young population of more than 5 million people and counting. Here's Ramon Flores, a CBRE Executive Vice President, Mexico Northeast Division.

Ramon Flores

Monterrey is the most important industrial real estate market in Mexico, and it is a manufacturing hub for consumer products to be sold in the US market. Because of its strategic location near the border with the US, its quality of services and skilled labor, it constantly attracts global corporations with manufacturing needs. In recent years, the Monterrey market has experienced strong growth in its market fundamentals.

Absorption, market rent, and deliveries were as high as double in peak years. Recently, the market has slowed down due to uncertainty with tariffs and the coming negotiations of the USMCA Treaty. But we are expecting a second wave of nearshoring, probably by the end of this year or in the first half of 2026. Once trade conditions are clarified. In the past, Monterrey was known as a destination mainly for light manufacturing operations and mostly for U.S. Corporations. Now, the current trends are moving to more complex manufacturing operations like food and beverage, personal care, and heavy machinery, just to mention a few. Also, activity on investment for corporations from China and Europe is notable. Another current trend is the demand for space for Chinese 3PLs and e-commerce. Investors and developers from China are also moving in the market with requirements. Of course, we're facing some challenges in this market, mainly with infrastructure, as there is a shortage of power and water. These are mainly serviced by the Mexican government and faced a lack of investment in their capabilities in our last presidential term. Making the current grid of services reaching capacity of the system. But the market is responding with investment in the sector by private corporations. We should be ready to offer viable solutions when the next growth cycle starts.

Spencer Levy

Juarez, also called Ciudad Juarez, is a major industrial market with significant infrastructure advantages, including direct connections to El Paso on the Texas side. Andres Sandoval, a CBRE executive vice president representing landlords and tenants, covers the combined territories.

Andres Sandoval

The Juarez industrial market is approximately 100 million square feet, and combined with El Paso, we see it as a bi-national market with 180 million square feet. In the last four and a half years, the Juarez market grew by 40% from 71 million square feet to 100 million square feet. The most important change we have seen in our market in the last five years has been twofold. First, requirements have doubled in size from where they were 10 or 15 years ago. And secondly, manufacturing plants today require a more sophisticated and therefore more expensive build-out as compared to the plain vanilla manufacturing spaces the market had previously. Current challenges previously mentioned are the tariff uncertainty and lacking infrastructure to support the continued expansion of industrial occupiers. Today, Juarez is ready for the next phase of growth. The market has plenty of new space available and equally as important and abundant skilled labor force.

Spencer Levy

And finally, Tijuana, a city that may be known for other things traditionally, but has emerged as an industrial destination with a growing population, rising demand, and desirable proximity and access to California. Here's Senior Vice President, Rafael Garcia Roviroz, who joined CBRE last December to help establish an office in Tijuana.

Rafael Garcia Roviros

Tijuana is the second-largest border market, roughly 105 million square feet. The market has grown significantly in the last 5 years at a rate of approximately 8.5% annual compounded growth rate. Tijuana has the highest lease rates and the lowest cap rates of any border market. So it is definitely a market desired by investors. We believe the fundamentals for Tijuana are very, very strong, has a young and growing population. With tremendous expertise in manufacturing. Companies in Tijuana make artificial heart valves, automobiles, consumer electronics, aircraft parts, medical devices, it's the number one manufacturer of medical devices in North America, and furniture. So we have a very broadly diversified industrial base. And most importantly, we're very close to California, a huge consumer market that has high regulation, high labor rates, and higher lease rates than Tijuana, which makes Tijuana a spectacular place to manufacture. In addition to that, we're very close to the ports of LA, Long Beach, and Ensenada, allowing companies that have inputs from Asia manufacturing Tijuana. What's happening in Tijuana now? Changes in loss in the United States have basically shut down the fulfillment industry in Tijuana. That was accounting for about 30% of net absorption in the last few years, and now it's basically dead. Electronic contract manufacturers are buying Mexican plants and those companies, primarily from China, are looking to expand their operations of manufacturing in Mexico. Their example is a company just purchased the Bose Corporation manufacturing facilities in Tijuana. They make speakers for automobiles. What are the challenges today in Tijuana? Well, the market is oversupplied right now. In 2022, 2023, when the market was absorbing a lot of space. Developers starting the entitlement process, which takes two to three years, that product is hitting the market today. And because of tariffs uncertainty, the market has slowed down to a crawl. So we're gonna have some oversupply for the next couple of years. Suitable land for large-scale development is very expensive in Tijuana. It's hard to take infrastructure there. And tariffs and infrastructure concerns are driving caution for the market.

Spencer Levy

For more on the subject of this episode and related content, check out our website, [CBRE.com slash The Weekly Take](https://www.cbre.com/the-weekly-take). And look for more about the crossroads of opportunity at [CBRE dot com](https://www.cbre.com) as well. Before we sign off, I'd like to thank our colleagues who arranged this call, including John Morris, president of CBRE America's Industrial and Logistics, who moderated the live discussion. We'll be back next week to keep delving into current economic headlines followed by more informative investing and capital markets insights, including from one of the biggest institutional investors in the U.S. and more global takes from overseas. For now, thanks for joining us. I'm Spencer Levy. Be smart, be safe, be well.