



# MARKET EDGE

BY partners

TEXAS FIRST

**PART 4**

## The Booming Texas-Mexico Trade Corridor and its Impact on Industrial Demand

**Texas First** is an ongoing series detailing the explosive growth of Texas' economic landscape.

Border trade between Texas and Mexico has been on the rise, driven by a growing economic relationship between the United States and Mexico and the implementation of the United States-Mexico-Canada Agreement (USMCA) in 2020. This surge in trade has not only benefited both sides of the border but has also positioned Texas as a major contender in population and economic growth, outpacing states like California. Moreover, this shift in global supply chains and trade dynamics has resulted in increased demand for industrial space along the U.S.-Mexico border. The most recent data from the US Census Bureau, from January to August 2023, US trade with Mexico increased 2.4%.

## THE TEXAS-MEXICO TRADE SURGE

In recent years, trade between Texas and Mexico has been steadily increasing and in 2021, the trade value between these two entities reached an impressive all-time high of \$515 billion, marking substantial growth of over 28% in just two years from \$401 billion in 2019.

1

### Trade with No. 1 Port Laredo

▲ 8.59% to \$208.77 billion

#### Exports

▲ 8.05% to \$82.76 billion

#### Imports

▲ 8.94% to \$126.01 billion

2

### Trade with No. 2 Ysleta, Texas

▲ 9.86% to \$51.68 billion

#### Exports

▲ 6.67% to \$17.51 billion

#### Imports

▲ 11.57% to \$34.17 billion

3

### Trade with No. 3 Otay Mesa Freeway Border Crossing, Calif.

▲ 4% to \$41.09 billion

#### Exports

▲ 4.49% to \$15.13 billion

#### Imports

▲ 3.71% to \$25.97 billion

4

### Trade with No. 4 Pharr International Bridge in Texas

▼ 1.54% to \$30.06 billion

#### Exports

▼ 9.58% to \$11.62 billion

#### Imports

▲ 4.3% to \$18.45 billion

5

### Trade with No. 5 Eagle Pass

▲ 11.33% to \$25.19 billion

#### Exports

▲ 1.33% to \$7.54 billion

#### Imports

▲ 16.22% to \$17.65 billion



This surge can be attributed to several key factors:

#### • Growing Economic Relationship

The United States and Mexico have fostered a robust economic partnership, with Mexico now ranking as the United States the largest trading partner, just ahead of Canada.

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- **The USMCA Impact**

The implementation of the USMCA, replacing NAFTA, played a pivotal role in boosting trade between the three North American countries. The agreement includes provisions such as reduced tariffs and streamlined customs procedures, incentivizing trade and investment.

- **Economic Benefits of Increased Border Trade**

The surge in border trade between Texas and Mexico has brought about several economic benefits, positively impacting both regions.

- **Job Creation**

The increase in trade has created jobs on both sides of the border. In Texas alone, the trade industry employs over 400,000 people, providing employment opportunities and economic stability.

- **Economic Growth**

Trade has become a cornerstone of the economies of Texas and Mexico. In Texas, trade contributes to over 10% of the state's GDP, reflecting its significant role in driving economic growth.

- **Texas's Ascent**

Texas has experienced substantial population growth, attracting individuals and companies from states like California and New York. The policies and business-friendly climate in Texas have contributed to this influx of population and economic activity.

- **Population Growth**

Texas surpassed 30 million in population in 2022 and continues to grow, while California's population has been declining since 2020, losing roughly 800,000 residents between 2020 and 2023.

- **GDP Growth**

While California's GDP remains higher, Texas is closing the gap with impressive growth. In 2022, Texas recorded a GDP of \$2.355 trillion, with a growth rate of 31% from 2020 to 2022, surpassing California's 19% growth during the same period.

- **Industrial Demand Along the Border**

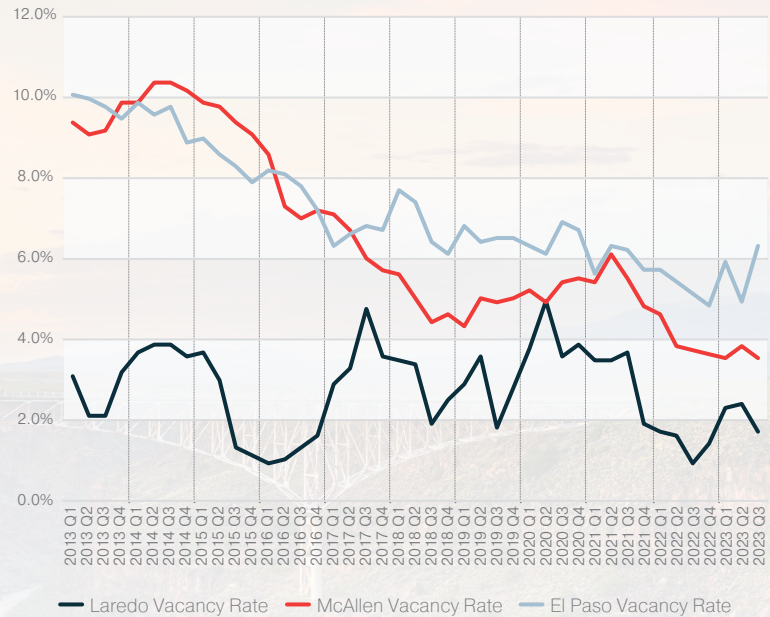
The surge in trade and nearshoring, driven by shifting global supply chains and the USMCA, has increased demand for industrial space along the U.S.-Mexico border, particularly in cities like Laredo, El Paso, and McAllen, Texas.

- **Nearshoring**

Nearshoring involves shifting manufacturing closer to end customers, and it has gained significant momentum, attracting foreign investments and creating jobs in Mexican states along the border like Nuevo Leon and Chihuahua.

## Total Industrial Vacancy Rate (%)

Due to increased Border trade between the United States and Mexico, the three border markets of Laredo, McAllen and El Paso have seen extremely low vacancy rates.



Generally speaking, when the vacancy rate is above 10% the market is considered tenant favorable, while 8% to 10% would be considered neutral conditions. When the vacancy rate is below 8% it is a landlord favorable market. All three of the Texas-Mexico border markets remain firmly in landlord favorable territory. Rental rate growth has been elevated and is expected to remain so, given the extremely low vacancy rates and strong overall demand for space.

	Laredo	McAllen	El Paso
Size (RBA)	37,114,062	60,710,765	105,243,000
Total Vacancy Rate	1.7%	3.5%	6.3%
Net Absorption (2023 YTD)	1,291,572	43,960	2,302,634
New Deliveries SF (YTD)	1,470,145	746,806	271,556
Under Construction SF	3,306,878	271,556	3,490,878

### • U.S. Imports from Mexico

U.S. imports from Mexico have surpassed imports from China since February 2023, marking the first time in two decades. This shift in trade dynamics is expected to continue, as U.S. companies pivot away from reliance on Chinese imports.

### • Labor Cost Advantage

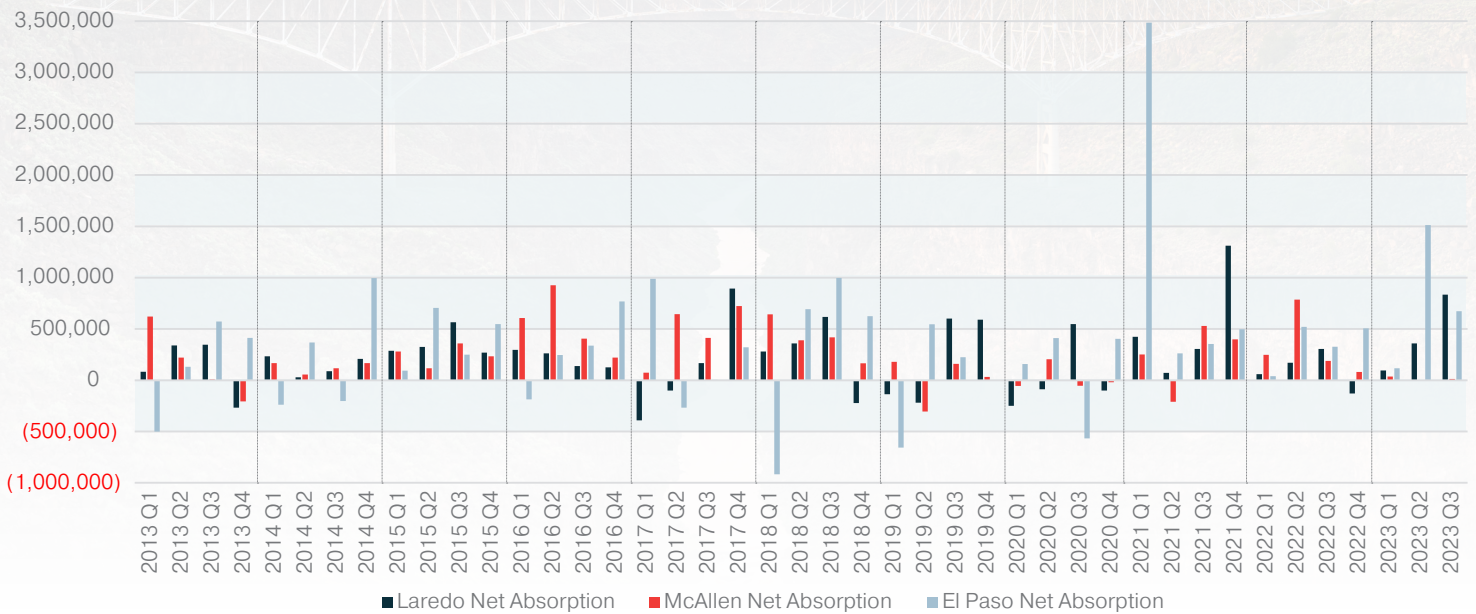
Mexico offers a more inviting labor environment with lower labor costs compared to China. The rising labor costs in China, coupled with demographic challenges, make Mexico an attractive destination for manufacturing.

### Conclusion

The increasing trade between Texas and Mexico, driven by a growing economic partnership and the USMCA, is transforming the region into a trade powerhouse. This surge in trade has not only led to economic benefits but also positioned Texas for substantial population and GDP growth. Additionally, the demand for industrial space along the U.S.-Mexico border is rising, further solidifying the region's importance in the global supply chain and trade landscape.

## Total Net Absorption (SF)

Demand for space has been above the historic norm, spiking in 2021, but also remaining elevated since then.



## New Construction (SF)

New construction has increased, but market fundamentals remain firmly landlord favorable, which is expected to continue for the foreseeable future.

