Overview of Economic Development in Tijuana:

Tijuana’s Industrial Real Estate market statistics:

Adriana Eguia
January 24, 2019
Number of Maquilas vs Jobs (In Tijuana)

2000 Dotcom Crisis

- 1974 Crisis 76% Devaluation
- Start of TLCAN
- 1982 Oil Crisis 500% Devaluation
- December's Error 1994. 48% Devaluation
- 2008 World crisis. 6% Devaluation
- 2016 Trump effect
- 2008 Dotcom Crisis
Supply (SF) vs Vacancy (%)
Net Absorption (SF) vs Vacancy (%) vs New construction (SF)
Vacancy (%) vs Average lease rate ($USD/SF/mo)
Industrial market watch

*Source: JLL 2018
How the market is distributed for us

**North (28%)**:
- Surface area sf: 7,996,798
- Number of buildings: 66
- Number of clients: 61

**Bajio (49%)**:
- Surface area sf: 13,777,670
- Number of buildings: 80
- Number of clients: 78

**Central (24%)**:
- Surface area sf: 7,123,121
- Number of buildings: 34
- Number of clients: 33

*Manufacturing 71%
Logistics 29%
Energy 4.6%
Recreational Vehicles 5.0%
Medical Devices 2.0%
Paper 0.1%
Plastics 4.1%
Other 16.4%
Automotive 29.8%
Aerospace 8.7%*
Overview of Economic Development in Tijuana: Economic Border Zone

Adriana Eguia
January 24, 2019
Border Survey by Deloitte

Expectation of Savings vs. Consumption
- Savings: 22%
- Consumption: 78%

Expectations of Consumption in the Northern Border Region
- Consumption of goods and services in the United States will increase: 32%
- Consumption of goods and services in the United States will stay the same or decrease: 65%
- Do not know: 3%
Excercise (Payroll + Income Tax) by Deloitte

<table>
<thead>
<tr>
<th></th>
<th>Company 1</th>
<th>Company 2</th>
<th>Company 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Payroll</td>
<td>64.00</td>
<td>40.00</td>
<td>28.00</td>
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<tr>
<td>Other Deductions</td>
<td>16.00</td>
<td>40.00</td>
<td>52.00</td>
</tr>
<tr>
<td>Taxable earnings</td>
<td>20.00</td>
<td>20.00</td>
<td>20.00</td>
</tr>
<tr>
<td>Income tax (30%)</td>
<td>6.00</td>
<td>6.00</td>
<td>6.00</td>
</tr>
<tr>
<td><strong>Border Zone Proposal</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Income</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Payroll (+5%)</td>
<td>67.20</td>
<td>42.00</td>
<td>29.40</td>
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<tr>
<td>Other Deductions</td>
<td>16.00</td>
<td>40.00</td>
<td>52.00</td>
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<tr>
<td>Taxable earnings</td>
<td>16.80</td>
<td>18.00</td>
<td>18.60</td>
</tr>
<tr>
<td>Income tax (20%)</td>
<td>3.36</td>
<td>3.60</td>
<td>3.72</td>
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<tr>
<td><strong>Summary:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Added earnings from reduced income tax reduction</td>
<td>2.64</td>
<td>2.80</td>
<td>2.56</td>
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<tr>
<td>Decrease in profit sharing</td>
<td>0.32</td>
<td>0.20</td>
<td>0.14</td>
</tr>
<tr>
<td>Increase in costs (payroll)</td>
<td>3.20</td>
<td>2.00</td>
<td>1.40</td>
</tr>
<tr>
<td><strong>Net effect</strong></td>
<td>0.24</td>
<td>-1.00</td>
<td>-1.30</td>
</tr>
</tbody>
</table>
Inflation by Deloitte

Inflation Tijuana vs. National Average

2015

2016

2017

2018

3.73

5.86

3.9

7.37

8.1

5.43

6.83

Tijuana, B.C.  
Country
## Final thoughts by Deloitte

<table>
<thead>
<tr>
<th>Favorable Factor</th>
<th>Challenges or matters yet to be defined</th>
</tr>
</thead>
<tbody>
<tr>
<td>For exporters, reduction of VAT balances to be returned.</td>
<td>Increase in minimum wage and increase in social security contributions (IMSS, PTU).</td>
</tr>
<tr>
<td>Reduction of income tax rate, promotion of foreign investment with internationally competitive tax rates.</td>
<td>Increase in wages puts competitive pressures on manufactured goods.</td>
</tr>
<tr>
<td>Reduction of VAT driving increased consumption and savings in local economy.</td>
<td>Inflation driven by inertia, general inflation, increased overhead, increased consumption.</td>
</tr>
<tr>
<td>Reduction of VAT supports purchasing power of the population.</td>
<td>Opportunity for the local entrepreneur to meets the needs with competitive prices.</td>
</tr>
<tr>
<td>Matching energy prices to those in US.</td>
<td>Energy prices still under pressure to increase.</td>
</tr>
</tbody>
</table>
Thank you!