# Cd. Juarez, Mexico Industrial
# MarketView

Q2 2013 CBRE Global Research and Consulting

| | |
|---|---|
| MARKET SIZE | 60,490,895 SF |
| AVAILABILITY SF | 7,320,991 SF |
| YTD GROSS ABSORPTION | 2,427,694 SF |
| MAQUILADORA EMPLOYMENT | 202,315 |

*Directional arrows based on change from the previous quarter. Data reflects market totals.*

## RECORD POSITIVE ABSORPTION DURING THE PAST THREE MONTHS IN CD. JUAREZ. STRONG ACTIVITY IN THE SOUTHEAST SUBMARKET WITH THE AUTOMOTIVE INDUSTRY CONTINUING TO LEAD THE WAY.

### Quick Stats

| | Q2 2013 | QoQ | YoY |
|---|---|---|---|
| Vacancy | 12.1% | ↓ | ↓ |
| Asking Rates, NNN | $4.09 | ↑ | ↑ |
| Net Absorption | 1,153,274 Sq. Ft. | ↑ | ↑ |
| Under Construction | 332,341 Sq. Ft. | ↓ | ↑ |
| Delivered Construction | 30,000 Sq. Ft. | ↑ | ↓ |

### Hot Topics

- Cd. Juarez posted one of the strongest quarters of net absorption in recent history. Below are several key trends CBRE Research will be tracking as the real estate cycle continues to move into the recovery stage.
- Maquila employment topped 202,000 in Cd. Juarez at the end of March, according to INEGI*. The market continues to move towards the pre-recession level of 260,000 employees.
- There are several roadway investments under construction for key parts of the city in 2013, including extensions of Miguel de la Madrid, Teofilo Borunda and infrastructure work already underway on Av. AJ Bermudez.
- Through April 2013, year-to-date commercial crossings into the U.S. at the Zaragoza Bridge are up 3,606, or 3%, from 2012. No current data is available for all El Paso Ports of Entry, but this is a good sign of manufacturing growth south of the border.
- Security and violence indicators in Cd. Juarez continued their downward trend through the first part of the year. Homicides are significantly below their average monthly figure from the past three years.

*Instituto Nacional de Estadistica y Geografia

### Second Quarter Surpasses First Quarter

In our first quarter report, CBRE Research discussed the strong recovery for industrial space. We saw a rapidly growing pipeline of active users in the market and an increasing trend of deals being completed with 497,000 square feet of positive net absorption. The pipeline of deals has continued to flow towards new leases and purchases in the second quarter and, along with it, another three months of notable industrial net absorption.

Overall, Cd. Juarez' industrial real estate market recorded 1.2 million square feet of net absorption in the second quarter. This figure is more than double historic average before the recession and has helped lower the vacancy rate from 14.1% to 12.1% at the end of June. These figures describe a market well on the way to recovery.

However, there are always issues when coming out of a downturn of the magnitude experienced in Cd. Juarez. Demand has been largely driven by the automotive sector and growth in other sectors has been limited. There remains 7.3 million square feet of vacant industrial space in the city and many landlords continue to aggressively pursue new tenants, limiting the increase in rental rates. This is most pronounced within Class B and Class C product, although lease rates for Class A space remain well below their previous peak in the second quarter. The pipeline of active users in the market, which CBRE tracks as a key leading indicator, has dropped from almost 3 million square feet in February to 2 million square feet at the end of June. This is a good sign that deals are closing, but indicates that current net absorption figures are unlikely to persist through year-end.

Beyond the local statistics of an improving market, many people involved in the manufacturing industry in Mexico see a bright medium term future. Overall, this likely reflects the positive results of "near-shoring", which describes the return of manufacturing operations to North America from overseas. This manufacturing renaissance in North America may be in its infancy, but in Cd. Juarez we are beginning to see results.

One of the core projects CBRE is working on today is a China-based manufacturer exploring operations in Cd. Juarez to serve the U.S. market. We have also seen several suppliers return production to Mexico from Asia in the past two years. As North American auto sales grow, housing stabilizes and consumers start spending again, Cd. Juarez should experience a returned to the diversified manufacturing base of the pre-recession years when the industry base was roughly one-third auto, one-third electronics and one-third other products.

Overall, CBRE believes Cd. Juarez' industrial market is in the initial stages of recovery and should continue to improve in the second half of 2013, although at a more moderate pace. The established automotive sector, which represents approximately one-third of industrial occupiers, will continue to drive the market, although other sectors, such as electronics and consumer goods, should pick up steam heading in to 2014.

### Market Overview

Cd. Juarez, Mexico is the largest industrial real estate market along the U.S./Mexico border. Since 1969, Cd. Juarez has been home to some of the largest manufacturing companies in the world, with a strong presence of automotive, medical, appliance and electronics companies. Major occupiers of industrial space include Delphi, Electrolux, A.O. Smith, Foxconn, Johnson & Johnson and Wistron. The city, along with other manufacturing locations in Northern Mexico, continue to be an important part of North America's manufacturing sector due to competitive labor costs, transportation infrastructure and access to the U.S. consumer market.

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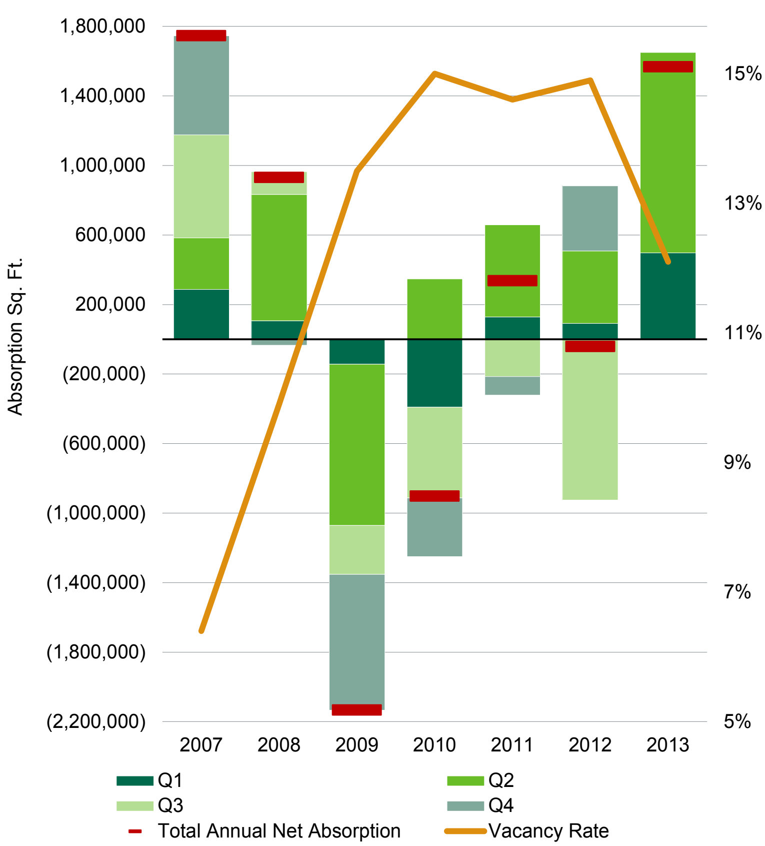
# INDUSTRIAL SECOND QUARTER
## MARKETVIEW

### Market Statistics

| Market | Rentable Area | Vacant Sq. Ft. | Vacancy Rate | Net Absorption Sq. Ft. | Delivered Construction Sq. Ft. | Under Construction Sq. Ft. | Net Avg. Asking Lease Rates ($/Sq. Ft./YR) |
|---|---|---|---|---|---|---|---|
| North | 13,648,221 | 1,048,882 | 7.7% | (1,750) | | 188,217 | $4.09 |
| West | 10,147,131 | 2,245,751 | 22.1% | 255,485 | 30,000 | | $3.73 |
| Central | 4,434,875 | 949,916 | 21.4% | 61,742 | | | $3.90 |
| Southwest | 7,633,752 | 807,967 | 10.6% | 103,644 | | 144,124 | $4.24 |
| Southeast | 19,359,672 | 2,156,329 | 11.1% | 734,153 | | | $4.31 |
| South / Electrolux | 3,625,244 | 112,146 | 3.1% | 0 | | | $4.25 |
| San Jeronimo | 1,642,000 | 0 | 0.0% | 0 | | | N/A |
| **Totals** | **60,490,895** | **7,320,991** | **12.1%** | **1,153,274** | **30,000** | **332,341** | **$4.09** |

Source: CBRE Research, Q2 2013.

### ABSORPTION AND VACANCY RATE




Source: CBRE Research, Q2 2013.

### NET ABSORPTION AND VACANCY

The vacancy rate for industrial real estate in Cd. Juarez dropped dramatically in the second quarter to 12.1% from 14.1% in March. This was following almost 1.2 million square feet of net absorption across the city. This is an impressive figure for the city historically, including the pre-recession years. Average quarterly net absorption figures were below 500,000 square feet from 2005 to 2008, if build-to-suit activity is excluded (see accompanying chart).

Net absorption was spread across most submarkets in Cd. Juarez. The Electrolux area in the South, San Jeronimo with no vacant space, and the North submarket were the exceptions. The North submarket was negative due to vacancy in a 198,000 square feet Class C industrial complex.

The majority of activity was in the Southeast submarket with several large deals being completed. The largest new leases signed were by Sumitomo for 217,000 square feet and a new transportation equipment manufacturing firm for 368,000 square feet. Overall, Yazaki occupied the most space in the second quarter as they re-occupied two of their owned buildings, which were previously on the market for sale, and leased an additional warehouse for 103,000 square feet in the Southwest submarket. Honeywell also leased a new 158,805 square feet building along the Libramiento, which was one of the last spec buildings built before the recession.



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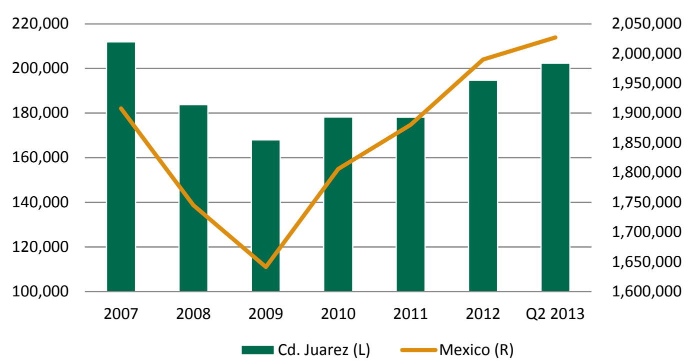
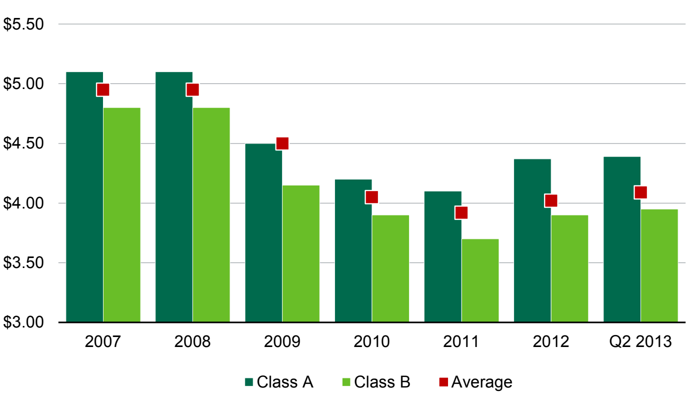
# INDUSTRIAL SECOND QUARTER
## MARKET STATISTICS

### Maquiladora Employment



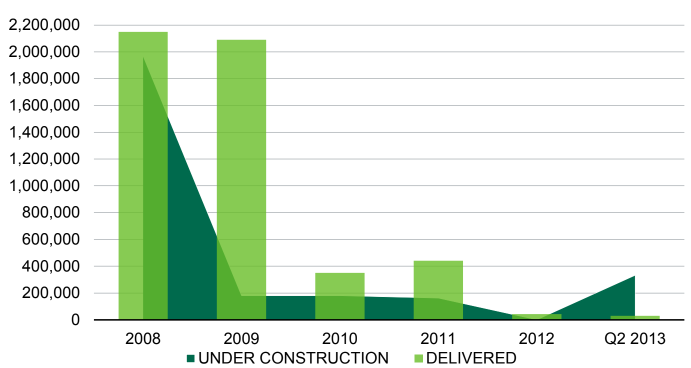

Source: INEGI, CBRE Research, June 2013.

### NNN Annual Asking Rates PSF




Source: CBRE Research, June 2013.

### Construction Sq. Ft.




Source: CBRE Research, June 2013.

## MAQUILA EMPLOYMENT

CBRE Research believes tracking Maquiladora, or IMMEX, employment is important to understanding how the leading indicators for the manufacturing sector are performing. Since 2009, employment in Cd. Juarez has rebounded steadily. Real estate activity lagged by two years, but started to show signs of recovery in 2011, and now appears to be well into recovery. With layoffs as significant as those experienced in Cd. Juarez during the recession, it is not unreasonable to expect such a lag as manufacturers had significant production and hiring gains to recover before translating this into additional real estate demand.

It is interesting to note that the Cd. Juarez Maquila Association (AMAC) data, which is published more recently than INEGI figures, indicate additional employment growth in the second quarter. AMAC reports 224,097 employees in April of this year. Note that the official INEGI data is reported in the adjoining chart, which is published trailing at least one quarter.

## INDUSTRIAL RENTS

Average asking industrial rental rates increased slightly in the second quarter, moving from $4.02 to $4.09 per square foot on a market-wide basis. This includes Class A, B and C space. Class A space recorded all of this gain due to the strong activity in the Southeast submarket, where the bulk of the city's Class A product is situated. Class B asking rates were unchanged. CBRE is currently tracking 97 available industrial buildings across the city.

The asking rate remains well below historical levels in Cd. Juarez and the high availability of quality Class B space will continue to put downward pressure on rates for at least the remainder of 2013. This vacancy combined with several large industrial owners who have multiple buildings on the market should be the key factors to watch related to asking rental rates in the coming months. However, with no new supply planned for the near future, it is our expectation that rents will increase through the remainder of 2013 and into 2014.

## INDUSTRIAL PRODUCT

CBRE Research reports the total industrial supply in Cd. Juarez is unchanged in the second quarter at 60.5 million square feet There is 332,000 square feet of space under construction including a 144,000 square foot expansion in the Aerojuarez Park for Luvata and the continued work on the spec building in the Fuentes Park. Honeywell was the only firm to deliver new construction in the second quarter with the delivery of a 30,000 square foot expansion in the Juarez Park.

There is still 7.3 million square feet of vacant industrial space in Cd. Juarez and, even at the record levels of net absorption recorded in the second quarter, it will be 2014 before the market could return to historic vacancy levels in the 8%-range. Until vacancy closes in on this level, market wide rental rates will be muted. Investors will want further confirmation that demand is steady and the more aggressive landlords that are willing to compete on price alone have become less of a factor before they start any new speculative construction. The southeast submarket is the one area of town where these conditions are falling into place.



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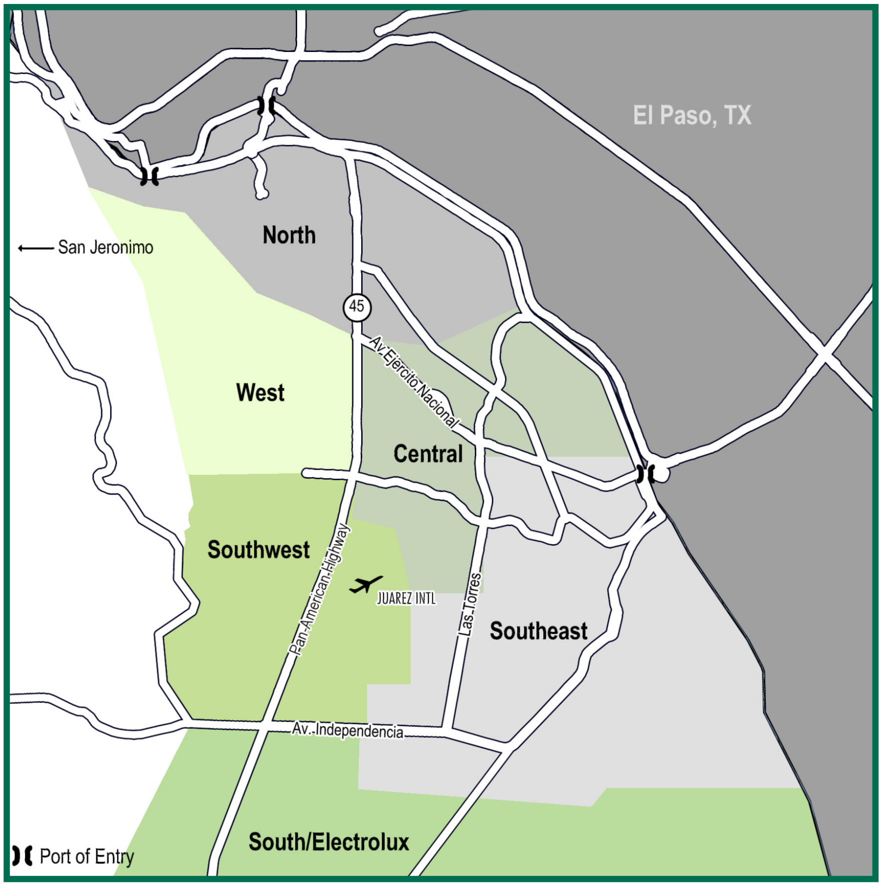


# CONTACTS

For more information about this Cd. Juarez Industrial MarketView, please contact:

## TEXAS RESEARCH

**Lynn Cirillo**
Research Operations Manager, TX
CBRE Americas Research
2800 Post Oak, Suite 2300
Houston, TX 77056
e: lynn.cirillo@cbre.com

**Christian Perez Giese**
Senior Vice President - Director
CBRE El Paso Research
221 N. Kansas, Suite 2100
El Paso, TX 79901
t: +1 915 313 8801
e: christian.perezgiese@cbre.com

**Pedro Niño, Jr.**
Research Coordinator
CBRE El Paso Research
221 N. Kansas, Suite 2100
El Paso, TX 79901
t: +1 915 313 8816
e: pedro.nino@cbre.com

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