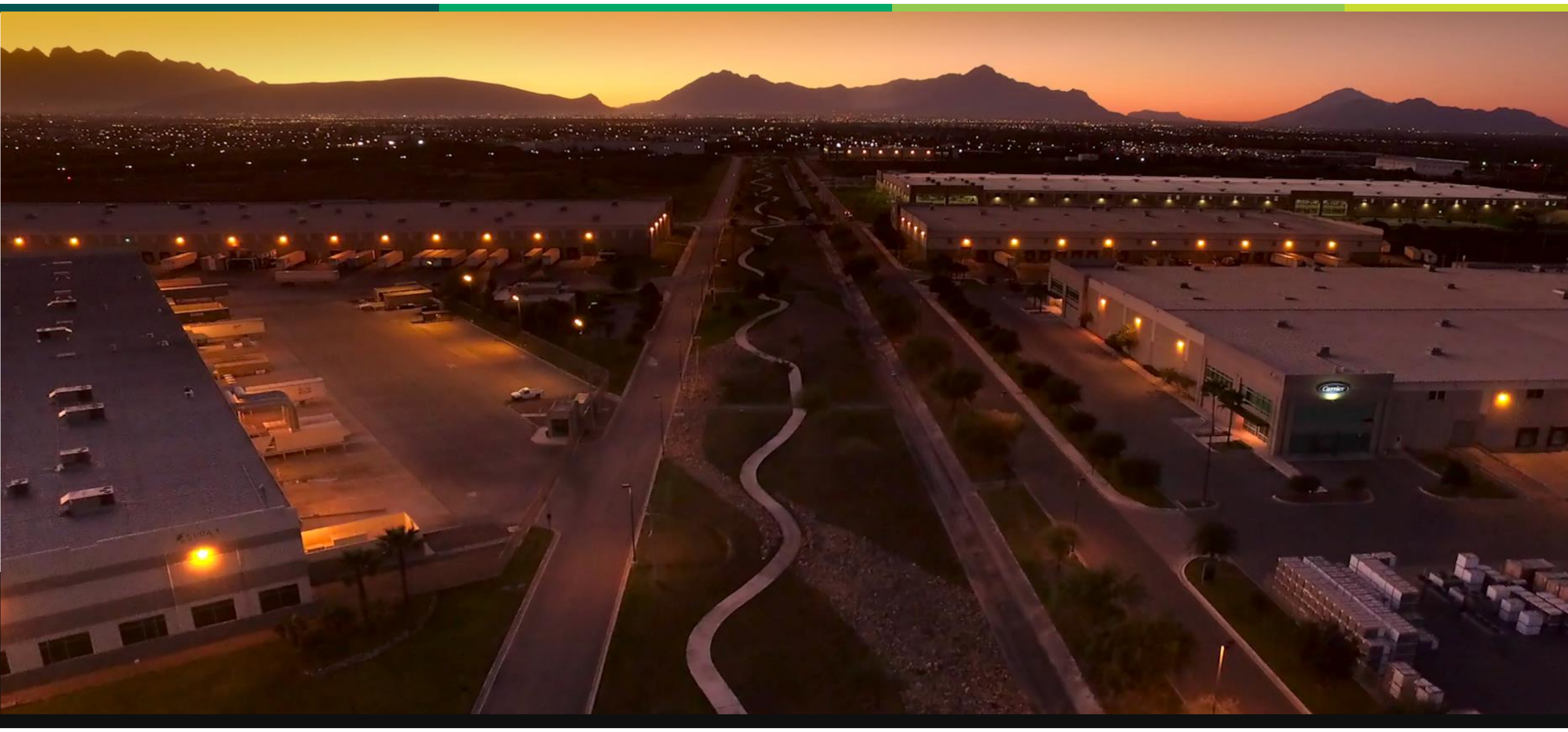
MEXICO LOGISTICS REAL ESTATE OUTLOOK

First Half 2022

PROLOGIS Research

Trend Materialization: Record Demand and Rent Increase



Prologis Park Apodaca, Mexico.

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Overview

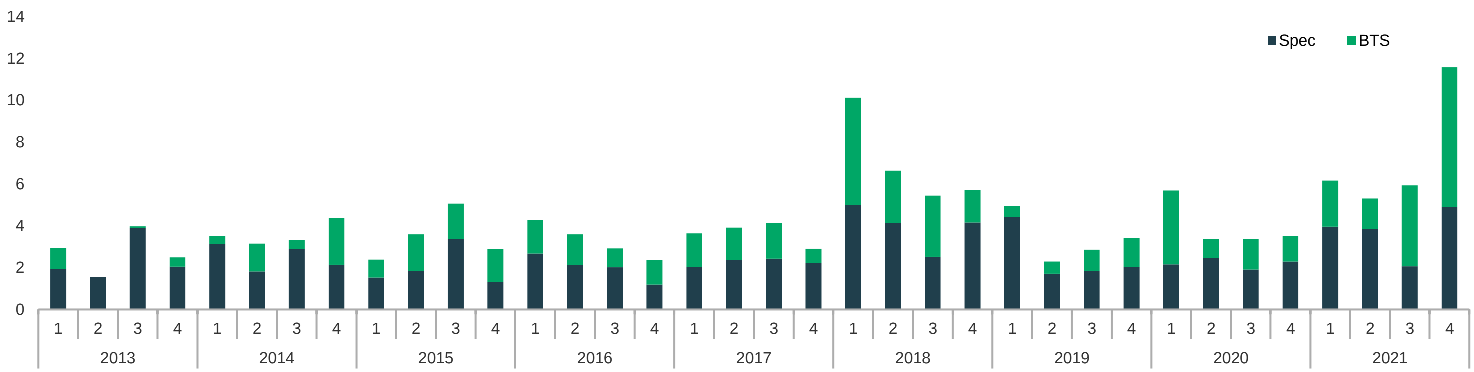
Current logistics real estate operating conditions reflect demand justified by industry trends over the last 18 months, including increased e-commerce penetration, nearshoring, and overall disruptions in supply chains. For their part, developers accelerate the start of projects to balance the market to take advantage of demand trends in a context in which replacement costs increased between 25%-30% and rents 10% in 2021. As cyclical economic conditions stabilize, the main risks on the consumption side to monitor that may affect logistics operations are the slowdown in economic growth and the effects of inflation on consumers' confidence. The variants of COVID-19 and the political environment represent limited risks for economic activity.

The prospects for the first half of the year lay the groundwork for supply to reach record levels, thus balancing the market. During the second half of 2021, 16.5 million square feet of development broke ground. The Mexican market had not experienced such a vast pipeline since the first half of 2018. Most of the recently started projects are build-to-suit (BTS), which reflects the urgency of the demand to start operating new logistics spaces without the need to compete against the market in an environment of higher rents and vacancies close to zero in certain regions.

Exhibit 1

DEVELOPMENT STARTS, MEXICO

(Million square feet)



Source: CBRE, Solili, and Prologis Research.

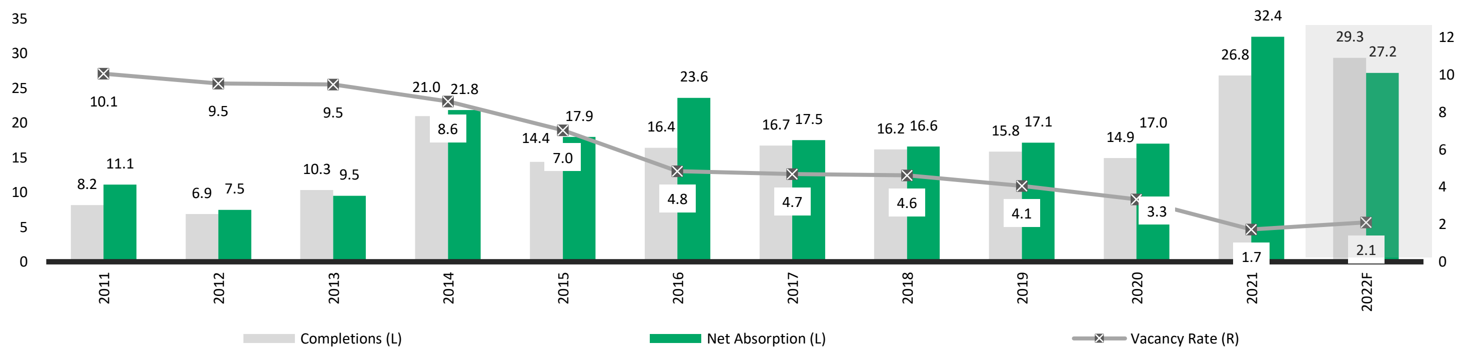
Fundamentals justify still robust demand in 2022. Although absorption would hardly match its pace in 2021, we project a 27.2 million square feet demand in the main markets, the second-highest figure in our registry. Thus, the general vacancy in the markets will have a healthy dynamic, increasing slightly to levels of 2%, derived from the delivery of projects currently under development. The elements that will continue to be decisive factors to maintain a dynamic environment are:

1. Pronounced supply barriers in border markets (mainly Tijuana and Juarez), with land and access to energy being the most significant barriers. Meanwhile, Mexico City will continue to define its dynamics in the scarcity of land before the toll booth and look for even more infill properties to cover higher logistics service standards.
2. Continuation and consolidation of trends that will lead to more tenants and higher inventory levels.
    - As for nearshoring, most Chinese and U.S. companies will continue to seek to shorten their supply chains in border markets to reduce risks. Approximately 30% of the demand in manufacturing in 2021 came from this trend, and the average transaction increased to +260k square feet.
    - Meanwhile, it is estimated that e-commerce will continue to increase its penetration (~12.5% 2022e) thanks to the adoption of omnichannel sales. E-commerce operation demands 3x the inventory of a brick-and-mortar (*Internet retailer, 2021*). On the other hand, the broader service levels (e.g., same-day delivery, reverse logistics) require strategically located buildings to facilitate their operation.
3. Justified by high occupancy, the market rents will seek to relieve pressure on development margins derived from increased replacement costs. We expect rental growth of 9% on average for 2022, with Mexico City being the most benefited market with an expected rental increase of ~12%.

Exhibit 2

FIBRA PROLOGIS COMPETITIVE ENVIRONMENT: DEMAND AND SUPPLY

(Million square feet, %)



Source: CBRE, NAI, Prologis Research.

Fundamentals remain robust despite a slowing-down economic cycle. In recent months, economic growth expectations have moderated derived from the global inflationary environment and the rate hike cycle. The market expects inflation to remain above the central bank's target range. The central bank will continue to normalize rates, leading to expected neutral or slightly negative real growth in 2022.

Exhibit 3

REAL GDP GROWTH: FORECASTED '22 VS ACTUAL

(%)

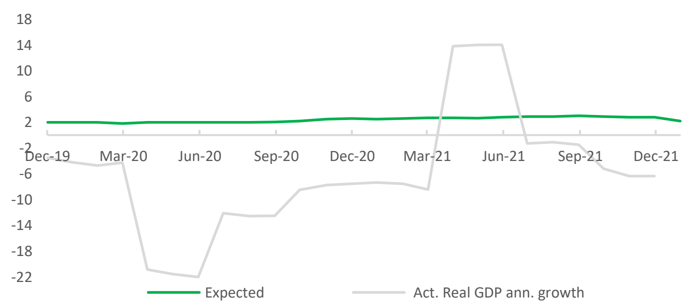
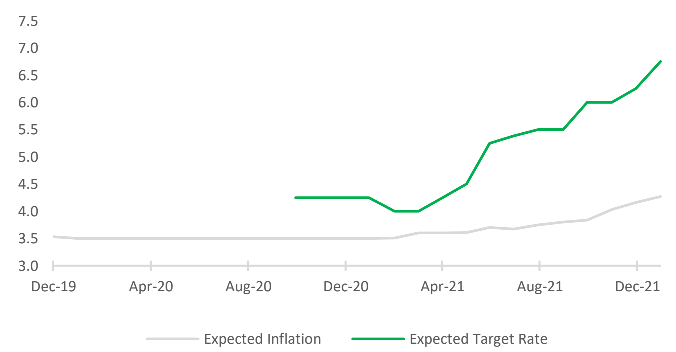


Exhibit 4

EXPECTED INFLATION AND EXPECTED TARGET RATE '22

(%)



Source: Banco de México.

The effects on the sector of a high target rate level are a higher cost of leverage for projects under development and a lower spread against cap rates, which have compressed in light of challenging supply barriers and higher replacement costs. These factors may deter non-industrial competitors to some extent; however, the fundamentals remain highly attractive to new entrants.

Rent growth and asset appreciation in Mexico are positive but lag in other markets. Market rent has surpassed its pre-pandemic levels, increasing 10% in 2021 and strengthening dynamics in locations with links to U.S. supply chain disruptions. In terms of asset value per square foot, asset appreciation was 13%. The comparison of the increase in rents (20%) and valuations (42%) against the U.S. suggests significant room for revaluation and, therefore, compression of the cap rates in Mexico.

Exhibit 5

CAP RATE COMPRESSION: COMPARISSON

(%)

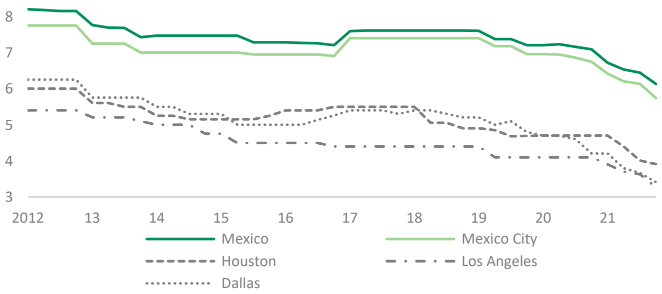
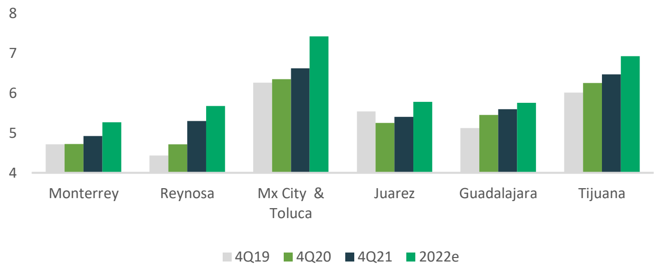


Exhibit 6

CLASS A ASKING RATES, MARKET

(US$/SF/YEAR)



Source: CBRE y Prologis Research

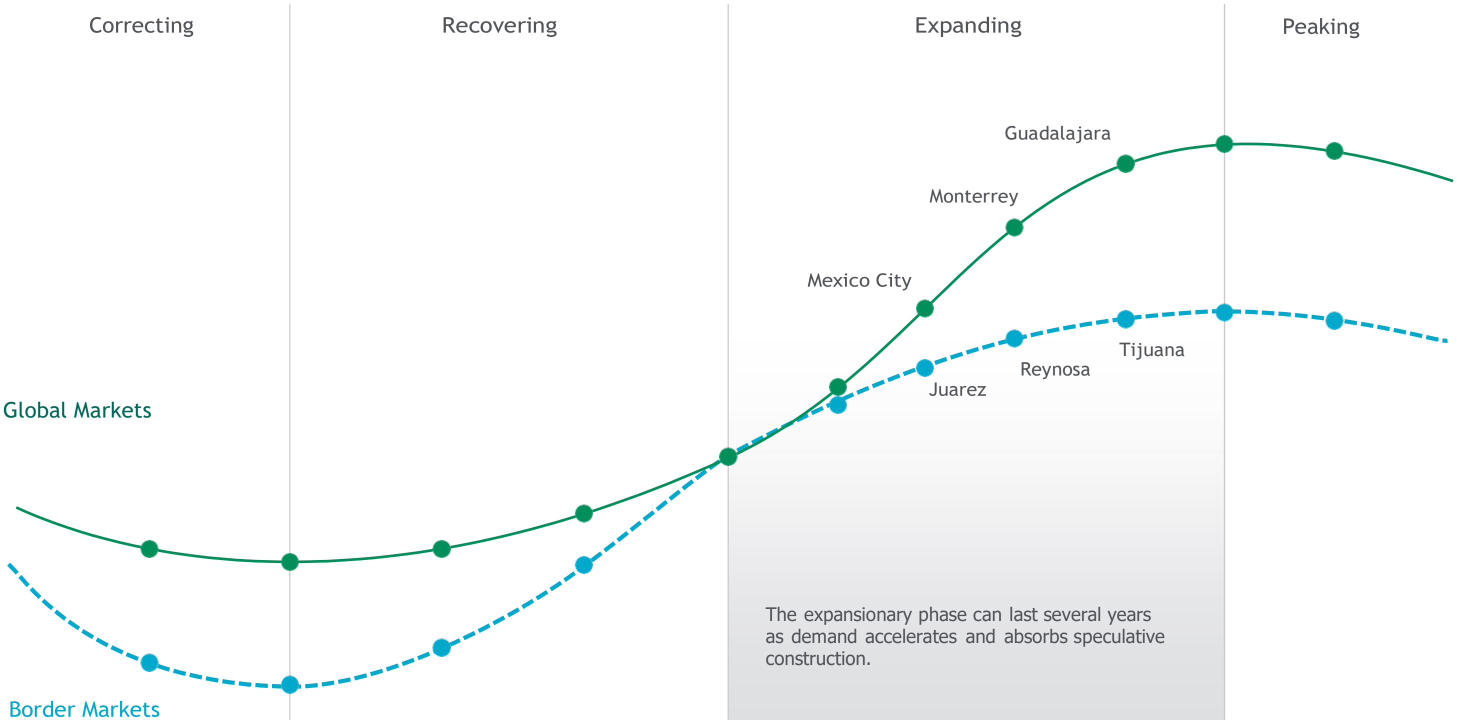
Despite the expected increase in supply, there are no looming risks in occupancy and rents. The last 12-month net absorption in major markets exceeded completions; however, completions in 2022 are expected to exceed demand in some markets. This dynamic is healthy since vacancy remains at historically low levels.

The fundamentals in the different markets have recovered compared to 2020, approaching a stabilization of the operating cycle. A few factors to consider:

- Mexico City shows a renewed capacity for expansion. There are more tenants than available properties, which may attract new investments
- Tijuana is sold-out with a vacancy of 0.02% within the competitive environment. It is a landlord market with the capacity to continue increasing rents
- In Juarez, the expansion capacity is vast due to increased rent in SPEC developments.
- Monterrey shows no signs of decrease in demand compared to 2021
- Guadalajara shows few developments starts and a third of them pre-leased
- Reynosa has little supply of industrial buildings. There are more tenants than available properties

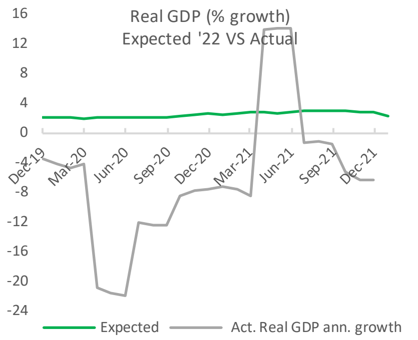
Exhibit 7

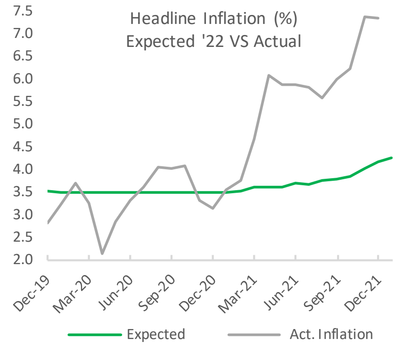
FUNDAMENTAL OPERATING CYCLE, MEXICO

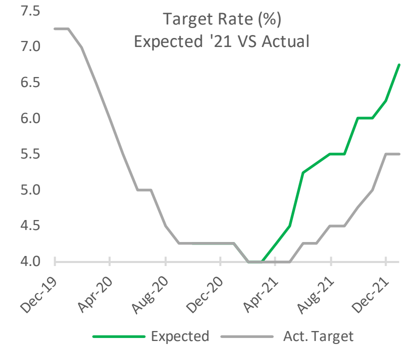


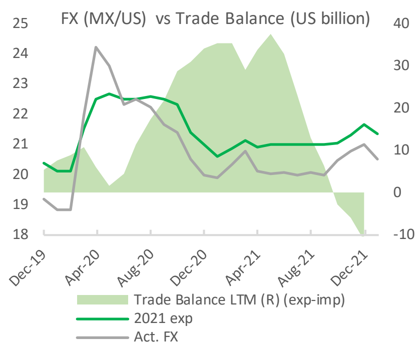
Fuente: Prologis Research

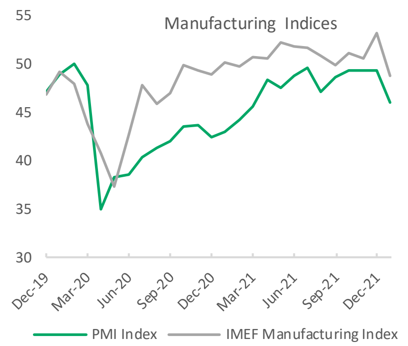
MACRO MONITOR

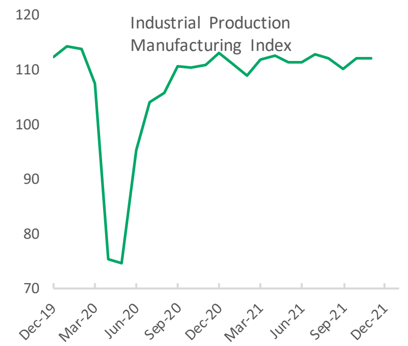


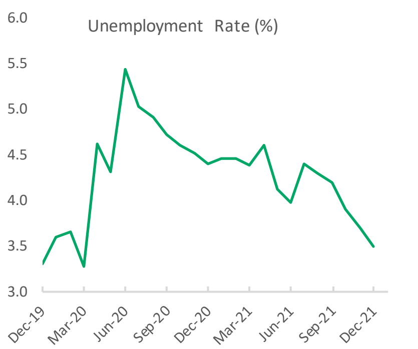


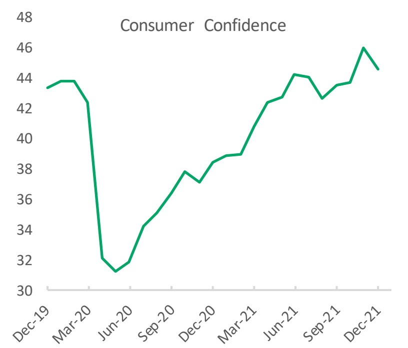


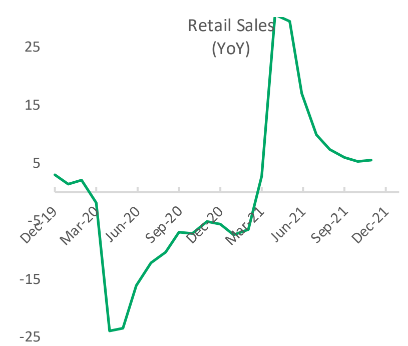


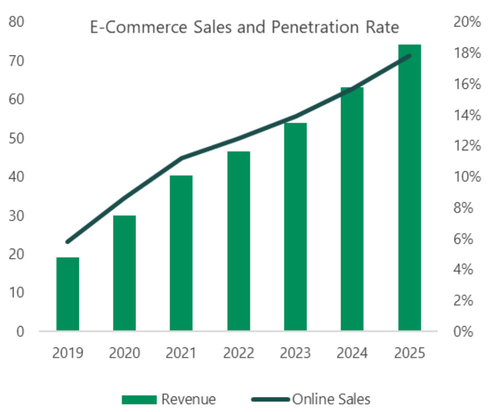












Source: Banco de Mexico, INEGI, Bloomberg, STATISTA

Forward-Looking Statements

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Prologis' in-house Research division studies fundamental and investment trends and Prologis' customers' needs to assist in identifying opportunities and avoiding risk across four continents. The team contributes to investment decisions and long-term strategic initiatives, in addition to publishing white papers and other research reports. Prologis publishes research on the market dynamics impacting Prologis' customers' businesses, including global supply chain issues and developments in the logistics and real estate industries. Prologis' dedicated research team works collaboratively with all company departments to help guide Prologis' market entry, expansion, acquisition, and development strategies.

About FIBRA Prologis

FIBRA Prologis is a leading owner and operator of Class-A industrial real estate in Mexico. As of December 31, 2021, FIBRA Prologis was comprised of 225 logistics and manufacturing facilities in six industrial markets in Mexico, totaling 42.7 million square feet (3.97 million square meters) of gross rentable area.

Fibra Prologis

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