Foreign Direct Investment and Commercial Property Development in a US-Mexico Border City.

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Abstract. Studies of foreign direct investment (FDI), particularly in producer services, manufacturing, retailing, and mergers/acquisitions, are important within the literature on globalization. Still open to debate is the feasibility that FDI can be directed toward the development of commercial real estate property, including office space, shopping centers, and industrial/warehouse facilities. While investment across the globe in large-scale office buildings and shopping centers by commercial real estate development firms has been recognized, especially in the “world cities,” little mention is made of more modest projects in small or mid-sized cities. This paper presents the results of a study of investment in commercial real estate in the mid-sized US-Mexico border city of Laredo. Warehousing dominates much of the landscape of Laredo’s suburban zone, because the city handles some 40 percent of the cargo crossing between the two countries. Retailing also has expanded due to the growth of Laredo’s population and the continued popularity of the city as a destination for Mexican shoppers. Thus, Mexican money is invested quite heavily in warehousing and retail space. A business class exists that promotes and facilitates this type of investment, and whose efforts are largely directed toward investors from Monterrey and Mexico City. Methodologically the study required interviews, given that public records of property development do not indicate the national origin of investors, and given that the phenomenon is not transparent.

Introduction

The lower US-Mexico border region, comprised of Southern Texas and the Mexican states of Coahuila, Nuevo León, and Tamaulipas, is heavily dependent on its ties to the expanding global economy. The intimate cross-border connectivity between these states forms a strong basis for the globalizing process that marks the region. The related features of the region’s economy most commonly elaborated in the literature include manufacturing for export, the spread of binational retailing, and the movement of cargo. Related to these features of the region's economy is commercial real estate investment, an activity identified as increasingly global in scope. Given the complex and risky nature of this type of investment, including the need on the part of investors to navigate through national laws and local political structures, it is not yet clear if firms that invest in commercial projects such as industrial parks, shopping centers, and office buildings can fully broaden their outreach to all parts of the globe. Furthermore, the extent to which commercial real estate investment in the Texas-Mexico border region is ripe for further development as a global activity has yet to be fully addressed in the literature.
This paper examines the applicability to the Texas-Mexico border region of the ongoing debate within the social sciences over the global vs. local nature of investment in commercial real estate development. Through interviews and published data, I examined the spatial patterns of investment in industrial parks, retail shopping centers, and to a lesser extent office space in the border city of Laredo, Texas, which adjoins Nuevo Laredo, Tamaulipas and Colombia, Nuevo León. Laredo is heavily dependent on US-Mexico trans-border commerce, including, to varying degrees, shipping, retailing, real estate investment, and manufacturing. Laredo is a major point of inter-modal transport linking the US and Mexico, and is emerging as a relatively important banking center. The city has become a key staging ground for parts and assembled goods produced in maquiladoras on the Mexican side of the border. More importantly, however, it is a major inland port where documentation and inspection of goods trans-shipped across the border are carried out. “Industrial parks” and freestanding warehouses are among the more important features of commercial real estate development, which investors, realtors, and the local government promote heavily as a means to attract more transportation activities in Los Dos Laredos, and maquiladoras in Nuevo Laredo. As several Laredo bankers and realtors expressed in interviews, retail shopping centers, likewise, are increasingly important to investors, including many from Mexico.

By emphasizing approximately the fifteen-year time frame of 1990-2005, I address the extent to which capital emanated from local or international sources in attempt to be reproduced through commercial real estate development in Laredo. That is, I examined how since 1990 commercial real estate investment, whether originating locally or outside the locality, works in conjunction with cargo shipments through Laredo and Nuevo Laredo, manufacturing in Nuevo Laredo, and retailing in Laredo to bring about changes in the urban built environment. The time period of the study coincided with both a major devaluation of the Peso and a dramatic surge in urban growth driven largely by the North American Free Trade Agreement (NAFTA).

The social science literature in general, and the sub-disciplines of economic geography and urban geography in particular, can benefit from a more pronounced insertion of real estate into the various analyses of suburbanization. The literature on suburbanization can now be broadened by an inclusion of the US-Mexico border region, and specifically Laredo as a case study. The case study locality is affected by a diversity of political cultures, not only between the two countries but also between different political entities at different levels (local, intermediate and national) within each of the two countries. This border case study will enhance the ongoing debate within urban geography about the degree to which commercial real estate development is a global, international, or local activity. Additionally, the case study is a rare example of the insertion of a mid-sized city into the growing literature within economic and urban geography on the flows of money and corresponding change in the built environment. Finally, the study sheds light on the nature of collaboration between developers and local government, a relationship that has long shaped local governance styles, perhaps best defined as realetpolitik.

The remainder of this article is organized into six sections. First, I identify a relevant theoretical contribution of the case study as an example of the workings of the global economy at the local level. Second, I provide a description of the methods employed to identify Mexican...
foreign direct investment in commercial real estate in Laredo. Given the massive warehousing development of Laredo and the signification amount of Mexican investment in it, a section is devoted to providing an overview of the geography and related political economy of that land use. The fourth section presents the study's principle findings related to Mexican involvement in Laredo's commercial real estate development. A discussion of the findings is provided in the fifth section. Finally, the paper concludes that additional case studies of this type are needed to understand the nature of foreign direct investment in commercial property development in mid-sized cities engaged in the global economy.

**Theoretical Contribution of the Study**

The social science literature on globalization emphasizes four primary, interrelated aspects of the phenomenon: cultural, political, technological, and economic. The cultural side of globalization includes increased migration and the proliferation of a standardized lifestyle based on consumption of brand name products. The political side relates to free trade agreements such as the World Trade Organization (WTO), and NAFTA in the case of the Western Hemisphere in particular. The technological side of globalization is highlighted by information technology (IT). Economic globalization emphasizes foreign direct investment (FDI) in manufacturing, retailing, and marketing. The literature emphasizes the “world cities” or “global cities” where the command functions of the global economy are centered, and where the corporate offices of producer services which operate globally are located (Taylor and Lang 2005). A topic in need of greater analysis is commercial real estate investment, given the important place that investment in land and buildings holds within the process of capital reproduction, or what is termed the “secondary circuit of capital” (Gottdeiner 1994; Harvey 1985). A growing debate emerged within the sub-discipline of economic geography over the degree to which investment in commercial property development is a global activity (Wood 2004; Warf 1994; Leitner 1994). Clearly, foreign direct investment in property development occurs, but there is a debate about the extent to which such investment is flexible, or whether such investment favors local actors with strong ties to local political figures, the planning process, and the providers of the necessary infrastructure (Wood 2004). This study is an attempt, albeit a first step, to insert the US-Mexico border region into that debate.

Of relevance to this study is Sklair’s concept of the “transnational capitalist class.” He (1992, 2001) argued that globalization is brought about by a sizable group of actors who constitute a class of people whose allegiances are to the capitalist system as opposed to any one country or locality. The class consists of bankers, government officials, educators, providers of producer services, and the like. In the case of the manufacturing along the US-Mexico border, Sklair (1992) argues that the transnational capitalist class consists of people from both sides of the border, whose primary allegiances are neither the region as a whole, a particular locality, or either of the two countries. They act in such a way as to further global capitalism and their position within it. This case study shows that Sklair’s conception of the border economy, while quite relevant, indeed needs to be expanded to include investment, both Mexican and American, in commercial property development.
Methodology Utilized to Gather the Relevant Data

This study involved open-ended interviews of private sector and government officials knowledgeable about investment in commercial real estate in Laredo. An important component of this research was the issue of confidentiality. Bankers, realtors, civil engineers, and other consultants who comprise the real estate/political class were careful not to mention specific names of people (and in some cases specific developments) when discussing overall trends. Snowball sampling enabled me to identify those actors most involved in and knowledgeable about this real estate sector. This paper out of necessity is a description of overall trends that provides an indication of cross-border financing of commercial real estate development, rather than a definitive collection of hard data. Foreign nationals who invest in property development establish a U.S. corporation, and it is impossible to determine the national origin of such (Barrera 2005, Schwebel 2005). The difficulty in obtaining complete data on commercial real estate is a universal phenomenon that researchers face. Andrew Wood (2004), therefore, regards interviews as the best way to unpack the complexities surrounding this type of globalized investment.

Bank personnel whom I interviewed included those who handled international investments and commercial real estate investment and financing. I spoke at length with realtors specializing in sales and leasing of commercial properties, including warehouse lots, warehouses, and retail space. Economic promotion officials were instrumental in explaining the overall importance of commercial real estate development to the Laredo economy in particular, and the mid-Rio Grande border economy in general. The bankers, economic promotion officials, and realtors also provided valuable overviews of the political-economic context within which this industry emerged and strengthened, and insights into the alliances that formed between investors and key providers of producer services, including civil engineers, attorneys, accountants, bankers, realtors, leasing agents, and planning officials with local government.

The Geography and Political Economy of Laredo Warehousing

Warehousing and the storage of truck trailers dominate the built environment of Laredo’s north and northwest sides. The city, the dominant transshipment point of goods between the United States and Mexico, handles some 40 percent of such trade (LDF 2005; Laredo Chamber of Commerce 2012). Despite the “free trade” rhetoric of NAFTA, The process of moving cargo across the border is complex and time consuming, thereby necessitating a large infrastructure to temporarily store goods that need to be inventoried, inspected, assessed for duties, and the like. Hence, there is a strong demand side to the equation of the building out of the Laredo landscape in commercial warehousing.

On the supply side, the growth of this sector of the economy entices investors from Mexico seeking investments that are safe, easily financed, and lucrative to initiate the building of warehousing either for the use of their own transportation-related companies, for speculation (leasing), or both. Mexican banking laws were altered in the 1980s and 1990s to stem the “capital flight” that had occurred periodically since the early 1970s, but the results have been mixed (Adams 1997: 2-8). Credit remained expensive in Mexico, and the threat of looming Peso devaluations motivated scores of Mexican investors to seek out real estate investment
opportunities in the Texas border cities (Adams 2005, Cabezut 2005, Schwebel 2005, Barrera 2005). Mexican-based banks typically finance less than half the cost of a warehouse development, requiring investors to utilize savings to leverage such development (Cabezut 2005). Credit for warehousing purchases in the US is much more plentiful. Typically, depending on the credit worthiness of an investor, a down payment of 15 to 25 percent is required, and terms of fifteen years are typical (Barrera 2005).

Friendly business relationships linking Monterrey, Mexico City, and other Mexican localities on one hand with Texas border cities like Laredo on the other hand, are crucial to the creation and expansion of cross-border investment in commercial real estate development. By 2005, the activity had spawned an entire industry that to this day involves bankers, economic promotion officials of both the private and public sectors, real estate brokers, warehouse developers, land developers, civil engineers, accountants, attorneys, and consultants, in addition to end users such as customs brokers, freight forwarders, and manufacturers. Thus, Leslie Sklair’s concept of the “transnational capitalist class” of the US-Mexico border needs to be broadened beyond his emphasis on the maquiladora manufacturing sector. The transportation of cargo, constricted by the artificial legalities of the border, reinforces this multi-faceted alliance beyond what Sklair described (Sklair 1992, Sklair 2001).

Warehousing in Laredo is a major land use that is tied to the logistics of the crossing of cargo between the US and Mexico. Maquiladora-related crossing of freight represents a small percentage, but not an unimportant amount, of goods crossed at Laredo. Non-maquiladora shipments represent the lion’s share of cargo crossed at Laredo, because maquiladoras are proportionally less important to the Laredo economy than other Texas border cities (Phillips and Manzanares 2001; Laredo Chamber of Commerce 2012). It can be inferred that maquiladoras in the interior of Mexico play an increasingly larger role in terms of Laredo-Nuevo Laredo port activity, while local (Nuevo Laredo) maquiladora contributions to freight crossings has reached its plateau. Despite the growth of the maquiladora phenomenon in the interior of the country, owing to changes to in-bond assembly laws after the implementation of NAFTA, the border cities remain important to the activity because of their proximity to the US. For example, during the 1990s, maquiladora employment increased 17 percent annually in the interior of Mexico, and 7.8 percent annually along the border. The growth in the number of interior maquiladoras, however, had only partly reduced transportation congestion and the taxing of border transportation infrastructure (Vargas 2001).

Non-maquiladora imports and exports comprise the vast majority of truck and rail traffic in Laredo that requires warehousing. By 2000, Laredo accounted for about 60 percent of all earnings in transportation services of all the Texas border cities combined, and in 2011, 40.6 percent of all cargo crossing the US-Mexico border (Phillips and Manzanares 2001: 12; Laredo Chamber of Commerce 2012). The infrastructure needed for shipment of goods (maquiladora and non-maquiladora) is land extensive, owing in part to the complexities of the border crossing process, including legal paperwork and security activities. The complexities surrounding non-maquiladora-bound goods are greater than for those shipped to maquiladoras. From 1993 to 1999, the number of Laredo truck crossings increased 116 percent, from 1.3 million to 2.8 million. “Transportation services” thus represent a lucrative, high income-generating business activity in Laredo (Phillips and Manzanares 2001: 12-13), which explains in part why Mexican
Investment in Laredo’s warehousing is significant.

Phillips and Manzanaras (2001), the Texas Comptroller of Public Accounts (2001), and Yoder (2009) provide concise summaries of the complex logistics involved in both southbound and northbound traffic cargo shipments. Mexican customs brokers must clear all southbound cargo before it enters Mexico. Because of the lack of warehousing in Nuevo Laredo, most Mexican customs brokers have warehouses in Laredo. Prior to this stage, a US shipping company will drop off a trailer at its Laredo facility, either a warehouse or a truck trailer storage lot. The shipping company then arranges through a US customs broker to have a Mexican customs broker in Laredo prepare the necessary documents, and arranges through a freight forwarder to have the cargo picked up and taken to the Laredo warehouse of the Mexican customs broker for inspection of cargo and preparation of the necessary paperwork. The Mexican customs broker, licensed by the Mexican government, inspects the cargo, ensures the appropriate duties are paid, and arranges for a freight forwarder to cross the goods into Mexico, where Mexico’s Customs Service inspects the goods again. Most freight forwarders’ trucks return empty to Laredo. This phenomenon, referred to as “drayage,” adds to the complexity of the process of freight crossing the border. Once the required inspections have been certified in Nuevo Laredo, the trailer containing the goods can be picked up by a Mexican freight carrier for delivery into Mexico (Phillips and Manzanares 2001, Texas Comptroller 2001; Yoder 2009: 109-111).

Northbound crossings are somewhat more streamlined than southbound crossings, but are complex nonetheless. For a given northbound shipment, a Mexican customs broker inspects the documents for the cargo and supplies the appropriate data to a US customs broker in Laredo. Once fees are paid to the Mexican broker, the goods cross the bridge. U.S. Customs conducts inspections to ensure that cargo entering the US is in compliance with federal laws. Shipments are subject to inspections conducted at primary and/or secondary inspection points before they are released. Mexican truck drivers crossing goods into the US must deliver them to the warehouses of freight forwarders in Laredo, upon release by US Customs (Texas Comptroller 2001). In sum, a massive amount of warehousing is required for both northbound and southbound cargo shipped through Laredo (Yoder 2009: 109-114).

The Findings of the Study

Interviews with bankers, realtors, and warehouse developers all indicate that the primary source area of Mexican investment in Laredo warehousing in 2005 was Monterrey, followed in order by Mexico City, other cities of Central Mexico, and Mexico-Texas border cities. These patterns reflect not only the increased profits of Mexican businessmen in these areas, but an historically contingent collection of changing conditions that investors of these regions face, including Peso volatility and changes in Mexican banking since the 1970s, increases in exports and imports owing to free trade, changes in customs brokerage licensing laws in Mexico, the desire for “secure” investments, and last but not least, the development of essential business linkages between Laredo’s producer service sector and these respective localities. The latter phenomenon continues to evolve as cross-border commercial real estate development increases in frequency. In sum, wealthy Mexican families seek out business opportunities by investing in Laredo, but also they find Laredo to be a place they are comfortable to invest in as they seek to
diversify their investment portfolios and secure a portion of their wealth outside the Mexican regulatory environment (Cabezut 2005).

Figure 1 summarizes the seven types of investors in warehouses in Laredo, from developers of industrial parks, who rarely build warehouses themselves (Jacobs 2005; Ortiz 2005), to users who lease warehouse space. As one proceeds through the list of the seven types, from the largest- to smallest-scale warehouse investment, one can see that source area of investment is increasingly Mexican. In other words, “type I” investors, those who develop warehouse parks, are primarily American, though a handful of Mexican investors are among them. Mexican money becomes increasingly important from “type II” investment to “type VII” investment. The majority of “type III” through “type VII” investors are Mexican, and end users represent the majority by value of Mexican national investment in Laredo warehousing (Swisher 2005, Ortiz 2005, Morales 2005) (Figure 1).

-------------------- Figure 1: Seven Types of Investors in Warehouses in Laredo ----------------------

**Type I: Developers of Industrial Parks**

**Type II: Small-Scale Developer: A single warehouse built for lease to type VII**

**Type III: Small-Scale Developer/End-User: Builds own warehouse and additional adjoining warehouse space to generate lease income from type VII**

**Type IV: End User who purchases land and contracts to build warehouse**

**Type V: End User who purchases a used warehouse**

**Type VI: Small-Scale Investor who purchases a used warehouse to lease out to type VII**

**Type VII: End User who leases warehouse space**

I was able to identify with certainty four “type I” investments by Mexican nationals, meaning the development of warehouse parks, completed or in progress. Twenty-two of Laredo’s 26 identified warehouse parks have been or are being developed by local Laredo-based land developers. The four parks developed by Mexican nationals are among the more important parks in terms of size in Laredo. Three are located along the lucrative Mines Road warehouse corridor of far northwest Laredo near the World Trade Bridge. One that is interesting is a new park adjacent to the road linking Mines Road and the World Trade Bridge, in the process of being developed by FINSA, a steel/metals industrial group based in Monterrey. According to an anonymous interviewee, FINSA is building warehouses for lease on at least some of the park’s
lots. Another is a 200-acre park, also along the Mines Road corridor, whose Monterrey developer is only selling lots. Mexican investment in warehousing has thus become an important component of Laredo’s suburban sprawling toward the northwest. Another Monterrey investment group, LA Ventures, developed a warehouse park that includes some ten warehouses for lease on the south side of the Laredo International Airport, toward the east-central part of the city.

The most common scenarios involving Mexican investment in warehousing include the end user of the warehouse (a freight forwarder or customs broker) who contracts to build the warehouse that is used (Type IV), the builder of a warehouse (or part of a warehouse) for leasing out (Type II, III), the purchaser of a used warehouse by an end user (customs broker, freight forwarder; Type V), the purchaser of a used warehouse to lease out (Type VI), and the end-user (type VII) who leases warehouse space from types II, III and VII (Figure 1). These activities clearly reflect a combination of conditions in the economic geography of the US-Mexico Border region, including the liberalization and decentralization of licensing of Mexican customs brokers, the increase in US-Mexico trade owing in part to NAFTA, and the desire by investors of Monterrey, Mexico City, and other Mexican cities to multiply their profits in commercial real estate development in Southern Texas. As one anonymous interviewee, a Monterrey developer, indicated, warehousing in Laredo had become overbuilt by 2005, so this activity has most likely leveled for the time being, thereby turning investors’ attention toward retail and office space (anonymous 2005).

One local company that develops warehouses and warehouse parks, White Ark, Inc., indicated that a full 100 percent of its clients for speculative warehousing (type II investors) are Mexican nationals and about 75 percent of end users (customs brokers, trucking companies, and freight forwarders) who purchase land and contract the construction of their own warehouse (type IV) are Mexican nationals. The company’s web site indicates that it has six warehouse parks in Laredo, three of which are located far west of the city along Mines Road and out toward the Colombia-Solidarity Bridge that connects Laredo to the state of Nuevo León, some 22 miles west of central Laredo. The company provides full services to clients, including the sale of land, the construction of warehousing, and the managing of the warehouse after it is established. The company also assists clients in establishing relationships with banks, accountants, and attorneys in order to secure credit and establish the status of a corporation to avoid inheritance taxes. Furthermore, the company offers lease management services to type II investors through its real estate division. It took a number of years for the company to develop its predominately Monterrey client base by traveling there and promoting not only the company, but the idea of investment in Laredo warehousing. Finally, the company has entered the business of constructing retail centers for predominately Mexican clients (Garcia 2005).

By 2005, the development of retail strip centers emerged as a popular activity among Mexican investors. Retailing is currently a healthy activity in Laredo, presumably in part because of the overvalued Peso. Investors in this activity tend to be from Monterrey, other northeastern cities such as Saltillo and Torreón, Central Mexico, and to a lesser extent Nuevo Laredo (Cabezut 2005). The largest of Laredo’s retail centers were built by Non-Laredo US developers, such as Houston-based Weingarten, who built the North Creek and HEB Plaza (McPherson and Del Mar) “power centers.” Increasingly, however, Mexican investors are
developing smaller-scale strip malls (Jacobs 2005). Several interviewees indicated that Mexican nationals carry out about half of such developments. One reason cited for their popularity is that warehousing in Laredo is presently overbuilt, and vacancy rates are high (Ortiz 2005, Herrera 2005). The lack of transparency in the commercial property development industry in the U.S. makes it difficult to pinpoint exactly which developments that Mexican nationals initiate. One example that is discussed is a sizable new strip center on Loop 20 in Southeast Laredo (Gutierrez 2005), and another on Jacaman Road near McPherson in suburban northeast Laredo (Torres 2005).

Like the boom in warehousing, the rapid growth of Laredo retailing and the part played by Mexican nationals in its development is a major force in the shaping of the northern, eastern, and southern suburban zones of the urban area. North McPherson Road, Shiloh Road, Loop 20, and Jacaman Road all are recently constructed thoroughfares that now are lined by strip shopping centers of varying sizes. McPherson Road is anchored by Laredo’s two major hospitals, one of which (Laredo Medical Center) is located at the southern portion of the city’s northern suburban zone, and the other of which (Doctors Hospital) is located at the present northern end of the suburban zone, adjacent to a significant suburban warehouse district.

Mexican investment has also occurred in office space in Laredo. Siller Investments, a Monterrey group, developed a six-story office building on the corner of Shiloh Drive and I-35 in the late 1990s on the city's north side. Its occupants include federal agencies, such as Border Patrol. Siller also owns the Falcon Bank Building on McPherson Road, east of downtown, one of whose occupants is the Internal Revenue Service. Furthermore, Siller has recently constructed an office building in McAllen that also is occupied by federal government agencies (Anonymous 2005).

**Discussion**

One of the most important factors underlying Mexican investment in Laredo warehousing is the change in the 1990s to the laws related to the licensing of Mexican customs brokers. As part of the process of political decentralization, President Carlos Salinas de Gortari enabled customs brokers from throughout Mexico to become licensed in any port city. Prior to this change, a customs broker was licensed in only one port, and the licensing was passed down to family members through the generations. After the change, because of the high volumes of cargo shipments through Laredo, brokers from all over the country, especially Monterrey, Mexico City, and Guadalajara have established a facility in the Texas border town (Morales 2005, Gutierrez 2005).

Peso devaluations have been another impetus to Mexican investment in property development in Laredo. Prior to a strong Peso devaluation of 1976, the Mexican currency was pegged to the US Dollar. But the creation of the New Peso that year, and subsequent inflation, caused Mexico’s business community to shed wealth, thus setting off the subsequent process of “capital flight” as a way to avoid the financial volatility (Jacobs 2005, Adams 1997). Another devaluation in 1982 reinforced the anxiety on the part of Mexican business, and investment in Laredo property development commenced. Initially, of course, the weakened Peso kept Mexican money at home, but once a rebound occurred toward mid-decade, capital flight ensued.
Furthermore, in 1982, President López Portillo nationalized the banking system as an attempt to shore up economic nationalistic sentiment and to limit the capital flight that had begun during the administration of Luis Echeverría (1970-76). Adams (1997) argues that the nationalization failed to achieve its objectives, so re-privatization occurred in the early 1990s under the neoliberal regime of Salinas de Gortari. The latter also hoped to attract foreign direct investment (FDI) to Mexico, which could not be accomplished under the tight credit restrictions of nationalized banks (Adams 1997, Jacobs 2005).

In spite of the re-privatization, credit in Mexico has remained difficult to obtain and interest rates have remained high (Adams 1997; Gutierrez 2005). Furthermore, terms are comparatively short in duration, and large down payments are required, thus putting the mid-sized and small investor at a disadvantage, and encouraging further capital flight (Gutierrez 2005). Mexican banking laws increasingly make foreclosures difficult (anonymous 2005). Mexican banking is, therefore, viewed increasingly as conservative compared to US banking, and investors are turning to the latter for capital for commercial real estate investment. A significant and noteworthy result of the banking dilemmas in Mexico is the massive amount of investment in commercial property development in Texas, such as the hundreds of warehouses that Mexican customs brokers and freight forwarders have developed or purchased as end users in Laredo (Gutierrez 2005).

An additional factor spawning warehouse and warehouse park development in Laredo by Mexican and American developers alike is the endemic shortage of warehouse space following the increase in cross-border flows of maquiladora-related goods, or other goods not related to those factories. The original idea of the maquiladora of the late 1960s (the early 1970s in Laredo) included a “twin plant” on the US side of the border, adjacent to the main manufacturing plants in the Mexican border cities. The twin plant is supposed to serve as staging area for the parts to be assembled into goods in Mexico, and a distribution center for the finished goods once they are re-exported to the US. Initially, Laredo’s warehousing was scarce, of poor quality, and rents were high. It was located exclusively along the Tex-Mex rail line and close to the railroad bridge spanning the Rio Grande and connecting Laredo and Nuevo Laredo. According to Gary Jacobs (2005), President of Laredo National Bank, the bank saw an opportunity to assist businessmen to develop warehousing to profit from the need by American (and later Japanese) companies to have twin plants to the maquiladoras, as well as importers and exporters of non-maquiladora goods.

Jacobs (2005) indicated that he convinced Mexican businessmen to buy land and build warehouses in Laredo beginning in 1976. That way, freight forwarders could collect fees in Dollars and avoid the instability of the Peso. Thus, end users, not speculators, built the first of Laredo’s post-1976 warehousing. Not until the mid-1980s did warehouse speculation, the construction of warehousing for lease and/or sale, begin. Credit terms were short, on the order of five years, and the amount borrowed was typically half the total investment. Mexican freight forwarders and customs brokers accustomed to even tighter credit conditions in Mexico found this arrangement beneficial, as equity was built and rent payments in Dollars, transferred from Pesos, was avoided. The warehouse park developers at that point were Laredoans. Such early parks included Modern Industrial Park and Del Mar Industrial Park, both of which were located
northwest of the city’s built up zone, and south of the more recently created Mines Road warehouse corridor (Jacobs 2005).

The increased consumption of retail goods in border cities in general, and in Laredo in particular, is reflected not only in the rapid construction of new retail space for sale or lease, but in bridge crossings and employment and wage statistics over the past decade. Daily temporary crossings of vehicles and pedestrians into Texas border cities increased steadily throughout the 1990s, with only a temporary dip after the 1994 Peso devaluation. In 1998, for example, 35 percent of retail sales of Laredo was destined for Mexico. While jobs increased in number in Laredo and other border cities during the 1990s, there has been no corresponding increase in wages at the low end of the pay scale, thus indicating that the growth in jobs is in retailing. However, the faster growth than the national average in high paying “civilian federal government jobs” (such as Border Patrol) also fuels Laredo’s retail sector (Phillips and Manzanares 2001).

Conclusions

By the middle of the first decade of the twenty-first century, Latin American sources of investment in U.S. properties represented less than seven percent of the total of foreign investment in this activity. European investment, and principally German, represents some 46.6 percent, followed by Australia (20.7 percent), the Middle East (16.8 percent) and Canada (8.6 percent) (Dotzour 2005). The present case study, therefore, is unique by virtue of its focus on Mexican investment in a Texas border city. As the results show, capital flight from Mexico in general, and Monterrey in particular, is a major force in the transformation of Laredo’s built environment. In particular, Mexican investment in Laredo’s commercial real estate involves a diverse but allied group of attorneys, accountants, consultants, civil engineers, planning officials, realtors, bankers, developers, economic promotion officials, freight forwarders, customs brokers, federal security officials, retailers, and long-haul trucking companies. The strong orientation of this class toward Mexican investors favors the latter in the development of warehousing rather than non-local American property development companies, though in the case of large-scale retail centers, the opposite has been the case. The process of converting the natural brush country, known locally as the monte, into sprawling suburban warehousing and strip shopping centers is quite complex, involves a large number of investors and specialists to bring about, and is a fundamental component of the border economy that requires further study.

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