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Impact of Tariffs on Global Trade And Industrial RE

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Impact of Tariffs on Global Trade & Industrial RE

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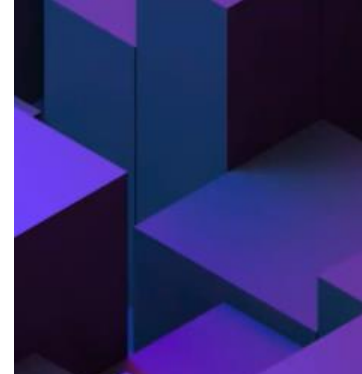
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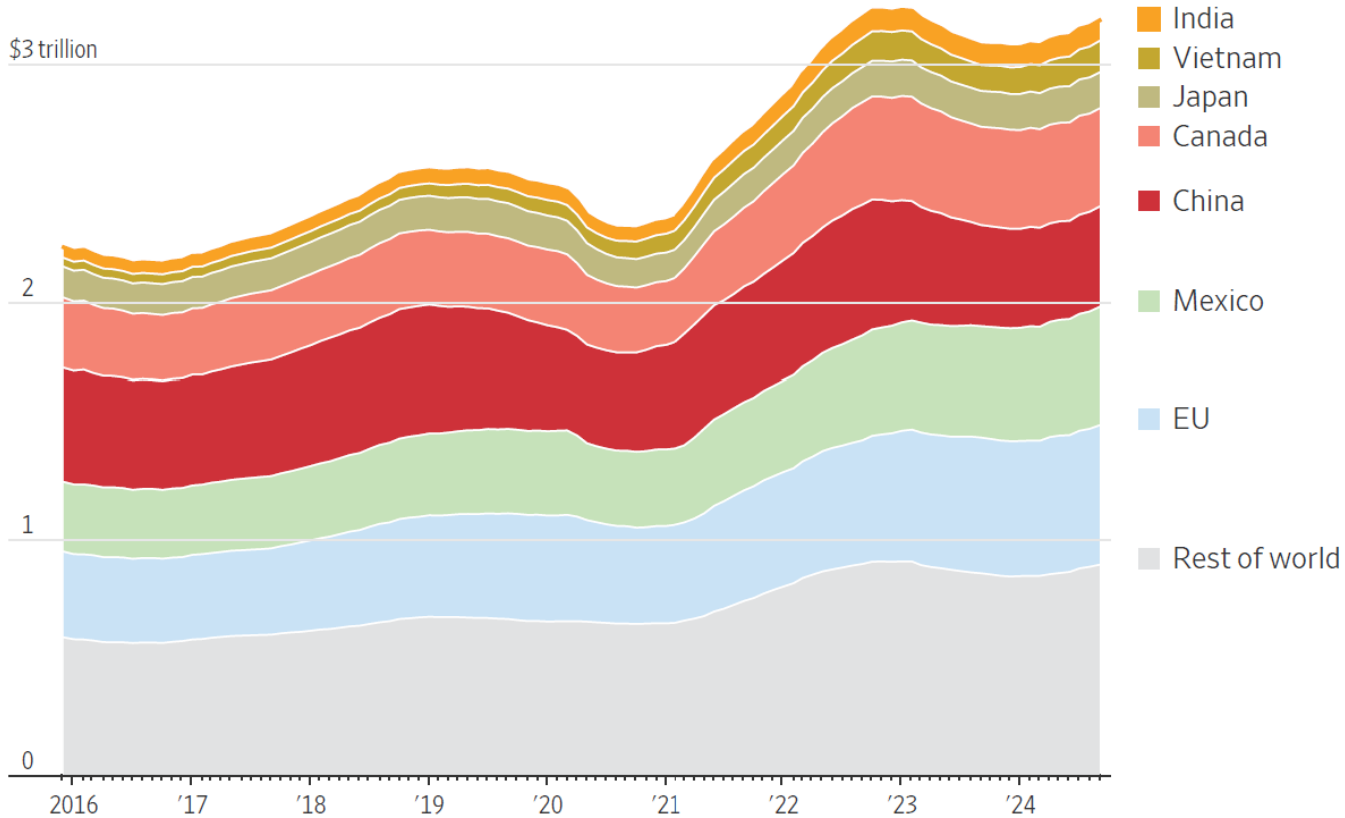


What is a Tariff?

- A tariff is a tax on goods crossing national borders.
- The most common type is an **import tariff**, which taxes goods brought into a country
- Tariffs are typically imposed for **protection** or **revenue** purposes.
 - A **protective** tariff increases the price of imported goods relative to domestic goods, encouraging consumers to buy from local producers, who are thus “protected” from foreign competition.
 - A **revenue** tariff is mainly used to generate money for the government.
 - **NEW! Reciprocal Tariffs:** Where Country A tariffs us at 20% on Product X, we will now tariff them on same commodity at 20%. Today it's at 2.4%



U.S. goods imports by source country, 12-month rolling total



Source: Trade Partnership Worldwide, Census Bureau

Tariff Impact on Global Trade

- The effective tariff rate on all U.S. goods imports (import duties as a share of total goods imports) averaged 2.3% (source: fitch ratings).
- The average effective tariff rate on Chinese imports has risen significantly, from around 3% in 2018 to roughly 11% in 2023. (source: fitch ratings).
- President Elect Trump is implementing an additional 10% tariff on all products from China and a 25% tariff on all Mexican and Canadian imports. source:whitehouse.gov
- The current U.S.-Mexico-Canada Agreement he signed in 2020 maintained largely duty-free trade between the three North American countries.



U.S. average effective tariff rate



Note: Trump proposal assumes additional 25pp tariff on Canada and Mexico goods imports and 10pp tariff on Chinese goods imports

Source: The Budget Lab at Yale, Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis

Tariff Impact on Global Trade

- The Congressional Budget Office (CBO) says that the effect of tariffs on output can be ambiguous.
 - On the one hand, some consumers end up buying domestic goods instead of imported goods, and tariff revenues make more resources available for private investment by decreasing the national deficit. These factors increase GDP.
 - On the other, the purchasing power of consumers goes down as goods are more expensive, retaliatory tariffs decrease exports, and some businesses delay new investments out of caution. These factors all decrease GDP.

Source: **Brookings Institution)**



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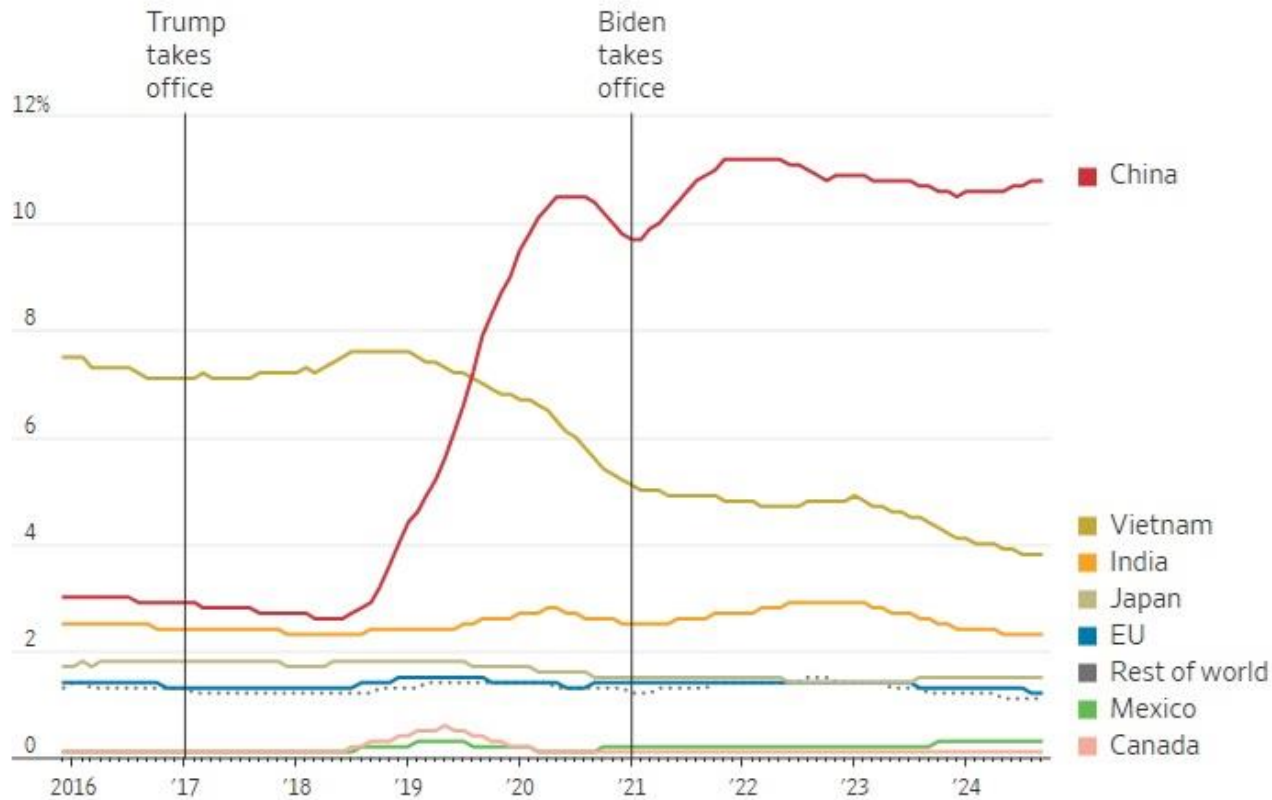
How do the Tariffs really affect you and me As Consumers?

Example: Nike shoes are taxed at 10% normal+ 25% China 301 tariffs.

- However, this is NOT on the \$150 price we pay as consumers. It is on the “transaction price or import price” of \$15!
- So, 10% is \$1.50. And 25% is \$3.75, so overall cost increase of \$5.25 per each pair of Nike’s. Significant Tariff, but how does that affect You and Me?
- Against the \$150 retail price, that is an increase of 3.5 %. Negligible in the big picture!!! **However, for Nike that is a significant cost increase (profit drain)** as there are a lot of other costs that go into a \$150 pair of sneakers.....just put it all into perspective and Higher Tariffs are not truly that inflationary.



U.S. effective tariff rate by import source country, 12-month rolling average



Source: Trade Partnership Worldwide, Census Bureau

De Minimis Rule: Temu & Shein

The current de minimis rule allows goods valued at \$800 or less to enter the US without paying duties (Per Person, Per Day).

In the last 10 years the number of shipments entering the US under de minimis exemption has increased over 600%

FY 2015 = 139M

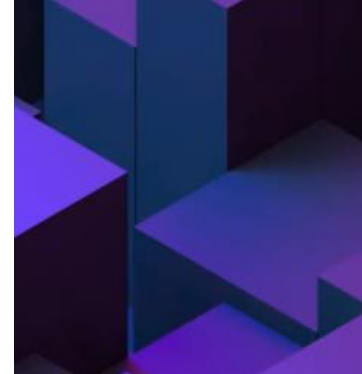
FY2023 = 1B

FY2024 = 1.36B

Customs/Trump Changes to De Minimis Rule

Merchandise subject to national security tariffs imposed under Section 232, 201, and 301 and the new EO will be **excluded** from the de minimis exemption.

This proposed new rule has been issued but implementation is pending Customs Software Updates to accept the new Duty.



Tariff Impact on Global Trade

- As tariffs are raised on Chinese goods, shifts to other producers do occur, but incrementally this shift has been minimal in the past.
- Trump recently threatened 100% tariffs on the group of countries known as BRICS (Brazil, Russia, India, China and South Africa) if these countries moved to circumvent the U.S. Dollars.
- Any changes to the de minimus provision which allows duty-free entry on all packages with contents under \$800 could directly impact many current global discount shippers such as TEMU and Shein.
- A solution for manufacturers and retailers in the U.S. is to consider utilizing a Foreign-Trade Zone to defer duties and re-export goods duty-free.





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HOW THE FTZ IMPACTS POTENTIAL TARIFF INCREASES

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FTZ and Tariffs

- FTZs are the only Customs method of impacting (mitigating) against tariff creep.
- Manufacturers can use it to reduce the “Cost of Goods Sold” expense.
- Distributors/E-Commerce fulfillment centers can use it to mitigate the cost of the Tariffs until the goods are sold!
- Exports = NO TARIFFS.
- Scrap/waste/obsolete, RTV = NO TARIFFS.
- When Tariffs were 2%, FTZs didn’t make much sense, BUT NOW....



Assumptions Used in FTZ Distribution-Only Cost-Benefit Analysis Sample Apparel Distribution Case

Annual cost, dutiable imports	\$125,000,000
Weighted average duty rate	20.00% + 25% Tariff
Percent reject or scrap imported merchandise	0.25%
Percent of imported merchandise re-exported	0.00%
Percent of imported merchandise sold to the military	0.00%
Inventory turns per year	3
Cost of domestic goods used in exports	\$0
Opportunity cost of capital	4.0%
Drawback system in place?	No
FTZ cost advantage (FTZ differential) over drawback	100.0%
Average "Merchandise Processing Fee" per entry	\$289
Average number of entries per year	1500
Annual growth rate, FTZ operating expenses, etc.	3.0%
Annual growth projections from current year	
Year 2	10.0%
Year 3	10.0%
Year 4	10.0%
Year 5	10.0%
Application and activation expense (estimated)*	\$110,000
Increased operating expenses (accounting/tracking/reporting/systems mod)	\$185,000
Grantee fees (estimated)	\$25,000

* Application preparation, Customs activation and Operator training.
Actual cost will depend on the sophistication of existing systems and other variables.

This is a preliminary analysis which is only as accurate as the assumptions used to generate the following results.
The analysis should not be relied upon until the assumptions, calculations, and results contained herein have been verified.

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Prepared by IMS Worldwide, Inc., Houston, Texas



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Foreign-Trade Zone Cost-Benefits Projections:

Sample Apparel Distribution Case

\$125 Million in imports, no exports, no manufacturing

FTZ Benefits & Expenses By Type	Year 1	Year 2	Year 3	Year 4	Year 5	5-Year Total
FTZ Benefits						
Re-Exports ¹	\$0	\$0	\$0	\$0	\$0	\$0
Reject, scrap, & military sales	62,500	68,750	75,625	83,188	91,506	381,569
One-time benefit ²	---					
Ongoing duty deferral	332,500	365,750	402,325	442,558	486,813	2,029,946
Merchandise Processing Fee savings	401,072	441,179	485,297	533,827	587,210	2,448,585
Total FTZ Benefits	\$796,072	\$875,679	\$963,247	\$1,059,572	\$1,165,529	\$4,860,099
FTZ-RELATED EXPENSES						
Internal FTZ Operation Expenses	\$185,000	\$190,550	\$196,267	\$202,154	\$208,219	\$982,190
Grantee fees	25,000	25,750	26,523	27,318	28,138	132,728
TOTAL FTZ-RELATED EXPENSES	\$210,000	\$216,300	\$222,789	\$229,473	\$236,357	\$1,114,919
NET FOREIGN-TRADE ZONE BENEFITS	\$586,072	\$659,379	\$740,458	\$830,099	\$929,172	\$3,745,181

Totals may vary, due to rounding.

¹Export benefits to Canada and/or Mexico subject to applicable free trade agreements.

Application and activation expense	\$110,000
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² One-time benefit available after 9 weeks	\$8,312,500
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This is a preliminary analysis which is only as accurate as the assumptions used to generate the following results. The analysis should not be relied upon until the assumptions, calculations, and results contained herein have been verified.

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FTZ and Tariffs

- Any site can qualify for an FTZ.
- New, BTS, Spec, Existing buildings, all are eligible for an FTZ approval.
- Site/User specific approvals are really the only avenue....we used to include entire business parks, but that practice is no longer viable.
- However, individual site approvals are now much faster (3-5 months, instead of 12 months).
- The Cost-Benefit Model is available at no charge to Industrial RE Brokers, Developers and Lenders.





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HOW THE DE-MINIMIS RULES ARE IMPACTING SO-CAL INDUSTRIAL R.E.

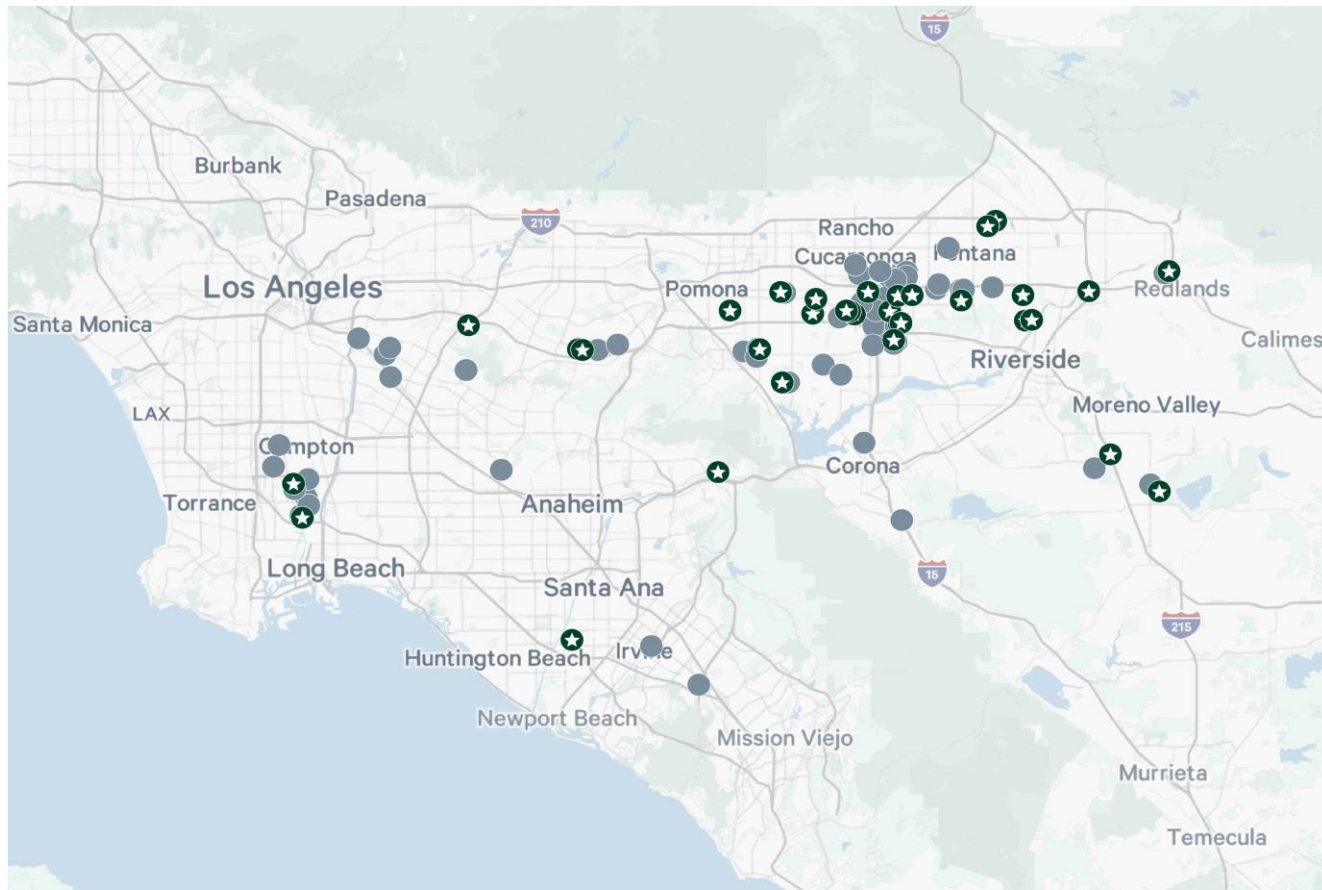
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De Minimis has been under fire for 2 years

- Because of the HUGE rise in volumes, and because a Customs Officer opened a parcel full of fentanyl, killing him in 2021, Section 321 (De Minimis Rule) has been under fire.
- Customs has tried several ways to curtail and/or provide other options, but Congress got involved and has called for an end to it for the last 2 years.
- Temu/Shein/JD.com/Others all used De Minimis via Air Freight and US Mail. Now they need to be located INSIDE the USA!
- **Therefore, “US Footprint” has to be created for Asian E-Commerce companies to supply US Consumers.**
- **Footprint = Warehouse/DC/FC space.**



Locations of Current Chinese 3PLs are occupying in the SoCal Industrial Market



Asian 3PL Demand Centered Near Seaport Locations, Total USA

Market	New 3PL Leases - All	New 3PL Leases - Asian	% Asian
Inland Empire	66	28	42.4%
Philadelphia	17	5	29.4%
Northern-Central New Jersey	41	11	26.8%
Los Angeles County	19	5	26.3%
Savannah	19	5	26.3%
PA I-78/81 Corridor	13	3	23.1%
Houston	31	5	16.1%
Atlanta	34	5	14.7%
Chicago	24	3	12.5%
Dallas - Ft. Worth	18	1	5.6%
Columbus	12	0	0.0%
Indianapolis	10	0	0.0%
Phoenix	10	0	0.0%
Total	428	78	18.2%



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Asian 3PL Firms.....How do you underwrite?

Dir/Sub	Tenant HQ in Asia	Tenant	Lease Rate	Rate Type
Direct	N	Elogistek	\$1.32	NNN
Direct	Y	Western Post	\$1.00	NNN
Direct	Y	American Starlink Logistics	\$1.01	NNN
Sublease	N	eFulfill	\$0.90	G
Direct	Y	Win.It America	\$1.15	NNN
Sublease	N	US Elogistics	Confidential	
Direct	Y	Western Post	\$1.10	NNN
Direct	N	GigaCloud Technology	\$1.10	NNN
Direct	N	White Horse Logistics	\$1.29	NNN
Direct	Y	CJ Logistics	\$1.13	NNN
Direct	Y	Lecangs	\$0.98	NNN
Direct	Y	HYTX Logistics	\$1.07	NNN
Direct	N	Armstrong Logistics	\$0.82	NNN
Direct	N	US Elogistics	\$1.01	NNN
Direct	N	Lean Supply	Confidential	
Sublease	N	Trans Knights	Confidential	
Direct	N	MBV-CA	\$1.25	MG
Direct	N	GigaCloud Technology	\$1.21	NNN
Sublease	Y	1st Mars Logistics	\$1.05	NNN
Sublease	N	STG Logistics	Confidential	

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Dir/Sub	Tenant HQ in Asia	Tenant	Lease Rate	Rate Type
Direct	N	Source Logistics	\$1.10	NNN
Direct	N	GigaCloud Technology	\$1.19	NNN
Sublease	N	US Elogistics	\$1.00	NNN
Direct	Y	JW Fulfillment	\$1.20	NNN
Direct	Y	JW Fulfillment	\$1.00	NNN
Direct	N	KW International	\$1.60	NNN
Direct	Y	CTS Global Logistics	\$1.18	NNN
Sublease	Y	Farmmi	\$1.00	G
Direct	N	IDC Logistics	\$0.80	NNN
Sublease	N	Ent. ORDER SOLUTIONS	\$1.05	MG
Direct	N	KCL Fulfillment	\$1.30	G
Direct	N	Forward Air	Confidential	
Direct	Y	DISCOVERY SCM	\$1.02	NNN
Direct	N	PRIME FREIGHT INTERNATIONAL	\$1.63	NNN
Sublease	N	BDK Logistics	\$1.06	G
Direct	Y	Best Logistics Technologies	\$1.15	NNN
Direct	N	GigaCloud Technology	\$1.14	NNN
Sublease	Y	Weida Freight Systems	\$0.95	NNN
Direct	Y	Lizard Storage Group	\$1.05	NNN

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Dir/Sub	Tenant HQ in Asia	Tenant	Lease Rate	Rate Type
Sublease	Y	Esong CHM	\$0.90	MG
Sublease	Y	Sino Investment	Confidential	
Sublease	N	Northstar Innovation	\$0.99	NNN
Direct	N	Carrier Corp.	\$1.30	NNN
Sublease	N	Dematic	\$0.81	NNN
Direct	N	Kair Harbor Express	Confidential	
Sublease	Y	Xiaoyun Logistics	\$0.95	MG
Sublease	N	Jam'n Logistics	Confidential	
Direct	Y	Sino Investment	\$1.00	NNN
Direct	Y	HYTX Logistics	Confidential	
Direct	Y	DISCOVERY SCM	Confidential	
Direct	N	GXO Logistics	\$1.08	NNN
Direct	Y	Fang	\$0.97	NNN
Direct	Y	Forest Shipping USA	\$1.36	N
Sublease	N	Westmark Logistics	\$1.12	G
Direct	Y	Silicon2	Confidential	
Direct	N	Northstar Innovation	\$1.04	NNN
Direct	Y	Chang Xin	\$1.10	NNN
Direct	N	KCL Fulfillment	\$1.30	G

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Dir/Sub	Tenant HQ in Asia	Tenant	Lease Rate	Rate Type
Direct	N	Capital Logistics	Confidential	
Direct	N	Carbel	Confidential	
Sublease	N	Estes Forwarding Worldwide	\$1.50	G
Direct	N	Speedup Logistics	Confidential	
Direct	N	L3 Technologies	\$1.64	NNN
Direct	Y	XY Logistios	\$1.11	NNN
Direct	N	Weber Distribution	\$1.52	NNN
Direct	N	TOTAL TRANSPORTATION LOGISTICS	\$1.14	NNN
Direct	N	Fragilepak	\$0.97	NNN
Sublease	N	Axelavate Supply Hub	Confidential	
Direct	N	K-Space Logistics & Postpony	\$1.12	NNN
Direct	Y	Oconca Shipping (LAX)	\$1.25	NNN
Sublease	N	Fragilepak	\$0.95	NNN
Sublease	N	Orange Courier	\$0.95	NNN
Direct	Y	Teng Chang	\$1.50	G
Direct	Y	Prime Bay	Confidential	
Direct	N	Cubework	\$1.25	NNN
Direct	N	A-I Delivery Co	\$1.15	NNN
Direct	N	SLP TACER OPERATING, LLC a Delaware	\$1.59	NNN

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Dir/Sub	Tenant HQ in Asia	Tenant	Lease Rate	Rate Type
Direct	Y	Phi 2 Capital Corp.	\$1.23	NNN
Direct	Y	Fly King Warehouse	\$1.40	NNN
Direct	N	QUICK CAT LOGISTICS	\$1.45	N
Direct	N	Super Secure Warehouse	\$0.80	G
Direct	N	United Fulfillment	\$1.25	G
Direct	N	360 Global Warehousing and Distribution	\$0.48	G
Direct	N	Best Seller Logistics	\$1.30	NNN
Direct	N	Ys & Son	\$1.48	NNN
Direct	N	Fedex Corp.	\$1.71	NNN
Direct	Y	WingTat Cargo	\$1.30	NNN
Direct	Y	Jiufang E Commerce Logistics	Confidential	
Direct	N	Sea Hawk Express Sea Hawks Express Logistics	\$1.20	NNN

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