



# The Supply Chain Connection

## FEATURED ARTICLE

## Emerging Supply Chains: The Challenges of Supply Chain Real Estate in Developing Countries

*By David Twist, AMB Property Corporation*

**E**merging markets have become critical to the global supply chains of many leading companies; however, most of these markets remain vastly underserved in terms of functional, modern logistics facilities and adequate transportation infrastructure.

Many of these developing countries are of uppermost interest to corporations, as they offer opportunities at the



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production and consumption ends of the supply chain. For example, China offers access to low-cost, skilled labor and boasts modern production facilities. In addition, China offers the opportunity to do business with a strong and growing base of companies, with strong economic growth and a significant, growing and increasingly-affluent population base. It has been estimated that

the size of China's middle class is now approaching the total population of the United States. Furthermore, many of these emerging market countries are better positioned than ever with fiscal and trade surpluses, currency reserves and relatively stable inflation, currencies and governments.

While several AMB projects in China have focused on the facilitation of moving goods into the supply chain from China's points of production, most have actually been developed to serve the other end of the supply chain with the efficient delivery of goods to China's wholesalers, retailers and consumers.

One of the first major projects AMB undertook in China was on behalf of DHL Exel Supply Chain so they could serve their customer, a global consumer products company. DHL needed to open a large distribution complex near central Shanghai to efficiently distribute consumer products to the local market, or potentially lose that account. Their initial requirement was for 1.0 million square feet of highly functional, world-class distribution space, delivered — up and running — within six months.

There were no existing facilities in the Shanghai region available to accommodate this request. However, AMB was able to procure four underutilized manufacturing buildings centrally located in the Western part of the Fengxian district, south of Shanghai, and totaling 2.0 million square feet on approximately 90 acres of land. The location was well-situated to consolidate shipments from the company's various manufacturing facilities and imports from the ports, and provided immediate access to the Ring Road. The location was also well suited for distribution to Shanghai's major population centers.

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*AMB facility in Fengxian district, China*

The local AMB team was able to identify and acquire this prime site, and implement an extensive redevelopment program under the tight deadline. The facility, named AMB Fengxian Logistics Center, was converted from manufacturing into world class distribution space by adding truck courts, cross-docked doors, reinforced slab with higher load-bearing capacity, fire suppression, and security systems and office space.

This example illustrates many of the challenges facing companies in developing markets. While China is a leader in infrastructure investment, finding the right location — relative to imports, production and consumption with easy access to the best roadways — is critical. It is also an example of the lack of functional logistics and distribution space. There was no existing available facility that fit the needs of DHL and their customer, in terms of size, location and specifications. Development or redevelopment was the only option, with the latter being the ultimate solution to bring the space to market under an aggressive timeline. Delivering on time was critical to the success and profitability of this relationship, and the project would not have been successful without the collaborative approach taken by AMB and DHL. The timing of space availability is often a critical component of the overall supply chain solution for global logistics, distribution and retail companies.

AMB's overall expansion into China has entailed organically growing and building a platform from scratch with proven local talent. This strategy is not a one-size-fits-all solution, however.

When AMB considers entering developing markets to serve its constituents, there are typically three options we consider:

- 1) Build a platform or team from scratch;
- 2) Partner with a local or regional player; or
- 3) Partner with a global company.

Local partners can assist companies like AMB expedite a market entry on behalf of its customers, by helping to establish a solid understanding of local land acquisition and entitlement processes, business customs and taxation practices. Mexico is a compelling example of how complex the land acquisition process can be. The development of today's larger, more efficient buildings in Mexico often requires the complex assembly of "ejido" land parcels — government-owned property given to farmers under a historic Mexican law that can now be sold to third parties.

Even today, with nearly 23 million inhabitants of this third largest urban agglomeration in the world, Mexico City hosts only 38 million square feet of world-class logistics space, a total on par with the airport submarket in Dallas, and less than the Allentown, Pennsylvania market.

When AMB entered Mexico in 2002, it was through a partnership with a locally-based developer and owner of real estate in order to expedite a solution for Procter & Gamble, which needed to improve its distribution operations through Mexico. Economic stability and growth had produced a growing middle class in Mexico City that was enjoying an increase in purchasing power for consumer goods.



*Procter & Gamble facility in Mexico*

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Procter & Gamble's operations were spread across multiple facilities that were too small and inefficient in design, making it difficult to keep up with demand. AMB worked closely with them on a solution. Surmounting the difficulties in assembling parcels of land in Mexico, AMB secured a site and developed a build-to-suit facility that Procter & Gamble then purchased. The company consolidated operations from older, smaller buildings into this newer and larger facility. AMB's custom solution enabled Procter & Gamble to employ modern distribution efficiencies to meet expanding demand and production levels in Mexico.

As these China and Mexico case studies illustrate, real estate is ultimately a local business and success in developing markets is dependent upon finding the right partners. Whether these partners are local employees, hired to build a platform, or established regional or global companies, finding the right people to conquer the intricacies of doing business in emerging markets is critical to the successful implementation of well located, world class supply chain real estate in the emerging world.

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