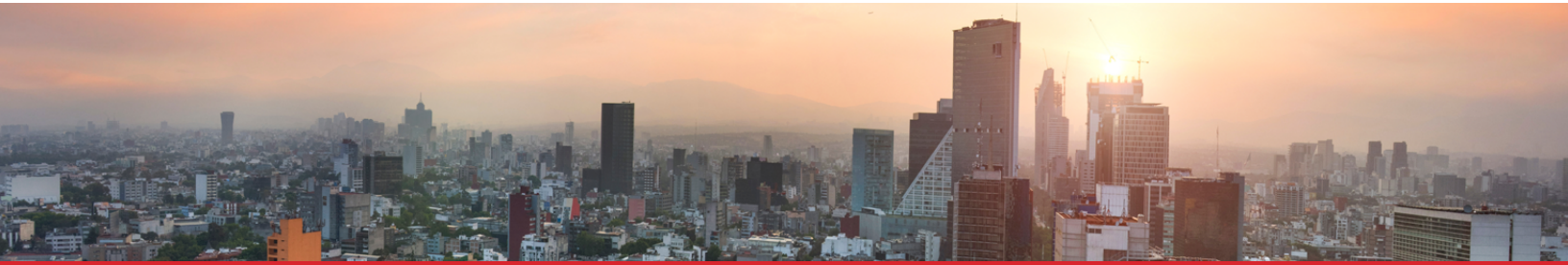


NEARSHORING IN MEXICO:

REAL ESTATE CHALLENGES

S+S INSIGHTS



Resulting of China's COVID-19 restrictions, the semiconductor chips shortages, and the global supply chain crisis, Santamarina + Steta has received multiple requests from American and Canadian companies to provide advice and legal support on how to set up new manufacturing facilities in Mexico and even relocate manufacturing activities from China and Southeast Asia to Mexico.

Despite the multiple advantages of relocating to Mexico, such as USMCA trade rates, labor costs, and the undeniable proximity to the US and Canada, moving from one side of the world to another is a challenging task.

Strictly from a real estate perspective, and in addition to any assessment concerning areas such as security, labor, and taxation, our experts have identified the main aspects to bear in mind while considering relocating manufacturing activities to Mexico:

- **North America's Geography.** All three countries have coasts to both the Atlantic and Pacific Oceans, and the US-Mexican border stretches from coast to coast. However, the decision on where to locate a manufacturing facility in Mexico shall be influenced by the market or region to be served from such facility.

For example, while relocating a manufacturing facility to Ciudad Juarez, Chihuahua, might be a good idea for supplying goods to Texas, there might be better options for

exporting to other countries. In the same sense, while relocating to Tijuana or Mexicali would be the best option for serving the Californian/Arizonan markets, there might be better alternatives for supplying goods to the Northeast of the US/Canada or Europe. Likewise, the Yucatan peninsula has become one of the top destinations for relocating facilities for its proximity to Florida.

- **Availability of Real Estate.** Since the nearshoring phenomenon started, it has become evident that even though Mexico has premier-class industrial parks all along the US-Mexican border and in other industrial cities, Mexico was not prepared to receive the wave of new entrants interested in establishing facilities closer to the US and Canada.

Fortunately, land in northern Mexico is not extremely limited and developers have the capacity to serve new clients. However, this would normally entail that new entrants will either have to wait until developers build new industrial facilities or will need to invest additional resources to build their own facilities in Mexico.

To speed up this process, many of our clients have opted out of entering into built-to-suit agreements with Mexican developers.

- **Infrastructure and Transportation.** While there are significant extensions of land to be developed in Mexico for the set up of

new manufacturing facilities, it is of the utmost importance that the chosen location is well connected through roads, railroads, or nearby ports in order to simplify logistics and reduce transportation costs and risks.

- **Availability of Water and Services.** An additional issue that our clients have considered has been whether the desired location has the capacity to provide them with the necessary utilities and resources for their processes.

For example, as industrial activities may have a high-water demand, it is crucial to locate new facilities in areas with enough capacity to bear the exploitation of water by new players without being overly exploited. The above, as overly exploited aquifers are usually subject to bans for the issuance of new water concessions. Hence, the supply of the necessary water may become costlier. In this regard, while the northern part of Mexico has extreme drought issues, other regions have enough water to serve new players.

Another issue to consider is the capacity of the electric power system in the area and the existence of LNG/LPG pipelines.

- **Incentives and permits.** When deciding the location of a new facility, it is relevant to consider whether Federal and State governments offer incentives for the investment to be carried out, as well as the permits, licenses, and authorizations required for the beginning of operations of the manufacturing facilities and to maintain them in good standing.

Relocating to Mexico has proved to be a viable and profitable option for many companies. However, a thorough assessment on how, where, and when to relocate is of the essence.

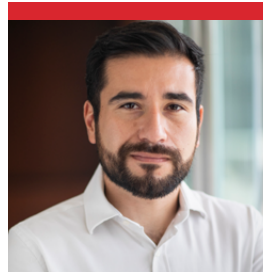


Claudia Rodríguez

Partner

+52 55 5279 5408

crodriguez@s-s.mx



Ivan Szymanski

Associate

+52 55 5279 5469

iszymanski@s-s.mx