ARA Insight

USMCA: New Name - Same Game

The recently negotiated U.S. Mexico Canada Agreement (USMCA) is a win for commercial real estate, more because of what was preserved from NAFTA than what was changed. The likelihood is that trade among the countries will remain significant.

What was at Stake for Industrial Real Estate?

Global trade is a driver of demand for industrial space. Goods coming to the U.S. need to be stored, sorted and shipped. A reduction in flow of goods between countries would have reduced this source of demand for industrial space. Looking at key industrial markets in the southwestern U.S. reveals just how important trade between the U.S., Mexico, and Canada has been to demand.

During the eight years after implementation of NAFTA, net absorption in the three largest southwestern industrial markets of Dallas, Houston, and Phoenix, increased 2.17 times as compared to the eight years prior to NAFTA, nearly 75% higher than the increase in net absorption in all the other markets.

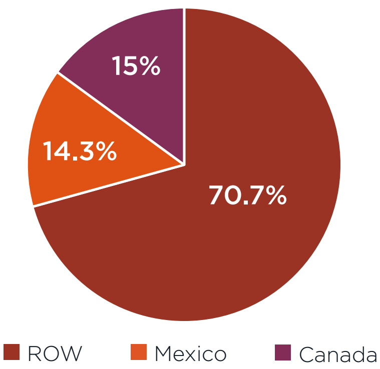
Fast forward to today and looking at the picture nationally, the $1.1 trillion U.S. trade in goods with Mexico and Canada accounted for more than 29% of total U.S. trade in goods -- goods that require warehouse and distribution space.

Preserving a favorable trading environment with Mexico was especially important as that is where the growth has primarily been. From 2007 to 2017, trade in goods with Mexico increased nearly 38 percent while trade with Canada increased less than 3 percent.

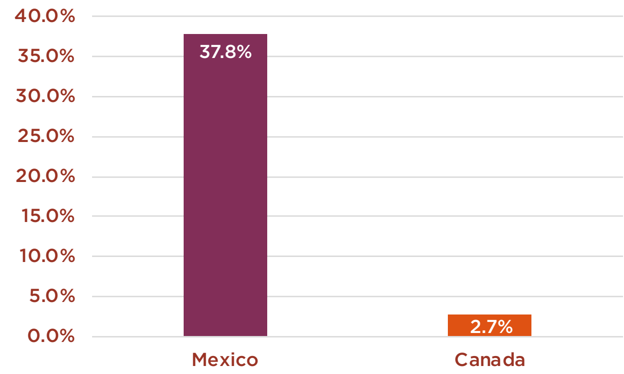
Cumulative Net Absorption (SF)[1]

	Q4 1985-1993	Q1 1994-2002	Increase in Net Absorption
DAL, HOU, PHX	120,412,473	261,553,751	2.17x
National Ex. DAL, HOU, PHX	1,335,370,631	1,668,035,910	1.26x

2017 Trade in Goods with U.S. as % of Total U.S. Trade in Goods[2]



Increase in Goods Trade: 2007 - 2017[2]



Much Ado About Nothing

Parsing through all the minor revisions and technicalities, the general framework of NAFTA was left largely untouched, suggesting that trade between all three countries will remain robust, a clear win for U.S. industrial real estate and near-term economic activity overall.

As an example, leading up to the final agreement the White House had talked about 25% tariffs on auto imports. Instead, so long as autos meet certain content and wage requirements, they will remain duty-free and, even if they don't, the tariff will be 2.5%, not 25%.

Regarding steel and aluminum tariffs, although they were maintained, significant concessions were granted allowing Canada to export 2.6 million autos or 40% more than current levels, free of these tariffs.

With this uncertainty surrounding trade policy removed, companies can now move forward with investments that need and utilize commercial real estate space.

Note that while the agreement is encouraging, each country must still ratify USMCA.

What Should You Conclude from This?

Some have interpreted USMCA as an indication that the President will be more pragmatic than his rhetoric would indicate and this gives hope for a deal between the U.S. and China as well as other countries. Still others see it differently and view USMCA as giving him more latitude to take a harder line with China and the E.U.

Despite continuing risks to trade with China and the E.U., for today, the goods should keep flowing between the three USMCA countries and businesses have one less potential trade disruption to worry about. This bodes well for a continuation of the current significant economic activity across and between the three USMCA countries.

Despite continuing risks to trade with China and the E.U., for today, the goods should keep flowing among USMCA countries.

Sources
[1] CoStar [2] U.S. Census Bureau

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Forward-Looking Statements

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