



Impact of Tariffs on Global Trade & Industrial RE

Curtis D. Spencer, CEO
IMS Worldwide, Inc.

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. 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

How Do Tariffs Impact 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.

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 added 145% Tariffs on China, and the rest of the world has 10%--- For Now!
- Everyone has seen the news.....Tariffs will remain unsettling and a “moving target” for the next 6 months!
- 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.

HOW THE FTZ IMPACTS POTENTIAL TARIFF INCREASES



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-Benefits Analysis
Mid-Size Distribution Center / Square Foot Cost Differential

Annual cost, dutiable imports	\$150,000,000
Weighted average duty rate(1% + New Recipricol Tariffs of 45%)	46.00%
Percent reject or scrap imported merchandise	0.50%
Percent of imported merchandise re-exported	2.00%
Percent of imported merchandise sold to the military	0.00%
Inventory turns per year	6
Opportunity cost of capital	7.5%
Drawback system in place?	NO
FTZ cost advantage (FTZ differential) over drawback	100.0%
Average "Merchandise Processing Fee" per entry	\$173
Average number of entries per year	3000
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)*	\$95,000
Increased operating expenses (accounting/tracking/reporting/systems mod.)	\$225,000
Grantee fees (estimated)	\$8,000
Warehouse footage - used for net rent differential savings calculation	500,000

Foreign-Trade Zone Cost-Benefits Projections:									
Mid-Size Distribution Center / Square Foot Cost Differential									
FTZ Benefits & Expenses By Type				Year 1	Year 2	Year 3	Year 4	Year 5	5-YEAR TOTAL
FTZ Benefits									
	Re-Exports ¹			\$1,380,000	\$1,518,000	\$1,669,800	\$1,836,780	\$2,020,458	\$8,425,038
	Reject, scrap, & military sales			345,000	379,500	417,450	459,195	505,115	2,106,260
	One-time benefit ²			---					
	Ongoing duty deferral			840,938	925,031	1,017,534	1,119,288	1,231,217	5,134,008
	Merchandise Processing Fee savings			486,600	535,260	588,786	647,664	712,431	2,970,740
Total FTZ Benefits				\$3,052,537	\$3,357,791	\$3,693,570	\$4,062,927	\$4,469,220	\$18,636,045
FTZ-RELATED EXPENSES									
	Internal FTZ Operation Expenses			\$225,000	\$231,750	\$238,703	\$245,864	\$253,239	\$1,194,556
	Grantee fees			8,000	8,240	8,487	8,742	9,004	42,473
TOTAL FTZ-RELATED EXPENSES				\$233,000	\$239,990	\$247,190	\$254,605	\$262,244	\$1,237,029
NET FOREIGN-TRADE ZONE BENEFITS				\$2,819,537	\$3,117,801	\$3,446,380	\$3,808,322	\$4,206,976	\$17,399,017
NET RENT DIFFERENTIAL/FOOT									
VIA FTZ (SAVINGS)				\$5.64	\$6.24	\$6.89	\$7.62	\$8.41	

Assumptions Used in FTZ Distribution-Only Cost-Benefits Analysis**SMALL IMPORTER, NEW TARIFFS DC**

Annual cost, dutiable imports						\$5,782,598
Weighted average duty rate						27.75%
Percent reject or scrap imported merchandise						2.00%
Percent of imported merchandise re-exported						30.00%
Percent of imported merchandise sold to the military						0.00%
Inventory turns per year						3.22
Cost of domestic goods used in exports						\$0
Opportunity cost of capital						7.5%
Drawback system in place?					No	
FTZ cost advantage (FTZ differential) over drawback						100.0%
Average "Merchandise Processing Fee" per entry						\$385
Average number of entries per year						52
Annual growth rate, FTZ operating expenses, etc.						3.0%
Annual growth projections from current year						
Year 2						15.0%
Year 3						15.0%
Year 4						15.0%
Year 5						15.0%
Application and activation expense (could be 1/2 this estimate)*						\$95,000
Increased operating expenses (Software + accounting/tracking/reporting/sys						\$195,000
Grantee fees (estimated)						\$10,000

Foreign-Trade Zone Cost-Benefits Projections:
Small Importer, Distribution Case with New Tariffs

FTZ Benefits & Expenses By Type		Year 1	Year 2	Year 3	Year 4	Year 5	5-YEAR TOTAL
FTZ Benefits							
	Re-Exports ¹	\$481,401	\$553,611	\$636,653	\$732,151	\$841,974	\$3,245,791
	Reject, scrap, & military sales	32,093	36,907	42,444	48,810	56,132	216,386
	One-time benefit ²	---					
	Ongoing duty deferral	25,416	29,228	33,612	38,654	44,452	171,362
	Merchandise Processing Fee savings	0	0	0	0	0	0
Total FTZ Benefits		\$538,910	\$619,747	\$712,709	\$819,615	\$942,557	\$3,633,539
FTZ-RELATED EXPENSES							
	Internal FTZ Operation Expenses	\$195,000	\$200,850	\$206,876	\$213,082	\$219,474	\$1,035,281
	Grantee fees	10,000	10,300	10,609	10,927	11,255	53,091
TOTAL FTZ-RELATED EXPENSES		\$205,000	\$211,150	\$217,485	\$224,009	\$230,729	\$1,088,373
NET FOREIGN-TRADE ZONE BENEFITS		\$333,910	\$408,597	\$495,224	\$595,606	\$711,828	\$2,545,166

FTZ Benefits as Rent Reduction Calculation **\$3.34** **\$4.09** **\$4.95** **\$5.96** **\$7.12**
100,000 sq. ft. building Totals may vary, due to rounding.

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

Application and activation expense	\$95,000
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² One-time benefit available after	16 weeks	\$338,875
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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 *(by IMSW) is available at no charge to Industrial RE Brokers, Developers and Lenders.

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



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

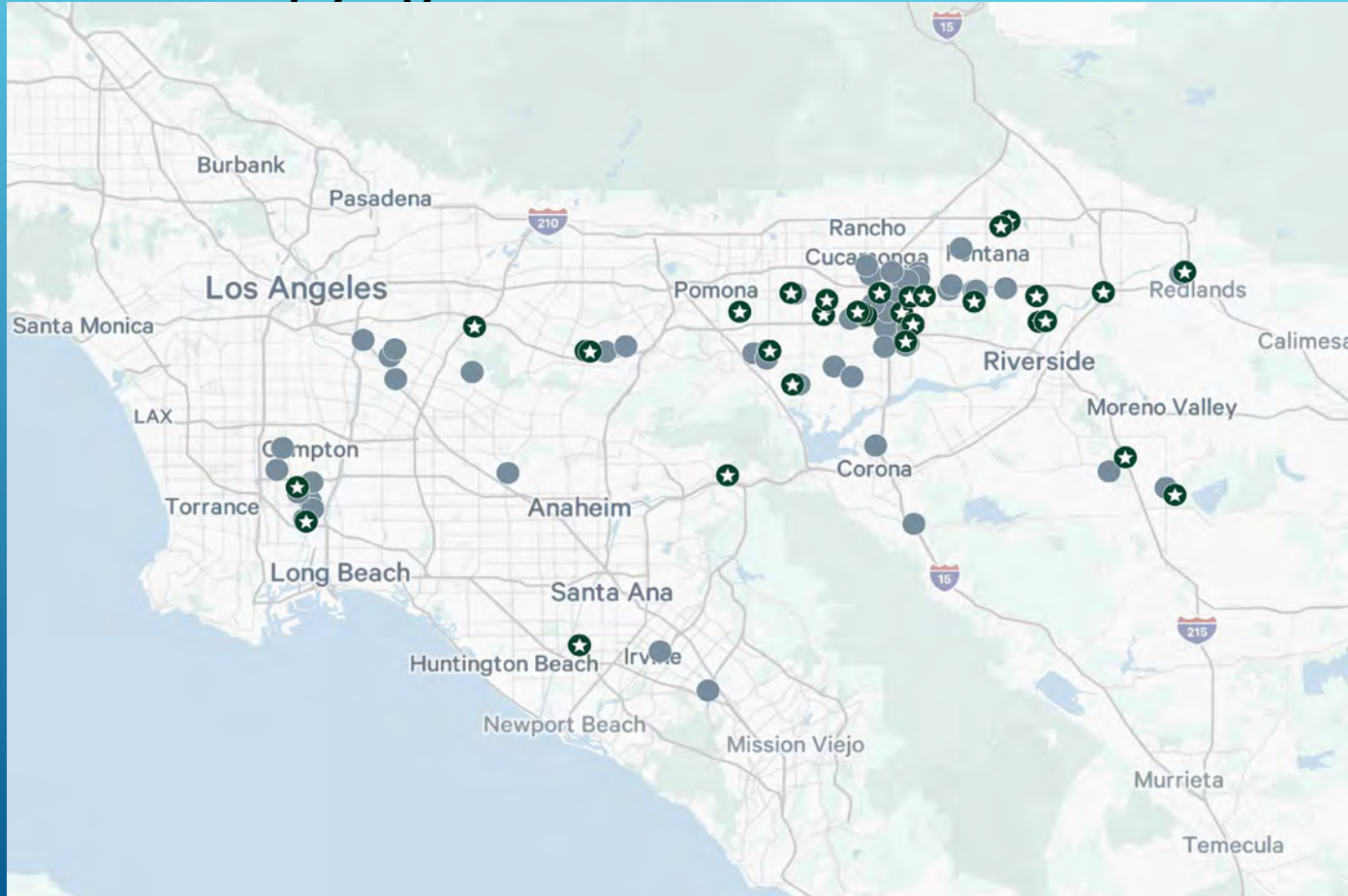
Merchandise subject to national security tariffs imposed under Section 232, 201, and 301 and the new EO will be **excluded** from the de minimis exemption.

This proposed new rule has been issued and China Imports via “de minimis” are now Prohibited!.

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%



Impact of Tariffs on Global Trade & Industrial RE --- Questions?

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