

MARKET REPORT

INDUSTRIAL | TIJUANA | Q2 2018

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ECONOMIC OUTLOOK Q2 2018

During the second quarter of the year, the global economy had a positive performance, mainly driven by advanced economies. However, a deceleration on the growing pace is expected in the medium term, due to protectionist postures on international trade, geopolitical tensions and a faster than expected normalization on interest rates by the Federal Reserve.

In Mexico, the economic scenario for the second quarter of 2018 was shaped by their elections, The North America Free Trade Agreement (NAFTA) and U.S. tariffs. As it was widely expected, Andrés Manuel López Obrador, the left-wing candidate, won the presidential elections in Mexico on July 1st. According to the National Electoral Institute (INE), the candidate got over 52% of the votes.

Financial markets anticipated the results of presidential elections, aiming to mitigate the USD/MXN exchange rate volatility during and after the political event. In fact, the first week after the elections, the Mexican peso had its best journey since 2011. Apparently, postelectoral uncertainty vanished in the short run with regard to the USD/MXN exchange rate. Additionally, the Mexican peso has had a slight appreciation since the elections.

A number of factors can explain the above. On the national level, it is attributed to the comments and approval of the president-elect. The leftist politician set the tone for prudent public spending, an orderly fiscal policy, and emphasized his respect for the Bank of Mexico's autonomy and his interest in working closely with the private sector. Additionally, the left wing party, MORENA, is expected to have majority in Congress. Important to highlight, it is the first time in Mexico's history a left-leaning candidate wins a presidential election.

As anticipated in the previous Q1 2018 Market Report by Colliers International, a final NAFTA agreement is expected to happen by the end of the present year or during the first semester of 2019.

In the forthcoming months, a moderate dynamism derived from external factors is expected for the USD/MXN exchange rate. Nevertheless, the dynamism will be highly subjected to the internal political environment in Mexico. In this sense, the transition period between the current administration and the next one will be crucial for the financial market.

The Bank of Mexico (Banxico) raised interest rates by 25 basis points, leaving interest rates at 7.75%, as stated in the Q1 2018 Market Report. Inflationary pressures materialized, decelerating the convergence to Banxico's inflation target (target of 3%).

On one hand, the value of money reached the highest level of the last decade. On the other hand, the decision to raise interest rates incentivizes productive investment in the country.

For the third quarter of the present year, no changes on interest rates are expected. Nonetheless, expectations for the end of the year remain unchanged. Target interest rate is expected to be 8% at the end of the year, as projected in the previous Q1 2018 Market Report.

Table 1. Macroeconomic Indicators

Indicador	Q1 2018	Q2 2018
Real GDP		
Unemployment Rate		
Exchange Rate (USD/MX)		
Inflation		
Target Interest Rate		









Source: INEGI, Banxico,
*Forecasts for the end of 2Q2018..

INDUSTRIAL OVERVIEW

KEY TAKEAWAYS:

- At the end of the second quarter of 2018, in Tijuana's industrial real estate market—which consists of ten industrial submarkets—we have monitored 887 industrial properties (over 21,500 sf), totaling 72,236,634 sf.
- During the second quarter of 2018, the vacancy rate in Class A and B buildings closed at 1.9%.
- Within the Class A properties, there are six industrial buildings under construction, which sum 517,190 sf, expected to be added to the inventory during the present year.
- Class A buildings asking rental rates were from \$4.79 to \$ 6.60 USD/sf/year, and for Class B asking rental rates oscillated between \$3.60 to \$ 5.15 USD/sf/year, within the ten submarkets.

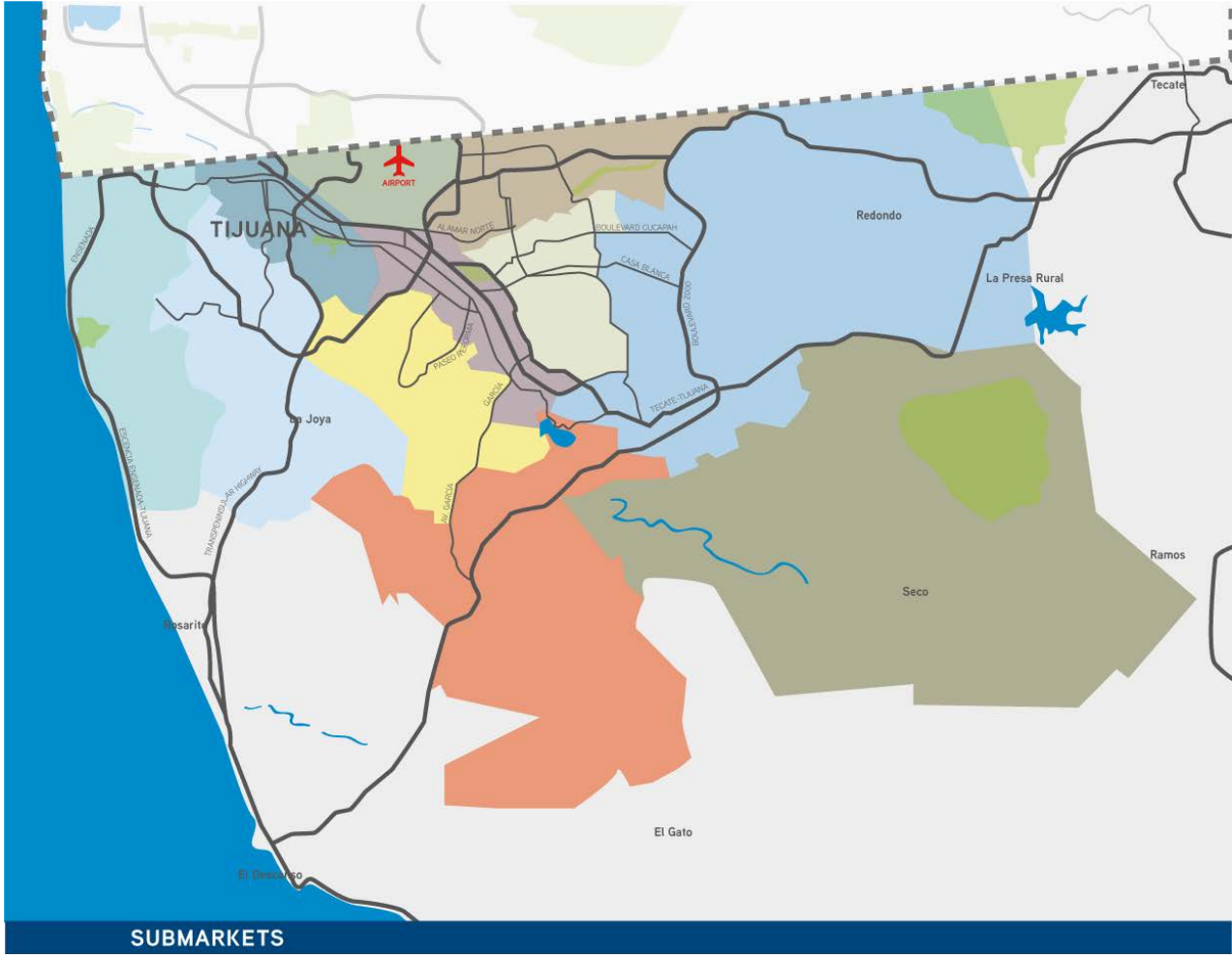
Table 2. Market Indicators

	1Q2018	2Q2018
VACANCY RATE		
NET ABSORPTION		
CONSTRUCTION		
AVERAGE LEASE PRICE		

Source: Colliers International



TIJUANA INDUSTRIAL MAP



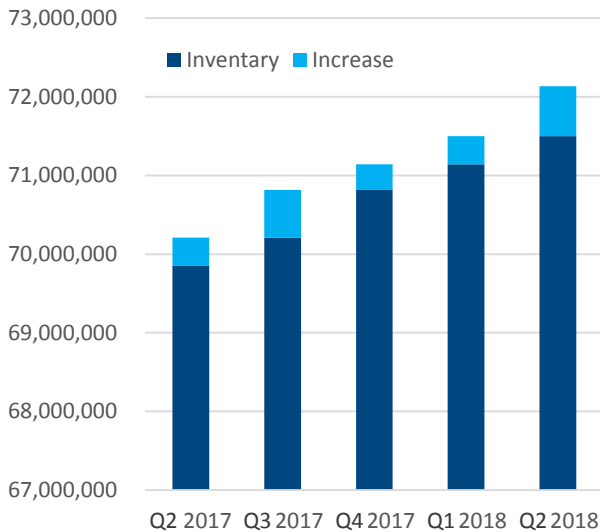
Source: Colliers International

- PLAYAS DE TIJUANA
 - CENTRO
 - SAN ANTONIO DE LOS BUENOS
 - MESA DE OTAY
 - LA MESA
 - CENTENARIO
- SANCHEZ TABOADA
 - CERRO COLORADO
 - VALLE DE LAS PALMAS
 - LA PRESA
 - CUEROS DE VENADO

INVENTORY

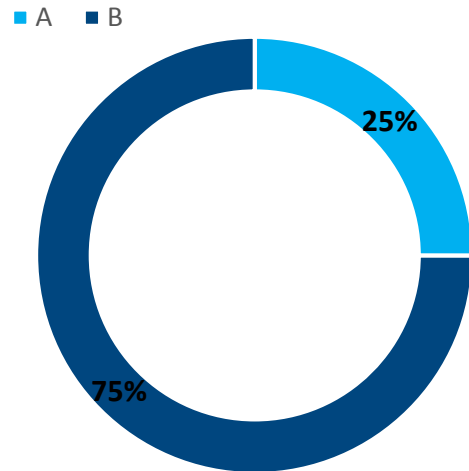
At the end of the second quarter of the year, Tijuana's industrial real estate market ended up with 887 industrial facilities (over 21,500 sf). The final inventory closed with 72,236,634 sf. In terms of classes, 25% represent Class A industrial buildings and Class B represent 75% of the total inventory.

Graph 1. Inventory and Historical Growth Q2 2017 – Q2 2018 (sf)



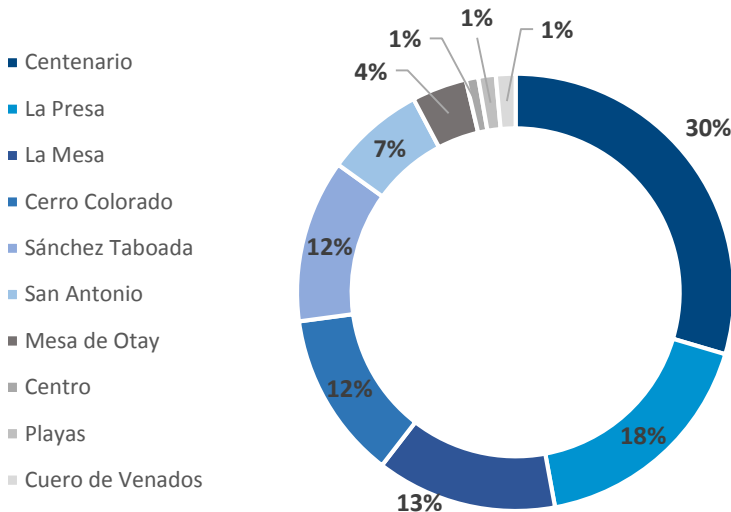
Source: Colliers International

Figure 1. Inventory per Class (sf) Q2 2018



Source: Colliers International

Figure 2. Distribution of Industrial Facilities by Submarket Q2 2018



Source: Colliers International

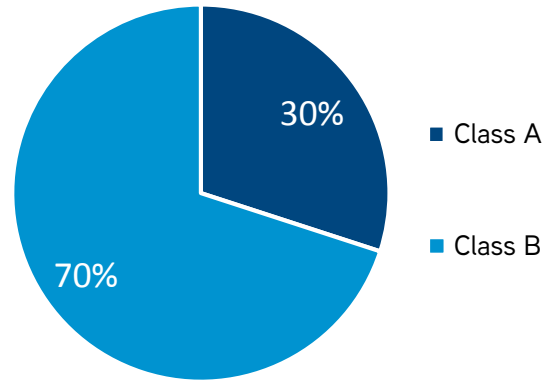
The total inventory is distributed along ten industrial submarkets in the city of Tijuana. As it is shown in Figure 2, Centenario and La Presa represent almost 50% of the total inventory.

VACANCY

The vacancy rate at the end of the second quarter of 2018 closed at 1.9%.

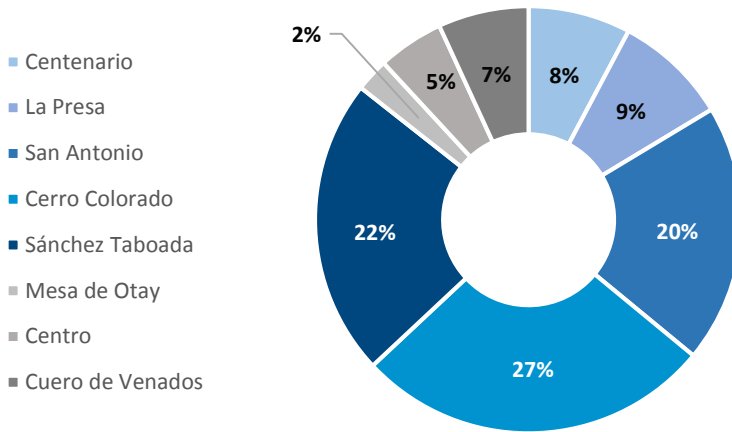
From the total available space, 30% corresponds to Class A facilities and 70% to Class B, giving a total of 1,395,087 sf of available space.

Figure 3. Vacancy Rate per Class (Q2 2018)



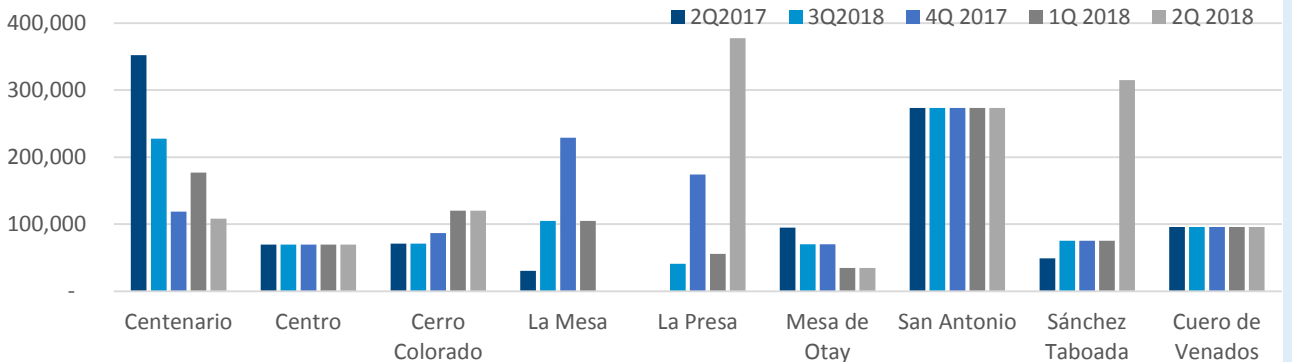
Source: Colliers International

Figure 4. Vacancy Rate by Submarket Q2 2018



Source: Colliers International

Graph 2. Historical Availability by Submarket (Q2 2017 – Q2 2018)

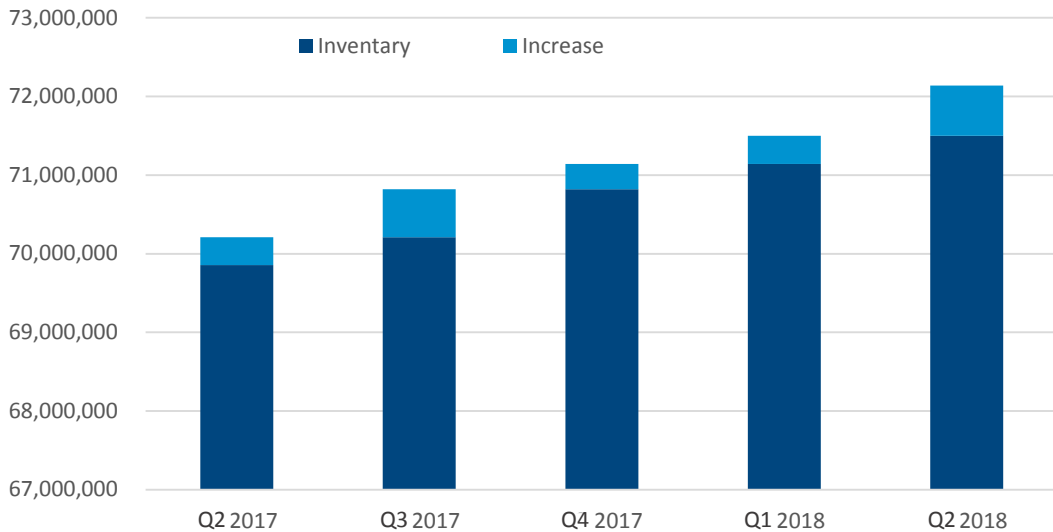


Source: Colliers International

NEW PROJECTS

At the end of the second quarter of 2018, there were six industrial facilities (Class A) under construction. This will increase approximately 517,190 sf to the final inventory.

Graph 3. Inventory and Historical Growth Q2 2017 – Q2 2018 (sf)



Source: Colliers International

Table 3. Industrial Facilities Under Construction Q2 2018

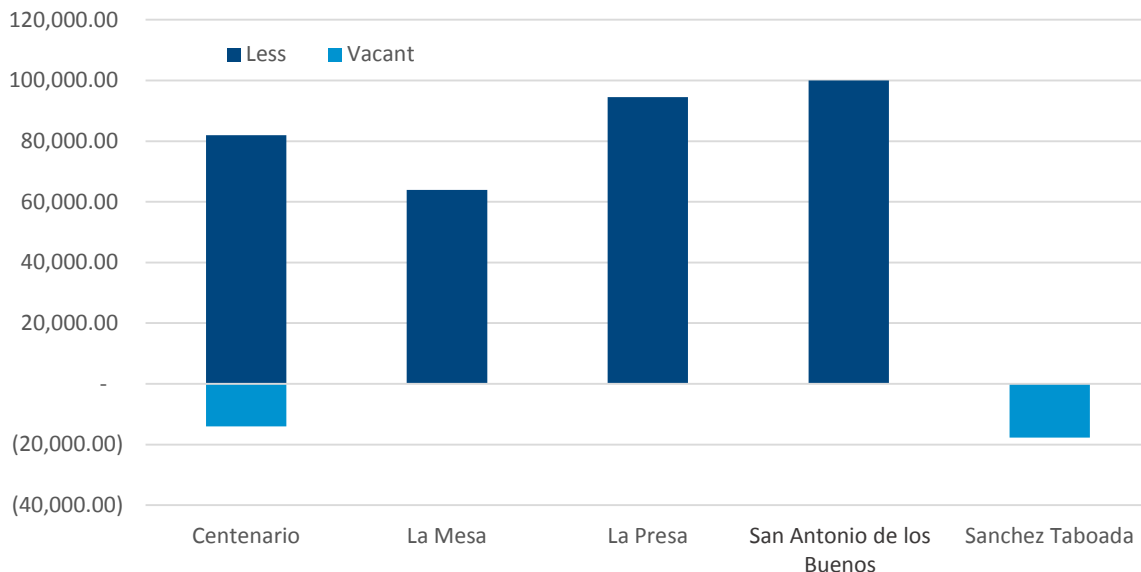
LOCATION	CLASS	SUBMARKET	DEVELOPMENT	Sf	FINISH	PROJECT TYPE
Roca Tijuana Industrial Park	A	Centenario	Roca Desarrollos	134,926	August 2018	BTS (FriaIsa)
Roca Tijuana Industrial Park	A	Centenario	Roca Desarrollos	134,936	August 2018	Speculative
Vesta Park Lagoeste	A	La Presa	Vesta	60,041	August 2018	Speculative
Vesta Park Lagoeste	A	La Presa	Vesta	72,054	August 2018	Speculative
Pacifico Industrial Park	A	Sanchez Taboada	ATISA	28,810	September 2018	Speculative
Pacifico Industrial Park	A	Sanchez Taboada	ATISA	86,423	November 2018	Speculative
TOTAL				517,190		

Source: Colliers International

INDUSTRIAL BUILDING TRANSACTIONS

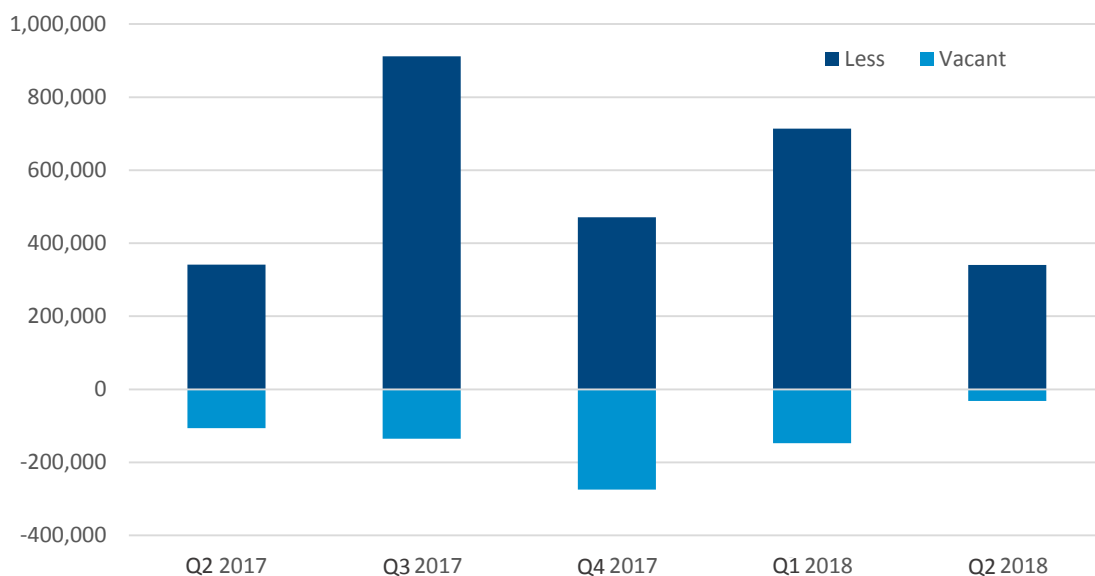
The highest positive market activity during the second quarter of 2018 was monitored in the San Antonio de los Buenos, La Presa, Centenario, and La Mesa submarkets.

Graph 4. Market Activity by Submarket Q2 2018 (sf)



Source: Colliers International

Graph 5. Historical Vacancy and Occupancy in Industrial Facilities Q2 2017 – Q2 2018 (sf)

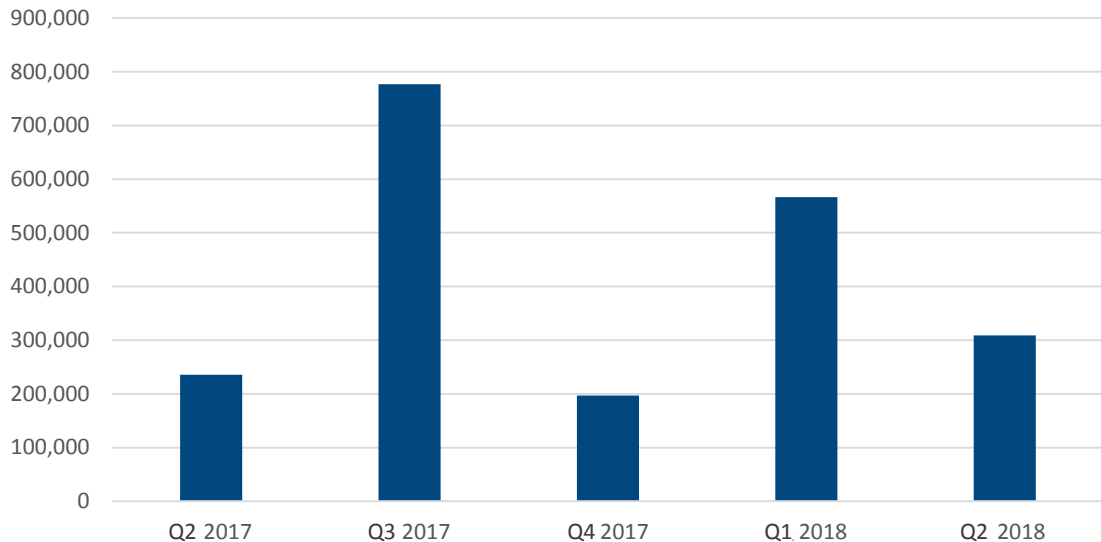


Source: Colliers International

NET ABSORPTION

Net absorption for the second quarter of 2018 was 308,711 sf, broken out into 340,432 sf leased and (-) 31,721 sf vacant.

Graph 6. Net Absorption Q2 2017 – Q2 2018 (sf)



Source: Colliers International

Table 4. Industrial Transactions Q2 2018

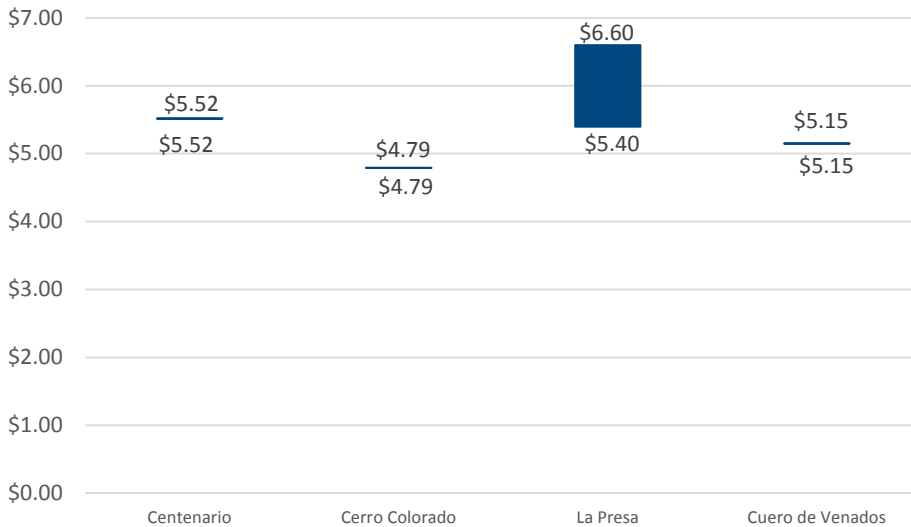
COMPANY	sf	SECTOR	TRANSACTION	INDUSTRIAL PARK	DEVELOPMENT
ParPro	100,000	Electronic/ Aerospace	Taiwan	Costa Dorada Industrial Park	Muzquiz
Transparent Container	80,000	Plastics	USA	Florida Industrial Park	Florida
Codan	63,908	Medic	Germany	La Mesa Vesta Industrial Park	VESTA
Joones Sign	52,000	Light Signage	USA	FINSA Alamar Industrial Park	FINSA
Tamex	22,604	Electronic	Mexico	Bld. Insurgentes	Muzquiz

Source: Colliers International

LEASE

Asking rental rates ranged between \$4.79 to \$6.60 USD/sf/year for Class A industrial facilities. On the other side, for industrial facilities Class B, asking rental rates are oscillating between \$3.6 to \$5.15 USD/sf/year.

Graph 7. Asking Rental Rates for Industrial Facilities Class A Q2 2018 (USD/sf/year)



Source: Colliers International

Graph 8. Asking Rental Rates for Industrial Facilities Class B Q2 2018 (USD/sf/year)



Source: Colliers International

INDUSTRIAL MARKET ACTIVITY Q2 2018

SUBMARKET	CLASS	ANALYZED PROPERTIES	TOTAL	AVAILABLE	AVAILABLE	% QUARTERLY	WEIGHTED AVERAGE PRICE	AVERAGE PRICE RANGE	
			MARKET	PROPERTIES	SPACE sf	CURRENT		MIN.	MAX.
TOTAL	A	120	18,073,267	8	781,739	4.30%	\$5.52	\$4.79	\$6.60
	B	767	54,163,367	12	613,348	1.10%	\$4.60	\$3.60	\$5.15
	Total	887	72,236,634	20	1,395,087	1.90%	\$4.98	\$4.82	\$5.15
CENTENARIO	A	41	6,692,560	1	65,563	1.00%	\$5.52	\$5.52	\$5.52
	B	221	14,665,930	2	42,668	0.30%	\$4.39	\$4.19	\$4.79
	Total	262	21,358,490	3	108,231	0.50%	\$4.95	\$4.86	\$5.16
CENTRO	A	0	0	0	0	0.00%	0	0	0
	B	16	666,766	2	69,865	10.50%	\$5.04	\$5.04	\$5.04
	Total	16	666,766	2	69,865	10.50%	\$5.04	\$5.04	\$5.04
CERRO COLORADO	A	6	535,170	1	1,951	0.00%	4	4	4
	B	108	8,427,899	2	99,153	1.20%	\$4.79	\$4.79	\$4.79
		114	8,963,069	3	120,153	1.30%	\$4.79	\$4.79	\$4.79
LA MESA	A	0	0	0	0	0.00%	0	0	0
	B	174	9,651,058	0	0	0.00%	0	0	0
	Total	174	9,651,058	0	0	0.00%	0	0	0
LA PRESA	A	38	6,548,409	4	377,424	5.80%	\$6.14	\$5.40	\$6.60
	B	60	6,123,611	0	0	0.00%	0	0	0
	Total	98	12,672,019	4	377,424	3.00%	\$6.14	\$5.40	\$6.60
MESA DE OTAY	A	0	0	0	0	0.00%	0	0	0
	B	34	2,935,955	1	35,004	1.20%	\$5.04	\$5.04	\$5.04
	Total	34	2,935,955	1	35,004	1.20%	\$5.04	\$5.04	\$5.04
PLAYAS	A	9	73,815	0	0	0.00%	0	0	0
	B	3	139,436	0	0	0.00%	0	0	0
	Total	12	933,977	0	0	0.00%	0	0	0
SAN ANTONIO	A	10	1,146,645	0	0	0.00%	0	0	0
	B	63	4,152,469	2	273,457	6.60%	\$3.64	\$3.60	\$3.84
	Total	73	5,299,114	2	273,457	5.20%	\$3.64	\$3.60	\$3.84
SANCHEZ TABOADA	A	10	1,306,567	1	20,620	0.00%	5	5	5
	B	88	7,400,244	3	93,201	1.30%	\$4.89	\$4.67	\$5.15
	Total	98	8,706,811	4	315,153	3.60%	\$5.08	\$4.97	\$5.21
CUERO DE VENADOS	A	6	1,049,375	1	95,800	9.10%	\$5.15	\$5.15	\$5.15
	B	0	0	0	0	0.00%	0	0	0
	Total	6	1,049,375	1	95,800	9.10%	\$5.15	\$5.15	\$5.15

Source: Colliers International

GLOSSARY

MARKET.- In the specific case of the industrial real estate market are warehouses, industrial buildings and land with industrial land use.

SUBMARKET.- Area bounded by one or more colonies, as well as avenues that have one sufficient amount of industrial spaces that can be commercialized.

INVENTORY.- It is the entire completed property (measured in square meters) in the main sub-markets, excluding those under construction or in project stage.

VACANCY.- Total spaces in square feet that are offered on the market for sale or rent at any given time.

DEMAND.- Measured in square feet showing the total number of spaces that were marketed during a certain period.

VACANCY RATE.- It represents the percentage of available space in a market. This indicator is obtained by dividing the total available square feet between the total of the inventory.

NET ABSORPTION.- It is the change in the number of square feet of space occupied during a specific period. This indicator shows the total number of square feet which were occupied or unoccupied. If the result is negative the oversupply of spaces available in the market, due to the incorporation of new spaces or the vacating of properties it represents.

SUBLEASE.- Is a modality through which the lessee of a space is offered for rent by the end of the lease to a third party. It can offer full or partial space.

CLASS.- Classification or degree received a building based on the features that distinguishes it from others. In the industrial market are classified as A and B.

INDUSTRIAL BUILDING.- Building designed to industrial activities for manufacturing, transformation, assemble, industrial processes, storage, logistic and distribution.

WAREHOUSE.- It is a building designed and built for industrial storage and distribution activities.

INDUSTRIAL LAND.- It is an area generally bounded within a park or industrial zone designated for the installation or construction of an industrial building.

INDUSTRIAL PARK .- It is geographically bounded and surface specially designed for the settlement of various industrial properties. It has the infrastructure and features suitable for industrial processes and transport, as well as equipment and services specific to your operation.

BTS (BUILT TO SUIT).- Developments made for a client specific with characteristics suitable to the needs of the same operation.

SPECULATIVE.- Industrial development built based on standard features to meet the operational needs of different customers.

WEIGHTED AVERAGE PRICE.- The number of square meters of the property by the total available meters runner splits available, obtaining the percentage of availability of the property. This percentage is multiplied by the price of the property and the weighted price is obtained. Finally the weighted prices of all properties are added, thus obtaining the weighted average price of each runner.

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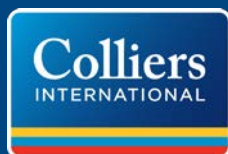
9 OFFICES
IN **MEXICO**



MORE THAN
5,000 EXPERTS
MORE THAN **15,000** PROFESSIONALS

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