

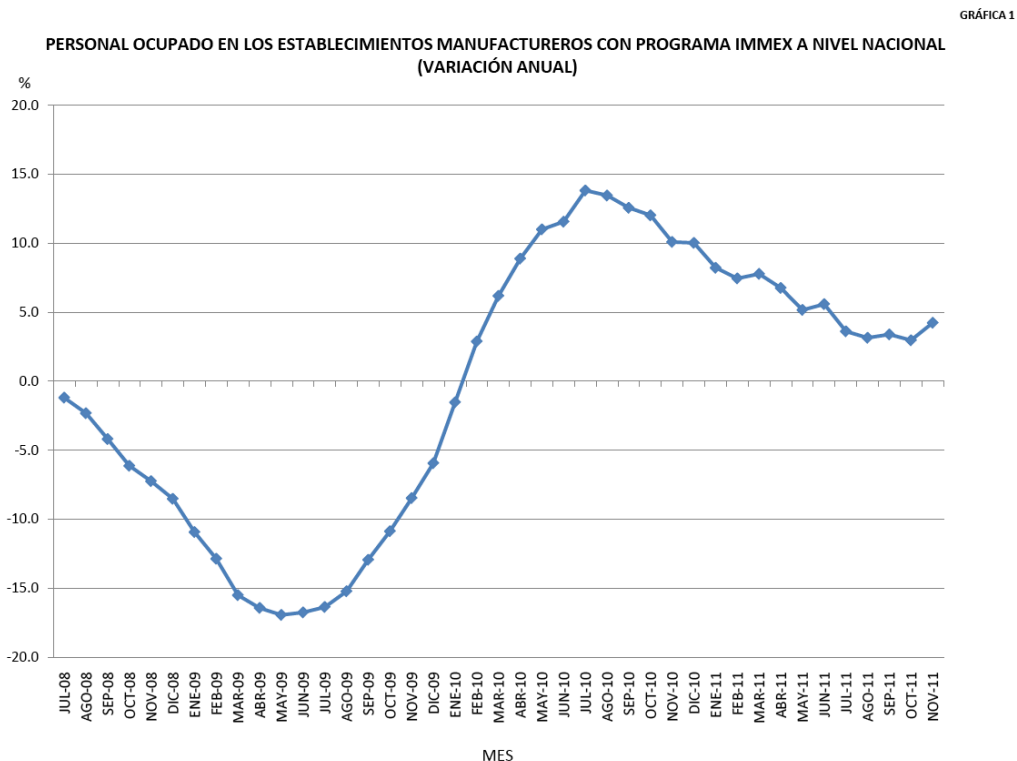


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Industrial Strength Tenant Representation
Since 1988

2/2012

Tijuana industrial real estate 1st quarter 2012

The drug war has settled down and security has improved significantly. Asian manufacturing and transportation costs are increasing in dollar terms and many companies are bringing production back to the US and Mexico. High tech jobs in the medical and aerospace industries are increasing as universities and technical schools in Mexico pump out highly trained engineers willing to work for less than half of the salaries in the US.



Economy:

Inflation in Mexico has been under control of late and 2011 inflation for Tijuana, according to Banco de Mexico was 3.4%, almost the same as the US. (www.Banxico.com.mx) The Peso is strong, at 12.7 Pesos/dollar (2/20/2012), which is not usually a good sign for exporters, and yet steady growth is evident. History shows us the weaker the Peso, the faster the growth in Maquiladoras. The



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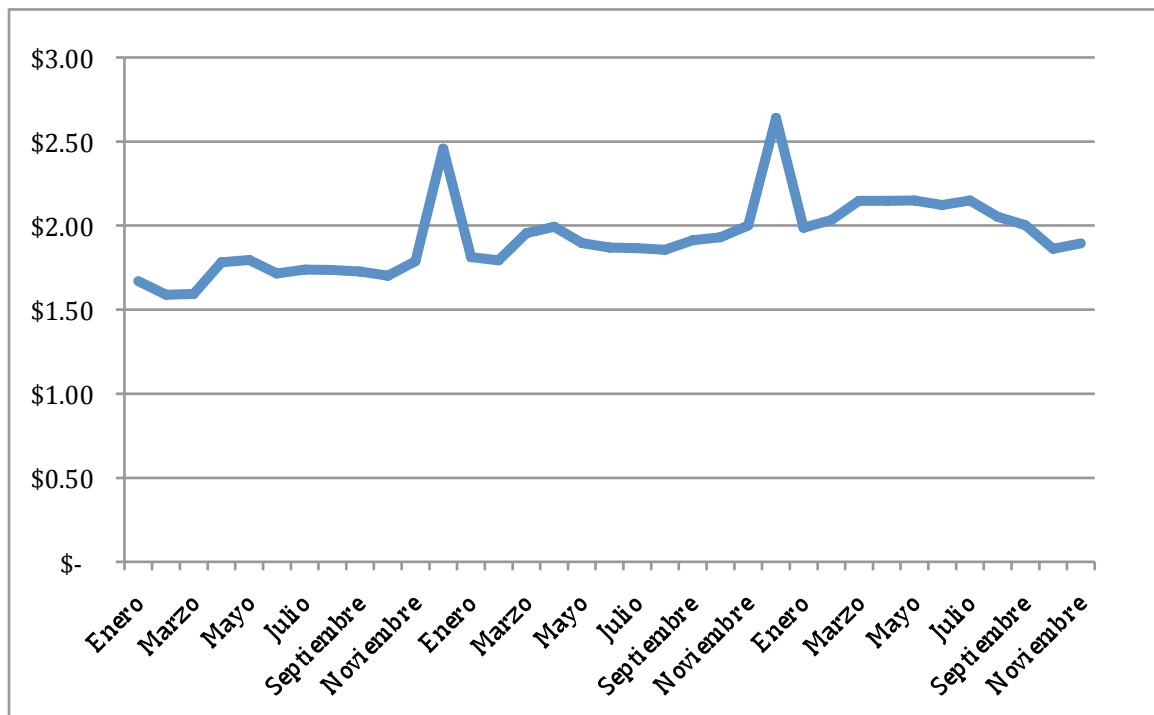
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major devaluations after each of the presidencies in the 80's and 90's were followed by spikes in Maquiladora growth as manufacturing costs (especially labor and energy) in dollars dropped. The weakness of the US dollar and Mexico's current \$150 billion in dollar reserves implies that we will not see a major devaluation before the next presidential elections.

The July 1st elections will likely replace PAN party President Felipe Calderon with another PAN (Josefina Vasquez Mota, who may very well be the first woman Mexican President) or PRI (Enrique Peña Nieto) candidate, which will continue the status quo. If the PRD wins, (socialist A.M. Lopez Obrador) then the Peso will likely devalue significantly and the Maquilas will flourish although with a spike in inflation and poverty.

US GDP growth is the best determinant of Tijuana manufacturing growth and in spite of the massive governmental debt, seems to be moving in the right direction. We expect growth to remain at about 3% for the next year.





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source:

<http://www.inegi.org.mx/Sistemas/temasV2/Default.aspx?s=est&c=25433&t=1>

Labor Costs:

The reason companies set up operations in Tijuana is the labor. There are currently about 150,000 employed by Tijuana IMMEX companies (hereinafter referred to as Maquiladoras or Maquilas), down from the peak in 2008 with over 200,000. Many Japanese companies (Pioneer, Hitachi, Sony (sold to Foxconn)) have shut down and left behind workers, technicians and managers with skills and experience in lean manufacturing, statistical process control and continuous improvement. Many companies start with the assumption that productivity is lower in Mexico, but with good management, and the 48-hour standard work week, most find that the Tijuana worker is more productive than their Asian or US equivalent. See the chart above which shows the average manufacturing labor costs in Mexico in \$US/hour. The spikes in December reflect mandatory Christmas bonuses and vacation time.

There are 560 Maquilas in Tijuana, 11% of Mexico's total.

(<http://www.inegi.org.mx/>). The minimum wage is about \$5/day, although most workers start at double that in Tijuana. Some areas, like Otay Mesa, with a more competitive atmosphere, start with additional bonuses for punctuality, as well as subsidized meals or transport. Adding benefits and taxes, the average starting laborer costs \$1.50- \$2.00 per hour. This includes a housing fund, retirement, workers compensation and social security, which also include health insurance and hospitalization.

Turnover, which is measured monthly in Tijuana, has been as high as double digits at the peak of growth in the maquila industry, has now settled to approximately 1.7% in Dec. 2011. (<http://www.ruiz-morales.com.mx/index.htm>). This will likely rise as manufacturing and distribution heat up. But this is a great time to hire people. The majority of the turnover happens in the first three months as Mexican law requires 3 month severance pay after that threshold is met and most workers would prefer not to lose that perk.

Net Absorption:

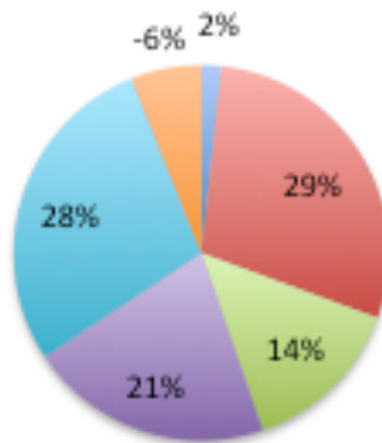
2011 was good year for Tijuana maquiladoras. Industrial real estate absorption, which measures the change in occupancy, totaled a positive 1.6 Million SF, up more than 220,000 SF from last year's total. Surprisingly, new construction accounted for over 600,000 SF or almost 40% of the net.



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Absorption SF

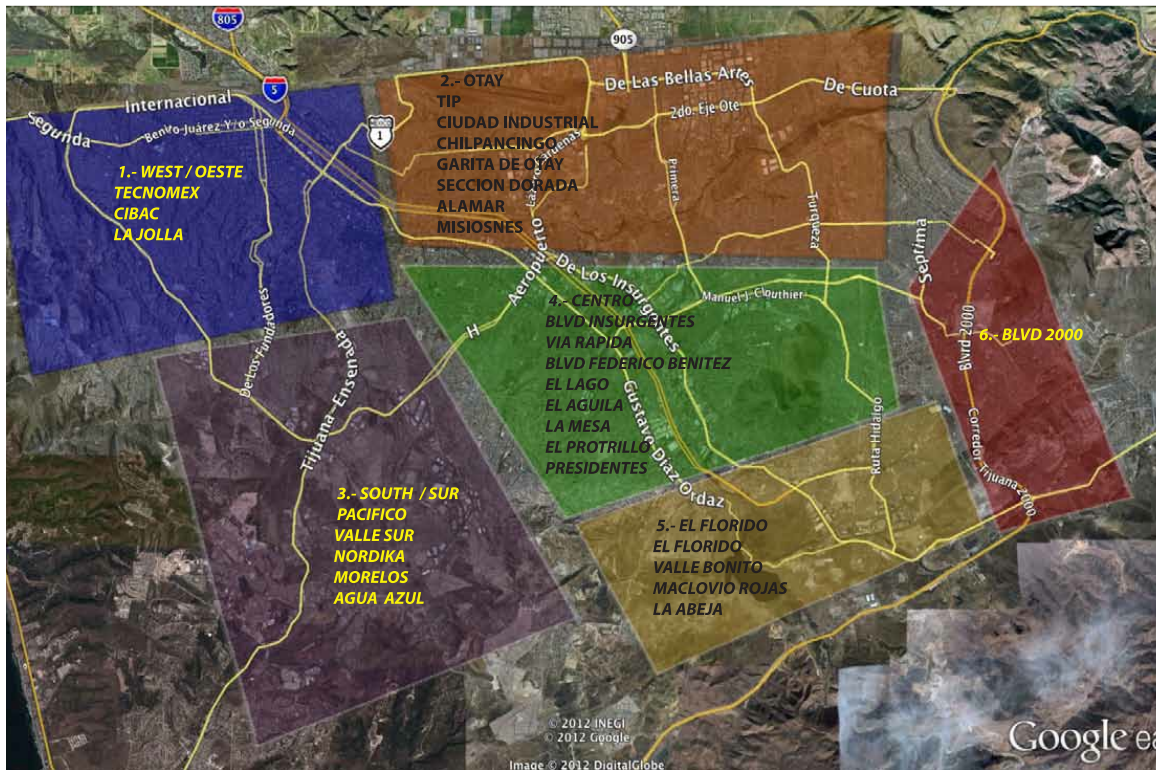
■ West ■ Otay ■ South ■ Central ■ Florido ■ Blvd. 2000



Total absorption was 3% of the market. The inventory of existing buildings represents about 5 years of current absorption. We expect that new speculative construction will be warranted within 2 years. The chart above shows the areas that had the greatest growth were El Florido and Otay. El Florido has the most available finished industrial land and Otay, the historical leader of the industry, because of its proximity to the Otay Border crossing has the most available buildings.



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Redevelopment:

The largest transaction in size was the sale of Pioneer's 300,000 SF La Frontera facilities to the Mexican Government for an expansion of customs operations. This should allow for more pre-crossing inspections and expedite time sensitive shipments. Will this new investment delay the construction of the planned new toll port of entry East of the Otay port? I believe it will.

Another example of absorption through repositioning is the former Racks facility on Blvd. Industrial. About 100,000 SF has been converted to a multi-tenant commercial building with restaurants, banks and retail uses. We expect more facility conversions to follow suit as well located commercial property is now much more valuable than the former industrial uses that were the norm when the maquilas were initially built, about 30 years ago.



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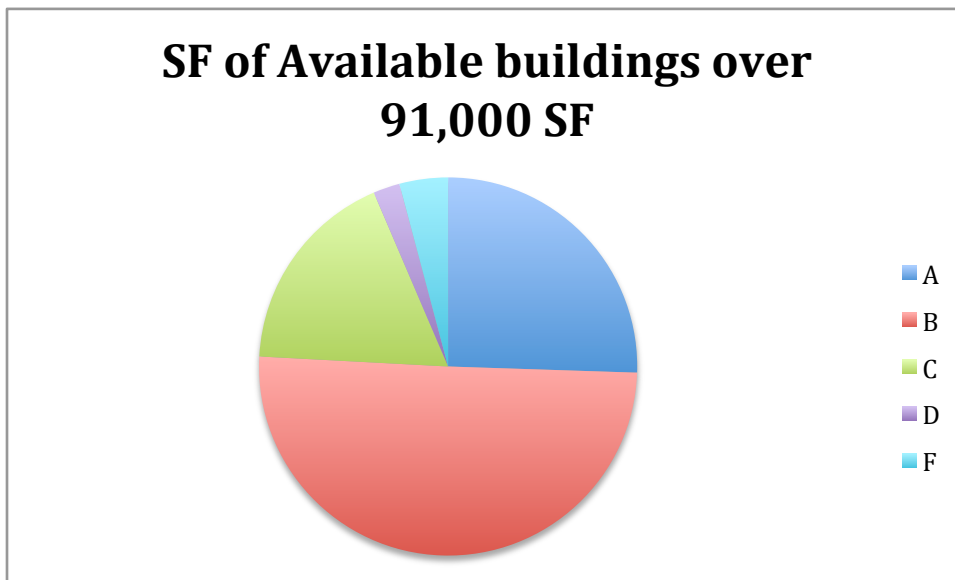
Construction:

There has been little speculative building for several years. However, this year several large factories were built to suit Samsung (225,000 SF electronics), Ryerson (80,000 SF metals), INZI (192,000 SF electronics), and Celulosa de Sonora (139,000 SF packaging). There were also large warehouses built for Mexican commercial distribution like Andrea Shoes, approximately 100,000 SF in Mesa de Otay.

Vacancy:

January 2012 Tijuana Industrial real estate market consists of about 58 Million SF of space occupied by mostly international companies from the US, Korea, Japan, Britain, France and Taiwan. The current vacancy is about 8 million SF for a factor of 14%. This is down from about 9 million SF or 15.5% last year.

The biggest buildings available are the Hitachi Building with 430,000 SF. Several developers are looking at repositioning the facility, which is strategically located at the entrance to Ciudad Industrial in Mesa de Otay. The table below lists the buildings available over 91,000 SF.





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GRADE	INDUSTRIAL PARK	BUILDING	Available Building Area
c	Otay, seccion dorada	FORMER HITACHI	429,763.00
A	Otay Chilpancingo	Chip B001	268,599
b-	Otay, Bellas Artes	COVIDEN	241,000.00
C	BLVD FUNDADORES	SCRIPTO TOKAI	230,270.00
a	Alamar	Sares	230,000.00
C	OTAY	Tocabi	193,692.00
f	BLVD INSURGENTES	N-2 EDIF WALDOS	185,140.00
B-	OTAY	FRONTERA (AMB BLVD	184,128
A	El Potrero	T2	171,718.00
b-	Ind. Park Pacifico	R&R Building B	162,050.00
b-	Baja Maq Insurgentes	Kimstar Facility	156,636
B	LA CAMPIÑA	1,2,3,4, 5 Y 6	140,825.40
B	LA CAMPIÑA	7, 8, 9, 10, 11 y 12	132,817.02
C	EL FLORIDO	LA PRESA	130,000.00
B-	Otay CD	SanyoMfg	126,000
A	Valle bonito	CIENEGA	124,000.00
a	Blvd 2000	Cpa tij B001	122,801.00
B	OTAY	Energy Lab	120,000.00
A	OTAY	STJ B004	115,269.53
B-	EL FLORIDO	samsung	110,000.00
A	OTAY BELLAS ARTES	PLAMEX IV	104,820.00
b-	Ind. Park Pacifico	R&R Building A	104,279.00
C	BLVD BENITEZ	Bodega #1	101,184.00
D	OTAY	9 NORTE # 19026	101,180.00
A	Nordika	N 5	97,719.00
B+	Valle Sur	Former Tatung	96,840.00



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Prices:

Asking prices are to be looked at suspiciously. Some landlords ask ridiculous prices in the hopes that a well-to-do, naïve “gringo” will pay. However, we have been consistently closing transactions for sometimes less than ½ of the asking price. Other landlords will not budge off the prices they quote.

Class A buildings lease for between \$0.28 and \$0.38 NNN per month, meaning that the tenant needs to pay an additional \$0.02-\$0.05 per SF per month for property tax (predial), insurance and maintenance. Prologis and some of the other US based landlords charge the highest Nets but also do the most maintenance.

Class B buildings lease for between \$0.20 and \$0.35 NNN depending on location and improvements. Class C and below are leasing for as low as \$0.15/SF.

Several sales were completed at below \$20/SF of building in the market, including the Pioneer building, and the former Robinson and Robinson facilities. Most of these sales were either in receivership, as is the case of Robinson, or the sellers tired of waiting and sold quickly.

Construction prices average about \$30/SF plus land for a new tilt-up with 5% office build-out, restrooms, docks and power. Finished Industrial land with utilities costs are anywhere from \$60- \$120/SM depending on location.

Purchase prices are on the rise and leased investments are fetching a premium. Sale prices in the \$39/SF range for Class A in Otay have been recorded. Empty, older buildings are going for bargain basement prices. Pioneer sold their 29,000 SF facility in La Mesa for less than \$10/SF.

Recently, Maquila Properties represented Jonathan Louis Furniture in its expansion into an additional 110,000 SF on Via Rapida for \$0.25/SF/Month. We also represented Branders Inc. in their 35,000 SF lease of the former Dayrunner/Maxxim Medical/Fluidmaster building in the La Jolla Industrial Park. Also closing in the first quarter, Passion Splash, a new T-shirt printing and embroidery business in El Florido Industrial park. Hollywood Ribbon in El Aguila and Jaccuzzi extended their Leases. We have done several valuations and helped negotiate “blend and Extend” transactions that captured today's low rates moving forward.

Conclusions:

There is a real opportunity to buy older buildings and refurbish them for lease at competitive prices. For example – the Pioneer building mentioned above:



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29,000 SF

Cost	\$ 275,000	\$ 9.48
Closing (taxes, notary, avaluo)	\$ 27,500	\$ 0.95
Refurbish (new roof, offices,etc.)	\$ 150,000	\$ 5.17
Total Cost	\$ 452,500	\$ 15.60
Annual Lease	\$ 87,000.00	\$ 0.25
Return upon leasing	19%	

This does not include carrying or lease up costs, and is an example of the best deal we have seen, so it may be tough to replicate, but it happens only by making proposals and then negotiating from a position of knowledge. There are also opportunities to buy other distressed assets for those willing to risk the lease up time. Real opportunity to make money is made on the purchase, especially now when many buildings are . If the buildings are competitively priced initially, they will lease quickly.

Maquila Properties, Inc.

Jean-Paul de Kervor

2/2012

JP de Kervor has 24 years experience representing companies entering the Tijuana maquiladora market. He holds degrees in Chemistry and International Business from SDSU and lectures on Mexican Real estate at local universities. He has been published in El Financiero and Twin Plant news. Please call 858.551.8000 for more information.

Special Thanks to Erika Garcia for her excellent management of our data used for this update.