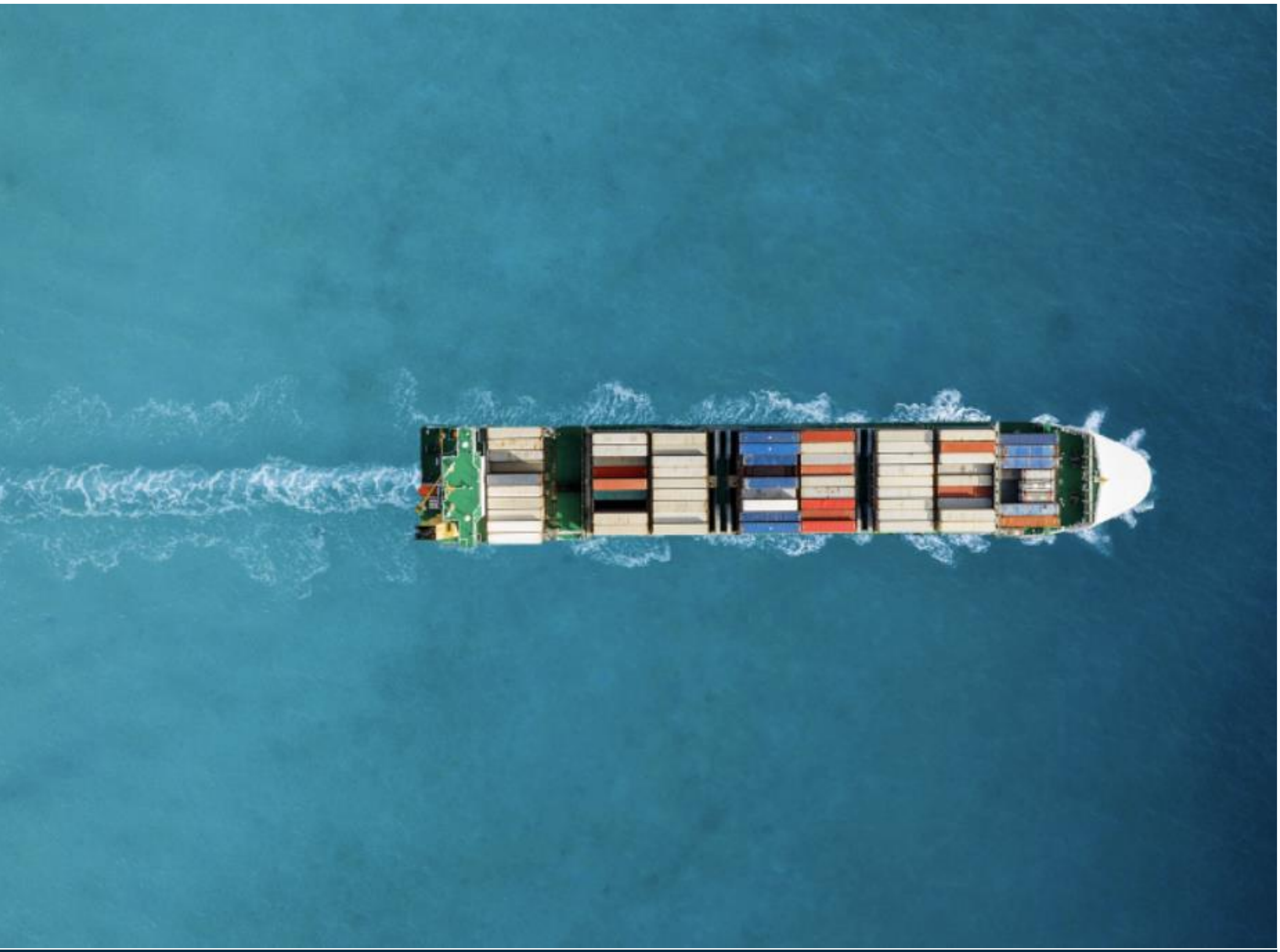
Piermont

Navigating the Shifting Global Supply Chain



Nearshoring, Friendshoring, Onshoring, and Global Logistics

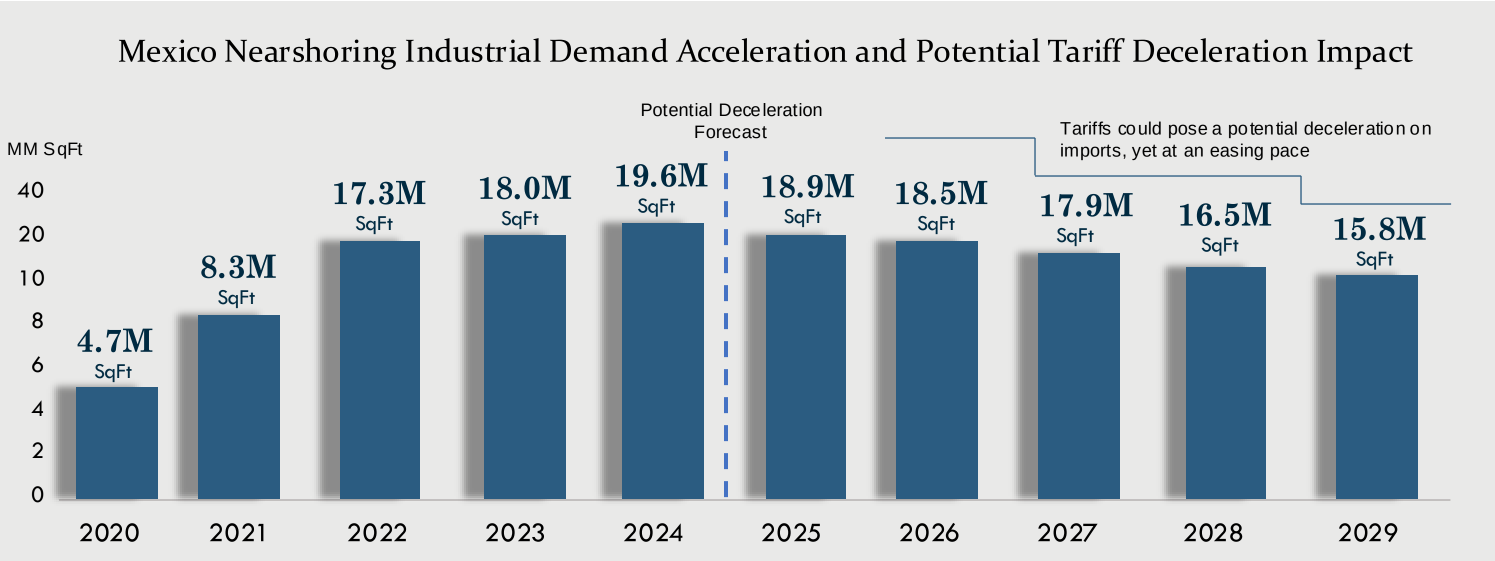
Executive Summary

Globalization has created a robust economy for the U.S. and other economies throughout the world. As the United States and China start to decouple after decades of economic cooperation, the world economy is changing dramatically. Due to its recently renegotiated free trade agreement, closeness to the United States, and highly skilled labor at competitive wages, Mexico has emerged as an obvious winner as trade patterns have changed. As Trump's tariffs nearly come into effect, with a thirty-day negotiation extension into early March, the actions which target items from China, Canada, and Mexico, are already having an impact much beyond the factories that make them, causing supply networks all around the world to be affected. Although there has been an instant political pushback to these decisions, the global supply chain is the true battlefield, with economies, workers, and businesses frantically trying to adapt.

Mexico was quick to respond with retaliation and resilience. This quick-action by Mexico comes with no surprise, as over the past five years Mexico is thought to now account for about one-fifth of all U.S. imports that were formerly sourced from China. Although the exact U.S. items targeted are yet unknown, given its vital importance on both sides of the border, the auto industry, which is intricately linked to U.S. supply lines, might initially be excluded.

A varied and intricate export base, close ties to U.S. value chains, and a significant presence in high-value sectors like auto manufacturing are all indicators of Mexico's economic sophistication. Mexico's potential in the global supply chain and logistics reorganization is enhanced by this history, which is a solid case and reason for U.S. and Mexico trade agreements to stay intact and healthy. Additionally, over the next 5-years, nearshoring demand could drive another 50 – 65 million square feet of industrial demand, while also leading to higher rents and lower vacancy rates.

The new tariffs could further delay more foreign investment in Mexico, posing a slowdown on anticipated increase of manufacturing expansion, as a slowdown was imminent the last several weeks of 2024 upon the news of President Trump's election victory. The manufacturing input from Mexico facing the biggest challenges from tariffs are machinery, electricals, transport equipment and high-tech sticking out as being in the crosshairs. Mexico faces another major challenge: a rising commercial relationship with China, taking the form of both higher intermediate goods imports from China and investment in manufacturing facilities by Chinese firms within Mexico. This kind of investment is very likely to be an additional target for President Trump, representing a conundrum for Mexico's policymakers.



Source: Federal Reserve Bank of Dallas, Ares Management, Piermont.

Key Advantages & Disadvantages

Mexico Nearshoring Advantages

- Cost savings - Nearshoring can reduce labor costs by providing access to a larger pool of skilled workers at a lower cost.
- Geographical proximity to the U.S., providing cost-affective, cheaper transportation costs.
- Increase in U.S. jobs within transportation and logistics, specifically in border states and markets in higher demand for imported products from Mexico.
- Access to skilled labor - Highly skilled workers familiar with various standard operating procedures.
- Over the next 5-years, nearshoring demand could drive another 50 – 65 million square feet of industrial demand.

Mexico Nearshoring Challenges

- Infrastructure limitations - An aging power grid with limited transmission capacity can lead to unreliable electricity supply, hindering production and potentially causing costly disruptions for manufacturing facilities.
- Political instability - Shifts in government policies and regulations can create uncertainty for businesses considering investments in Mexico.
- Labor concerns continue to be a concern, while labor costs are often cited as an advantage, rising wages and potential for increased union activity can impact cost competitiveness.

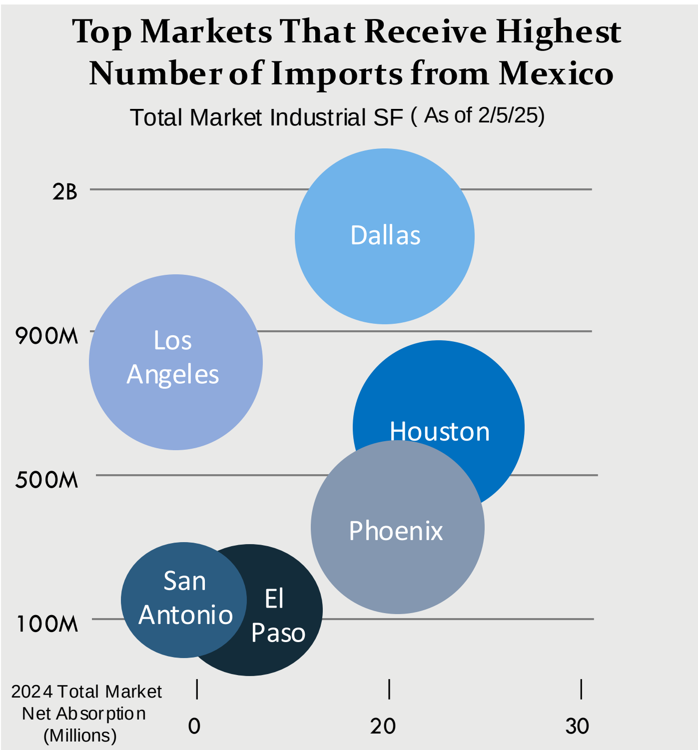
Border States Industrial Logistics Development Has Prospered from Nearshoring Demand Drivers

The increased nearshoring has implemented significant positive industrial logistics development in U.S. cities along the U.S.-Mexico border. The Nearshoring Phenomenon is a strategic shift that has gained momentum, particularly accentuated by multinational corporations moving their operations closer to their primary markets, specifically to the Mexican border regions. This move is primarily driven to enhance supply chain resilience, reduce transportation costs, and achieve a more agile operational model.

Within Laredo, Texas, there are currently over 58 industrial parks in with a range and variety of industrial sites. The Port of Laredo has 47 million square feet of logistical space. Over the past five years, more than 4.5 million square feet of industrial warehouse space has been added to the Laredo market. Laredo remains the number-one port in the nation after surpassing the Port of Los Angeles in November 2023, responsible for 6.3% ($26 Billion USD) of U.S. trade, according to U.S. Census Data.

Leading the land border port markets, El Paso has added over 13 million square feet of Industrial warehouse space over the past five years, and significant infrastructure investments made in the city. The Bridge of the Americas will receive between $650 million and $700 million for new facilities for administration and improved facilities for pedestrian, passenger, commercial and primary inspections. The primary goods that cross into El Paso, Texas from Mexico include electronics, machinery, automobiles, and furniture.

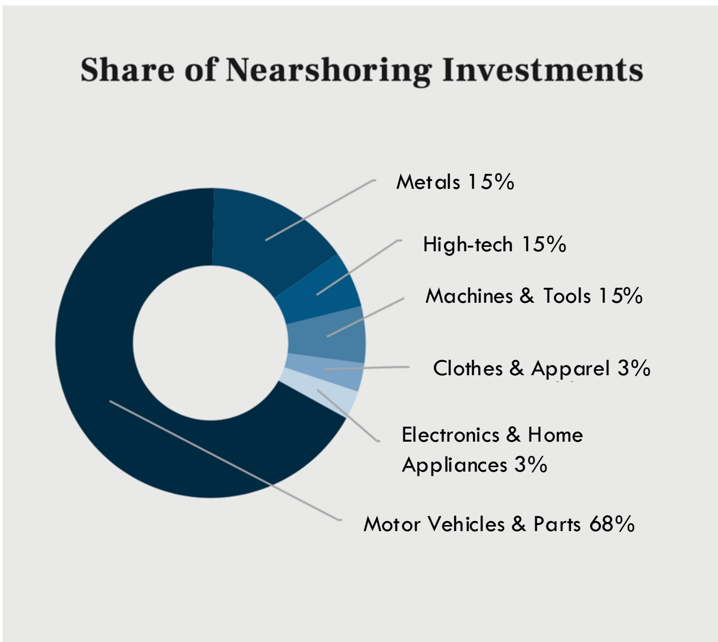
Both El Paso and Laredo have experienced a 50%+ increase in Industrial Logistics rents over the past five years, lead by strong market demand drivers, such as low market vacancy to absorption on speculative development.



Source: CoStar, Piermont.

Source: Bureau of Transportation Statistics, TXDOT, Piermont.

Further inland, the Dallas/Ft Worth market, the primary land port and major city which receives significant TEU input from Mexico, has added more than 850 industrial warehouse developments over the past five years. This wave of both speculative and build-to-suit development has been delivered with low market vacancy in the highest desired submarkets, and positive Q4 net absorption - a 5.5% YoY increase from Q4 2023. Our outlook stands that industrial logistics rents should not be significantly impacted should tariffs take a toll on imports from Mexico given all the continuous consumer demand drivers.



Source: Ares Management, Oxford Economics, Piermont.

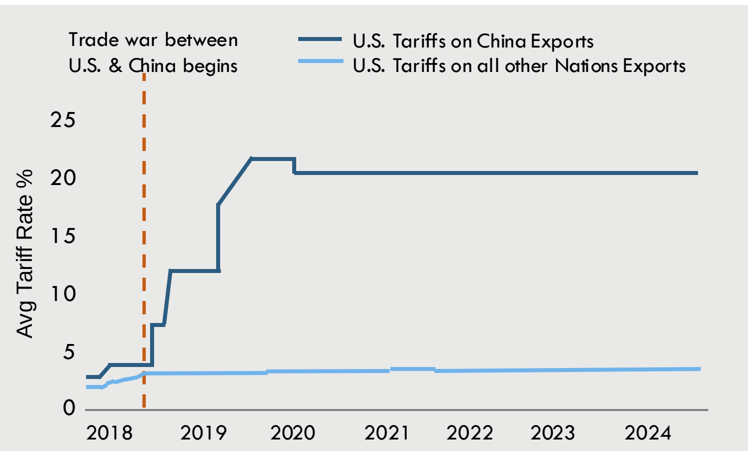
Tariffs & Shifting Trade Patterns

Should the tariffs be implemented in March after the 30-day negotiation extensions burns off, the most recent batch of tariffs will cause poorer GDP growth, higher unemployment, higher interest rates, and higher inflation in Canada, Mexico, and the U.S. this year. Our trade-weighted U.S. dollar prediction will also increase as a result.

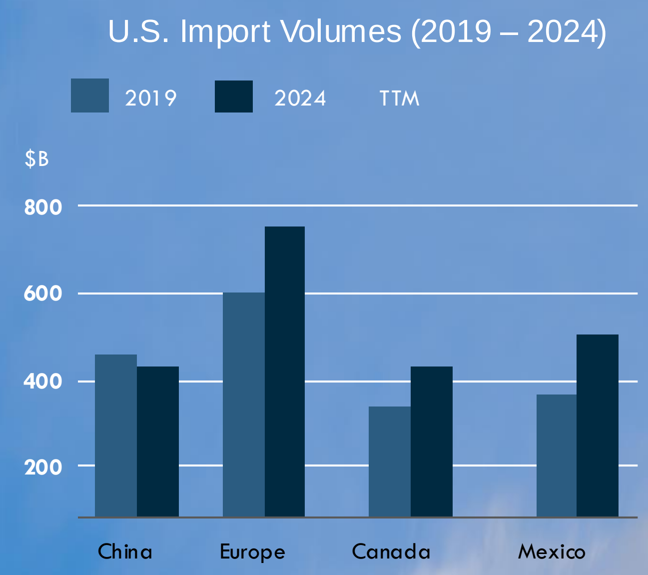
Companies are being forced to reevaluate their worldwide plans due to rapidly shifting trade regulations, unforeseen levies and sanctions, and unpredictable trading routes. As a result, are, executives in logistic companies claim that their decisions regarding manufacturing and storage are being influenced by geopolitical pressures and economic volatility. Because of the disruption caused by the pandemic and the tariffs that have been in place since 2017, the United States has adopted a China Plus One approach, which our analytics indicate would persist if tariffs were increased. As seen, U.S. businesses have mostly shifted their sourcing to Mexico and other Asian countries, and onshoring obstacles are predicted to remain.

There are, however, limits to trade diversion. China's decreasing share of U.S. imports, which dropped from 21.6% to 13.2%, was the main driver of Mexico's rise from 13.4% in 2017 to 15.8% by 2024. The change is a reflection of China's ongoing withdrawal from low-value manufacturing and its shift towards high-tech industries like electric automobiles, which have benefited growing Asian nations more than Mexico. As nearshoring trends have increased, Mexico has benefited in mostly from capital-intensive industries where it already had a comparative edge, like the automobile manufacturing industry. However, since 2022, Mexico's export growth during the epidemic has slowed, and export-destination diversification has gotten worse, with the United States currently accounting for 83.1% of exports. IMMEX has helped Mexico's most export-oriented states and maquiladora industries, but its overall influence is still quite small.

Through programs like the Belt and Road, which aids in the construction and financing of infrastructure upgrades overseas, and measures to internationalize the yuan, China has shifted its focus away from advanced economies, not only the U.S. This illustrates a deliberate turn towards the Global South and emerging markets. The average U.S. tax on Chinese imports rose from 3% to 19% between 2018 and 2020. 8.66% of Chinese imports were subject to tariffs by January 2021, at the conclusion of Trump's first term in office.



Source: Oxford Economics, Piermont.



Source: U.S. Census Bureau.

Imports from China

As of February 2025, shipping costs from China to the U.S. are showing a downward trend, with rates decreasing slightly from the peak increase of 366% on routes the ports of Los Angeles and Long Beach, although the exact percentage depends on the specific shipping channel and port involved. Shipping costs decreased 78% in 2023 from the 2022 highs, this is a positive change compared to the recent significant increases experienced during the pandemic and container shortage.

Global manufacturing is still centered in China, although businesses are expanding into other Asian countries. Since 2019, imported goods from Vietnam, Taiwan, and the Philippines into the U.S. have increased by 45%.

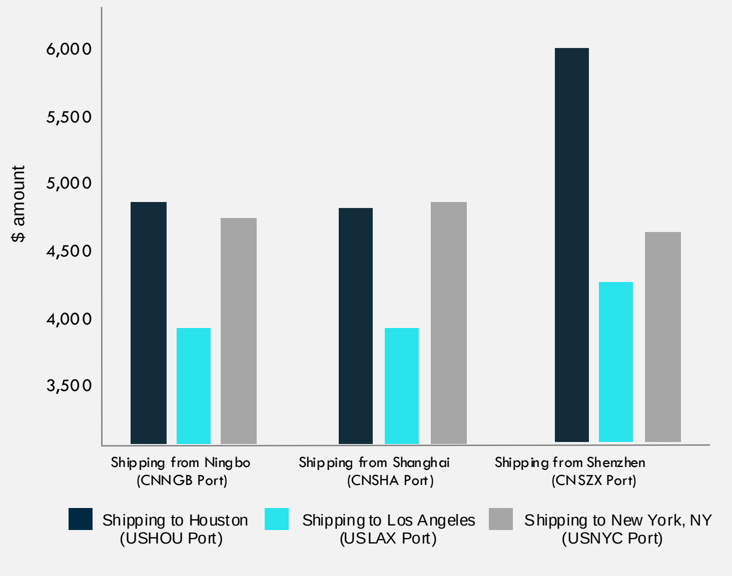
The Port of Los Angeles began 2025 with processing 924,245 TEUs (twenty-foot equivalent units) in January, an 8% increase over last year. Loaded imports came in at 483,831 TEUs, a 9.5% increase from the previous year. Imports from China make up roughly 41% of January's total TEU.

Spending in the past ten years within China has been concentrated in industry powered by technology and resources, including computers, electronics and communications devices, machinery, cars, medications, raw materials, and metals. China is already a major manufacturing hub for many different technologies and industries because to its sustained efforts. In the short run, some businesses in these industries might find it challenging to shift their supply networks outside of China. However, China is no longer the lowest-cost producer, and geopolitical tensions between the U.S. and China are also on the rise. China's GDP per capita was only 14% that of Mexico in 2000, the year it joined the World Trade Organization. China now has a GDP per person that is 118% of Mexico's as of 2022.Twelve Higher wages per hour have also resulted from the growth in GDP per capita; in China, the average hourly salary is $5.68, whereas in Mexico, it is $4.50.

In a time of changing trade regulations, the expansion of Chinese third-party logistics firms (3PLs) makes it easier to transport goods from Asia to the United States. About 20% of U.S. net absorption in 2024 came from Chinese 3PLs, with expansion centered at important trade gateways. Even though these businesses have been in the US for a long time, their quick expansion parallels the rise of international e-commerce. They have been (and will continue to be) enabling imports from all throughout Asia, not only China, even though many of their underlying customers are manufacturers and retailers based in China.

Container Shipping Rates from China to the U.S.

(40' container)



Source: FREIGHTOS, U.S. Census Bureau, Piermont.

Oceanic Freight Shipping Costs from Shanghai to Los Angeles has Increased by 366% Compared to the 2015 – 2019 Average

Source: Ares Management, U.S. Census Bureau, Piermont.

Key Conclusions

- Freight will fly: Due to the expansion of global e-commerce outside of China and the United States, air cargo volume will increase by double digits.
- Global Trade will not Decline: Despite the increased tariffs, U.S. imports will increase more quickly than GDP, and the East Coast will account for a greater portion of the country if the International Longshoreman Association contract is ratified.
- Globally and in the U.S., e-commerce penetration rates are predicted to be 24% and 26%, respectively. Growth will be driven by the busiest trade route, Asia-North America, which accounted for 25% of global volume as of September 2024. However, we anticipate additional proof that e-commerce flows are expanding globally.
- East Coast ports' import volumes increased at a pace of about 10% in 2024, less than half that of West Coast ports, which saw growth of about 25%. Throughout 2025, we anticipate this trend to reverse. The strike amongst east cost ports last year serves as further evidence that labor dynamics continue to pose a threat to supply networks ability to operate efficiently.
- Because of its close proximity, which enables dependable and quick delivery into the main U.S. logistics hubs, we anticipate that Mexico will continue to be a desirable choice for businesses wishing to enter the U.S. market.
- These changing trade patterns will continue helping Mexico's industrial sector, which between 2019 - 2024, 52 million square feet, or 8% of industrial assets, have been leased by nearshoring enterprises.
- The expected settlement of contract issues will restore operational effectiveness and confidence while regaining volumes that moved westward during the period of uncertainty. East Coast ports will see a resurgence of activity following this stabilization, reversing the recent downturn and helping to rebalance the U.S. supply chain.
- Global TEU will continue to increases throughout this year - The reverse that started in the spring continued in 2024, with landed TEUs increasing 13% year over year and on-water TEUs growing 18%. In 2024, West Coast trade volumes increased 26% from the previous year.