**Summary**: Operating conditions in Mexico’s six main logistics markets remain healthy. Although political cross-currents have affected real-time financial markets and development activity, customer demand has been steady and driven by the structural demand drivers of logistics real estate. The market vacancy rate for modern stock in these markets is near a historic low of 4.3 percent, and is down 20 basis points year-over-year. Market rental growth accelerated, rising more than 7 percent year-over-year. Property NOI growth has been stronger than expected, as market rents are visibly above in-place leases, and rental escalators benefit from higher inflation, too.

**Supply and demand fundamentals remain healthy.** The national vacancy rate in these markets declined by 20 basis points during the year to 4.3% in the fourth quarter of 2017. Net absorption and completions were nearly balanced with 16.7 million square feet of completions, matched by 17.0 million square feet of net absorption. Scarcity of modern product has constrained demand, especially in Mexico City, where the market vacancy rate remains less than 1% and is among the lowest market vacancy rates in the world. Supply remains disciplined, with projects under construction at 60% of 2017 net absorption in Mexico City, Guadalajara and Monterrey, and less than 75% of 2017 demand along the border. Of note, current vacant stock in the six main logistics markets is approximately three quarters of normal incoming demand.

**Market rental growth accelerated in 2017.** Positive supply/demand imbalance and low market vacancies were catalysts for strong market rental growth in USD terms, which accelerated notably in the second half of the year, and despite MXN volatility. Overall, market rental growth for institutional-grade assets in the six largest markets increased by about 7% year-over-year, driven by strong peso and USD market rental growth in Mexico City. In our view, Mexico City was among the top performing logistics markets in the world in 2017 (please click here to read the 2017 Prologis Logistics Rent Index). The performance was strong in the border markets and increased by more than 4% year-over-year. Customer demand remains constructive in the border markets, with established customers operating in Mexico continuing to advance.
**Structural drivers of demand have been more dominant than many expected and have been a steadying factor amid macro crosscurrents.**

Logistics real estate in Mexico is a growth industry, fueled by multiple secular demand drivers. Although not completely decoupled from the broader cyclical economy, these structural drivers (namely consumer demographics and the undersupply of modern stock in Mexico City) have allowed demand growth for logistics real estate to visibly outperform the soft pace of economic output realized across Mexico in recent years. Indeed, the primary drivers of logistics real estate demand in Mexico City are more clearly visible today than ever before, as Mexico City has accounted for some 40% of Mexico’s total demand since 2011.9

**Headwinds persist, but opportunities could emerge should the uncertain political environment stabilize later this year.**

Rising demand from e-commerce customers has been an emerging tailwind over the last few years, too. Overall growth of the e-commerce sector, and more generally consumption in Mexico City, should reduce risk for the asset class, in our view. Online sales increased by more than 25% in 2017.10 Of note, major e-commerce retailers more than doubled e-commerce sales in the last twelve months in Mexico.11

**EXHIBIT 3: Net Absorption, 2011-2017**

Source: CBRE, NAI, Prologis Research estimates of modern stock
Note: size of the bubble reflects net absorption in each respective market

**EXHIBIT 4: Significant E-Commerce Sales Growth, Mexico**

(Billions, MXN, Constant 2017 Prices)

Source: Euromonitor, Prologis Research
Note: excludes sales tax and travel spending
Prologis Research

Prologis' research department studies operating fundamentals 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, 2017, FIBRA Prologis was comprised of 196 logistics and manufacturing facilities in six industrial markets in Mexico totaling 34.6 million square feet (3.2 million square meters) of gross leasable area.

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