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Focus On Nearshoring

Electricity in Mexico: From Bottleneck to Opportunity; On-Site Solar in the Spotlight

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Authors

This report provides unique insights from Scotiabank Global Banking and Markets' Equity Research team on nearshoring, along with special commentary from Scotiabank Economics.

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Currencies in U.S. dollars unless otherwise noted.

OUR TAKE: Potentially very positive. Now that the United States has levied tariffs on its most important trading partners (or not?), a simple question has arisen: is nearshoring dead? Our take is that, over the long run, the United States is likely to prioritize an Americas nearshoring strategy over China, even if in the short term this does not seem to be the clear outcome for Mexico and Canada given the ongoing tariff negotiations. Therefore, we argue that, tariffs or not, it is in Mexico's best interest to strengthen its relative competitiveness versus China over the long run. For that to materialize, enhancing its stretched infrastructure is key.

In this report, we zero in on how recent changes in the regulation of Mexico's power sector, amid controversial constitutional reforms, could unlock major investments from the private sector, reducing Mexico's high electricity costs and benefiting several energy-intensive industries along the way. These include the auto industry (NEMAKA-MX), steel (TX-N), cement (CX-N and GCC *-MX), and mining (GMEXICO B-MX), to name a few. All companies under our industrial real estate coverage have adopted solar generation, and we view three as being at the forefront of these efforts: FIBRAPL, FUNO, and VESTA. Among them, FUNO and FIBRAPL might benefit the most from solar due to their exposure to logistics.

We focus specifically on on-site solar power generation in industrial real estate: recent regulatory changes related to fast-tracking projects of up to 20 MW are a great fit for a country that has a major advantage in deploying this technology. Moreover, the most important industrial real estate clusters are located in areas where the economics of adding solar power are better.

Below, we provide a general summary of the themes discussed in the report and how we connect several themes that at first glance may appear unrelated. The more technical details suited for sector specialists can be found inside the document.

The bigger picture: partnering with our economists. This note includes Scotiabank Economics' views on the opportunities and challenges in Mexico's power sector. Due to recent controversial constitutional reforms, our economists also share their views on other related factors, such as security, water, and human capital. In contrast to our focus on non-capital-intensive power generation projects, our economists explore in depth the role of PPPs for large-scale power projects that may take longer to be deployed.

Adding solar in Mexico showcases the real power of ESG: it's about the combination of sound economics, improving energy security, and yes, making value chains in North America more sustainable. The backlash against ESG is real and strong, and we do see valid reasons ranging from regulatory overreach to plain greenwashing. But adding solar is underpinned by sound economics (material savings in utility bills, making energy more affordable), improving energy security (electricity in Mexico is becoming scarcer and more vulnerable to outages, causing potential disruptions in value chains). Sustainability in value chains is crucial: multinationals aim to reduce carbon emissions and ensure their value chains are free from any form of forced labor, particularly in regions like China where such practices are a concern.

With or without tariffs, Mexico must overcome two bottlenecks to benefit (in full, not partially, as it has been until now) from nearshoring or risk hitting a wall: (1) energy and (2) water stress. Since 2021, we have noted that energy was a bottleneck for nearshoring and gross leasable area (GLA) growth. In 2020, we stated that clean energy could help curb Mexico's greenhouse gas (GHG) emissions, improve the country's competitiveness (energy is expensive and becoming scarcer), and help reduce water stress (Mexico ranks poorly on water stress, particularly in regions that benefit the most from nearshoring).

Adding solar to an industrial building can cut a tenant's operating costs materially, resulting in a higher demand for such buildings and, in turn, better rents, NOI, and valuation. Returns for landlords are also attractive. A tenant's utility bills can achieve savings of at least 14% in regions where transmission nodes are not congested. The companies we cover engage actively with their tenants to add "green clauses" to lease agreements; these, in short, involve adding sustainable features to buildings such that the related capex can be recovered in the rent. In the case of adding solar, beyond potentially higher rents from tenants, some structures also give landlords an additional revenue stream. The result is improved net operating income (NOI) margins, perhaps in excess of 100 bp.

Qualitative factors for adding solar (and storage capabilities) are equally important. We highlight, for instance, how real estate players can enhance relationships with their tenants seeking long-term solutions, which may surface additional business opportunities if tenants want to expand their operations. For instance, it is common to see disruptions to electricity grids resulting in power outages, particularly in regions where transmission nodes are congested and during the summer. Minimizing such disruptions has a major economic impact—improving operational resiliency and potentially leading to higher retention rates—and less pushback from a tenant on positive lease spreads if market conditions permit. Additionally, helping multinationals decarbonize their value chains is another consideration: multinationals have already demonstrated that they value building certifications (such as EDGE, LEED, or BOMA) that correlate with lower energy, water, and waste intensities in certified buildings compared with non-certified buildings.

Based on the potential returns for adding solar, the temptation for real estate players to deploy capital is understandable. However, because returns can vary widely across regions and over time, companies should take a disciplined approach to capital allocation. According to Scotiabank GBM LatAm Utilities Analyst Tomas González, there can be first-mover advantage and major changes in profitability from shifts in technology and/or regulations. Despite new regulations seeking to minimize the issue of intermittency in Mexico's grids, our colleague sees intermittency risk as something that may impact future regulatory changes. We believe significant returns are possible due to the transmission node congestion that has resulted from insufficient investment in Mexico's grids, However, if the country invests materially in its transmission grids, meaningfully reducing node congestion, potential returns could decline.

Although the companies we cover do not own energy-intensive datacenters, plans by Amazon Web Services (AWS) to increase datacenters in regions where transmission node congestion is already high will only increase competition for power; therefore, adding solar and storage capabilities could be a sensible way to improve landlords' (and their tenants') energy security.

To start, we show the cost of electricity for industrial use (Mexico is at a disadvantage). Later in the report, we discuss the potential for solar technologies. It may surprise our readers to learn that the problems in Mexico's grids offer major opportunities (which we describe below in detail). We also include data on global trends, such as improving the economics of solar solutions with energy storage. We also provide hard data linking Mexico's power generation with its GHG emissions and water stress. We share information about the energy consumed by the tenants of companies under our coverage, along with our take on their energy intensity.

This report also highlights some private equity energy players—AINDA, ALOM, MIP, and Riverstone—that could play a role by selling assets, engaging in M&A, or issuing equity to deploy capital into energy-related projects.

MEXICO

Unlocking the Potential of Solar Power Generation

URGENCY TO INVEST IN RENEWABLE ENERGY

- Mexico's spare power generation at a historical low/grid is stretched
- Mexico facing water stress
- More thermal plants raise competition for fresh water

OPPORTUNITIES

- Favorable kWh/kWp per square foot per year
- Competitive LCOE (US$/kWh)

PATHWAYS TO SUCCESS

- New regulations could attract investments from the private sector

MICROGRIDS & SELF GENERATION <20 MW

New regulation supports opportunities for microgrids and self-generation projects ranging from **0.7 MW to 20 MW. Such projects look like a good fit for industrial real estate players**

10,900 GWh PER YEAR

ECONOMIC POTENTIAL

Estimated savings in the tenant's utility bills is between US$659M and US$1.0B per year; higher rents and NOI margins for landlords = better valuations for their buildings

IMPACT ON ENVIRONMENT -14 Mt

Adoption of solar power generation could **reduce approximately 14 Mt of CO_2eq per year.** It could also help multinationals decarbonize their value chains and reduce utility bills, enhancing operational resiliency

80M KILOMETERS BY 2040

GLOBAL TRENDS

According to the International Energy Agency (IEA), the world must add or replace **80 million km of grids by 2040. The cost of power storage has also declined substantially**

Scotiabank

How to Connect the Dots in This Report, and Key Messages and Numbers to Make You Think

What has changed in the regulations to make us think that private investments in the power industry in Mexico can be unlocked? Amid controversial constitutional reforms, the current administration has launched several initiatives backed by secondary laws that seek private sector participation, allowing the country to catch up in its energy transition—a major shift compared with the previous administration. We highlight changes that, in our view, could improve Mexico's energy security:

- The fast-tracking of approvals for the private sector to invest in projects between 0.7 MW and 20 MW, as long as such projects are designed to minimize their impact on Mexico's congested grids. This, in our view, is a sound fit for industrial real estate buildings used for logistics, e-commerce (low energy-intensive activities), and light manufacturing, despite the cap of 0.7 MW in renewable energy. Moreover, the past administration cited the impact of renewables on the grid as a reason for creating regulations that did not support deployment of competitive renewable energy in Mexico.

- Government-owned *Comisión Federal de Electricidad* (CFE) will own 54% of the grid, but the private sector can invest and sign long-term contracts with the CFE. In other words, the CFE might deliver the energy to the grid, but the power could be generated by a private player. For large-scale projects, in contrast to the projects of up to 20 MW in capacity (as highlighted above), a PPP framework could work but is likely to take longer to execute, as explained by our economists below. It is the view of Scotiabank GBM analyst Francisco Suarez that controversial reforms could create additional complexities under long-term contracts, potentially increasing the cost of such projects.

- A return to the basic principle that the most efficient power generation should rank first in access to the grid. During the past administration, regardless of how inefficient they might have been, CFE-owned plants had priority over private plants. This change is key to phasing out inefficient (and carbon-intensive) power generation.

- Redefining what is included in CFE's profit (the government refers to the CFE as a not-for-profit entity), which currently goes well beyond what is typically included in profits on a P&L statement. "Profit" for the CFE should cover maintenance, expansions, and subsidies for consumers, among other needs, and in turn force the CFE to become more efficient.

We connect the dots between nearshoring, power generation, water stress, the energy transition, and industrial real estate. This report touches upon several themes that at first glance may look unrelated and is organized according to the following themes:

- The bigger picture: we begin with Scotiabank Economics' views on the opportunities and challenges in Mexico's power sector. It is important to mention that, due to recent controversial constitutional reforms, our economists also share their views on related factors, such as security, water, and human capital. In contrast to our focus on non-capital-intensive power generation projects, they explore in depth the role of PPPs in large-scale power projects.

- Mexico might be a manufacturing powerhouse, but it is not competitive in terms of power generation; if North America must become more competitive relative to China, then cutting electricity costs in Mexico should be a priority.

- For industrial real estate, we focus on the potential of on-site solar technology and begin with a description of why Mexico is among the most competitive countries for the deployment of solar technologies.

- We explain at length the major limitations of Mexico's grid and why they paradoxically create significant opportunities. The discussion is unpinned by an understanding of why lower energy storage costs are important for on-site solutions in industrial real estate that are aligned with Mexico's regulatory changes.

- The links between nearshoring, the energy transition, and water stress. The phase out of inefficient thermal power plants by adding renewables helps Mexico not only reduce the cost of energy for the manufacturing industry, but also to decouple the country's GDP growth from its GHG emissions. Water, like energy, is another major bottleneck for nearshoring, and water stress is higher in the regions that benefit the most from nearshoring. Cutting the country's reliance on thermal power generation with the addition of renewables helps to curb water stress.

In the last section of the report, we discuss several impacts of solar adoption for industrial real estate players.

- Despite the current cap of 0.7 MW in renewables, the potential we estimate in solar power generation is ~10,900 GWh per year, or ~8% of Mexico's power generation in 2022.

- Industrial real estate tenants engaged in logistics, e-commerce, and light manufacturing could realize potential savings on their utility bills of as much as ~US$850 million per year. This figure excludes energy-intensive activities that are out of scope for the industrial real estate players we cover. On a relative basis, we estimate tenants could save up to 14% of their utility bills.

- Carbon avoidance, key for multinationals that want to decarbonize their value chains, could be ~14 Mt of CO_2eq per year, ~11% of Mexico's power industry carbon footprint in 2022. The power industry accounts for ~26% of Mexico's total GHG emissions.

- By adding solar, some industrial parks that focus on logistics and e-commerce could cover more than 50% of their tenants' electricity consumption—well above parks that focus on light manufacturing activities.

- For real estate players, benefits include quantitative factors that translate to higher rents, NOI, and valuations. Qualitative factors are equally important and include enhanced commercial relationships with tenants (yielding higher retention rates).

- Real estate players might explore partnering with energy players through M&A and joint ventures, but energy-dedicated players might also issue equity. Depending on scale, we wouldn't rule out spin-offs.

- VESTA is, so far, the only company in our coverage that, in addition to solar, is adding industry-scale power storage capabilities, with smart metering and in microgrids. In our view, this is suitable for buildings used for light manufacturing which, by definition, are more energy intensive. The company plans to reach 50 MW in solar solutions by 2030, with 160 purchase power agreements (PPAs) from 4 MW and 60 PPAs, as at 2024.

- FIBRAPL as at 2024 had 18 MW of solar capacity in its buildings, having caught up from a slow start two years prior. The company's efforts are underpinned by the strategy of its parent company Prologis, Inc. (PLD-N, covered by Scotiabank GBM analyst Nicholas Yulico), part of the company's net-zero pledge that includes adding 1 GW in solar and storage capacity by 2025.

- FUNO's ambitions go beyond its industrial portfolio (~33% of NOI): the company has a validated Science-Based Target (SBT) under a 1.5°C temperature scenario that addresses a cut to Scope 3 emissions which, in turn, comes mostly from its tenants' energy consumption.

Focus On Nearshoring

Challenges and Opportunities in Mexico's Power Sector

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Overview

- **Mexico's manufacturing bottlenecks are among the issues holding back investment in the country.**
- **According to the IMF's Article IV consultation last November, close to 20% of firms' sales are absorbed by security costs (about 60% prevention and 40% incident costs). According to Banxico's report on regional economies, companies in the country cite security, power scarcity, and water scarcity as their major obstacles. On the power front, spare power generation capacity sits almost at a 40-year low.**
- **Despite the rising risks of power shortages, the government reversed a constitutional reform of the sector which opened avenues for private sector participation at the end of 2024.**
- **Following a large spike in the 2024 fiscal deficit, the government's financial fire power has become limited, which suggests private participation in the sector will be necessary. At this stage it appears that a combination of structures, including build–operate–transfer PPPS—similar to the old PIDIREGAS used by Mexico in the late 1990s to early 2000s—will be in the cards.**
- **PPPs, alongside self-generation at industrial parks, could be among the early bright spots for investment in Mexico (although PPPs will take time to get rolling).**

Mexico Only Partially Tapped into the Nearshoring Story, in Part Due to Power Scarcity

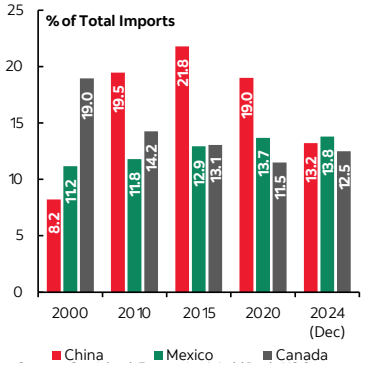
Mexico's opportunities in the global economy's regionalization are no secret. The country sits across the border from the US$29 trillion U.S. economy, which is embroiled in an escalating trade war with China. In that environment, Mexico can chip away at the Asian giant's share of U.S. manufactured goods demands. However, to fully reap the benefits of this opportunity, Mexico must be able to tackle ever-growing input constraints and bottlenecks. We believe the four major bottlenecks or challenges for Mexico to accelerate its growth and investment are:

- **Security:** according to the IMF's last Article Consultation on Mexico, close to 20% of the sales of companies in Mexico are "eaten up" by security costs. The country's imperfect judicial system also plays a role on the relatively high cost of capital.
- **Power:** spare power generation capacity in Mexico currently sits near a 40-year low level, with about 55% of the country's power needed to operate the manufacturing sector.
- **Water:** according to the national water regulator (CONAGUA), about a third to a half of the country currently faces water scarcity risk, but more favorable weather conditions have helped alleviate the problem, which was materially worse last year.
- **Human capital:** although Mexico produces world-class engineers, and many of them (8th most globally), the country scores poorly in PISA tables, and human capital levels are quite uneven. With tight labor markets, skilled labor in Mexico is scarce.

Of those bottlenecks, we would argue that the one most likely to get near-term relief is power. Security and education are solved with multi-year/decade institution building. Water has now partly been solved with benign weather, while the government has signaled some plans to invest in the sector. The power sector struggled for the past few years due to huge uncertainty over its legal environment, but it is getting increased clarity, and there are signs that some openings for private sector roles are coming (more on this later and in the accompanying paper from our equity research team).

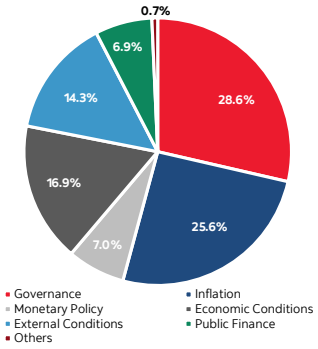
These bottlenecks have been a crucial challenge for reaping the benefits of the "nearshoring opportunity" and are among the major reasons why more of the opportunity has not materialized. Back in 2000, China represented 4% of the global GDP, but its entry into the WTO at that time triggered a "growth miracle" that saw it reach a peak of 18% of the global GDP around 10 years ago. During that time, China also went from accounting for 8% of U.S. imports, to a peak of 22% in 2015. The rise of Trump in the U.S. primaries and subsequent first presidency triggered a reversal of this U.S.–China integration, driving a decline in the Asian giant's share of U.S. imports, which has nearly halved in the past decade. Interestingly, China still accounts for around 17% of the global GDP, despite its disintegration from the U.S. economy. Mexico's share of U.S. imports has remained mostly flat, despite China losing about 40% of its pre-Trump 1.0 share in U.S. imports (Exhibits 1 and 2).

Exhibit 1 – U.S. Imports from Top Trade Partners



Source: Scotiabank Economics; World Bank; U.S. Census Bureau.

Exhibit 2 – Company's Major Sources of Concern Over the Outlook for the Coming Six Months

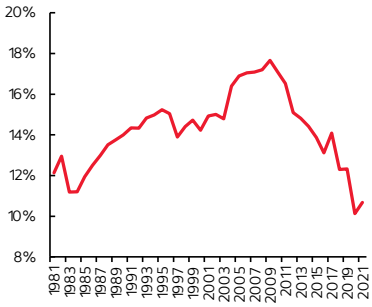


Source: Scotiabank Economics; Banxico.

Challenges and Opportunities in Power for the New Government

Mexico faces important challenges in energy security, with the country's power generation having the lowest spare capacity we have seen in close to four decades. This lag in power generation investment is largely attributed to the ambiguity of the country's legal framework, and uncertainty over rules of the game following the unsuccessful reversal of the 2013 Constitutional Reforms. In 2013, the Mexican government approved an ambitious reform that opened the energy sector to private investment, setting up autonomous regulators. In 2018, when Lopez Obrador took over, he sought to reverse the constitutional changes but failed to secure a constitutional majority for the reversal, hence only changing the corresponding laws, but failed to amend the constitution, which in turn led to contradictions and ambiguities on the sector's legal framework (Exhibits 3 and 4).

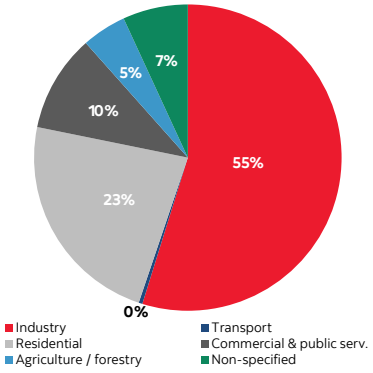
Exhibit 3 – Spare Capacity in Mexico's Electricity Generation



Difference between generation capacity-consumption, expressed as % of generation capacity.

Source: Scotiabank Economics.

Exhibit 4 – Sectoral Composition of Mexico's Power Demand



Source: Scotiabank Economics; EIA.

Following last summer's elections, and President Sheinbaum achieving the constitutional majorities to formally reverse the 2013 reforms, there will be more clarity on the legal framework—and some challenges. Although reversing the reform means the country now has less flexibility for allowing private sector participation in the power sector (at this stage, it appears that private participation will be limited to public–private partnerships (PPPs) and self-generation), having clarity on the framework will be an upgrade over the "limbo" of previous years. It's worth bearing in mind that before the 2013 reform, private participation increased from near 0% in generation, to over 30% under the PIDIREGAS framework (build-operate-transfer PPPs). PPPs have been successful in Mexico's power sector in the past, even if they have tended to be a more expensive solution.

Although the details of the new administration's plans are still in the process of being developed/published, it appears likely that available options will include PPPs (we are assuming build-operate-transfer schemes will be prevalent). On this front, it's noteworthy that according to the IADB/IEU Infrascope, Mexico has increasingly lagged countries in the region for its attractiveness, and changes to the country's judicial framework resulting from last year's judicial reform will likely add to the uncertainty, at least until the reform is fully deployed and its impact evaluated.

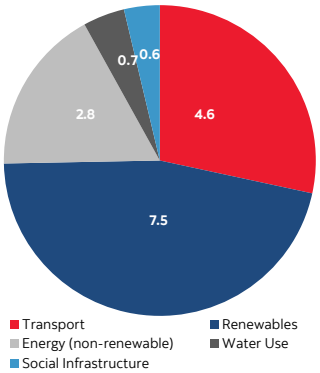
Risks and Opportunities for a Relaunch of PPPs

Although Mexico's fiscal position remains relatively robust, the 3 percentage points of GDP deficit blowout we saw in 2024 and the negative outlook to the country's credit ratings from Fitch both signal that fiscal consolidation will be necessary going forward. This in turn puts the government in a somewhat challenging position regarding the power sector, given they have imposed a constitutional reform, which means the government must control 54% of the country's power sector (some details on the measurement of this constraint remain unclear), and they now have fewer fiscal resources available. This in turn suggests attracting private capital will be important.

A combination of factors, including the risks outlined above, has led to a deterioration in Mexico's environment for PPPs, according to the EIU/IDB Infrascope ranking, and has left Mexico with a worst overall score than other key economies in the LatAm region (Chile, Peru, Colombia, Brazil, etc.). Mexico is also lagging key economies in Asia in its latest global ranking, and is 8th within LatAm in its latest regional one. The good news is loss of attractiveness can be compensated by paying a premium, and at the right price we assume global players will look at opportunities in Mexico (Exhibits 5 and 6).

Exhibit 5 – Mexico: PPPs by Sector

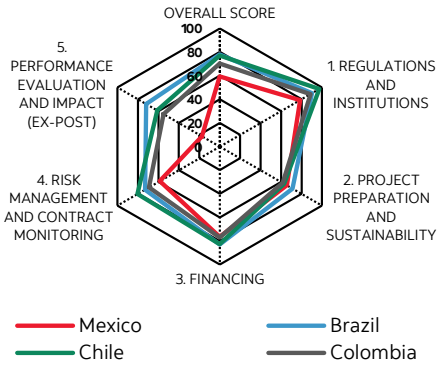
US$ in billions, (2014-2023)



Source: Scotiabank Economics; EIU/IDB Infrascope.

Exhibit 6 – Infrascope Ranking: Key LatAm Economies

2024, Index Score 100=Best



Source: Scotiabank Economics; EIU/IDB Infrascope.

Attracting private capital into Mexico currently faces some uncertainties, including:

- How the rollout of the country's judicial reform (which among several changes includes making judges elected by popular vote) will affect contract enforcement. According to the EIU/IDB Infrascope, Mexico ranks 56th among global EMs in the quality of business and investment climate (1 being best), and that was before the rollout of the judicial reform, which is expected to erode it further. This can be somewhat compensated by offering direct recourse to international arbitration (we assume CPTPP will be relied on, as USMCA has an expiry date in 2036, which would likely fall in the short end of a PPP's lifecycle).

- In addition, with fairly widespread influence of Mexican drug cartels along the country's territory, and the U.S. government designating them as Foreign Terrorist Organizations (FTOs), there is an ongoing debate on how this could affect the investment climate.

- On the positive side, there are three important sources of opportunity for a take-off of power sector PPPs in Mexico.

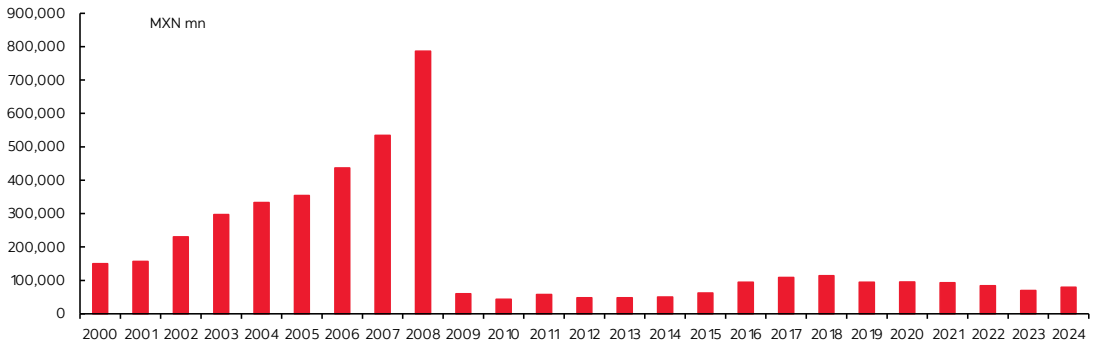
    1. Financing: Mexico scores well in the Infrascope rankings, and the rapid growth in local pension funds' AUMs will help further; contributions into workers' individual accounts will rise from 6.25% to 15% of workers' salaries, estimated to add about US$200 billion to local pension funds AUMs by 2030. Local pension funds have different structures through, which they could invest in power assets.

    2. Desperate need for power, alongside fiscal constraints, will likely mean flexibility by the government on PPP conditions. The government needs to cut spending or increase revenues by around 3 percentage points of GDP. This means it will likely need to be flexible in order to successfully attract private players. We expect this could mean contracts that include explicit recourse to international arbitration, and possibly also guarantees from the CFE or the government.

    3. Self-generation/self-supply frameworks have been revealed, and we anticipate some players in the industrial parks sector will be interested in getting involved in these mechanisms.

The bottom line is that the government does not need to reinvent the wheel. An undated framework similar to the PIDIREGAS, which worked well in the early 2000s, should be enough to attract increased private investment into the sector (Exhibit 7).

Exhibit 7 – PIDIREGAS Outstanding



Source: Scotiabank Economics; Mexican FinMin.

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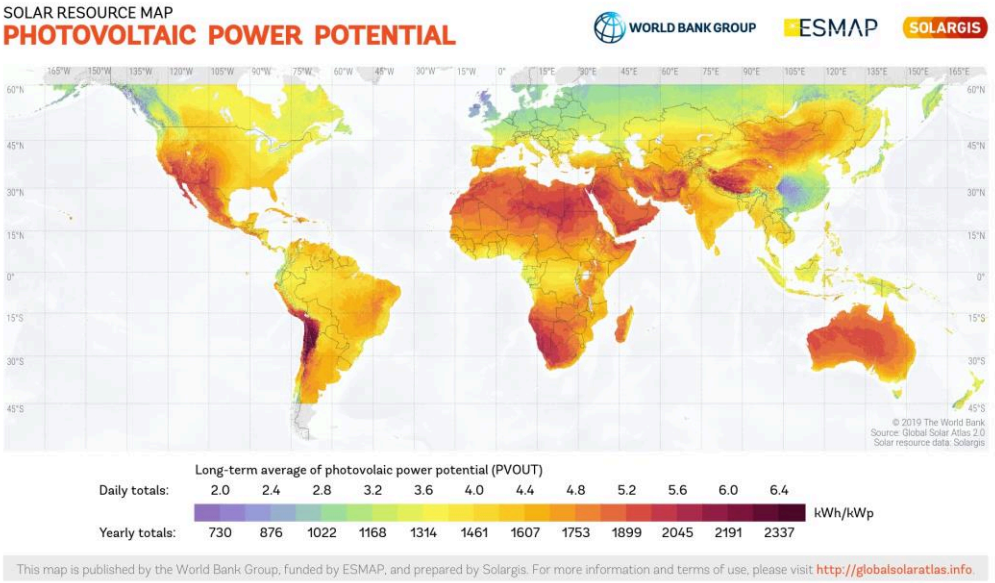
Hard Data from the Global Solar Atlas and Why the Country's Shortcomings Create Major Opportunities

Mexico ranks well globally on solar power potential. According to data from Solargis and the World Bank on global photovoltaic power potential by country, Mexico ranks in the top quartile for average practical potential of kWh/kWp/day.

Exhibit 8 – Mexico Is Among Those Priviledged Regions with a High Yield per Square Meter (kWh/sq m)

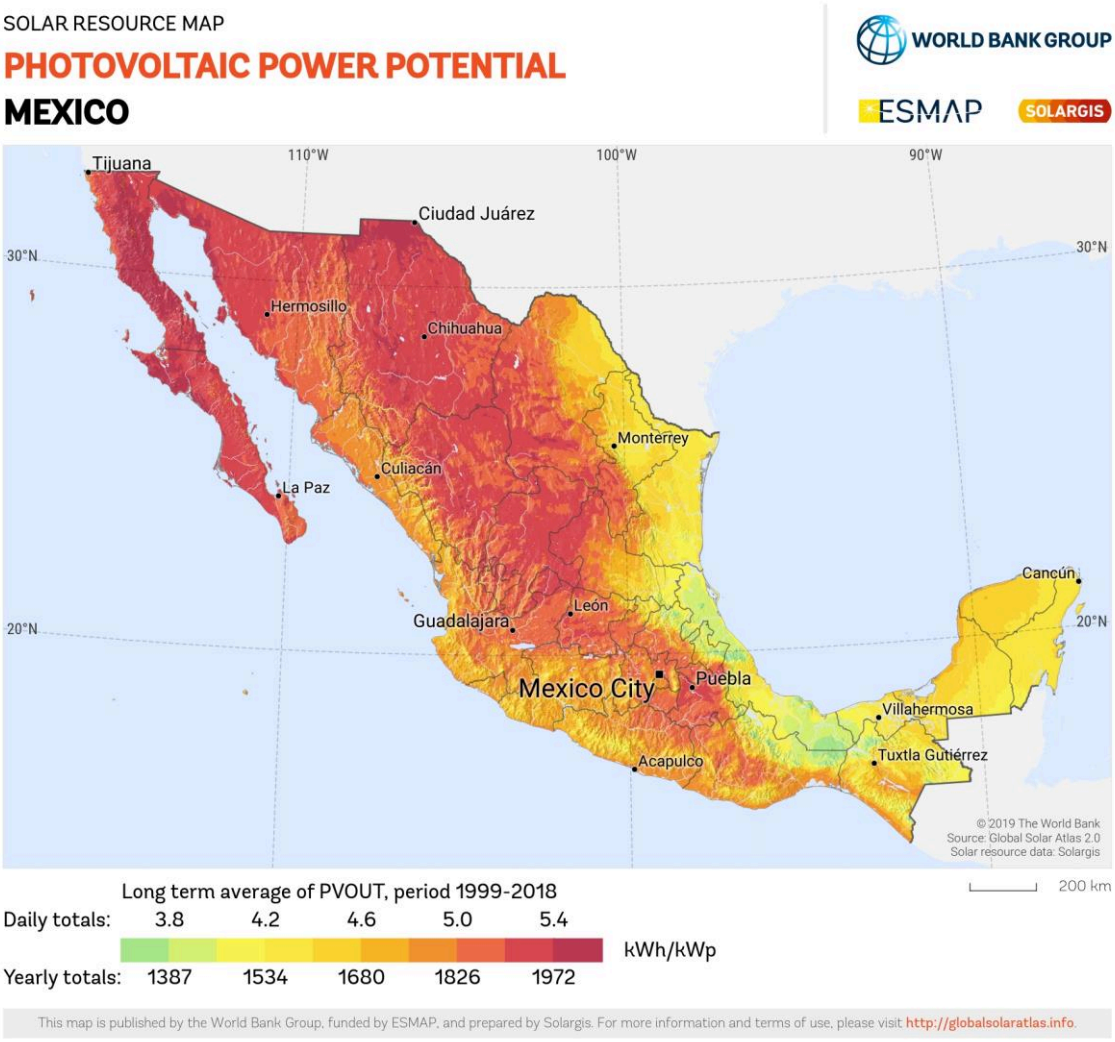


Map obtained from the "Global Solar Atlas 2.0," a free, web-based application developed and operated by Solargis s.r.o. on behalf of the World Bank Group, utilizing Solargis data, with funding provided by the Energy Sector Management Assistance Program (ESMAP). For additional information: https://globalsolaratlas.info

Source: Global Solar Atlas.

Within the country, the regions where industrial clusters are concentrated rank even better. Among regions with top potential, we highlight the industrial real estate markets of Ciudad Juárez and Tijuana, which combined account for ~14% of Class A industrial property tracked by CBRE. Next in line, we highlight the Bajío region, which accounts for ~26% of the GLA tracked by CBRE and is similar to the Saltillo market (~7% of GLA tracked by CBRE), followed by Mexico's biggest cities in this order: Guadalajara, Mexico City, and Monterrey at ~7%, 17%, and 22% of the GLA tracked by CBRE, respectively.

Exhibit 9 – Most Relevant Industrial Clusters Are Located in Regions with Very High Yields

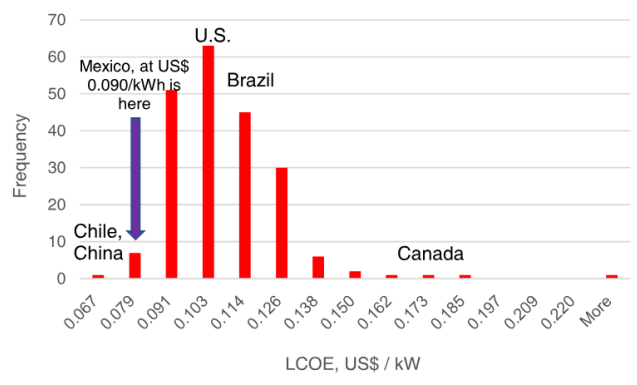


Map obtained from the "Global Solar Atlas 2.0," a free, web-based application developed and operated by Solargis s.r.o. on behalf of the World Bank Group, utilizing Solargis data, with funding provided by the Energy Sector Management Assistance Program (ESMAP). For additional information: https://globalsolaratlas.info

Source: Global Solar Atlas.

The greater the solar power potential, the better the economics of allocating capital to deploy solar technologies. According to the aforementioned data, Mexico ranks at the upper end of the 96th percentile of the levelized cost of electricity (LCOE) (US$/kW), which correlates to yields of kWh/sm per day and the ratio between kWh and kWp per day.

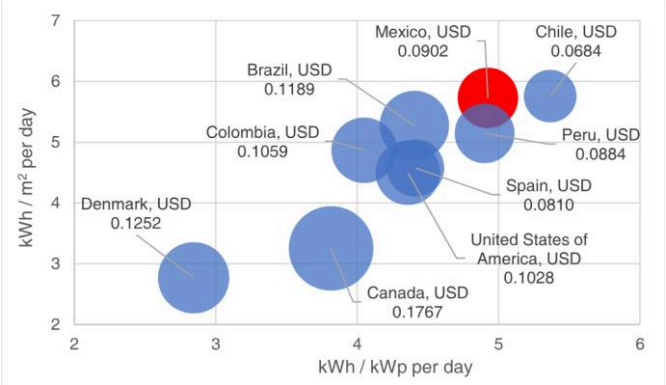
Exhibit 10 – Ranking the Country's Competitiveness of Solar Power Generation: By Deploying More Solar in Mexico, North America Can Compete Better



Map obtained from the "Global Solar Atlas 2.0," a free, web-based application developed and operated by Solargis s.r.o. on behalf of the World Bank Group, utilizing Solargis data, with funding provided by the Energy Sector Management Assistance Program (ESMAP). For additional information: https://globalsolaratlas.info

Source: Global Solar Atlas.

Exhibit 11 – Higher Yields Correlate with High Economic Potential (Bubble Size = LCOE in US$/kWh)



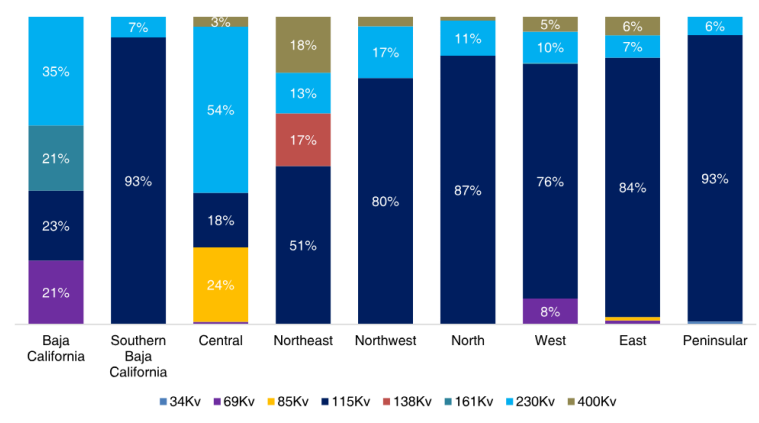
Map obtained from the "Global Solar Atlas 2.0," a free, web-based application developed and operated by Solargis s.r.o. on behalf of the World Bank Group, utilizing Solargis data, with funding provided by the Energy Sector Management Assistance Program (ESMAP). For additional information: https://globalsolaratlas.info

Source: Global Solar Atlas; Scotiabank GBM.

Limited investments in the grid create major opportunities for solar (see the following section for more details). Mexico suffers from two major problems: it has been operating at its lowest spare capacity generation over the past 30 years, and it has invested little in transmission lines, which can otherwise minimize losses and connect different regions, resulting in major differences regionally between power-generation supply and demand. This shortcoming is a big opportunity for deploying solar power, particularly where grid transmission nodes are saturated.

Exhibit 12 – Mexico's Stretched Transmission Network Is Focused on Low-Distance Transmission (115 kV) and Lacks a Long-Distance Transmission Network (=>400 kV)

Voltage Level per Regional Control Center (kV)

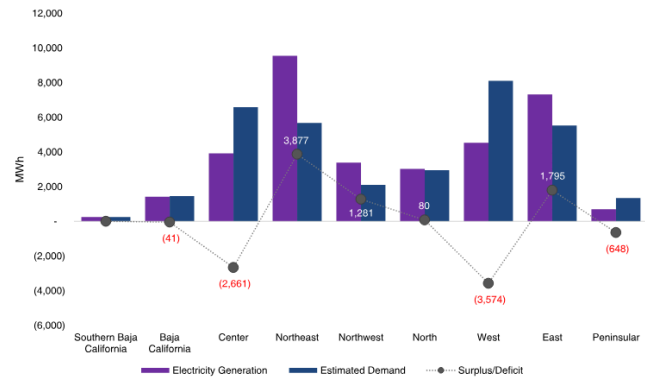


Source: Energy and Climate Change, CONAHCYT; Scotiabank GBM.

Differences between demand and supply disrupt operations and increase costs for original equipment manufacturers (OEMs) and energy-intensive activities. In our conversations with representatives of major OEMs and large users of energy, we have heard complaints of weekly disruptions to operations due to supply-and-demand imbalances. Geographically, Mexico's two peninsulas are isolated from any grid that could help overcome such differences. But even in places that are not impacted by such geographical challenges, we see major differences; these are related to inadequate investments in transmission lines.

Exhibit 13 – Central and Northern Regions Hold Most of Mexico's Industrial Production

2022 to 2024 Average Energy Balance Among Regions in Mexico



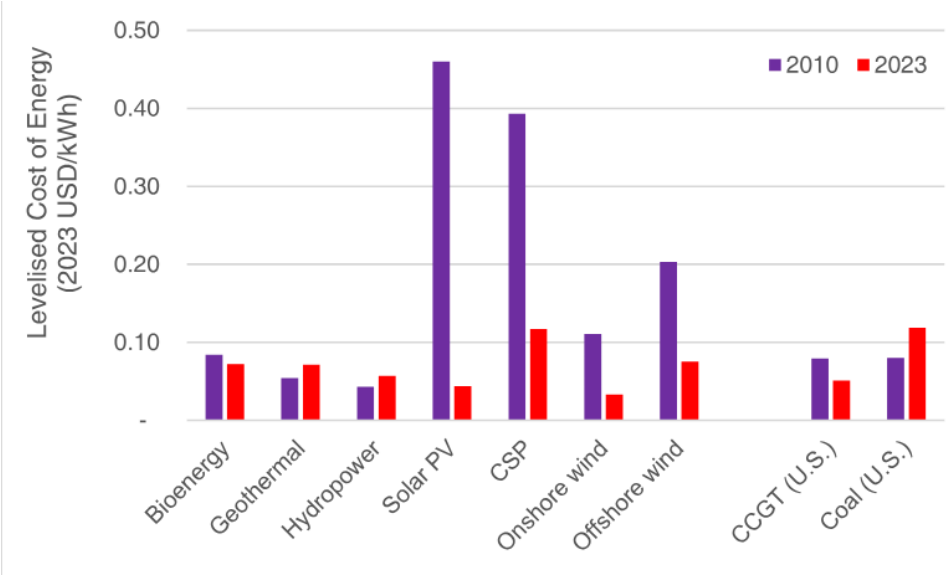
Source: Ministry of Energy, CENACE; Scotiabank GBM.

Positive Global Trends from Adding More Renewables to Power Grids; Bottom Line: Investing in Grids Is Key

Hard data tells it all: costs for renewables keep falling globally. Data from two publications from the International Renewable Energy Agency (IRENA), (1) *Renewable Power Generation Costs in 2023* and (2) *Renewable Capacity Statistics 2024*, show how competitive it is to invest in renewable energy.

Exhibit 14 – Renewable Power Remains Cost-Competitive vis-à-vis Fossil Fuels

Comparing the Levelized Cost of Electricity Between 2010 and 2023

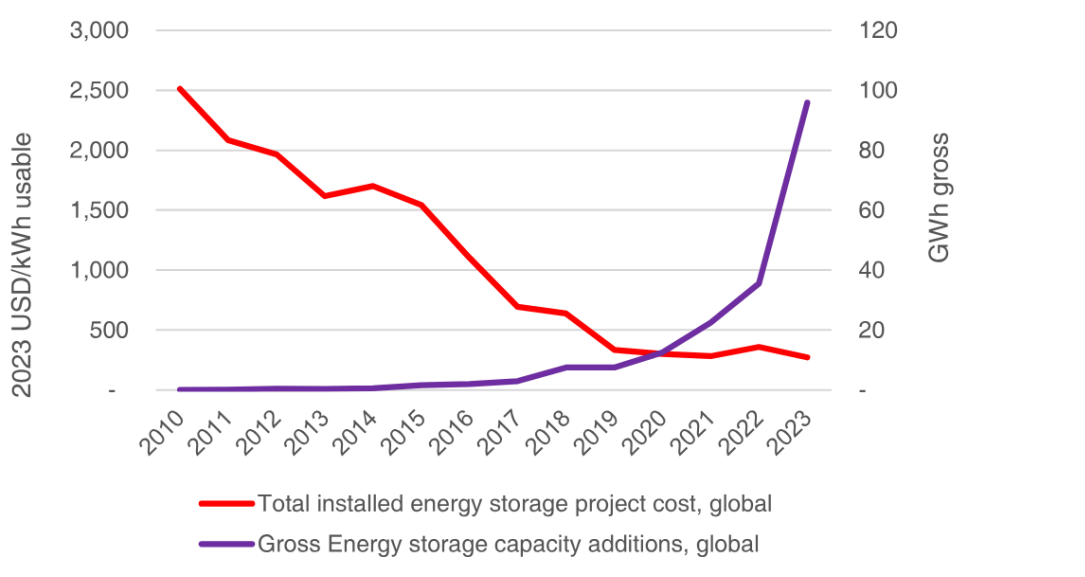


CCGT = combined cycle gas turbine.

Source: © IRENA (2024), "Renewable power generation costs in 2023," International Renewable Energy Agency, Abu Dhabi, https://www.irena.org/Publications/2024/Sep/Renewable-Power-Generation-Costs-in-2023; Scotiabank GBM.

A major decline in industry-scale storage costs (provided that Mexico starts to invest in its grids) may also help reduce system strain. Investing in grids is crucial for the energy transition, and the challenge to invest in them worldwide is huge. According to the International Energy Agency (IEA), "the world must add or replace 80 million km of grids by 2040, equal to all grids globally today, to meet national climate targets and support energy security." The problem we see in Mexico is that, even under the older rules, transmission and distribution of energy was a state monopoly, yet investments in the grid were very limited over the past six years. According to data from the CFE, from 2019 to 2024, investments made in transmission lines, substations, and transformation capacity (MVA) increased capacity by ~3%, 6%, and 2%, respectively, over 2018 figures. As a result, differences between demand and supply across regions varied significantly, resulting in major differences in the cost of energy as well. Mexico's two peninsulas suffered the most due to their geographical realities (the border city of Tijuana, which has an important cluster of industrial real estate just next to California comes to mind). But cities in regions that, in theory, should be less affected, have also suffered; perhaps the best examples that connect to major industrial real estate clusters are the cities of Querétaro in the Bajío region and the border city of Ciudad Juárez, which borders the U.S. states of New Mexico and Texas). It's encouraging that Mexico's President, Claudia Sheinbaum, specifically addressed plans to strengthen the transmission grids in the City of Querétaro when she presented her 2025-2030 plan to strengthen the country's power system.

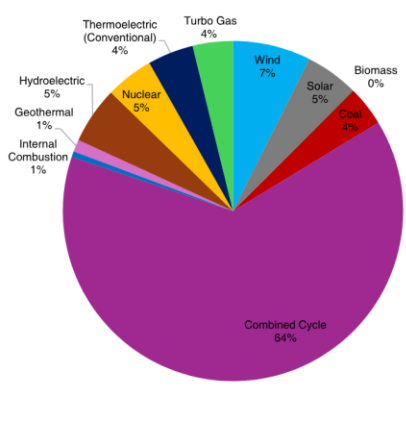
Exhibit 15 – Industry-Scale Additions of Storage Capacity Increased with Falling Costs



Source: © IRENA (2024), "Renewable power generation costs in 2023," International Renewable Energy Agency, Abu Dhabi, https://www.irena.org/Publications/2024/Sep/Renewable-Power-Generation-Costs-in-2023; Scotiabank GBM.

Exhibit 16 – Wind and Solar Account for Only ~12% of Mexico's Power Generation

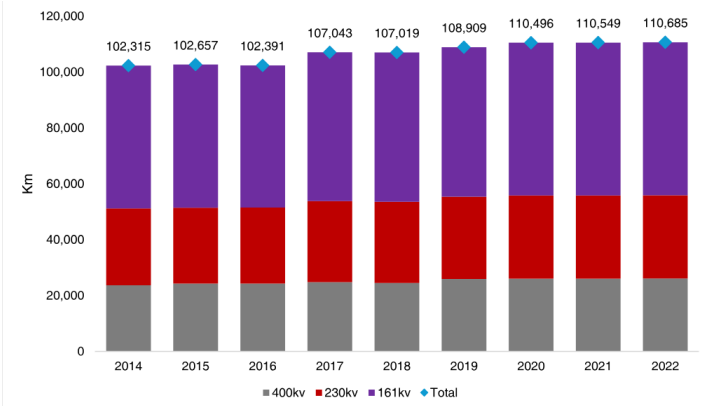
Mexico's Power Generation Breakdown by Technology



Source: Market Information System, CENACE; Scotiabank GBM.

Exhibit 17 – Mexico's Stretched Grid: Growing at a CAGR of Only 0.85% (2018-2022)

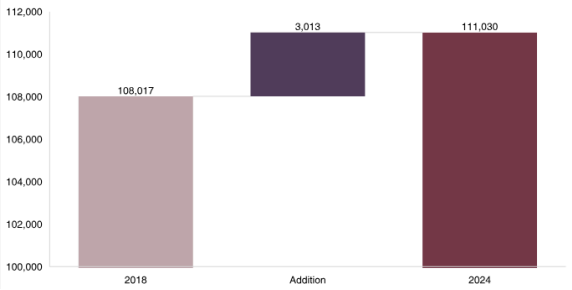
National Transmission Network (RNT) in km



Source: CONAHCYT; Scotiabank GBM.

Exhibit 18 – In 2019-2024, Only ~3,000 km of Transmission Lines Were Added…

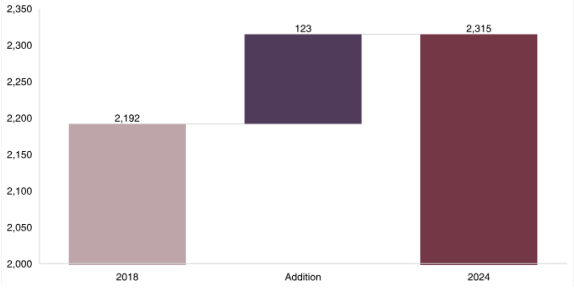
Transmission Lines in Mexico (km)



Source: CFE Transmission; Scotiabank GBM.

Exhibit 19 – … And Only ~120 New Substations Were Added to the System…

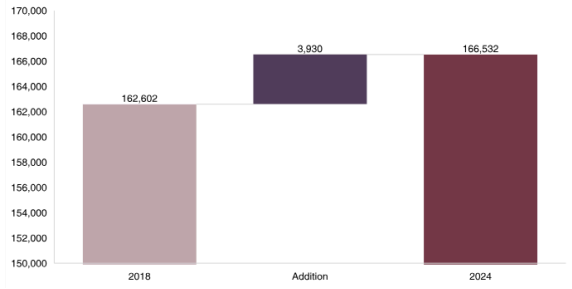
Number of Substations



Source: CFE Transmission; Scotiabank GBM.

Exhibit 20 – … When Combined, the System's Capacity Grew Only by ~3,900 MVA

Transformation Capacity (MVA)



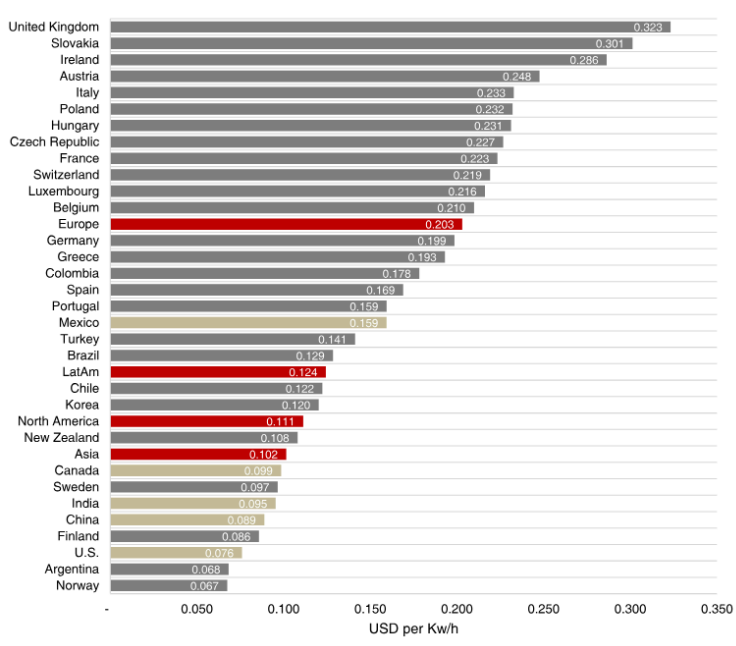
Source: CFE Transmission; Scotiabank GBM.

Exhibit 21 – Mexico's Northeastern Region Has Limited High-Voltage Electricity Transmission Lines

National Transmission Network

Source: CONAHCYT; Scotiabank GBM.

Exhibit 22 – Mexico Is a Manufacturing Powerhouse Despite Its Costly Electricity: Cutting Electricity Costs Can Improve North America's Competitiveness vis-à-vis China's Industrial Cost of Electricity Ex-Tax (US$ per Kw/h)



Prices as of 2023, adjusted by 2023 year-end exchange rate on for each currency to USD.

Source: GOV.UK; EIA; NDRC, CEA India; MME Brazil, ENRE Argentina; CNE Chile; CREG Colombia; © IRENA (2024), "Renewable power generation costs in 2023," International Renewable Energy Agency, Abu Dhabi, https://www.irena.org/Publications/2024/Sep/Renewable-Power-Generation-Costs-in-2023; Scotiabank GBM.

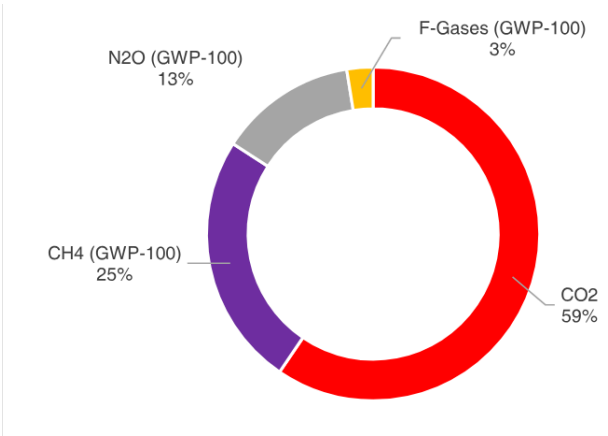
A Friendlier Administration to Renewable Energy and Private Investment in Energy; Will the New Rules Be Solid Enough to Unlock Investments?

Our take: the new secondary laws recently approved by the Senate, amid controversial constitutional reforms, might pave the way for private investments in energy generation and advance Mexico's stalled energy transition. We are not legal experts, and the devil is in the details. Although, on the surface, some recent reforms appear to reflect nationalistic or a populist rhetoric, after careful reading, we see emerging opportunities. The Mexican Institute for Competitiveness (IMCO, Instituto Mexicano para la Competitividad in Spanish, a think tank) has written extensively on these subjects. For instance, IMCO has explored the idea that government-owned utility company CFE should have a 54% market participation based not on who generates the power but on who delivers it. In other words, a private participant under a long-term contract can deliver the power to the CFE, and, in turn, the CFE can deliver that energy to the grid. It is worth noting that the new regulation on dispatches of energy to the grid restores the importance of the cost of energy as a factor in ranking priority to dispatch power to the grid, a key element that facilitates the phase-out of inefficient (and GHG-intensive) power generation. In addition, the regulation uses the concept of "non-profit" to guide what the CFE can do: after careful reading of what constitutes "a profit," a broad array of costs must be covered to arrive at a profit, well beyond the items typically found in a P&L statement. Specifically, under a "zero-profit" mandate, the proposal defines excess economic return (or profit) as the excess returns after covering operating costs and guarantees enough proceeds for investments, capacity expansions, and infrastructure modernization, and addresses energy justice. In other words, the definition not only requires the CFE to generate enough money to cover such items but also creates incentives to make the CFE more efficient and to phase out legacy assets. The framework recently set by the Senate on the wholesale market its regulator is key to reducing potential legal uncertainty following several Constitutional reforms approved since September 2024, enabling private sector investments in the system. If the secondary laws are not strong enough, the private sector could either demand risk premiums or, worse, not invest at all.

On the back of policies set by the past administration, Climate Action Tracker (CAT) ranked the country's policies as at November 2022 as "Critically Insufficient." The power industry is Mexico's biggest contributor to GHG emissions. In its updated National Determined Contribution (NDC), in November 2022, CAT designated Mexico's policies as consistent with a temperature overshoot higher than 4.0°C—well above the Paris Agreement. Other countries rated by CAT are Russia, Argentina, Vietnam, and Iran. According to CAT, "Mexico's climate policies continue to go backwards, as fossil fuel use is prioritised and climate-related policies and institutions dismantled. Mexico's updated 2030 target (NDC), submitted in November 2022 results in higher emission levels than the targets from 2016, breaching both agreements under the Paris Agreement and Mexican Law – where governments committed to improve their targets over time." On policies related to energy transition, we think that Mexico lost six years in this opportunity: in January 2019, renewable energy auctions were suspended and the rules of the game to gain access to the grid changed (rather than ranking both cost and cleanliness of the energy source, state-owned facilities were ranked first).

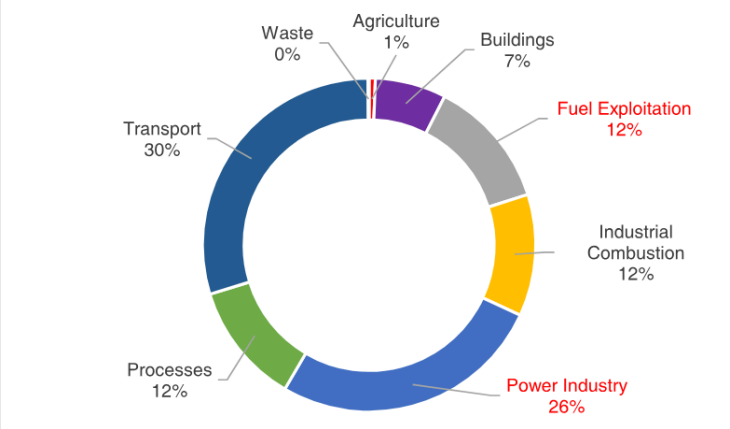
However, we expect an improvement in CAT's rating on the back of policies set by the new administration, which aim to substantially improve the country's NDC. The new administration has already stated that a new NDC will include a net-zero target and other important considerations missed in its previous NDC, such as addressing black carbon. The quality of the new NDC will likely improve as well, with less reliance on emission sinks. Actions speak louder than words (i.e., ambitions and pledges), and they begin with new secondary laws to define the role of private investment in the power sector.

Exhibit 23 – Mexico's GHG Emissions Breakdown (2022)



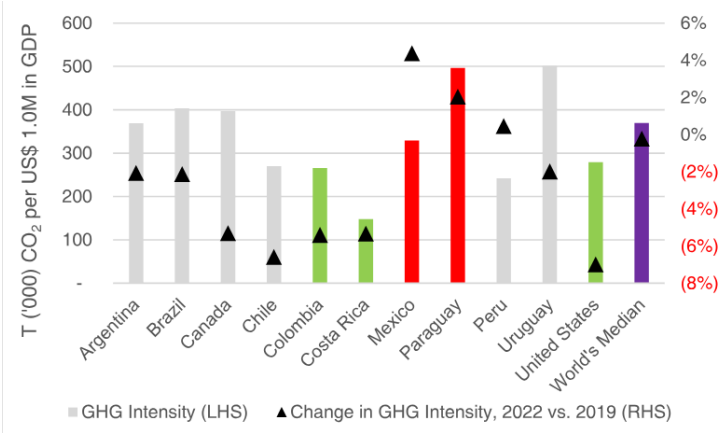
Source: Crippa M., et al., "GHG Emissions of All World Countries," European Commission, 2023; Scotiabank GBM.

Exhibit 24 – Mexico's Power Industry Accounts for 26% of CO2 Emissions (And ~18% on all GHG Emissions)



Source: Crippa M., et al., "GHG Emissions of All World Countries," European Commission, 2023; Scotiabank GBM.

Exhibit 25 - GHG Intensity on GDP vs. Pre-Pandemic Levels



Source: Crippa M., et al., "GHG Emissions of All World Countries," European Commission, 2023; Scotiabank GBM.

The way we see it, the solution to improve energy security and advance in the energy transition (e.g., decouple GDP growth from GHG emissions) increased investment from the private sector. Wind and solar accounts for just ~12% of Mexico's power generation. In addition, nuclear, hydro, geothermal, and biomass account for ~11% of power generation. As mentioned, auctions in non-conventional renewable energy were canceled in January 2019. And many ongoing investments from past auctions weren't allowed to connect to the grid. Investments stopped. We think that with the right regulation, investments can return, and, with them, Mexico's energy security should improve. More efficient and cleaner energy should follow, improving the country's overall competitiveness.

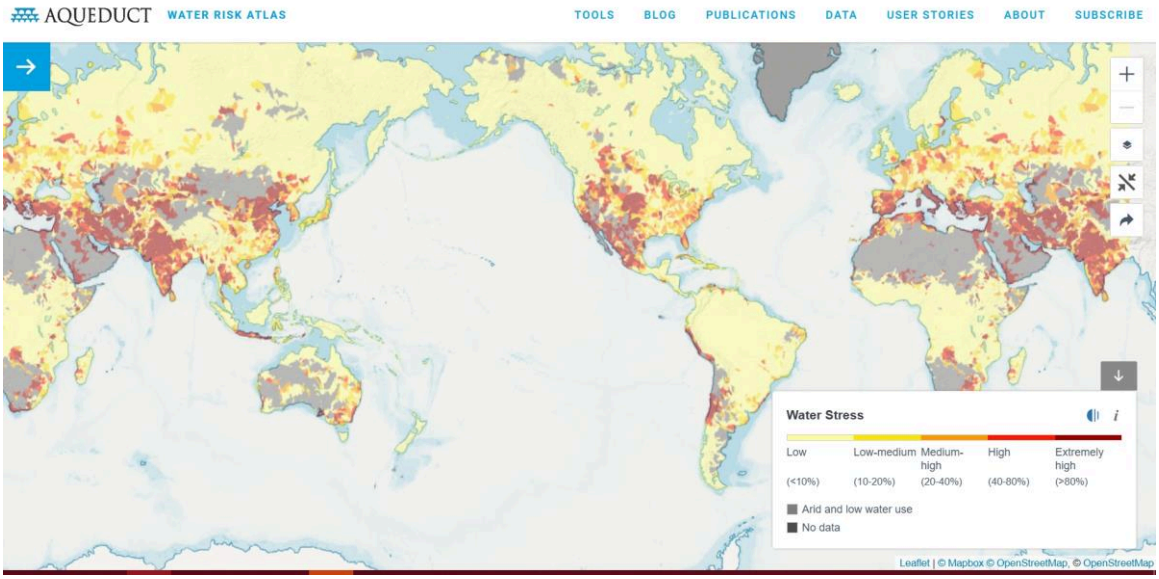
We calculate the carbon intensity of Mexico's power sector to estimate CO_2eq avoidance achieved when players use solar (or any other renewable energy). For downstream GHG emissions, it is about a tenant's use of a building. It is worth remembering that there are upstream GHG emissions realized in the buildings themselves. For details on the challenges of zero-ready buildings and the 89 companies we rank on ESG factors (from Canada, Mexico, and the United States), see Case Study 3: In Real Estate, Whose Carbon Is It Anyway? from our annual ESG report *Cutting Through the Noise of ESG: How Numbers (Not Rhetoric) Inform Narrative*. According to data from the Emissions Database for Global Atmospheric Research (EDGAR), Mexico's 2022 power industry GHG emissions (CO_2, N_2O, and CH_4) were ~130 Mt of CO_2eq. Depending on how nuclear energy is categorized (we think nuclear should be considered low carbon), we estimate that GHG intensity from Mexico's power grid ranges between ~444g per kWh (if nuclear is not considered renewable) and ~462g per kWh (if nuclear is considered renewable), using 2022 data. Given our bias toward nuclear energy, we use 462g per kWh per year to estimate CO_2 avoidance when using renewables rather than the grid. As a reference, Mexico's regulator (*Comisión Reguladora de Energía*) pegs carbon intensity in Mexico's grid at 435g per kWh for 2022. Given that the vast majority of industrial GLA is in regions where we see mostly thermal power plants, we think there is a major opportunity for industrial real estate players that favor sound decarbonization pathways to add renewables. In addition, the economic benefits of renewables make such efforts even more sustainable, in our view.

Water Stress in North America

Water stress is an indicator of potential value chain disruption when competition for fresh water increases among different alternative uses (and industries). According to the Aqueduct Water Risk Atlas tool from the World Resources Institute (WRI), baseline water stress "measures the ratio of total water demand to available renewable surface and groundwater supplies. Water demand includes domestic, industrial, irrigation, and livestock uses. Available renewable water supplies include the impact of upstream consumptive water users and large dams on downstream water availability." The way we see it, value chains can be easily disrupted in regions where water stress is greater: local and/or federal authorities could limit the use of fresh water in certain industries when ranking its use against, say, human consumption. Such actions could be short-lived, but, on the back of structural trends, regulations could be enacted in ways that permanently affect entire industries. We discuss how water stress can affect mining operations in our report *ESG Meets Reality: Water Scarcity Across Mining Operations in the Americas*. The importance of minerals in the energy transition underscores the need for a holistic solution.

Exhibit 26 – Globally, Mexico Ranks Poorly on Water Security, But Several Regions in North America Are at Risk

Water Stress (Baseline)

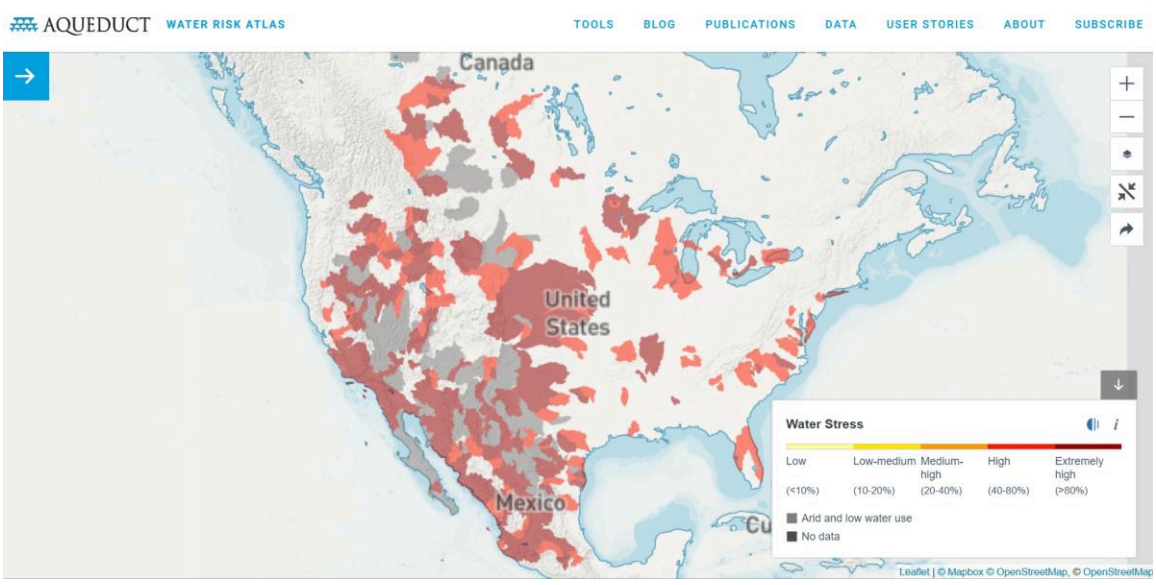


Source: Aqueduct Water Risk Atlas (Aqueduct 4.0), World Resources Institute.

Mexico ranks poorly on water stress, but risks across North American value chains can be high. In Mexico, regions where water stress is high correlate with the regions that contribute most to the country's GDP; the regions that benefit most from nearshoring also correlate positively with water stress. But taking a look at North America's key water basins, the risks don't stop on one side of the border. The Rio Grande and Colorado River originate in the state of Colorado, a region that is facing water stress, and is felt downstream in several U.S. states as well as along Mexico's northern border. Although in the past few years, climate-related events have improved conditions downstream, structural vulnerabilities persist. As value chain integration across North America increases, we see risk of disruptions and opportunity to invest in projects to improve water security in the entire region.

Exhibit 27 – North America's Key Water Basins

Water Stress

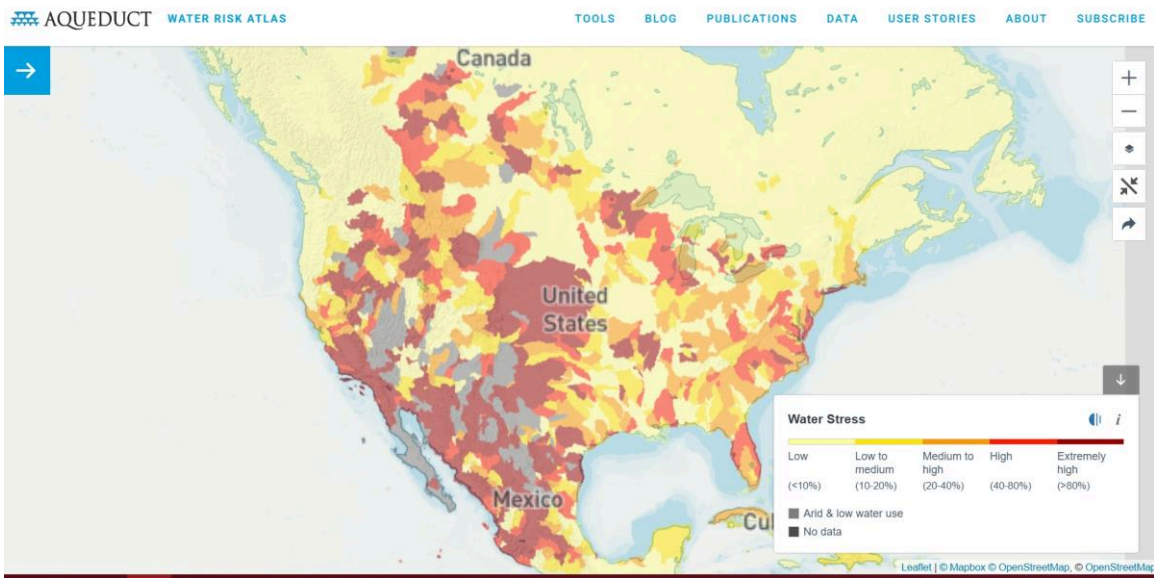


Source: Aqueduct Water Risk Atlas (Aqueduct 4.0), World Resources Institute.

Current water stress conditions are challenging and will likely get worse in the near future. WRI's Aqueduct World Atlas 4.0 enables us to project conditions for 2030, 2050, and 2080 on the following variables: water stress, seasonal (water) variability, water supply, water demand, interannual (water) variability, and water depletion. These variables, in turn, can be analyzed under three scenarios: "optimistic," "pessimistic," and "business as usual." Under a changing climate and growing population, these factors on their own will make water stress worse versus current conditions unless investments are made to mitigate these trends.

Exhibit 28 – Water Stress in 2030 in North America Is Getting Worse

Water Stress Under a Business-as-Usual Scenario



Source: Aqueduct Water Risk Atlas (Aqueduct 4.0), World Resources Institute.

Approximately 76% of water withdrawals in Mexico come from the agriculture industry, and thermal power plants' share is similar to the industrial sector's (~5%). The current administration is focused on improving water security. In the recent past, when industrial activity restrictions were experienced on the back of major droughts that affected, in particular, the country's northeast regions, regulators opted to limit business activity across several industries. The problem is that the industries were not the major source of water withdrawals. In fact, according to Mexico's Comisión Nacional del Agua (CONAGUA), Mexico's industrial sector and the country's (thermal) power industry have similar levels (~5%) of water withdrawals. This means that if Mexico can use fewer thermal power plants, that alone could reduce water stress. However, the low-hanging fruit is Mexico's agriculture industry. Interestingly, according to Mexico's Instituto Nacional de Estadística y Geografía (INEGI), ~74% of the area used for agriculture depends on rainwater, while the rest has irrigation infrastructure. The use of the latest forms of water irrigation technologies is also limited. The current administration has acknowledged these challenges and, for 2025, seeks to invest MXN 25 billion in 16 infrastructure projects. Specific goals for this investment include improving technologies in the agriculture sector. This administration also links sustainability-oriented metrics (social and environmental factors) with nearshoring goals.

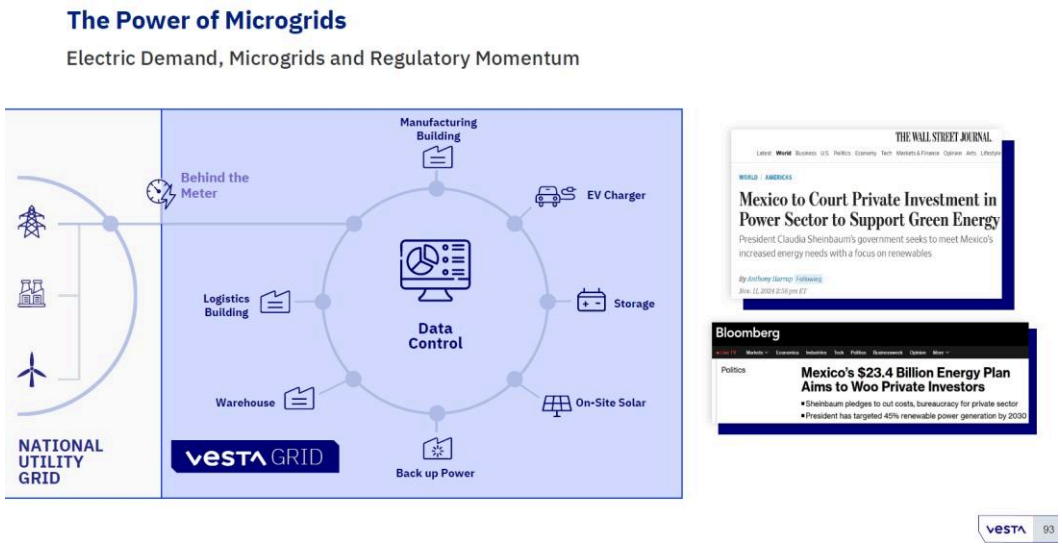
The Role of Microgrids in Self-Generation and How the Current Administration Considers Them in Its New Plans

Microgrids are explicitly considered in the projects ranging from 0.7 MW to 20 MW that will be fast-tracked under the new regulation. The idea of microgrids is that they will not disrupt the country's existing grids because, in addition to renewable energy (limited to 0.7 MW, up from 0.5 MW previously), the system will need back-up in the form of industry-scale storage and/or an additional power plant. Microgrids can be either isolated from the rest of the grid or connected.

VESTA's microgrids provide a holistic approach to increasing competitiveness and advancing on the net-zero journey while providing similar returns to its property development pipeline. During its November 2024 investor day, VESTA shared its vision on energy, and, specifically, microgrids. Currently, VESTA has 4 MW of on-site solar power in its portfolio, with a plan to increase to 50 MW through 25 operational microgrids (from nine currently) by 2030. The company views these efforts as being aligned with sustainable finance, and, as such, may also reap benefits in funding costs.

Industrial-scale power storage allows players to use stored kW when it is the most valuable while reducing strain on grids from intermittency. A kW from solar can be sold to the grid during the daytime, but its value will be lower than if it is stored and sold during the nighttime. With microgrids, if the cost of energy in the grid is higher at night, tenants could lower utility bills by using stored energy during the day. Regulators might be focused on how the intermittency of renewables and their impact on the grids can be minimized through the use of microgrids, but we see other economic angles that create a virtuous cycle whereby landlords can enhance their relationships with tenants and get better returns.

Exhibit 29 – VESTA's Microgrids



Source: VESTA company presentations.

Exhibit 30 – One of VESTA's Energy Solutions in the City of Monterrey

Source: VESTA company reports.

The Power We See in Power Generation

Industrial real estate has an advantage: these are horizontal projects by definition, and, in Mexico, multi-story buildings are rare. For this reason, GLA is a reliable figure to estimate how much an area can allocate to an array of solar power panels. In fact, it is a conservative approach because it implies that other common areas that are part of the property are excluded. To put a figure on this statement, the ratio of available area in current industrial real estate developments ranges between 2.00x and 2.38x of GLA under development, and we see a trend toward increasing this ratio.

We estimate potential for ~10,900 GWh in solar power generation annually in industrial real estate markets, avoiding ~14 Mt of CO_2eq.

What Is Behind Our Estimate?

We start by defining how much of Mexico's industrial real estate GLA might be suitable for a big solar project. We assume that of the ~740M sf in total industrial GLA on markets tracked by CBRE, ~40% of that GLA is in stand-alone buildings with limitations prohibiting the addition of a big solar project. We further assume that, on average, four buildings owned by a single player may exist in an industrial park. Based on these assumptions, we estimate that ~111 parks may be suitable for big solar projects.

What is the area needed to reach 0.7 MWp in solar? And how much power can be generated per year? Using data from Global Solar Atlas, overall yearly capacity factors in Mexico (kWh/kWp) range between ~1,400 and ~2,000, with a median of ~1,800, and the percentile 25% at ~1,700. Since we are not specialists, we erred on the side of caution by using the minimum (1,402). Climate events, such as more frequent (and intense) heat waves, can take a toll on solar. Due to Mexico's unique advantages in solar power deployment, this approach may prove too conservative. We used the Global Solar Atlas to explore some specific buildings in major cities in Mexico, which, although limited to areas closer to downtown than the typical industrial clusters, allowed us to see how conservative we might be. In general, our capacity factors could be ~20% more conservative than what Global Solar Atlas suggests. We also discussed this with some of the companies we cover; according to them, the area needed to deploy solar infrastructure to reach the 0.7 MWp limit under the new regulation ranges between ~75k sf and ~84k sf, less than the average GLA per building in our coverage of ~202k sf. With 111 projects, each reaching the maximum capacity allowed, we forecast yearly power generation of 10,890 GWh. Our coverage has a market share of ~35%, and we assume a linear relationship when calculating how much power our coverage can produce in a year using solar.

How much of a tenant's energy needs might be covered by deploying solar? It depends on energy intensity (kWh/sf per year). Using public information, accounting for only Scope 3 energy consumed by tenants, we estimate energy intensity from 10 kWh/sf up to 32 kWh/sf. FUNO doesn't disclose how much energy its industrial real estate tenants consume, but we think it is fair to assume that it might be similar to FIBRAPL's. Any building used for logistics has very low energy intensity, while within light manufacturing, processes in certain value chains, such as the auto industry, typically have high energy intensity. For our estimates, again erring on the side of caution (i.e., assuming the minimum level of solar potential), we assume energy intensity of 40 kWh/sf, higher than we forecast for our coverage because we assume buildings not owned by a listed company are less likely to have building certifications (e.g., EDGE, LEED), which have materially lower energy intensities. If this assumption is accurate, it results in energy needs of 29,593 GWh per year; thus, solar could potentially cover ~37% of tenants' power generation needs. Some of FUNO's industrial parks could have higher coverage rates, while coverage ratios could be lower in buildings with high energy intensity.

A note on rooftop (or nearby) industrial real estates solar deployments. Not all buildings, regardless of their size, may be suitable to allocate area to the maximum energy capacity under the new rules. In addition to basic limitations, such as the typical 2.5% of roof area required for natural light and the 7.0% area required for cooling systems and air ventilation, many roofs do not have the structural features needed to hold the weight of solar panel arrays. Other major considerations were pointed out to us in our conversations with the companies we cover. For example, the material on rooftops could be combustible or flammable, making them difficult to insure

and/or may put a tenant's operations at higher-than-average risk – see this article FUNO kindly shared with us, *Solar power is booming, but operators can be burned by new hazards,* from Allianz. In our coverage, the average GLA we forecast per building is ~202k sf, but investors should consider that a 1.0M sf building might need only between ~7.5% and 8.4% of its area to reach the energy capacity limit, if they limit the configuration to that specific building – we can't know for sure if a multi-tenant building can support more than one 0.7 MWp array. If not, then the regulation may be enhanced by increasing the threshold. Another reason there might be upside to our calculations is because we are considering only rooftop areas. As mentioned above, in new industrial real estate developments, we believe the GLA buildable area ranges between 42% and 50% of land plot GLA; in other words, if we assume that, on average, only ~39% of GLA might hold an array of solar panels, this figure drops to ~18% as a proportion of land. Thus, if a given building can't hold the entire capacity, other areas (such parking lots) may accommodate the rest.

Exhibit 31 – Our Estimate on How Much It Might Help to Add Solar to Mexico's Industrial Real Estate

GLA industrial Real Estate 2024, sf (M)	740
Assumption: Average size of buildings, sf	200,000
Assumption: Stand-alone buildings (% of GLA)	40%
GLA in parks	444
Assumption: Average number of buildings in a park	4
Number of parks	111
Assumption: Avg. Area needed of 0.7MWp, sf	79,674
Total area with a PV array, sf (M)	8.8
Total area with a PV array, % of GLA	1.2%
Total area with a PV array, % of land	0.6%
PV capacity MWp	77.7
Assumption: estimated capacity factor (kWh/kWp)	1,402
GWh per year	10,890
GWh per year (in our coverage)	3,812
Assumption: energy intensity (yearly kWh per sf)	40.00
GWh per year consumed by industrial real estate	29,593
As a % of Mexico's total power generation (2022)	8%
% of energy coverage with PV	37%
Assumption: CO_2eq intensity (g CO2 per kWh per year)	462
CO_2eq avoided per year, (Mt)	14
% of CO_2 avoided per year from the power industry	11%

Some companies, such as FUNO, that have a low presence of light manufacturing uses in their buildings are likely to have higher-than-average coverage of its tenant's energy needs through solar.

Source: CBRE; EDGAR, U.S. SEC; CENACE; U.S. GSA; company reports; Scotiabank GBM estimates.

Sources of Profitability That May Guide Capital Allocation: How Congested Node Transmission Grids May Represent Potential Utility Bill Savings for Tenants and Paybacks on Solar Investments

Solar is competitive compared with the average tariffs (and production costs) charged by the CFE, but differences vary materially across regions. Despite Mexico's advantage as a country with a very low solar LCOE, it has a relatively high cost of energy because of the CFE's less-efficient assets. But electricity costs vary a lot across regions and over the years because of grid-related problems. For these reasons, the payback for renewable energy investments can vary and can depend on how congested a grid transmission node might be. In the Yucatan Peninsula, overall yields (kWh/kWp) might not be as attractive as in other regions, but because of the region's high cost of energy, returns can be very attractive; the same is true of the city of Querétaro. A tenant might save up to 10% in regions that don't suffer much grid congestion, but the savings can be substantially higher in other regions and during certain times of the year. Landlords could deploy solar on their own, or they might partner with a dedicated player to keep capex (and risks) low. The immediate, direct benefits for a landlord to invest in solar power begins with an additional rental revenue stream on the areas where the solar array is located and/or a higher lease that covers the deployment of solar. The second-order effects include buildings that are cheaper to operate and decreased likelihood of energy disruption, resulting in higher demand and, as a result, better rents. NOI margins are likely to expand as well, and with that the value of the entire

building. Sustainable finance (the deployment of solar power with a green bond) may represent an additional benefit and help existent sustainability-linked bonds reach their targeted KPIs.

There are a number questions when it comes to structuring energy-related solutions with real estate players in Mexico. Although we are not legal experts, our conversations with real estate companies have helped us understand that any solution must consider many dimensions, which can increase transaction costs and potentially affect what might appear at first glance to be an attractive business case for adding solar power to industrial real estate buildings. One such consideration is how to appropriately structure a solution for a REIT, where the revenue stream must come from a lease to keep the tax advantages. Beyond the specific needs of a REIT compared with a C corp are questions such as how to become a Qualified User if the burden of the extra regulations is too great and/or what are the tax implications of crossing certain thresholds of installed capacity and how might that threshold be split within a single building or among many buildings. M&A activity could also have an impact. In any case, an energy supply contract should be under a PPA with the same term as the tenant's lease. Other things to consider are differences in energy intensity in the case of a multi-tenant building or the flexibility to allocate according to different energy needs within a single industrial park. Solar power and battery storage could help solve for varying power needs among different tenants. In our conversations with companies, we have learned about very different solutions, which suggests that real estate players may want to partner with dedicated players to enhance risk-adjusted returns.

Recent announcements from major global players, such as Nvidia-Foxconn and AWS, are examples of energy-intensive buildings that need affordable, reliable, and clean energy to become a reality; indeed, the digitalization of the economy means that energy intensity in industrial buildings will increase. AWS launched an Infrastructure Region in Mexico, with an investment of ~US$15 billion over 15 years. But the main destination for data center investment in Mexico is the city of Querétaro, which suffers from a lack of transmission investments. Also, Foxconn-Nvidia announced it would be building "the world's largest manufacturing facility for bundling Nvidia's GB200 superchips." Such announcements showcase the digitalization of the economy, and if Mexico wants to be part of that, it should start to invest in energy – and fast.

How Much Energy Is Consumed in Our Coverage, and How Much of Tenants' Needs Might Be Covered by Solar?

It's all about the tenant's energy use; energy used by the landlord and in common areas is a tiny fraction of what is used in any building. The tenant's use also determines energy intensity: a tenant with low automatization needs in a building used for logistics requires little energy compared with a building used in light manufacturing. Even within light manufacturing, we see a wide range of energy intensities. For example, the buildings used for some of Foxconn's manufacturing processes or for Magna International Inc.'s electric vehicle (EV) power train assembly lines have higher-than-average energy intensities.

The data challenge: within our coverage, disclosure of energy used by tenants has improved, but it varies across companies – this is a challenge globally. In our coverage, the disclosure of tenants' energy consumption ranges from 59% to 95% of GLA. This is a major improvement from 2020 levels. Major swings over short periods of time can occur due to material M&A activity: energy coverage on acquired portfolios may differ considerably. FMTY's coverage was low versus the year prior on the back of its acquisition of the sizeable Zeus portfolio. Despite FUNO being the only company with a validated SBT, with a very ambitious goal of reaching a 1.5°C temperature overshoot scenario, the company doesn't disclose its tenants' energy consumption. In addition, FUNO hasn't updated the percentage of the GLA it leases to its tenants with full data of energy consumption, something we refer to in our analysis as data coverage of energy consumption. The levels of reported coverage of tenants' energy consumption varies between TERRA and FIBRAPL. Last year, FIBRAPL gained control of ~90% of TERRA's equity. Because TERRA was a target, we haven't seen a sustainability report for TERRA covering 2023.

Below, we discuss how we calculate energy intensity and the differences we observe in our coverage (and why players such as FIBRAPL and FUNO, in particular, have an advantage). Simply put, given the limit imposed by the new regulations, the lower a building's energy intensity, the higher the proportion of a tenant's energy needs that can be covered by solar power. As explained above, energy intensity can vary considerably by company. Some companies' buildings are predominately used for light manufacturing (FIBRAMQ, FMTY, TERRA). VESTA's proportion of buildings used for logistics and e-commerce has increased materially, but its portfolio still has a slight light-manufacturing bias. FIBRAPL and FUNO have focused on logistics, but with the acquisition of TERRA the presence of light manufacturing has increased considerably, although FIBRAPL plans to divest from many non-core markets, where the proportion of buildings used for light manufacturing is high. This is consistent with the differences we show in energy intensity.

How do we calculate energy intensity? We use year-end GLA, multiply that figure by the occupancy rate, and multiply the resulting figure by the reported coverage of Scope 3 energy. This is not an exact metric: material changes in GLA and energy intensities can occur over the reporting year on the back of acquisitions/dispositions and/or property development affecting both the numerator and denominator.

What are the tangible benefits for real estate players? The benefits for tenants are equally important: it can increase demand for buildings using solar… and their values. Adding solar power can provide an additional revenue stream leasing rooftops (or other adjacent spaces in the land plot) when the investment comes from a third party. But it could also create a revenue stream from a PPA that has the same tenor as the lease signed by the tenant. For tenants, based on our conversations, utility bill savings can be as much as 14% in regions where there is no transmission nodes congestion but could easily double or more in certain regions, during the summer, or when there are grid disruptions. To arrive at a yearly figure, taking the energy intensity of 40 kWh/sf described above and the average industrial use electricity cost of US$0.159/kWh results in electricity costs of ~US$4.7 billion per year and savings as low as US$659 million per year, and slightly more than US$1.0 billion a year. Avoiding disruptions from power outages is another major factor valued by tenants. In addition, and particularly when tenants are part of the value chain of multinationals, adding solar aligns with pledges of value chain decarbonization. The addition of so-called green clauses explicitly allows leases to improve—investments that result in, say, a cut in GHG emissions or energy intensity. The trade-off between a higher lease and the savings on utility bills is usually positive for tenants. To sum up, cheaper-to-operate buildings are likely to experience more demand, resulting in higher rents that, in turn, increase NOI and valuations. Lastly, allocating capital for these investments lowers companies' funding costs from sustainability-linked bonds/loans. In our conversations, we hear of unlevered IRRs above the 12% mark,

while teaming up with a specialist may enhance risk-adjusted returns and/or keep capex at bay. So far, the most ambitious strategy has been rolled out by VESTA, because microgrids involve investments in batteries, adjacent grids, and other features such as smart metering.

For players with a logistics bias, coverage of tenants' energy needs may surpass the 50% mark without power storage capabilities; for buildings with higher energy intensities, storage capabilities should be considered. Players such as FUNO and FIBRAPL and their tenants stand to benefit more from adding solar due to their tenants' low energy intensity. However, there may be limitations in the form of a building's size or specific tenant needs for highly automized processes in a building used for logistics.

Exhibit 32 – Companies with Lower Energy Intensity (with a Focus on Logistics vis-à-vis Light Manufacturing) Are Likely to Benefit More

			FIBRAPL			
	FIBRAMQ	FMTY	FIBRAPL	TERRA*	VESTA	Total*
Scope 1, GJ		134,625			1,874	136,499
Scope 2, GJ	13,108			2,313	11,915	27,336
Scope 3, GJ	2,867,519	1,059,557	1,683,832	2,745,426	2,063,144	10,419,477
Scope 3, kWh	796,533,000	294,321,361	467,731,034	762,618,212	573,095,556	2,894,299,163
Year-End GLA, sf (M)	30.9	15.3	46.9	39.4	37.3	170
Year-End Occupancy (%)	98%	100%	100%	98%	93%	
Coverage (%)	84%	59%	95%	80%	92%	
Covered & occupied GLA, sf (M)	25.5	9.1	44.4	31.6	32.0	143
Energy Intensity (Scope 3), kW/sf	***31.23***	***32.39***	***10.53***	***24.10***	***17.90***	***20.29***

*FUNO is excluded because the company doesn't disclose its tenants' energy consumption. FIBRAPL controls ~90% of TERRA's equity, while TERRA's data is as at 2022. For FIBRAPL, we use Mexico's carbon emission factor in its grid and FIBRAPL's reported Scope 3 emissions to estimate its tenants' energy consumption.

Source: Company reports; Scotiabank GBM.

The Players in Mexico That Might Benefit from the New Regulations and/or Be Active in M&A

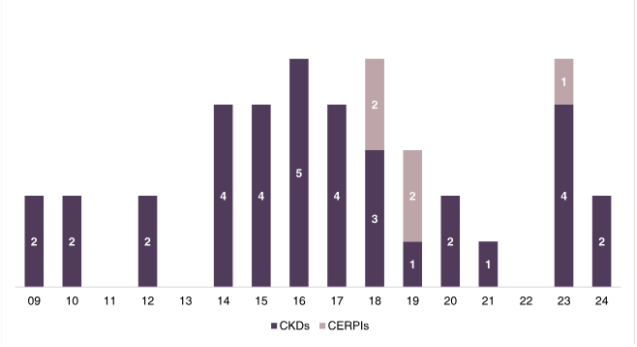
In Mexico, private equity has been an important source of funding for infrastructure investments, including energy-related projects. Private equity players have joined forces with institutional investors, including pension funds, and these investment vehicles have been listed on the local stock exchange. Created in 2008, these investment vehicles are the equivalent of investment trusts in the United States and are locally known as CKDs (*Certificados de Desarrollo*). More recently, a new investment was created, known as CERPIs (which allow institutional investors, such as Mexican pension funds, to invest abroad with international GPs). These investment vehicles are classified as alternative investments, and as at Q4/24, there are 368 such investment vehicles, of which, ~40 are fully dedicated to infrastructure and energy.

Back in 2014, after the constitutional reforms that allowed private investments in the energy sectors, many private equity players as well as infrastructure and energy fund managers were interested in developing public–private relationships, which led to the creation of 22 investment vehicles reaching a deployment of ~US$4.2 billion (~52% of the total committed equity).

Some private equity managers have successfully concluded their investment cycles and been able to create new vehicles. We highlight that (1) Mexico Infrastructure Partners (MIP), (2) Alom (previously known as CKD Infraestructura Mexico), (4) Riverstone, and (3) AINDA, combined, account for more than ~50% of total equity commitments.

Exhibit 33 – Issuance of Investment Trusts in Mexico Targeting Infrastructure Is Likely to Recover…

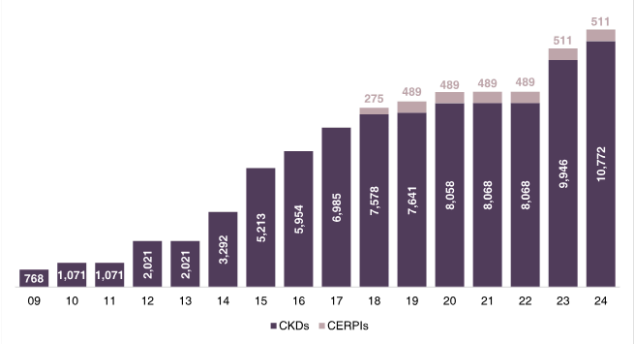
Listed Vehicles Focus on Infra & Energy Grouped by Vintage



Source: BMV; BIVA; Scotiabank GBM.

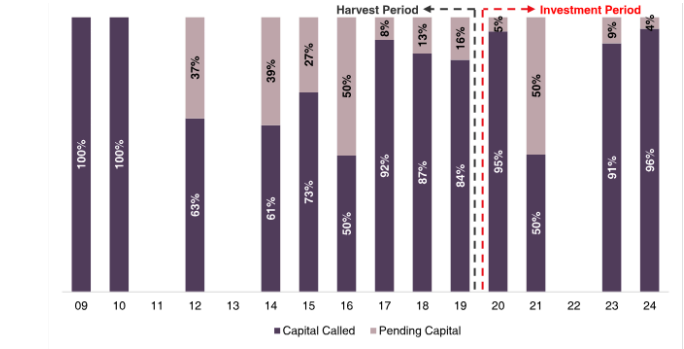
Exhibit 34 – … Along with the Capital Commitments to Infra and Energy Dedicated Vehicles That Stalled Since 2018…

Accumulated Total Committed Capital by CKDs & CERPIs (US$ millions)



Source: BMV; BIVA; Scotiabank GBM.

Exhibit 35 – … As Current Investment Vehicles Have Made Already Capital Calls for ~80% of Total Capital Commitments



Source: BMV; BIVA; Scotiabank GBM.

Exhibit 36 – Capital Recycling of Private Equity Players Is Key for the Industry to Grow: Perhaps the New Regulation Might Help

Infra & Energy Investment Vehicles by Manager

Manager	Sector	# Vehicles	Capital Called (US$ M)	% Called	Total Commitment (US$ M)	% of Total Commitments
Mexico Infrastructure Partners	Infra & Energy	10	$3,461	93%	$3,723	33.0%
Alom	Infra & Energy	5	$1,073	84%	$1,273	11.3%
Riverstone	Energy	2	$720	64%	$1,133	10.0%
BlackRock	Infra	3	$825	71%	$1,167	10.3%
Axis	Infra & Energy	3	$548	50%	$1,098	9.7%
GBM	Infra & Energy	2	$364	50%	$726	6.4%
RCO	Infra	1	$507	100%	$507	4.5%
Ainda	Infra & Energy	2	$247	98%	$251	2.2%
Thermion Energy	Energy	2	$228	99%	$232	2.1%
FCI	Infra	1	$163	96%	$169	1.5%
Macquarie	Infra & Energy	1	$261	100%	$261	2.3%
Artha	Energy	2	$194	100%	$194	1.7%
Mota-Engil	Infra	1	$104	68%	$153	1.4%
Actis	Infra & Energy	1	$142	94%	$151	1.3%
Beel Infraestructure	Infra & Energy	2	$76	73%	$104	0.9%
Marhnos	Infra	1	$81	100%	$81	0.7%
Balam	Energy	1	$37	100%	$37	0.3%
Osiyo	Energy	1	$15	68%	$22	0.2%
Total		**41**	**$9,049**	80%	**$11,282**	

Source: BMV; BMV; Scotiabank GBM.

How Many Energy-Related Projects Are Currently Operating? What Is the Pipeline of Future Energy-Related Projects?

Based on information from Proyectos Mexico (a database that provides information about infrastructure and energy projects as well as investment vehicles available in Mexico), there are ~350 infrastructure projects in operation (total invested amount: ~US$66.6 billion), taking into account water treatment/sewage, electricity, oil and gas, social infrastructure, real estate, tourism, telecom, and mobility; of these, only 66 (~19% of total operating projects, and a total invested amount of ~US$11.3 billion) focus on electricity generation, with installed capacity of ~12,500 MW (see Exhibit 37).

The aforementioned energy-related projects were presented during the 2014-2018 period and ~88% are related to renewable energy generation projects (solar and wind farms and hydroelectric plants) that were negatively impacted by changes to policies and regulation made by the previous administration. In our view, these projects might benefit from a potential policy shift that would make them more attractive to private-sector investment and from the administration's renewed pledges on Mexico's energy transition.

Mexico currently has a pipeline of 150 new projects that might be executed in the following years, ~40 of which relate to power generation and distribution, focusing on substations, wind and solar farms, transmission lines, and rectifier stations. According to available information, these projects have capacity to generate ~680 MW (solar and wind farms) and distribute ~310 MVA and ~460 kV (see Exhibit 37).

Exhibit 37 – If the Recent Changes to Regulations Provide Enough Certainty for Investors, the Development Pipeline of Energy-Related Projects Could Increase

New Projects - Electricity

Assets	Conventional/ Renewable Energy	# Projects	Expected Capex (US$ M)	Capacity MVA	Capacity MW	Capacity kV
Electrical Substation	Conventional energy	29	316	310	n.d.	460
Wind Farms	Renewable energy	5	696	n.d.	582	n.d.
Transmission Line	Conventional energy	4	300	n.d.	n.d.	n.d.
Solar Farm	Renewable energy	1	105	n.d.	103	n.d.
Rectifier Station	Conventional energy	1	82	n.d.	n.d.	n.d.
Total		**40**	**1,499**	**310**	**685**	**460**
	Conventional energy	*85%*	*47%*	*100%*	*0%*	*100%*
	Renewable energy	*15%*	*53%*	*0%*	*100%*	*0%*

Current Project Under Operation - Electricity

Assets	Conventional/ Renewable Energy	# Projects	Expected Capex (US$ M)	Capacity MVA	Capacity MW	Capacity kV
Solar Farm	Renewable energy	37	5,664	n.d.	4,813	n.d.
Wind Farm	Renewable energy	14	2,083	n.d.	2,000	n.d.
Combined Cycle Power Plant	Conventional energy	6	2,265	n.d.	4,300	n.d.
Hydroelectric Plant	Renewable energy	6	109	n.d.	68	n.d.
Gas Turbine Power Plant	Conventional energy	1	557	n.d.	768	n.d.
Cogeneration Power Plant	Conventional energy	1	351	n.d.	300	n.d.
Geothermal Field	Renewable energy	1	292	n.d.	252	n.d.
Total		**66**	**11,321**	**0**	**12,502**	**0**
	Conventional energy	*12%*	*28%*	*0%*	*43%*	*0%*
	Renewable energy	*88%*	*72%*	*0%*	*57%*	*0%*

Expected capex includes only projects that disclosed the estimated amount.

Source: Proyectos Mexico, Projects Hub (data retrieved February 10, 2025); Scotiabank GBM.

Pertinent Data

Fibra Macquarie (FIBRAMQ 12-MX; MXN 30.93)

Valuation: 50% Dividend Discount Model (DDM); 50% Net Asset Value (NAV)

Key Risks: Interest rates, execution risks in property development/acquisitions, overpaying for acquisitions.

Fibra Mty, SAPI de CV (FMTY14-MX; MXN 11.06)

Valuation: 50% Net Asset Value (NAV); 50% Dividend Discount Model (DDM)

Key Risks: Oversupply in office GLA with a slower-than-expected recovery in occupancy and rent levels; low contract expirations in the industrial segment limiting the benefit of its rising rents; persistent low liquidity of FMTY's shares; execution risks on M&A; potential geopolitical risks affecting industrial demand.

Fibra Prologis (FIBRAPL 14-MX; 60.70)

Valuation: 50% Dividend Discount Model (DDM); 50% Net Asset Value (NAV)

Key Risks: Interest rates, execution risks in property acquisitions, overpaying for acquisitions.

Fibra Uno (FUNO 11-MX; MXN 21.92)

Valuation: 50% Dividend Discount Model (DDM); 50% Net Asset Value (NAV)

Key Risks: Interest rates, execution risks, overpaying for acquisitions, and controversies related to corporate governance.

Terrafina (TERRA 13-MX; MXN 35.31)

Valuation: 50% Dividend Discount Model (DDM); 50% Net Asset Value (NAV)

Key Risks: Secondary industrial markets failing to capture demand from nearshoring; execution risks in property development/acquisitions, overpaying for acquisitions; potential policies in the United States affecting industrial demand. TERRA's ADTV will decline materially after TERRA's shareholders tendered ~77% of their shares to FIBRAPL's tender offer.

Vesta (VESTA *-MX; MXN 49.67)

Valuation: 50% Dividend Discount Model (DDM); 50% Net Asset Value (NAV)

Key Risks: Property development risks, execution risks in expanding to new regions; potential stock overhang from a potential equity follow-on.

Appendix A: Important Disclosures

Company	Disclosures (see legend below)*
CEMEX	I, L, N1, N2, N3, VS0820
Fibra Macquarie	L, N2, N3, VS0613, VS0853, VS0856, VS0857, VS0858
Fibra Mty, SAPI de CV	B46, G, I, N1, U, VS0714, VS0717, VS0770
Fibra Prologis	L, N2, N3, VS0614, VS0715, VS0771, VS0861
Fibra Uno	J, N3
GCC, S.A.B. de C.V.	N3, VS0588
Grupo Mexico	N3, VS0140
Nemak	N3, VS0733, VS0734
Terrafina	VS0612, VS0769
Vesta	N3, VS0615, VS0859, VS0860

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***Legend**

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G	Scotia Capital Inc., Scotia Capital (USA) Inc., or their affiliates have managed or co-managed a public offering of securities for this issuer in the past 12 months.
I	Scotia Capital Inc., Scotia Capital (USA) Inc., or their affiliates have received compensation for investment banking services from this issuer in the past 12 months.

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VS0140	Research Analyst Alfonso Salazar visited Ray Mine, an operating mine, on April 2, 2014. The issuer did not pay for any of the travel-related expenses incurred by the Research Analyst to visit the site.
VS0588	Research Analyst Francisco F. Suarez Savin visited Grupo Cementos de Chihuahua's Samalayuca cement plant in Chihuahua, Mexico on February 8, 2019. The issuer paid for a portion of the travel-related expenses incurred by the Research Analyst to visit the site.
VS0612	Research Analyst Francisco Suarez visited Terrafina's Modine industrial property in Ciudad Juarez, Chihuahua, Mexico, on March 6, 2019. The issuer paid for a portion of the travel-related expenses incurred by the Research Analyst to visit the site.
VS0613	Research Analyst Francisco Suarez visited several of Fibra Macquarie's industrial properties/parks and properties under expansion in Ciudad Juarez, Chihuahua, Mexico, on March 6, 2019. The issuer paid for a portion of the travel-related expenses incurred by the Research Analyst to visit the site.
VS0614	Research Analyst Francisco Suarez visited several of Fibra Prologis's industrial properties/parks and properties under development in Ciudad Juarez, Chihuahua, Mexico, on March 6, 2019. The issuer paid for a portion of the travel-related expenses incurred by the Research Analyst to visit the site.
VS0615	Research Analyst Francisco Suarez visited several of Vesta's industrial properties in Ciudad Juarez, Chihuahua, Mexico, on March 6, 2019. The issuer paid for a portion of the travel-related expenses incurred by the Research Analyst to visit the site.
VS0714	Research Analyst Francisco Suarez visited Cienaga, an industrial property in Nuevo Leon, Mexico operated by DHL, on June 30, 2022. The issuer paid for a portion of the travel-related expenses incurred by the Research Analyst to visit the site.
VS0715	Research Analyst Francisco Suarez visited multiple industrial properties and construction sites in Nuevo Leon, Mexico on June 29, 2022. The issuer paid for a portion of the travel-related expenses incurred by the Research Analyst to visit the site.
VS0717	Research Analyst Francisco Suarez visited the El Parque office complex in Monterrey, NL, Mexico on June 30, 2022. The issuer paid for a portion of the travel-related expenses incurred by the Research Analyst to visit the site.
VS0733	Equity Research Analyst Alfonso Salazar visited Nemak Electromobility Center, a production facility in Nuevo Leon, Mexico, on November 10, 2022. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
VS0734	Equity Research Analyst Alfonso Salazar visited Nemak Electromobility Center, a production facility in Nuevo Leon, Mexico, on November 14, 2022. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
VS0769	Research Analyst Francisco Suarez visited the LG-Magna e-Powertrain facility in Rampos Arizpe, Mexico, and the Estampados Martinrea metal stamping facility in Saltillo, Mexico, on November 10, 2022. No payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
VS0770	Research Analyst Francisco Suarez visited the Whirlpool manufacturing facility in Monterrey, Nuevo Leon, Mexico, on November 9, 2022. No payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
VS0771	Research Analyst Francisco Suarez visited Prologis Apodaca Park, light manufacturing facilities (pharma) for Thermo Fisher Scientific and for Z-Pen in Monterrey, Nuevo Leon, Mexico, on November 9, 2022. No payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
VS0820	Research Analyst Francisco Suarez visited the Tepeaca Cement Plant in Tepeaca, Mexico, on November 10, 2023. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
VS0853	Research Analyst Francisco Suarez visited Aspen Aerogels, an industrial light manufacturing building, in Ciudad Apodaca, Nuevo Leon, Mexico on April 5, 2024. No payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.

VS0856	Research Analyst Francisco Suarez visited Foxconn's light manufacturing facility for server racks and logistics, in Guadalajara, Mexico, on April 9, 2024. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
VS0857	Research Analyst Francisco Suarez visited Benchmark Electronics Sites 1 and 2, light manufacturing facilities for electronics, in Guadalajara, Mexico, on April 9, 2024. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
VS0858	Research Analyst Francisco Suarez visited Brown-Forman's warehouse and distribution center in Guadalajara, Mexico, on April 9, 2024. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
VS0859	Research Analyst Francisco Suarez visited the O'Reilly distribution center in Guadalajara, Mexico, on April 8, 2024. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
VS0860	Research Analyst Francisco Suarez visited Foxconn's light manufacturing facility in Guadalajara, Mexico, on April 8, 2024. Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.
VS0861	Research Analyst Francisco Suarez visited Prologis Park Tlaquepaque ITESO, including distribution centers, 3PLs, and light manufacturing facilities, in Guadalajara, Mexico, on April 9, 2024, Partial payment was received from the issuer for the travel-related expenses incurred by the Research Analyst to visit this site.

Rating and Price Target History

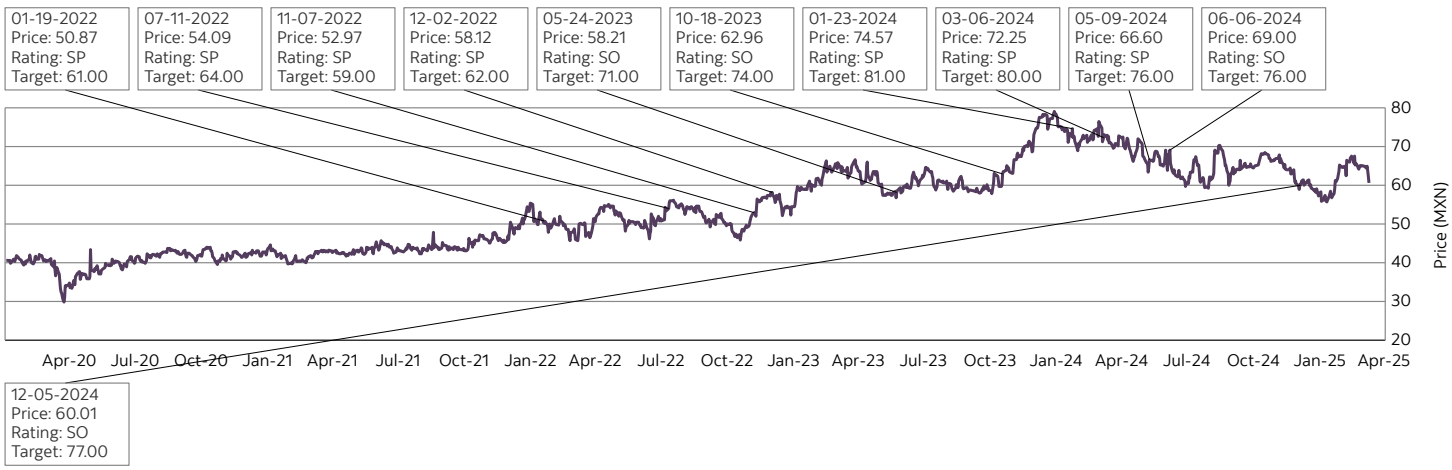
Fibra Macquarie (FIBRAMQ 12-MX) as of March 10, 2025 (in MXN)

*Represents the value(s) that changed.
Ratings Legend: SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; UR=Under Review; CS=Coverage Suspended; DC=Discontinued Coverage
Source: Scotiabank GBM estimates; FactSet.

Fibra Mty, SAPI de CV (FMTY14-MX) as of March 10, 2025 (in MXN)

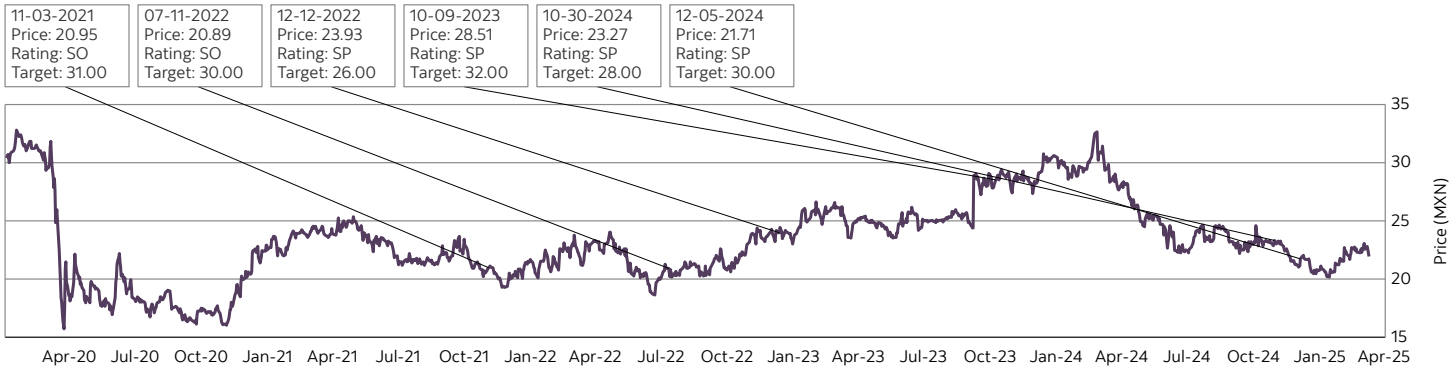
*Represents the value(s) that changed.
Ratings Legend: SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; UR=Under Review; CS=Coverage Suspended; DC=Discontinued Coverage
Source: Scotiabank GBM estimates; FactSet.

Fibra Prologis (FIBRAPL14-MX) as of March 10, 2025 (in MXN)



*Represents the value(s) that changed.
Ratings Legend: SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; UR=Under Review; CS=Coverage Suspended; DC=Discontinued Coverage
Source: Scotiabank GBM estimates; FactSet.

Fibra Uno (FUNO 11-MX) as of March 10, 2025 (in MXN)

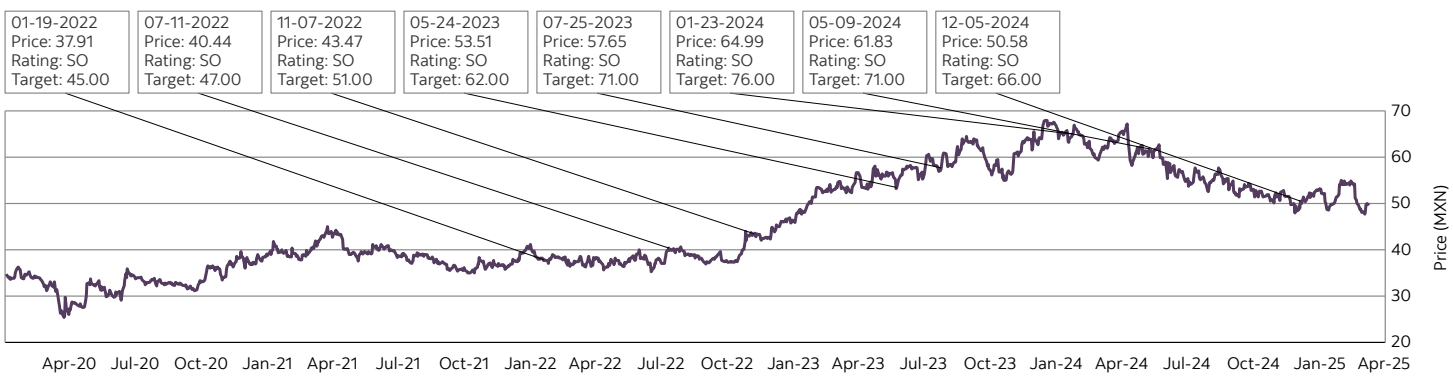


*Represents the value(s) that changed.
Ratings Legend: SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; UR=Under Review; CS=Coverage Suspended; DC=Discontinued Coverage
Source: Scotiabank GBM estimates; FactSet.

Terrafina (TERRA 13-MX) as of March 10, 2025 (in MXN)

*Represents the value(s) that changed.
Ratings Legend: SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; UR=Under Review; CS=Coverage Suspended; DC=Discontinued Coverage
Source: Scotiabank GBM estimates; FactSet.

Vesta (VESTA *-MX) as of March 10, 2025 (in MXN)



*Represents the value(s) that changed.
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Source: Scotiabank GBM estimates; FactSet.

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Ratings

Sector Outperform (SO)
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Sector Perform (SP)
The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

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Ratings Distribution

As of February 28, 2025

	Companies Rated in Each Category		Investment Banking Service Provided in the Last 12 Months	
Rating	**Count**	**Percentage**	**Count**	**Percentage**
Sector Outperform	312	52%	166	53%
Sector Perform	269	45%	143	53%
Sector Underperform	21	3%	7	33%

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