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The Still-Compelling Opportunity in U.S./Mexico Border Industrial Markets

INSIGHTS

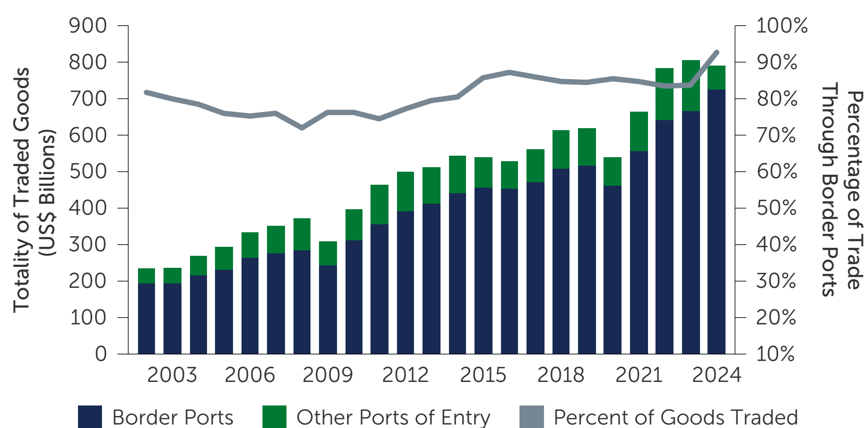
Despite the looming headwinds that could impact global trade, there are still reasons for optimism on the outlook for U.S./Mexico trade—which suggests the opportunity in border port industrial markets remains attractive.

Dags Chen
Head of U.S. Real Estate Research & Strategy

Lincoln Janes
Director of U.S. Real Estate Research & Strategy

The combined value of goods traded between the U.S. and Mexico reached $794 billion in 2024 **(Figure 1)**. This is nearly 2.5 times more than the value of aggregate goods traded between the two countries in 2002. And in 2019, Mexico surpassed both Canada and China in terms of goods imported, becoming the largest U.S. trade partner.

Figure 1: Aggregate Value of Goods Traded Through U.S./Mexico Land Ports



Sources: Bureau of Economic Analysis; Census Bureau. As of October 2024. Data for 2024 is annualized based upon figures through October 2024.

Even as protectionist rhetoric between the two nations has ramped up since the November 2024 elections, we believe Mexico's status as the largest and most important trading partner to the U.S. is unlikely to change given the mutually beneficial relationship. With the return of President Donald Trump to the White House and his vociferous endorsement of tariffs to correct the perceived injustices created through global trade, investors and businesses are becoming increasingly concerned that the Administration will tip the scales toward self-inflicted and self-defeating economic wounds.

The concept of "reshoring" is an extension of this same logic. Reshoring, also known as on-shoring or near-shoring, references the (re)location of manufacturing and production activities to a firm's country of domicile. Trump's first presidency resulted in increased reshoring investment and activity that continues to the present. In practice, reshoring can take on different manifestations. As it concerns U.S. industry, currency, wages, power, and business costs make the prospect of fully repatriating manufacturing operations for domestic firms cost-prohibitive over the near term, while aging demographics create long-term headwinds. In many instances, firms have moved higher value-add segments of their supply chains back to the U.S. while keeping or moving other segments to foreign countries like Vietnam, Malaysia, China, Canada, and Mexico. Trump has explicitly targeted these half-measures.

Since he was elected, Trump has made trade a policy priority and has enacted and threatened significant tariffs. Mexico, Canada, and China have been front-and-center through the first months of his Administration as Trump has tied drug and illegal border crossings with trade policy through powers granted by the International Emergency Economic Powers Act (IEEPA), which does not require Congressional approval. Trump initially pledged 25% tariffs on all goods from Mexico and Canada, but this was later eased to 25% on only items not covered by the United States-Mexico-Canada Agreement (USMCA). This compares to a far more stringent 20% increase on all Chinese imports. Although Trump has threatened other countries with tariffs, the Administration is expected to announce a broader scope of global trade policy in the near future with a focus on reciprocity.

Real estate investors are also concerned around the multifaceted implications of a more protectionist trade regime in the U.S. Possible impacts include development delays, higher materials and equipment costs, lower tenant demand, and higher inflation more broadly—which could lead to additional upward pressure on borrowing costs. Property investors need to make investment decisions that span multiple years, and given the uncertainty around trade policy, many would prefer to pause as they assess what the next four years could bring.

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Port Markets Along the U.S./Mexico Border

Real estate investment along the U.S./Mexico border is relatively nascent. Historically, 83% of total goods traded between the U.S. and Mexico comes through four border ports or "districts" (described in the parlance of the U.S. Census Bureau). These four districts comprise the industrial metros of Brownsville, El Paso, Laredo, McAllen, Nogales, and San Diego, CA. Combined, these industrial markets encompass approximately 400 million square feet (SF) of industrial space.[1] For comparison, Chicago has 1,400 million SF of stock, making it the largest industrial market in the nation. Relatively, there is not a lot of warehouse space in and around ports of entry along the U.S. and Mexican border.

Industrial markets accompanying ports of entry do not have to be sizeable. Savannah, the fourth busiest coastal port in the continental U.S., has an industrial market of 136 million SF versus nearby Atlanta with nearly 900 million SF of inventory. Traditionally, goods move through ports directly to primary warehouse markets largely by interstate and rail. But increasingly, ports are seen as an intermediate stop for goods on the way to their destination. The post-pandemic reconfiguration of supply chains has prioritized optionality and resiliency through redundancy versus simply trying to achieve the greatest cost efficiencies.

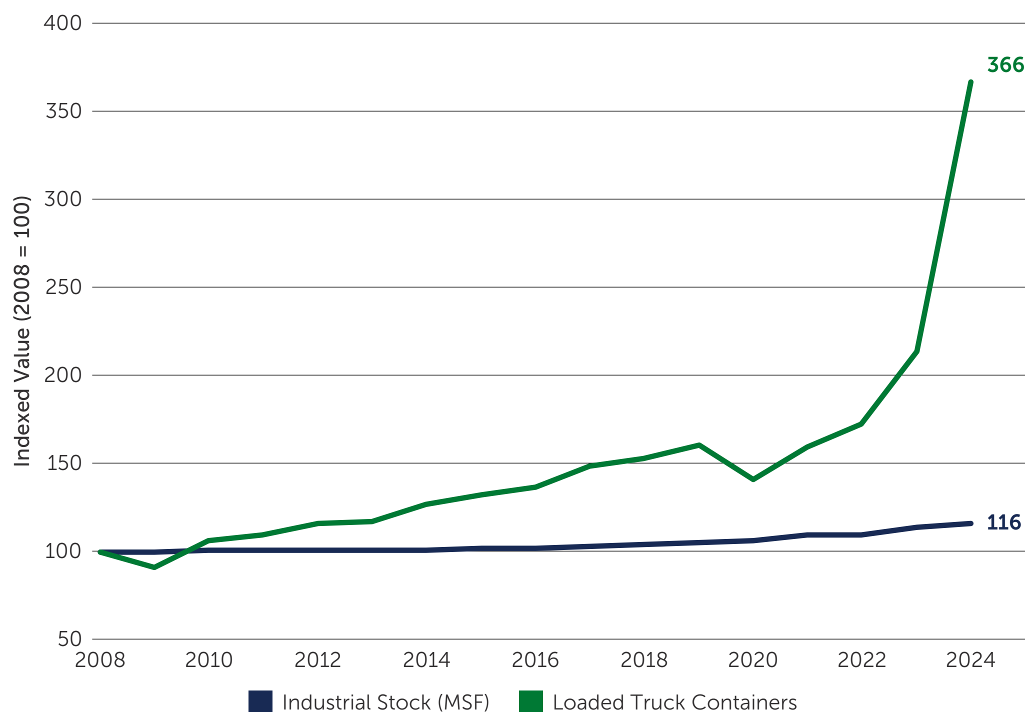
1. Source: Costar. As of September 30, 2024.

Savannah provides a helpful case study around how a port industrial market can evolve. From 2008 to 2024, Savannah's industrial stock rose by 174% cumulatively versus 19% for the national industrial market.[2] While the market has experienced higher than average vacancy due to the accelerated pace of construction, warehouse rent growth in Savannah has outpaced the U.S. even as industrial rents nationally rose at their fastest pace ever following pandemic lockdowns.

While the stock of industrial space across U.S./Mexico border ports has been rising for years, it has lagged the national pace. From 2008 to 2024, the aggregate amount of space across border ports has increased by only 16% versus 19% nationally **(Figure 2)**. In 2008, 2.7 million loaded truck containers crossed the border; by the end of 2024, it would be close to 10 million—a 266% increase or nearly 17 times the pace that industrial stock has expanded by.

The degree to which Southern U.S. border port industrial markets are undersupplied versus the volume and the value of the products that pass through them is stark. **Given the uncertainty around how trade policy will change and the countries that may be most affected, one could imagine a scenario in which demand for warehouse space in border ports could dramatically increase in coming years—particularly along trade routes with goods that require assembly or other sources of value-add.**

Figure 2: Border Port Industrial Stock vs. Loaded Truck Containers Crossing the Border



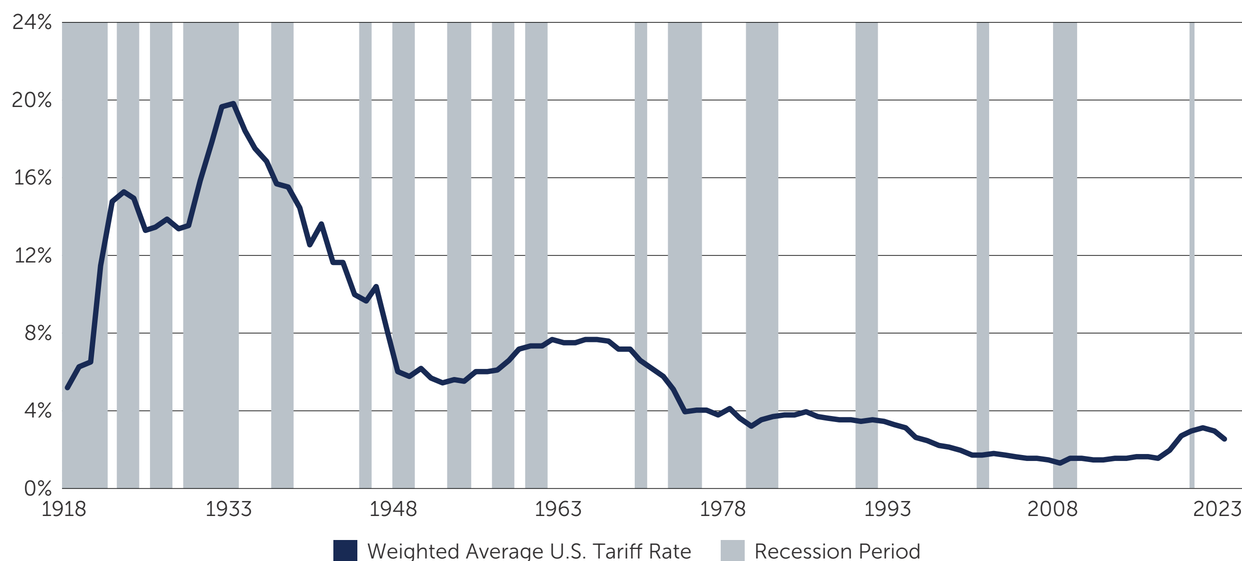
Sources: Costar; Bureau of Transportation Statistics. As of October 2024. Data for 2024 is annualized based upon figures through October 2024.

2. Source: Costar. As of September 30, 2024.

U.S./Mexico Trade: Reasons for Optimism

Market consensus has increased its baseline tariff scenario, but economists largely expect initial import duty rates will be set at elevated levels to force negotiations with trading partners, then settle to a lower long-term rate—a sentiment recently expressed by White House officials. A number of forecasts call for overall U.S. import taxes to increase from around 3% in 2024 to around 10%, but this is mainly due to China **(Figure 3)**.

Figure 3: Weighted Average U.S. Import Duties as a Percent of Imports



Sources: USDT; NBER; Federal Reserve. As of December 2024.

In addition, potential tariff increases are expected to be targeted and used to extract specific concessions, a view supported by Trump's recent comments that "there will be flexibility." A trade war between the U.S. and its top three trading partners (Mexico, Canada, and China) and others is unsustainable because it would severely undermine economic growth, price stability, and employment. Among other benefits, trade with Mexico has a greater association with supporting U.S. jobs than China through bilateral manufacturing as around 40% of the content from Mexican imports are produced or finalized in the U.S. compared to around 4% from China.[3] Although posturing and brinksmanship between the two nations is likely to continue, there are long-lived and entrenched factors that compel both to maintain mutually beneficial trade relations.

STRUCTURAL COST ADVANTAGE

Aging U.S. demographics and a low unemployment rate point to lack of slack in the workforce, whereas Mexico's population growth and lower labor costs provide production capacity and price efficiency. The Mexican peso has continually weakened against the U.S. dollar for decades. Specifically, the MXN/USD exchange rate has fallen to 0.049 in March 2025 from 0.362 in the first quarter of 1990.[4] The CAD/USD exchange rate in contrast has only declined to 0.698 from 0.8548 over the same period.

3. Source: Wilson Center analysis. As of September 30, 2024.
4. Source: Bloomberg. As of March 2025.

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From 2006 to 2021, Mexico's cost competitiveness has improved marginally by 2.3%, while China's cost competitiveness has declined by 12.4%.[5] The cost advantage that Mexico possesses over both China and Canada has been built up over decades, and supply chains for U.S. industry increasingly traverse the Mexican border.

PUBLIC PRIVATE INVESTMENT AND BORDER SECURITY

One of the reasons behind Mexico's favorable cost structure is both the past and future investment in transportation infrastructure. Around El Paso alone, $7.8 billion of infrastructure spending has been proposed between 2024 through 2028.[6] U.S. foreign direct investment into Mexico, whose GDP activity overwhelmingly is related to U.S. export production, has also risen in the years following the pandemic. Training has also been a focus of the Mexican government and global firms to improve the productivity of the country's domestic labor force. Additionally, despite escalating tariff threats over illegal border crossings and drug trafficking, there have been marked improvements in safety and crime reduction in and around the border over the past several months. With greater media focus and public sector budget allocation to monitoring crossings, border security should continue to improve.

FINANCIAL MARKETS

Despite the "Republican sweep" in the 2024 presidential and congressional elections, financial markets will be a referendum on potential negative outcomes of the Trump administration's policy actions. Tariffs—and subsequent declines in consumer sentiment, business confidence, and other indicators—have been a key source of public equity market volatility in recent weeks. Trump often associates his performance with market trends, and adverse effects due to trade policy resulting in accelerating inflation and tighter financial conditions should restrain the administration from the worst excesses, along with the impending 2026 mid-term cycle.

Key Takeaway

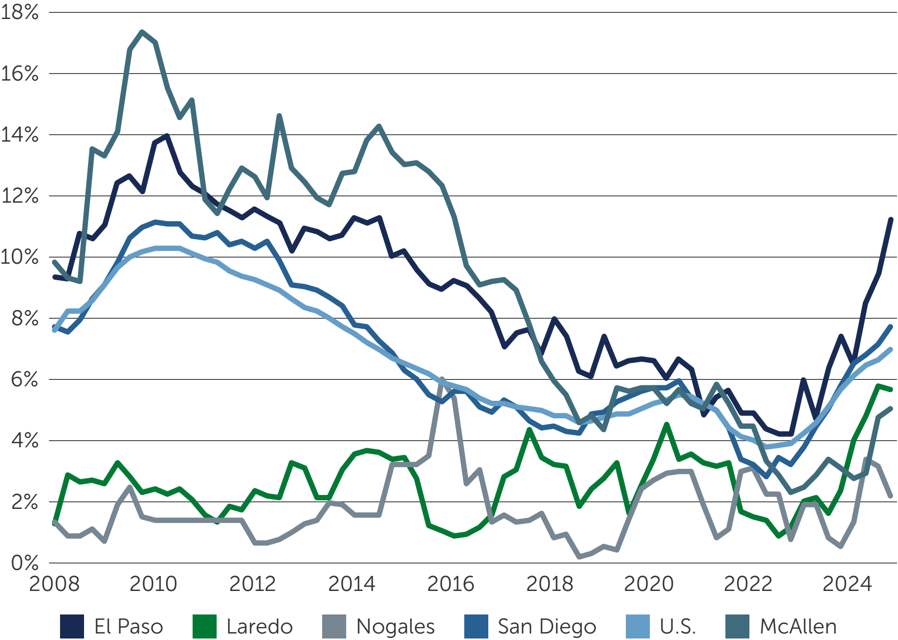
Capital flows into border port industrial markets have been subdued especially when considering how enthusiastically institutional investor appetite has grown for the industrial property sector over the past decade. It is tempting to pass on a strategy that appears right in the crosshairs of a trade policy regime change.

5. Source: Boston Consulting's Global Manufacturing Cost-Competitiveness Index. As of December 2021.
6. Source: Port of El Paso. As of November 2024.

That said, there are reasons for optimism on the outlook for U.S./Mexico trade and subsequently the border port industrial sector. In particular, the degree to which border port industrial markets have been undersupplied has been persistently dramatic and becoming more so. In addition, U.S./Mexico trade has become critical, even since the last Trump administration. This suggests there is justification to think that potential disruption to trade policy will be marginal coming from a "pro-business" President, but it represents an added source of potential return.

In our view, there are compelling opportunities in the U.S./Mexico border port industrial markets. However, as trade dynamics evolve, a selective approach is crucial to navigating both the opportunities and challenges that lie ahead. For example, smaller markets can in the near term become overrun by development spurred by capital flows **(Figure 4)**—therefore monitoring supply cycles is key to any longer-term investment exposure.

Figure 4: Historical Industrial Vacancy



Sources: Costar. As of December 2024.

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**As of December 31, 2024*

25-4269308