

Industrial Business Review: 4Q 2022 Northwest

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We are Datoz

We combine continuous commercial real estate research with cutting edge software to provide transparency to the industry through impartial and constantly updated market intelligence.

Our research team monitors and records real estate activity throughout México, covering 24 markets in the industrial segment, 5 markets in the corporate segment and 9 markets in the retail segment.

Research efforts include field verification activities that reinforce our data precision and provide our researchers with physical evidence to support our monthly market updates. Datoz proprietary software allows users to connect online any time and from anywhere. Our suite of products offers the possibility to browse verified available spaces, download property brochures, view details from thousands of lease and sale transactions, customize data-sets, download statistics and indicators in friendly and customizable formats, among many other features.

Methodology

We work with an extensive network of market participants and maintain constant contact to update information on a monthly basis. In this manner, we ensure that key market data comes directly from the professionals involved in diverse activities that affect commercial real estate in each and every market.

Our researchers verify all collected data and visit markets regularly to corroborate information that can only be validated through physical surveys and on-site inspections.

We continuously work to standardize number formats, calculations and ratios in order to present our results in a simple and comprehensible manner. Once data has been thoroughly verified and meets quality standards, it is merged and loaded unto our database, which in turn compares it against other entries pertaining to the same property and market to validate its place in a building's historic timeline.

Furthermore, our analysts continually review our data-sets in order to proactively amend anomalies and in doing so help maintain the highest standards of quality for real estate data in Mexico

Northwest region



Markets



Economic outlook

From January to November 2022, industrial activity in Mexico increased 3.2% year-over-year, boosted by manufacturing, which had an increase of 5.5%, driven by the manufacture of computer equipment, electronic components and accessories with a growth of 15.8%. Meanwhile, construction activity had a slight drop of 0.3%, according to Instituto Nacional de Estadística y Geografía (INEGI).

In October 2022, employment in the manufacturing industry grew by 1.7% year-over-year. Overall employment increased 7.9% due to the rise in the manufacturing of computer components and electronic accessories, according to INEGI.

From the first to the third quarter of 2022, foreign direct investment (FDI) in Mexico reached \$32.1 billion dollars, according to the Ministry of Economy. The largest share comes from the United States, with 46.2%.

Consumer spending registered a year-over-year increase of 7.1% from January to October 2022, driven by purchases of imported products, which rose 15.7%.

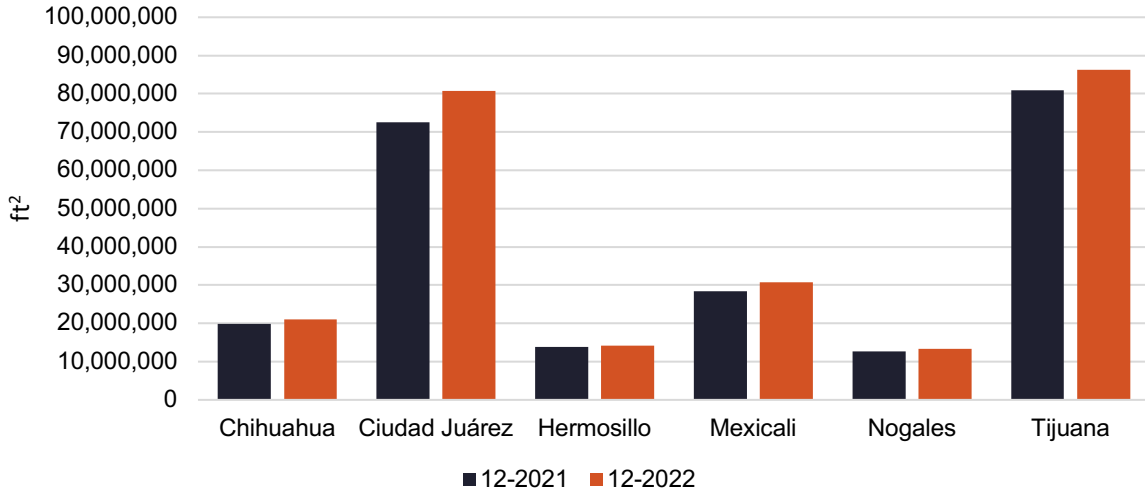
2022 closed with annual inflation of 7.8%, according to INEGI. Food, non-alcoholic beverages and services continued to drive the nation's prices.

Summary

1. The northwest region closed the fourth quarter of 2022 with a total inventory of 246.1 million ft².
2. The region registered an availability rate of 4.27%, around 11.0 million ft². Tijuana's availability rate ended the period at 3.82%.
3. The weighted average asking price for industrial space in the northwest region ended at \$0.53 USD/ft²/month.
4. As of 4Q 2022, the region accumulated 15.8 million ft² of gross absorption.
5. From January to December, construction starts in the region recorded 17.7 million ft².
6. At the end of the year, the region's cumulative net absorption, excluding new spec space, amounted to 6.4 million ft².
7. By the end of 4Q 2022, after taking into account new spec space, the northwest region's net absorption was negative by -4.0 million ft².

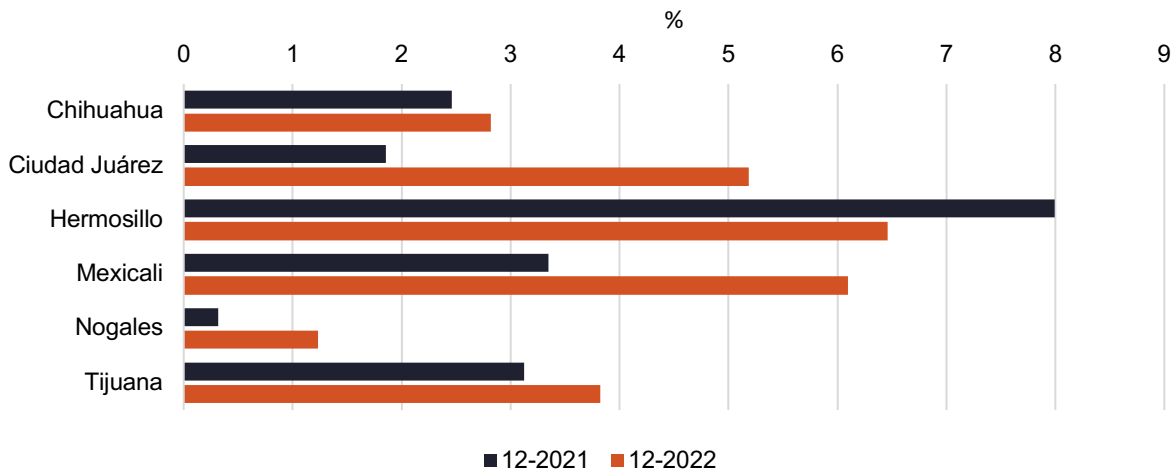
Inventory

The northwest region closed 4Q 2022 with a total inventory of 246.1 million ft². Ciudad Juárez and Tijuana drove this increase by adding over 8,1 million ft² and 5.3 million ft² in the last 12 months, to reach 80.7 million ft² and 86.2 million ft², respectively.



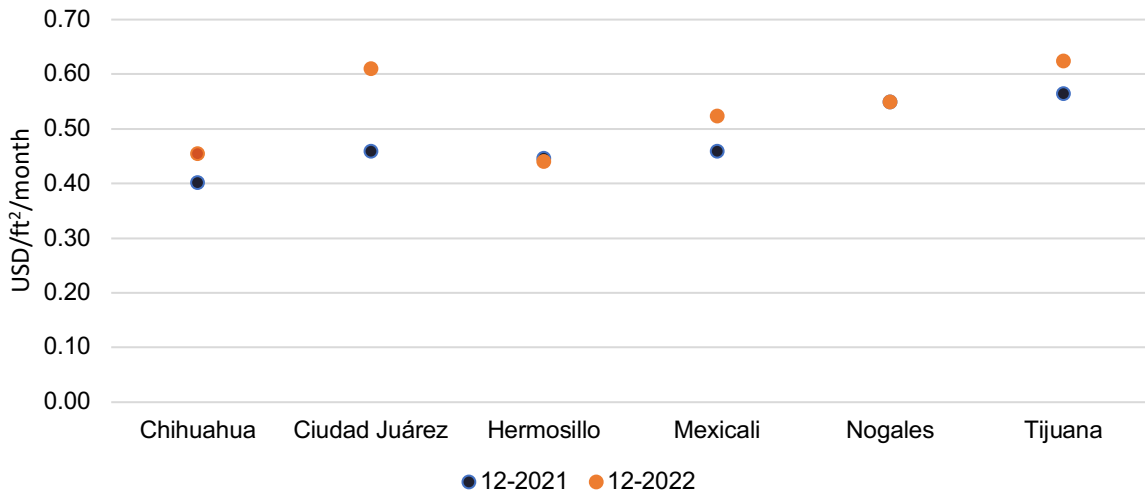
Availability rate

By the end of 4Q 2022, the region's availability rate stood at 4.27%, this is equivalent to 11.0 million ft² of available space. Tijuana increased its rate by 70 basis points and Ciudad Juárez by 333 basis points compared to year-end 2021, reaching 3.82% and 5.19%, respectively.



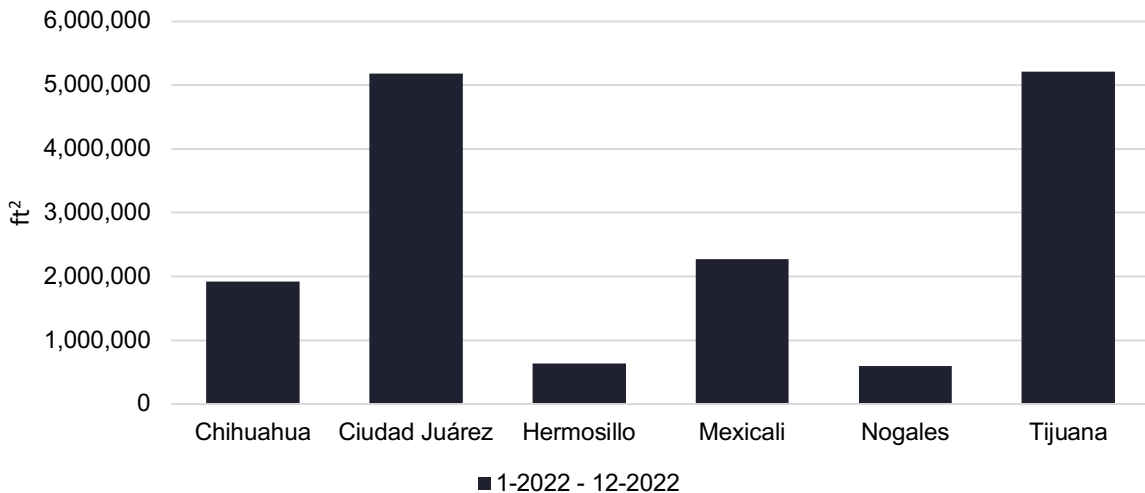
Asking prices

The weighted average lease asking price for industrial space in the northwest region stood at \$0.53 USD/ft²/month. During this year there has been a steady increase in the region’s asking price, rising 11.14% in the last 12 months. Tijuana has one of the highest asking rates in the country, currently averaging at \$0.62 USD/ft²/month.



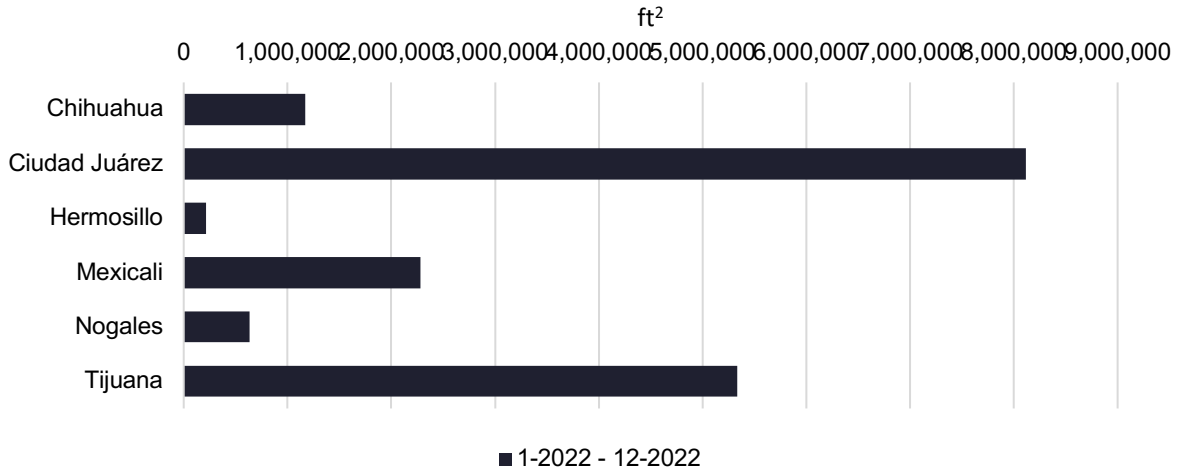
Gross absorption

At the end of the year, the northwest region accumulated gross absorption of 15.8 million ft² of which Tijuana accounted for 5.2 million ft², 32% of the region’s total, followed by Ciudad Juárez with 5.1 million ft², which continues to position itself as one of the most dynamic markets.



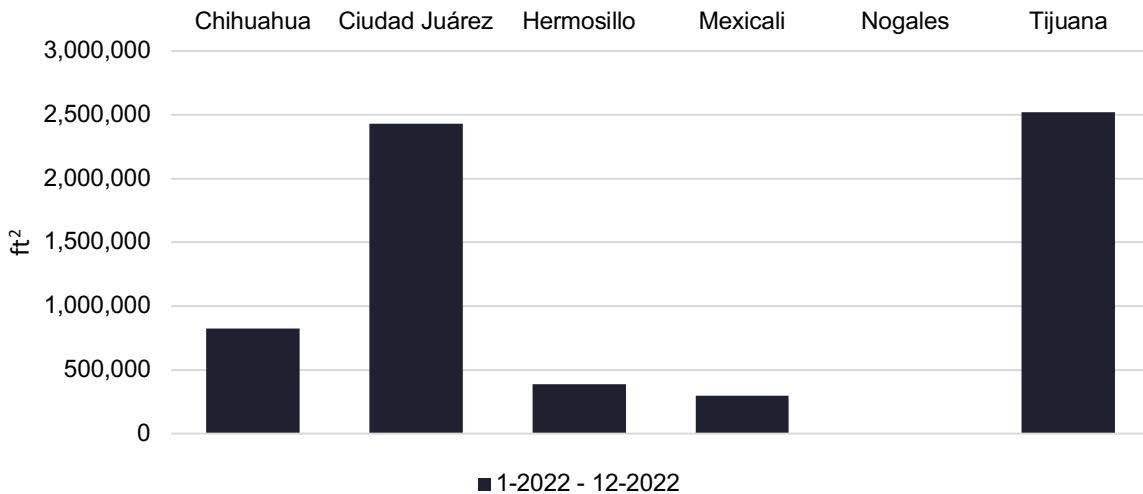
Construction

From January to December 2022, all the region's markets registered construction starts, adding up to 17.7 million ft² across 97 buildings. Construction starts in Ciudad Juárez stand out as 46% of the region's GLA under construction was located in this market, adding up to 8.1 million ft².



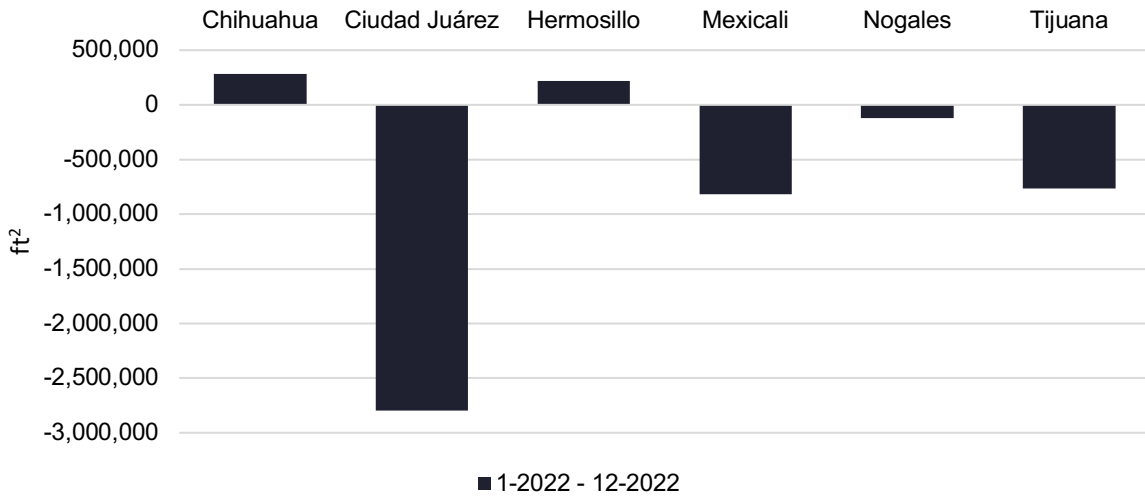
Net absorption 1 (gross abs - spec construction)

By the end of 4Q 2022, net absorption in the northwest region, without taking into account new spec spaces, reached 6.4 million ft². Tijuana recorded the highest net absorption, with 2.5 million ft², followed by Ciudad Juárez with 2.4 million ft², while Mexicali recorded the lowest absorption with 299,180 ft².



Net absorption 2 (net abs 1 – spec construction)

Taking into account new spec spaces, from January to December, the region’s cumulative net absorption was -4.0 million ft². Ciudad Juárez registered the most pronounced negative absorption with -2.7 million ft², while Chihuahua and Hermosillo had positive net absorption of 285,359 ft² and 219,913 ft² respectively.



Looking forward

The northwest region continued to position itself as one of the most dynamic regions in 2022. In the last quarter, it surpassed the results recorded in 4Q 2021, with the border cities of Tijuana and Ciudad Juárez standing out, triggered by nearshoring, which has experienced a considerable boom in the last three years. Although in the year-to-date it fell somewhat short in terms of demand.

These markets continue with the trend of high demand and insufficient supply, which has triggered speculative construction, which is absorbed even before construction is completed. Even with the gradual increase in asking prices due to various factors, this region is highly competitive, so the development and growth of its markets has not stopped.

Developers and investors continue to search for land to meet demand, so those with land reserves have a greater advantage over their peers.

As one of the most attractive regions for foreign investment due to its geographic position, resources, infrastructure, labor and facilities to implement and strengthen the operation of companies, we will continue to see the growth and consolidation of the northwest during 2023.

Glossary

Inventory: sum of the area of all buildings type A, B and C according to most developers and institutional brokerage companies at the last day of the period.

Availability rate: available area divided by inventory at the last day of the period.

Asking price: weighted average asking price weighted by the available area at the last day of the period.

Gross absorption: sum of leased, subleased and sold area during the period.

Net absorption 1: gross absorption minus the sum of the following areas during the period: available area because of a move out and build-to-suit building area.

Net absorption 2: gross absorption minus the sum of the following areas during the period: available area because of a move out, new available area and build-to-suit building area.

Construction: sum of the following building areas during the period: build-to-suit, speculative and own construction.


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