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INDUSTRIAL & LOGISTICS LATIN AMERICAN PANORAMA

Insights from Market Leaders: Capital strategies, key trends, and overcoming challenges in Latin America's rapidly expanding industrial and logistics sector.

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INTRODUCTION

Latin America's industrial sector faces significant social, political, and economic challenges. The region is experiencing a "plural crisis" with social and political unrest coupled with economic uncertainty. However, these challenges are also opening doors to strategic investments, particularly for those who remain resilient.

The industrial and logistics sector has experienced accelerated changes since the COVID-19 pandemic, driven by disruptions in global supply chains, increasing transportation costs, and changing consumer behaviors.

Nearshoring has become a major trend, particularly in Mexico, with many US-based companies relocating their production and distribution facilities closer to home to reduce dependence on Asian supply chains as a direct response to issues faced during the pandemic, such as delayed shipments and rising shipping costs.

The integration of Latin American markets into global supply chains is expected to deepen, supported by their strategic position and global shifting trade dynamics. Trade agreements, such as USMCA for Mexico and Mercosur for Brazil, play a vital role in facilitating cross-border investments and streamlining logistics operations, and leveraging these agreements will be crucial in gaining a competitive advantage.

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INVESTMENT CLIMATE & CAPITAL FLOWS

The Latin American industrial and logistics market is witnessing an influx of both international and domestic capital, driven by opportunities arising from nearshoring and shifting global supply chains. US-based funds are actively diversifying their portfolios in response to the region's growing appeal. Local investors, including pension funds, are also increasing their participation, leveraging regional expertise to better navigate risks.

Beyond US-based capital, there is also a growing interest from European institutional investors seeking higher yields and diversification, further fueling large-scale projects, especially in key markets like Mexico and Brazil.

RISK APPETITE & CAPITAL STRATEGIES

Two distinct types of capital are shaping the market:

1. Conservative institutional investors preferring core and core-plus: Given the economic uncertainties, including inflation and currency volatility, there is a strong preference among investors for core and core-plus assets - high-quality, income-generating properties located in prime areas. They prioritize fully entitled and developed properties with minimal risk and better liquidity.

2. Speculative investors willing to take on higher-risk land acquisitions: Investors with a more speculative strategy are acquiring lower-cost land that may lack immediate access to utilities, investing in infrastructure over several years, and then selling the developed property at a premium. This approach, while risky, can yield significant returns in emerging markets with high demand and limited supply.

FINANCING CHALLENGES

Limited availability of diverse liquidity sources is posing significant challenges for developers seeking to finance their projects. Traditional funding channels, such as pension funds, are constrained by regulatory limitations and are unable to provide the consistent capital flows necessary for large-scale investments.

As a result, there has been a growing reliance on alternative financing sources, including family offices and private equity, particularly for niche and mid-sized projects. However, this shift requires developers to adapt their financing strategies, focusing on tailored pitches and demonstrating strong project fundamentals to attract this type of capital.

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Further financing challenges remain particularly prevalent in emerging markets such as Peru and Colombia, where access to credit is limited, and traditional debt financing has become less viable due to rising interest rates. As a result, many investors are shifting towards equity-based financing, mezzanine financing, and hybrid debt-equity structures for long-term projects.

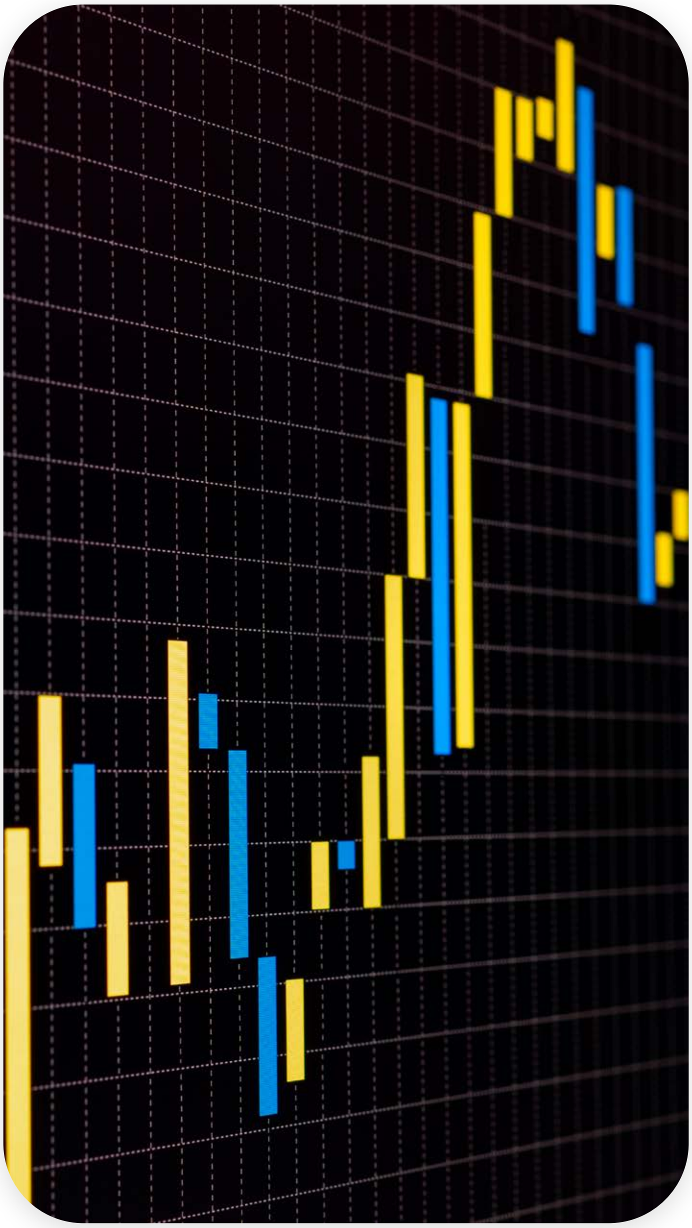
Public-Private Partnerships (PPPs) are also gaining traction as a solution to bridge funding gaps for essential infrastructure projects, though regulatory complexities continue to pose challenges.

Political Uncertainty Impacting Financing Flows

Political instability remains a significant barrier to securing financing, with participants citing elections in both the US and Mexico as primary contributors to investor hesitation. The uncertainty surrounding political transitions has led to a slowdown in decision-making, particularly for speculative or new construction projects.

This political volatility is seen as part of a regular cycle, especially in Mexico, where shifts in political leadership have historically led to changes in economic policy. Experienced investors consider this cyclical risk as a typical feature of the region but acknowledge the current heightened sensitivity due to recent geopolitical events.

Domestic judicial reforms in Mexico further complicate the financing climate, as foreign investors, especially from Asia (notably China and Singapore), express concerns over the inconsistent rule of law. This legal unpredictability increases the perceived risk, making lenders and equity investors reluctant to commit capital without clear assurances.



Risk Aversion

The prevailing risk aversion among lenders has led to a marked preference for financing stabilized, income-generating assets over speculative projects. Consequently, banks and other lenders have shown increased flexibility and creativity in structuring deals for these types of assets, offering tailored terms that align with the developers' needs.

In contrast, speculative development financing has become increasingly scarce, with lenders demanding higher equity contributions from developers, and showing great hesitance to engage unless developers can provide substantial equity or demonstrate a clear path to tenant occupancy and project stabilization.

Structural Barriers and Tax Issues in Mexico

The complex tax environment in Mexico is a notable impediment to attracting foreign capital, and difficulties posed by the country's tax regulations can erode the profitability of potential investments. High taxation, combined with extensive bureaucratic hurdles, increases the cost and time required to launch projects.

This regulatory environment is seen as a deterrent, hindering Mexico's competitive edge against other markets in the region, such as Colombia or Chile, which offer more investor-friendly frameworks. Structural reforms in Mexico, including simplifying the tax code, reducing bureaucratic obstacles, and enhancing legal protections for investors are crucial in order to improve the financing climate and attract more foreign capital.

By addressing these issues, the country could unlock substantial investment potential, and fully capitalize on the expected growth in the logistics and industrial sector given the country's strategic position.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)

A significant trend influencing capital flows is the increased emphasis on ESG criteria. Investors are increasingly viewing sustainability not just as a compliance measure but as a critical factor in asset valuation and risk mitigation. There is growing demand for green-certified assets, particularly from institutional investors, prompting developers to integrate energy-efficient designs, waste reduction practices, and renewable materials into new projects to attract premium tenants and meet investor expectations.

Sustainable development practices are not only a regulatory requirement in some markets but also a key differentiator in attracting international capital. This shift towards sustainability aligns with the global trend of prioritizing ESG standards, enhancing the appeal of the region's industrial and logistics assets.

Outside the Latin American market, ESG compliance is already influencing financing terms, particularly in the US and Europe where lenders offer more favorable rates for certified properties. However, Latin American markets are lagging in this respect. In Mexico, for instance, banks have yet to adjust interest rates based on ESG compliance, though this is expected to change as the market matures and investors demand more sustainable assets.

Furthermore, while ESG compliance is seen as a key differentiator, it comes with increased costs, particularly in the short term. The challenge lies in balancing these upfront investments with the long-term benefits of higher property values, better financing terms, and stronger tenant retention.

Market players widely agree that while the market may not yet fully reflect the value of ESG compliance in pricing, this will likely change as demand for sustainable assets continues to grow.

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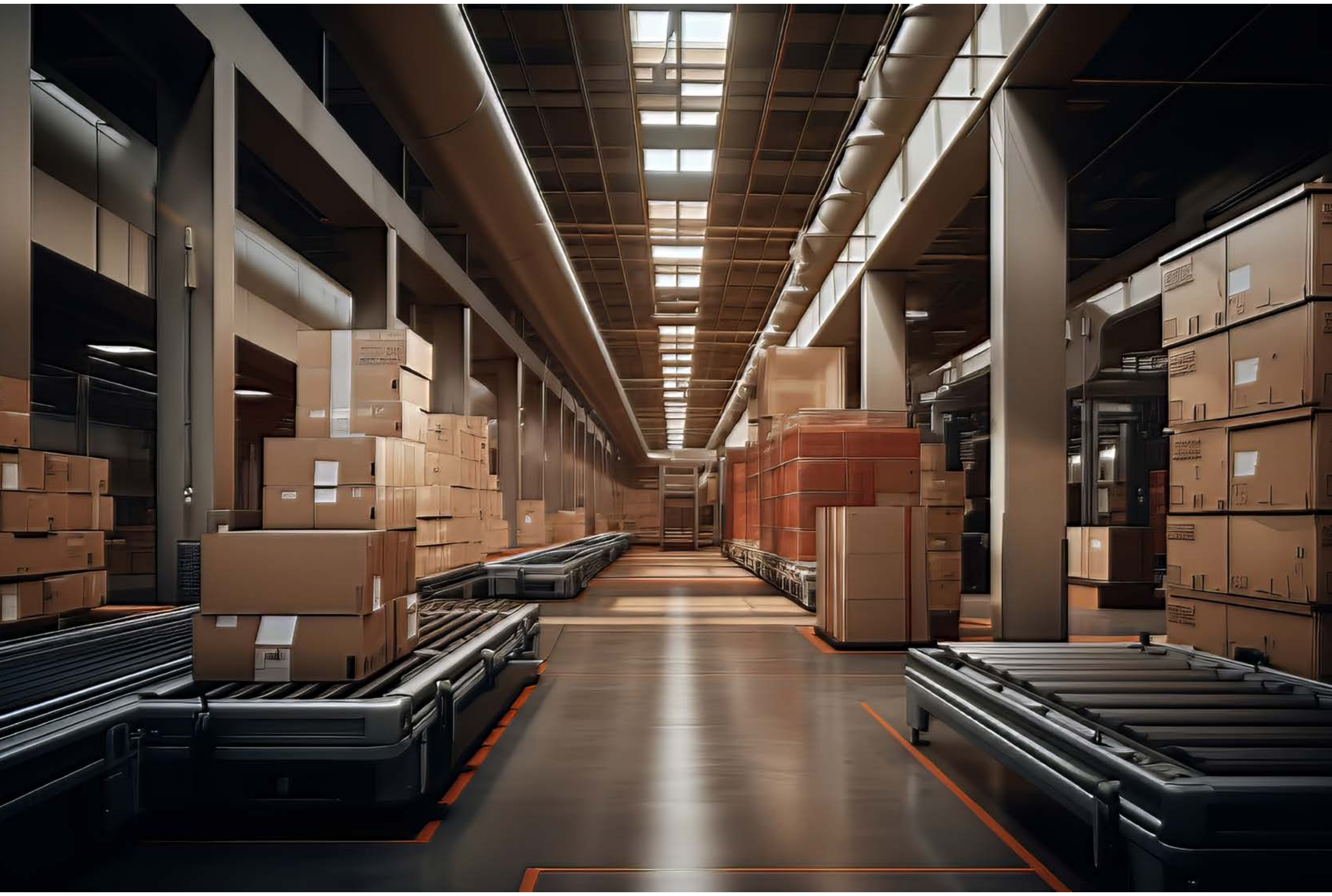


CHALLENGES & RISK MANAGEMENT

Regulatory and Political Risks

Political instability and regulatory uncertainty continue to pose challenges in the Latin American industrial and logistics sector, and the frequent changes in government policies can create an unpredictable business environment, impacting project timelines, investment returns, and overall market confidence.

Ongoing political shifts in countries like Mexico and Argentina have led to changes in energy regulations and trade policies, complicating the business landscape for investors. Market player insights advise adopting a proactive approach, including thorough due diligence and building strong relationships with local stakeholders, to better navigate these complexities.

Currency Risk

Currency volatility also persists as a prominent concern, particularly in markets like Brazil and Argentina, where economic instability can lead to rapid devaluation. Fluctuations in local currencies not only affect investment returns but also create challenges in project financing and cost management.

The use of hedging strategies and currency diversification can effectively mitigate these risks, as well as seeking assets with strong income potential in US dollars or other stable currencies, particularly in export-oriented logistics hubs, to cushion against local currency fluctuations.

Supply Chain Disruptions

While the nearshoring trend has helped reduce some of the risks associated with long global supply chains, disruptions can still arise due to geopolitical tensions, trade conflicts, or natural disasters. For example, issues like port congestion and border delays remain prevalent in the region, affecting the efficiency of logistics operations.

To mitigate these risks, it is necessary to diversify supply chain strategies, incorporating multiple sourcing locations and investing in resilient logistics networks. There is also a fundamental need for robust infrastructure investments, particularly in transport connectivity and digital logistics solutions, to enhance the resilience of supply chains against potential disruptions.

Infrastructure Limitations

The challenge around the scarcity of energy and water has become a major bottleneck for industrial development across Latin America. Developers are now focusing on securing sites that already have access to reliable energy and water sources, rather than assuming that these can be easily developed.

It has been reported that even well-capitalized projects face delays due to inadequate infrastructure, and some regions require extensive investment in utilities, making projects less viable or delaying their completion.

The role of government support was highlighted as a critical factor in overcoming infrastructure limitations, however, there is often a disconnect between the needs of the market and the pace at which public infrastructure projects are implemented.

Developers are increasingly turning to private solutions, such as investing in on-site renewable energy sources, including wind and solar power, to mitigate risks associated with unreliable public infrastructure.

URBAN LOGISTICS & LAST-MILE

The concept of last-mile logistics wasn't widely recognized five years ago, however the onset of the COVID-19 pandemic drastically shifted consumer behavior, leading to a boom in online shopping and increased demand for home deliveries, forcing companies to rethink their logistics strategies.

While the initial push for last-mile logistics came from e-commerce, there are now expanding use cases, including medical deliveries - spaces rented to companies delivering medical devices directly to hospitals - and perishable goods - dark kitchens and warehouses catering to grocery and food delivery, emphasizing the need for fast, and even temperature-controlled, logistics.

VERTICAL WAREHOUSING: A NEW APPROACH

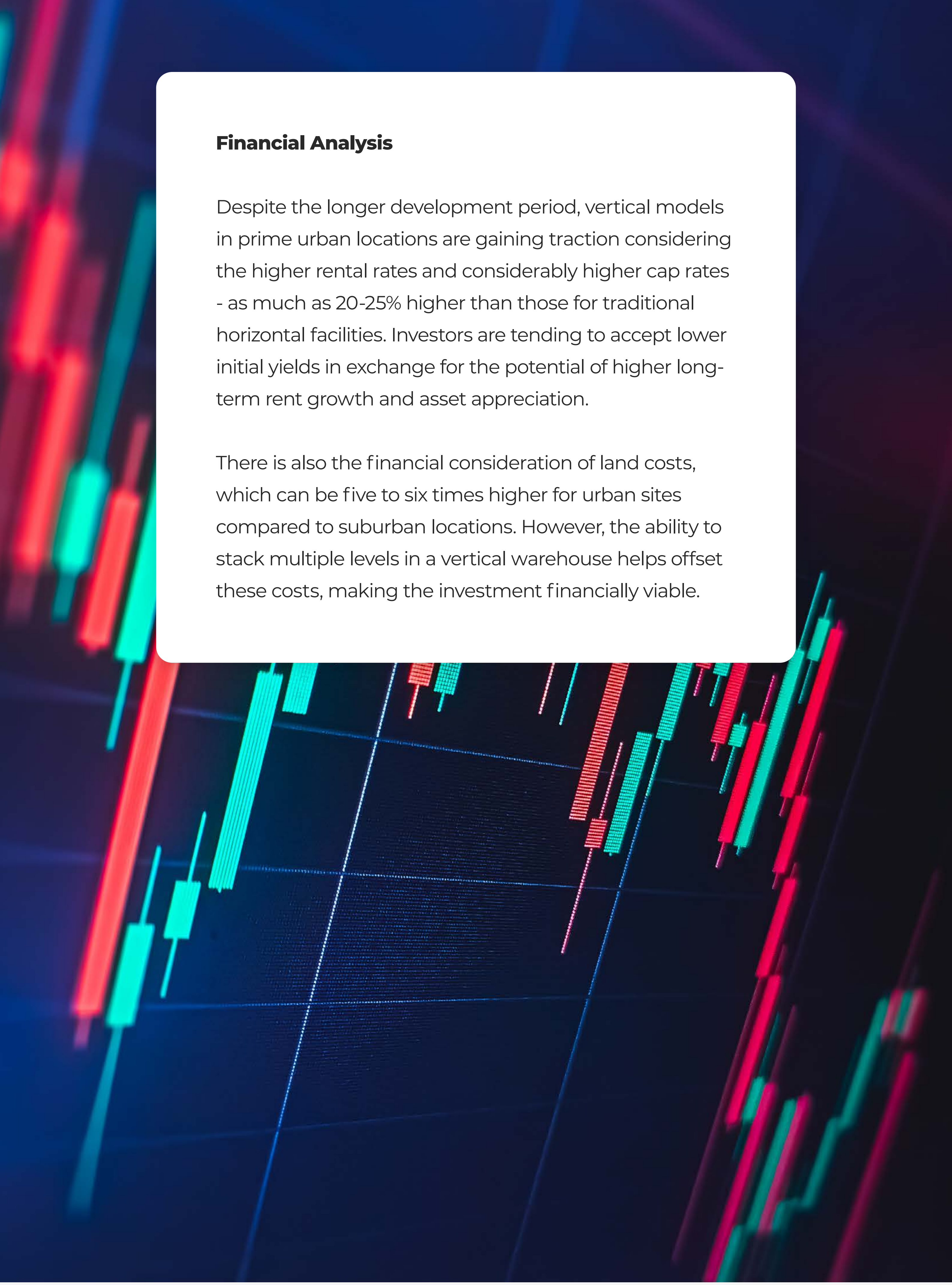
The new concept of vertical warehousing is gaining traction in the Latin American industrial and logistics sector, and most notably in Mexico. Densely populated areas in Mexico City are adopting these multi-level logistics hubs, utilizing elevators for moving goods vertically, in order to maximize limited space.

These vertical parks are designed to operate within a tight 3-kilometer radius, ensuring same-day delivery capabilities, and offer higher potential returns. However, they require sophisticated operations including high-speed elevators and precise tenant management to avoid conflicts in shared spaces.

The logistics involved in these warehouses are far more complex than initially expected, with issues like accommodating 53-foot trailers, turning radii, and efficient vertical transportation requiring precise planning.

Furthermore, the development process is lengthy - up to 30 months - and significantly longer than for horizontal warehouses, due to the complexities of land acquisition, permitting, and construction.

The concept of vertical warehousing is largely concentrated in dense, urban areas, where there is high demand for last-mile solutions. Regions such as southeastern Mexico face different dynamics, as there is ample land available, and demand is lower. Therefore, the market volume does not yet justify extensive last-mile infrastructure investments, and as a result, more traditional horizontal warehouses are preferred over vertical models.



Financial Analysis

Despite the longer development period, vertical models in prime urban locations are gaining traction considering the higher rental rates and considerably higher cap rates - as much as 20-25% higher than those for traditional horizontal facilities. Investors are tending to accept lower initial yields in exchange for the potential of higher long-term rent growth and asset appreciation.

There is also the financial consideration of land costs, which can be five to six times higher for urban sites compared to suburban locations. However, the ability to stack multiple levels in a vertical warehouse helps offset these costs, making the investment financially viable.

RECONVERSION OF EXISTING URBAN SPACES

Another strategy to tackle scarcity and expense of land in urban areas is the reconversion of existing spaces. Developers are increasingly repurposing old retail spaces, such as car dealerships, pharmaceutical plants, and even shopping mall basements, into logistics hubs and micro-warehouses, catering to delivery operations without interfering with retail activities.

Reconverting existing properties is generally faster and more cost-effective than new construction. It allows developers to bypass lengthy land acquisition processes and start operations sooner, catering to the immediate demand for last-mile delivery.

Utilizing existing structures is also more environmentally friendly, as it reduces the need for new construction materials and minimizes urban sprawl, aligning with growing trends in sustainable real estate development.

One of the biggest obstacles in reconverting urban spaces is navigating the complex zoning laws. Many urban areas are zoned for residential or commercial use, and changing the designation to industrial or logistics can be a lengthy and costly process. Developers often have to work within the existing zoning framework, choosing sites that already allow for logistical operations.

Furthermore, new logistics hubs, especially in residential areas, can face opposition from local communities concerned about increased traffic, noise, and environmental impact. Developers must conduct thorough impact assessments and engage with local stakeholders to address these concerns.

While reconversion projects are currently concentrated in large urban centers like Mexico City, there is potential for growth in secondary markets as e-commerce penetration increases across Latin America.

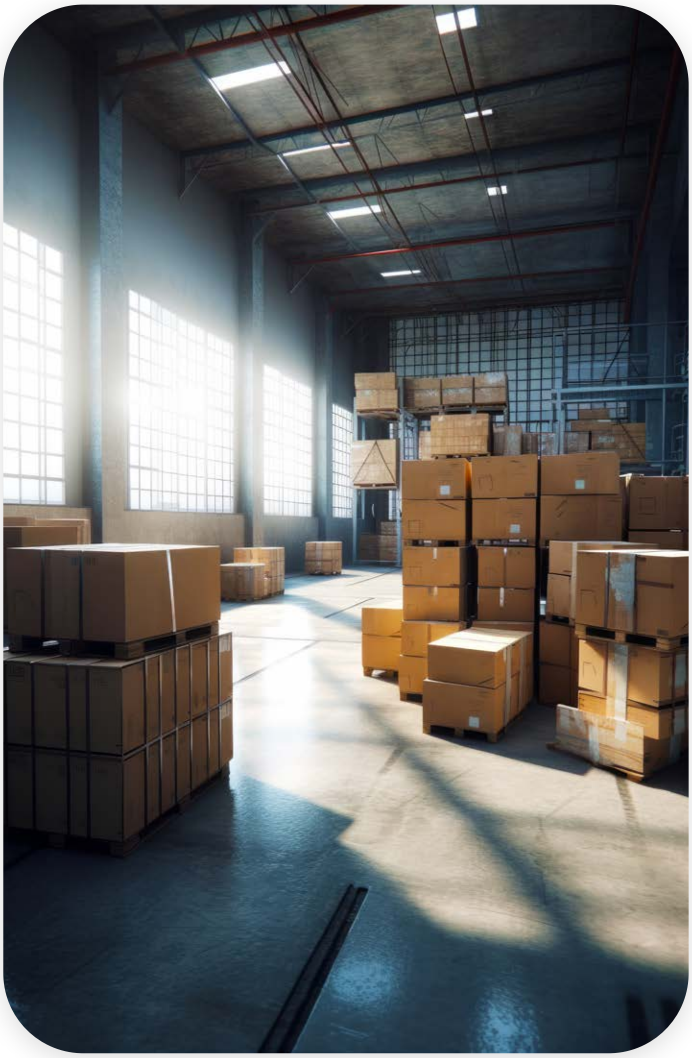
OPERATIONAL TRENDS AND FINANCIAL ANALYSIS

Investors are keenly exploring new models, balancing risks, and seeking high returns in a sector marked by limited supply and evolving demand patterns. This limited supply has created a competitive market, driving up rental prices and increasing investor interest.

Shorter Lease Terms and Rent Revaluation

A notable trend in the urban logistics market is the preference for shorter lease terms in last-mile facilities compared to traditional industrial assets. Last-mile facilities often operate with lease terms ranging from 1 to 3 years, in contrast to the typical 5-10 year contracts seen in conventional logistics parks.

These shorter leases allow landlords to adjust rents more frequently, capitalizing on strong demand and the upward pressure on rental prices, and providing a hedge against inflation and rising property values.



Hybrid Revenue Models

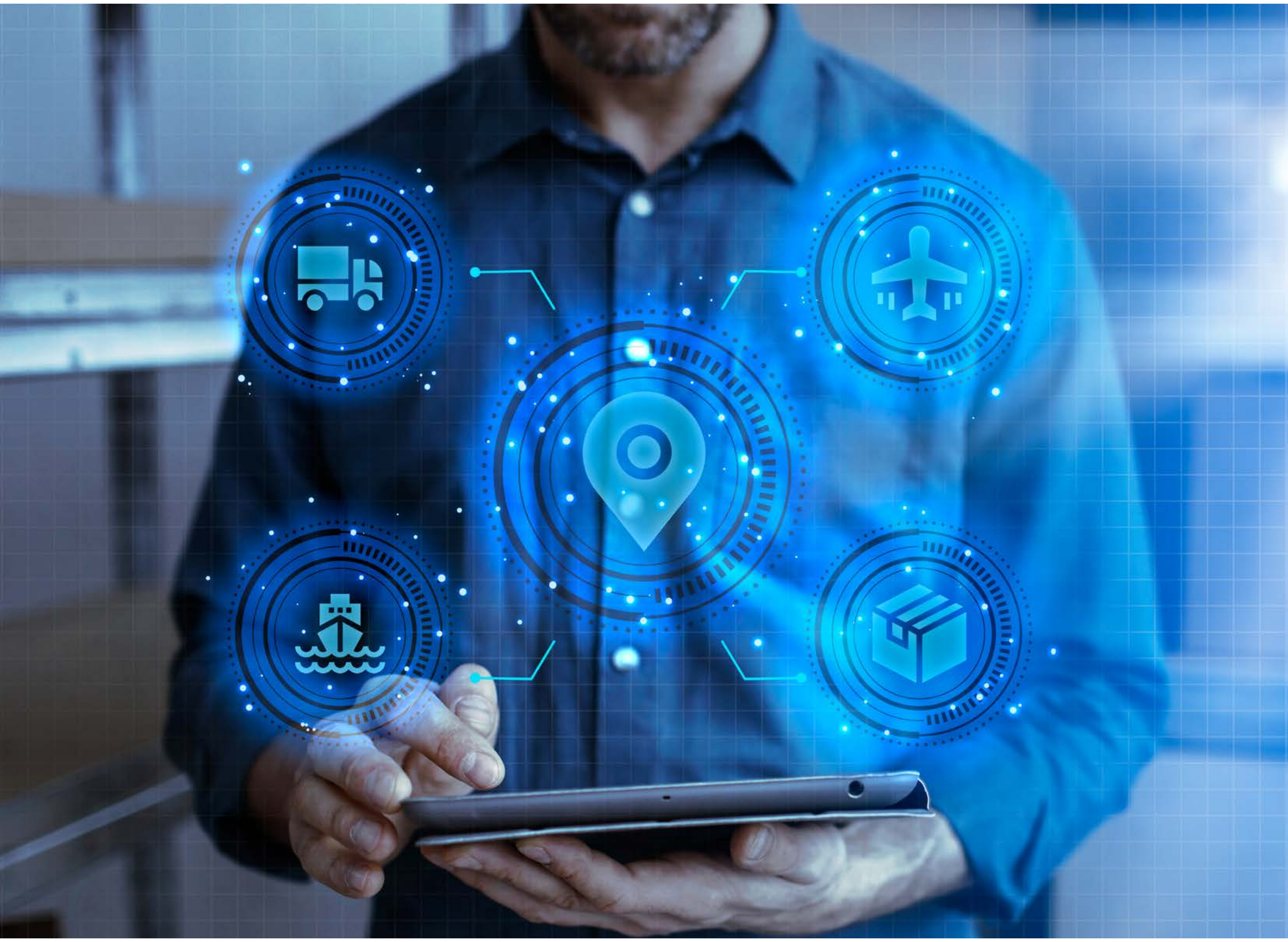
The operational complexity of vertical warehouses has led to hybrid revenue models that combine aspects of traditional industrial leasing with elements typical of office buildings. For example, developers may charge for common area maintenance, such as elevators and shared loading docks, on a prorated basis, similar to service charges in commercial office leases.

This hybrid approach is essential for managing the higher operational costs of vertical facilities, ensuring that both the developer and tenants share the financial burden.

Secondary Markets

Although demand may be robust in major urban centers, there is concern about the potential for oversupply in smaller, secondary markets where demand dynamics are less predictable. If developers overestimate demand or if economic conditions shift, these markets could see increased vacancy rates, putting downward pressure on rents.

Some investors are, therefore, cautious about entering secondary markets without clear indicators of sustained demand, preferring to focus on established urban locations where the risk of oversupply is lower.



TECHNOLOGICAL INTEGRATION

The integration of advanced technology in urban logistics, particularly in the realm of last-mile delivery, is increasingly seen as a key driver for efficiency and scalability. While the adoption of automation and robotics is still in its nascent stages, stakeholders anticipate significant advancements in the coming years as market demand continues to rise and consumer expectations shift towards faster and more reliable deliveries.

As of now, most urban logistics facilities in Latin America, including last-mile hubs, primarily operate using traditional, manual processes. These spaces range from small-scale units (400 square meters) to larger facilities (up to 8,000 square meters), and rely on human labor for sorting, inventory management, and dispatch.

Anticipated Technological Advancements

While fully automated warehouses are prevalent in regions like Asia, Latin American markets are lagging behind, largely due to high upfront costs and the relatively recent emergence of strong e-commerce demand in the region.

However, developers are not ignoring the potential of automation, and many are designing new logistics facilities with an eye towards future upgrades, ensuring that the necessary infrastructure is in place to accommodate automation when it becomes viable.

This future-proofing includes installing robust electrical systems capable of supporting high-load requirements and creating adaptable layouts that can easily integrate automated sorting and robotic picking systems once market demand justifies the investment.

The consensus among industry leaders is that Latin America will see a gradual but steady increase in the adoption of technology in last-mile logistics over the next 4-5 years. The following areas are expected to see significant advancements:

Data Analytics and Artificial Intelligence (AI):
AI-powered inventory management systems are poised to play a crucial role in optimizing last-mile logistics. By utilizing AI-powered inventory management systems, such as predictive analytics, companies can better anticipate demand patterns, streamline stock levels, and reduce wastage. AI can also enhance route optimization for deliveries, ensuring that goods reach customers faster while minimizing transportation costs.

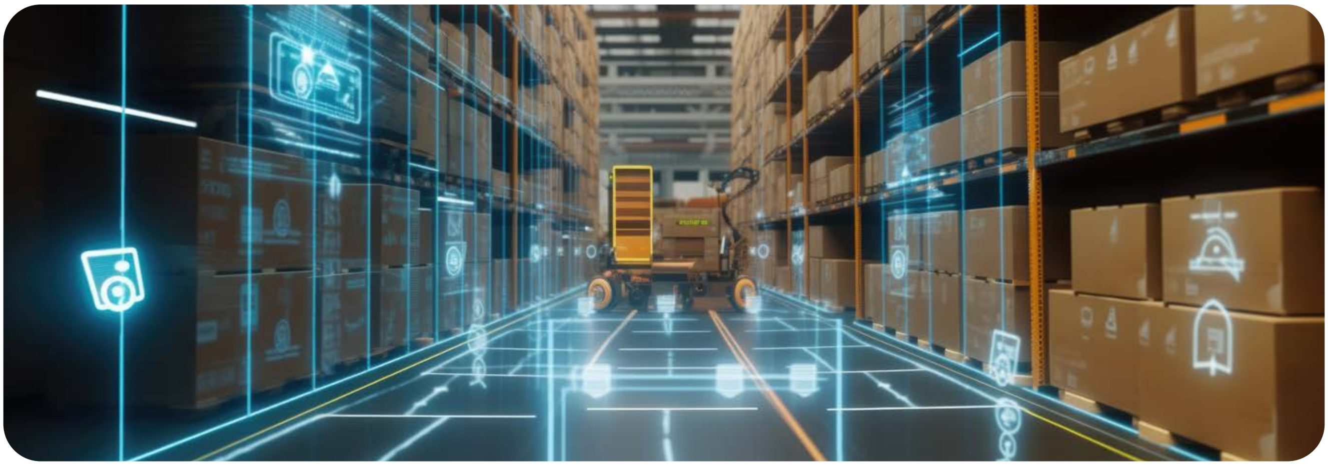
There is an increasing importance of data-driven decision-making, and as the market matures, stakeholders anticipate that more logistics operators will adopt advanced software solutions for real-time inventory tracking, demand forecasting, and customer insights, further enhancing operational efficiency.

Smart Building Technologies: New logistics hubs are being equipped with smart sensors and Internet of Things (IoT) devices to monitor environmental conditions, track goods in transit, and ensure energy efficiency. These technologies can provide real-time data on temperature, humidity, and air quality - particularly important for dark kitchens and warehouses handling perishable goods.

Adaptive infrastructure also allows for the seamless integration of new technologies as they become available. For example, facilities are being designed with modular layouts, allowing for easy reconfiguration and expansion without major disruptions to ongoing operations.

Electric Vehicle (EV) Integration and Sustainable Logistics: With growing awareness of environmental sustainability, there is an increasing push towards integrating EV infrastructure in logistics hubs. Developers are proactively installing EV charging stations and preparing facilities for the anticipated rise in electric delivery vans and trucks.

Although current adoption rates for EVs in logistics are still low, stakeholders view this as an inevitable transition, particularly as regulatory pressures increase and companies aim to reduce their carbon footprints. The infrastructure for EVs is being incorporated into new projects as a standard feature, even if immediate utilization remains limited.



CHALLENGES TO TECHNOLOGICAL INTEGRATION

Despite the optimistic outlook, there are significant challenges to implementing these advanced technologies in Latin America's industrial and logistics sector:

High Upfront Costs:

The initial investment required for automation and robotics can be prohibitive, especially emerging markets where cost control remains a priority. While vertical warehouses in Asia are almost entirely automated, replicating this model in Latin America would currently be cost-prohibitive due to the higher expenses associated with advanced technology and the region's lower labor costs.

Regulatory and Infrastructure Barriers:

The existing urban infrastructure in many Latin American cities is not well-suited for the seamless integration of advanced technologies. Issues such as outdated electrical grids, limited availability of high-speed internet, and regulatory hurdles related to land use changes make it difficult to implement fully automated systems.

Slow Adoption by Clients:

Even when facilities are built with the capability to support advanced technologies, client adoption can be slow. Many tenants, particularly small and medium-sized enterprises, may not yet be ready or willing to invest in automation, preferring to rely on traditional manual processes due to lower upfront costs and simpler operations.

EVOLVING TENANT DEMANDS

ESG COMPLIANCE & ENERGY EFFICIENCY

There is a growing emphasis on ESG standards, particularly among multinational tenants. Many European companies with facilities in Latin America, require properties to meet strict ESG criteria, such as obtaining LEED Platinum certification.

This shift is partly driven by compliance with international regulations like the European Union Taxonomy, which sets strict standards for sustainable investments. Tenants are increasingly unwilling to compromise on these standards, as it aligns with their corporate sustainability goals and regulatory obligations.

Tenants are seeking more tailored solutions, particularly those with high energy efficiency and low water consumption. For example, newly designed data centers and industrial facilities now require significantly higher energy yields while maintaining reduced operational costs.

The demand for energy-efficient designs is not merely a trend but a necessity, as companies aim to reduce their carbon footprint and meet stringent internal sustainability targets. Examples include facilities that have reduced energy consumption by as much as 25% and water consumption by 50%, reflecting the operational efficiency tenants expect.

CUSTOMIZATION

Tenants, particularly multinational corporations, are no longer satisfied with generic, one-size-fits-all industrial spaces. They are demanding bespoke solutions tailored to their specific operational requirements. This includes everything from the layout of the facilities to specialized features that support their unique business processes.

The customization trend is driven by the tenants' desire to optimize operational efficiency. For instance, companies are requesting modifications that align with their production workflows, logistics needs, and storage requirements. This often means incorporating specialized features such as enhanced HVAC systems, increased ceiling heights, or reinforced flooring to accommodate heavy machinery.

There is an increasing preference for build-to-suit developments, where facilities are constructed from the ground up based on the tenant's exact specifications. This trend is especially strong among tenants in industries such as e-commerce, automotive, and technology, where the nature of operations requires specific infrastructure. For example, e-commerce giants might require extensive loading docks, automation systems, and enhanced connectivity, while technology firms demand high-capacity data cabling and backup power systems.

HIGH-POTENTIAL EMERGING REAL ESTATE SECTORS

The Latin American real estate market is witnessing significant potential in several emerging sectors that align with key global trends. Sectors such as data centers, senior living, self-storage, hospitality, and student housing are gaining traction due to urbanization, digital transformation, and shifting demographic needs.

These industries, which are positioned to thrive within the framework of the "3Ds" - demographics, digitalization, and decarbonization - are increasingly attracting investor attention. Data centers, for example, are experiencing rapid growth driven by the escalating demand for digital infrastructure to support cloud computing and AI applications, and the rise of senior living, student housing, and self-storage reflects demographic shifts such as aging populations and younger, urbanized generations seeking new types of accommodation and life-styles.

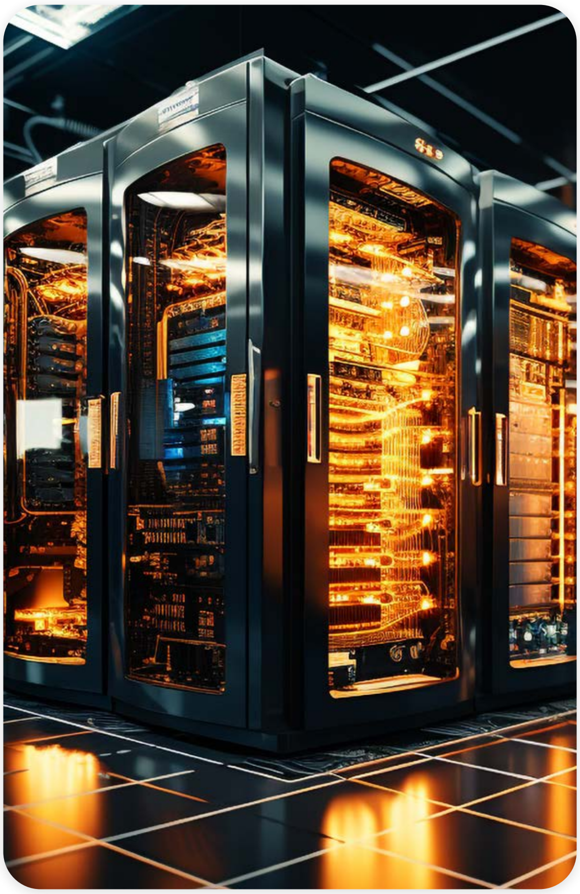
Collectively, these emerging sectors offer diverse opportunities for growth and resilience as they respond to evolving consumer preferences and technological advancements, all while holding environmentally sustainable development in increasingly higher priority.

DATA CENTERS

The global electricity consumption of data centers in 2022, driven by the rising global demand for digital infrastructure and the expanding needs of artificial intelligence (AI) applications, surpassed that of entire countries, including Mexico.

AI-powered services require significantly more energy and data processing capacity than conventional digital platforms. For instance, a single AI query in tools like ChatGPT consumes ten to fifteen times the energy of a standard web search, pushing demand for data storage and processing capabilities to new heights. Projections indicate that AI will account for nearly 20% of data center capacity by 2030, up from just 2% today, reflecting an annual growth rate of over 30%.

Currently, approximately 45% of global data centers are located in the US, while Latin American countries like Mexico and Brazil lag considerably behind, presenting a substantial opportunity for growth. This geographic disparity highlights the potential for Latin America, especially as proximity to the US and increased energy availability could make the region an attractive site for future data center investments.



As the sector continues to evolve, data centers are not only positioned to become an essential infrastructure asset but also a vital component in Latin America's industrial portfolio, particularly as digitalization and AI adoption accelerate worldwide.

REGIONAL SPOTLIGHT

MEXICO: SECTOR RESILIENCE AND OPPORTUNITIES AMIDST CHALLENGES

Mexico's industrial sector exemplifies resilience and growth despite adversity. While government obstacles have created a challenging environment, the sector's growth has been supported by tailwinds in real estate and logistics, with institutional investors showing interest and a particular focus on long-term gains.

Mexico is positioned as the top beneficiary of the global nearshoring trend, driven by its geographical proximity to the US and strong trade relationships under the USMCA agreement. The country's strategic location makes it an attractive hub for companies looking to reduce dependence on Asian supply chains and bring manufacturing closer to the North American market.

Robust Demand

The demand for logistics and industrial assets in Mexico is surging as US companies continue to relocate production facilities to take advantage of shorter, more reliable supply chains. This trend is particularly strong in northern Mexico, where industrial parks and distribution centers are being developed to meet increasing demand.

The expansion of e-commerce is also driving this growth, as well as the need for more efficient last-mile delivery solutions. Mexico's major urban centers, such as Mexico City, Monterrey, and Guadalajara, are experiencing increased development of modern logistics hubs to support growing consumer demand.

Logistics assets in these regions are becoming highly competitive, with strong occupancy rates and rising rental prices. The industrial corridors along the US-Mexico border are particularly attractive for investments, given their strategic access to key North American markets.

There is consensus among market players, however, over the need for improved infrastructure to support the increasing demand for logistics facilities, including investments in transportation networks, ports, and rail systems, in order to sustain growth.

Market Dynamics

Inventory of assets in major industrial hubs like Monterrey, Mexico City, and Bajío has expanded significantly, driven by high demand from both domestic and international investors. Meanwhile, vacancy rates have still sharply decreased, indicating strong absorption and limited availability.

Prices have surged due to heightened demand and constrained supply, with industrial rents in Mexico City having risen 55% since 2019, reflecting the growing interest in prime locations despite rising costs.

Institutional investors, including major international funds like Blackstone, are actively pursuing stabilized Class A assets, particularly in Tier 1 markets. This influx of capital is reshaping the market landscape, leading to increased competition and driving up asset prices.

The presence of pension funds has also been highlighted as a significant driver of domestic capital, funneled through specialized vehicles such as CKDs (Certificados de Capital de Desarrollo). This local capital has played a crucial role in stabilizing and expanding the market.

The market is witnessing a consolidation phase, where larger players are acquiring medium-sized firms, and mid-sized firms are, in turn, absorbing smaller competitors. Several portfolios have changed hands multiple times, indicating a cycle of portfolio stabilization and redevelopment as assets are optimized. This trend reflects a maturing market dynamic, where economies of scale are becoming increasingly important.

Government Obstacles

Obstacles in the Mexican industrial and logistics sector predominantly stem from the government's approach, described by market players as "not pro-business." The lack of infrastructure investment, particularly in energy and water, poses risks for sustained industrial growth, and results in "lost opportunities," as the government's conservative stance hinders what could be a more supportive environment.

Recent judicial and energy reforms have introduced additional risks, as increased government control over key sectors, including energy, threatens to undermine private investment. The Federal Electricity Commission's (CFE) push for greater public ownership, for example, could reduce competitiveness and hinder the development of industrial projects reliant on stable and affordable power.

Sustained growth in the sector will depend on improvements in regulatory frameworks and infrastructure investments, particularly in energy and water supply, which are critical for supporting industrial expansion and attracting institutional capital.

PERU: MODEL FOR ECONOMIC STABILITY

Peru stands out as an example of economic stability and resilience in Latin America, highlighting the country's strong macroeconomic fundamentals despite its relatively small market size. The country's low inflation rate, compared to other Latin American countries, is a key indicator of economic health.

Additionally, the country boasts a favorable GDP-to-debt ratio and strong international reserves, making Peru one of the more stable economies in the region, and providing a reliable environment for foreign investment and bases for regional businesses.

While Peru's economy is modest in size compared to larger Latin American markets like Brazil or Mexico, it offers unique advantages, particularly in its legal and regulatory framework, which has remained relatively consistent even during periods of political turbulence.

This stability has attracted local and regional capital, contributing to significant growth in infrastructure investments, and positioning Peru as a strategic hub for industrial and logistics operations in South America. Furthermore, Peru offers the competitive edge of leveraging its strategic location along the Pacific Ring, which facilitates trade with major Asian markets.

However, while Peru's economic indicators are strong and its growing industrial base make it an appealing target for niche investments and regional business expansion strategies, the market's relatively small size presents a limitation for large-scale investments.

BRAZIL: DOMESTIC DEMAND DRIVING GROWTH

Brazil's industrial and logistics market is characterized by its strong domestic demand and relative self-sufficiency, making it a key player in the region. The country benefits from a large consumer base and a robust industrial sector, driving sustained demand for logistics assets, particularly in urban centers and near major transportation hubs.

However, the complex regulatory environment and currency volatility present significant challenges, requiring investors to have deep local knowledge and strategic risk management approaches.

Despite these hurdles, Brazil's focus on sustainability is a positive trend, with increasing integration of ESG principles in new developments. Green-certified assets are becoming more common, aligning with global investment standards and catering to the growing demand from international investors.

FUTURE OUTLOOK & STRATEGIC RECOMMENDATIONS

There is strong optimism about the long-term prospects of the Latin American industrial and logistics sector, despite current macroeconomic and political challenges. The region's strategic location, situated at the crossroads of major global trade routes, provides a unique advantage for investors, particularly with the ongoing shift towards nearshoring.

The growing consumer base and expanding middle class in key markets like Mexico, Brazil, and Colombia are expected to drive sustained demand for logistics and industrial assets, while the continued integration of Latin American economies into global supply chains in sectors such as automotive and electronics is projected to bolster investment inflows over the next decade.

High-Quality & Income-Generating Assets

In light of ongoing market volatility, high-quality, core assets with stable income generation in prime areas are recommended. This strategic focus helps mitigate risks associated with economic fluctuations and regulatory uncertainties.

Core assets, such as modern distribution centers and strategically located industrial parks, offer better liquidity and are more likely to attract premium tenants, resulting in consistent cash flow.

Meanwhile, it is important to ensure strong ESG credentials, considering the increasing demand for sustainable and green-certified properties, which not only align with global investment trends but also enhance asset resilience and long-term value.

Embrace Technology

The integration of technology in logistics operations is a key factor for maintaining a competitive edge in the market, and it is increasingly crucial to adopt advanced technologies such as automated warehouses, smart inventory management systems, and data analytics.

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These innovations enhance operational efficiency, reduce costs, and improve decision-making processes. The implementation of digital logistics solutions, including real-time tracking and predictive analytics, is becoming essential in meeting the rising expectations of e-commerce and retail clients who demand faster and more reliable deliveries. Furthermore, technology-driven assets are likely to attract higher levels of investment, as they offer scalability and greater flexibility to adapt to evolving market needs.

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