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Square Feet

2 Cities and 4 Bridges Where Commerce Flows

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JUÁREZ, Mexico — Much like Oakland and San Francisco, El Paso and Juárez are neighboring cities that coexist in a larger regional economy. Juárez and El Paso, however, are separated by more than a body of water, the Rio Grande; they are also divided by the United States-Mexico border. And that border, connected by four bridges, has become one of the busiest crossings in the world.

Much of the commercial traffic over the Rio Grande is driven by the growing light-assembly sector in Juárez, which is now absorbing more new industrial real estate space than any other North American city, according to the El Paso Regional Economic Development Corporation. Approximately five million new square feet a year are being added by existing or newly located corporations engaged in assembling products like computers, mobile phones, appliances, auto parts and medical devices.

“The two cities function symbiotically,” said Bob Cook, president of the nonprofit economic development corporation. “And that is a reflection of the two countries functioning symbiotically. In 2006, we had $55 billion of U.S.-Mexico trade crossing through this border, 18 percent of all U.S.-Mexico trade. There are 267,000 people employed in manufacturing in the El Paso- Juárez region.”

Production sharing in the El Paso-Juárez region, while nothing new, has become increasingly complex. High-tech parts are manufactured in the United States and abroad, then shipped to Juárez for assembly and trucked across the border to El Paso, which has 55 million square feet of distribution space, before being dispersed throughout the United States.

Many international corporations — based in Europe, North America, Japan and, increasingly, China and Taiwan — build their own plants. For instance, Electrolux, a Swedish appliance manufacturer, is expanding its Juárez campus by more than a million square feet to assemble refrigerators.

But job growth and the availability of land in what had previously been thought of as the middle of nowhere have also drawn commercial real estate developers from the United States. Verde Corporate Realty Services, based in El Paso, has invested along the entire United States-Mexico border from Tijuana to Monterrey over the last five years, but most heavily in Juárez .

The company buys land and builds industrial spaces on speculation (that is, without a committed leaseholder). To date, Verde has completed two million square feet and owns enough land to build almost three million more.

Because building in Mexico is considered riskier, investors require a higher rate of return, which makes for higher rents. A building similar to one that Verde leases for about $5 a square foot in Juárez would bring about $3.80 in El Paso.

The main reason to build in Juárez, of course, is the low cost of labor, not construction costs. At $38 to $42 per square foot to construct, Verde spends more to build in Juárez than it would in El Paso.

These new light assembly buildings are not the cheap, polluting maquiladoras of popular imagination, but modern high-tech buildings that would not be out of place in suburban Dallas. For instance, Verde recently completed a 217,000-square-foot building and leased it to the Visteon Corporation, an auto parts supplier that has more than 170 facilities in 24 countries.

"When a company from the U.S. goes to China, 10 percent of the components come from the U.S.," said Christopher Lyons, director of capital markets for Verde. "But when a company relocates to Juárez , even a Chinese company, many of the components come from the United States. As globalization continues, by working with Mexico, we can keep some of that manufacturing in the U.S."

In addition to the low cost of labor, there are a number of other reasons that multinational corporations are putting their light assembly in Juárez. In the case of China, in addition to being close to the United States consumer market, it is a hedge against possible protectionist measures.

For other companies, like Electrolux, shipping large appliances over long distances is cumbersome, and port security is getting tougher. When it comes to time-sensitive products, like computers and mobile phones, Mexico offers the advantage of getting the goods to market more quickly than if they had to be shipped across an ocean.

"The closer those things can be assembled and shipped to the consumer market, the more the company saves," said Rafael Garcia-Rovirosa, a vice president for marketing at Verde, on a tour of the Juárez industrial region.

While most manufacturing companies own their own facilities, Prudential Real Estate Investors, like Verde, began speculative building here in 2004 and has already invested $100 million. Its strategy is to be a partner with local investors, like Bermudez International, founded in 1965. The joint venture controls about 12 million square feet of industrial space.

"Juárez 30 years ago was 30,000 people," said Sergio Bermudez, president and chief executive of Bermudez International. "Now it's a million and a half. With El Paso, there are 2.4 million people. The future growth of both the U.S. and Mexico is along the border."

While Juárez experienced a downturn in 2001, it has rebounded since then, with an average job growth rate of 5 percent since 2004, according to Desarrollo Económico de Ciudad Juárez, an economic development corporation. And with all of those jobs come workers who need places to live.

To that end, the largest home builder in Juárez , Grupo Ruba, has built 30,000 homes since 2000; most sell for $15,000 to $30,000.

Depending on income and length of employment, workers are able to apply for “credits” through a government run program called Infonavit, which issues 30-year mortgages and is financed in part by a 5 percent payroll tax.

While the program has existed since 1972, Infonavit has grown rapidly in recent years. It now issues two of every three mortgages in Mexico, helping to create a boom in low- and moderate-income housing.

“We used to have land enough for one year,” said Luis Enrique Terrazas, vice president of Grupo Ruba. “Now the strategy is to have enough for five years. There is a housing deficit in Juárez, and all over Mexico, so speculators are now buying land and flipping it. We’re trying to get ahead of that.”

Those involved in economic development are quick to point out, however, that in addition to low-income housing and assembly jobs, corporate expansion in Juárez has created thousands of engineering, design and managerial jobs as well. Many of these people work in Juárez , live in El Paso and shop and dine in both places. Consequently, they cross the border regularly, speeding through the dedicated commuter lanes on two of the bridges that span the river (after passing a Homeland Security background check).

In fact, the El Paso-Juárez region is the largest bilingual, binational work force in the Western Hemisphere, according to a labor report by the Wadley-Donovan Group, a management consulting firm.

To further strengthen this connection, the cities of Juárez and El Paso worked together to design a master plan for redeveloping both downtowns, including an 11-block binational arts district connected by the main bridge. The first major developers under this master plan are expected to be announced within weeks.

The plans to link the two cities more closely have, like many border issues, stirred dissent. But many people here believe that the well-established relationship between the cities transcends not only the border but also the current political climate.

“When the Minutemen came here, everyone ignored them,” said Mr. Cook, referring to the American citizen-led border patrol. “A stable and prosperous Mexico is the best way to deal with illegal immigration.”

Home

- World
- U.S.
- N.Y. / Region
- Business
- Technology
- Science
- Health
- Sports
- Opinion
- Arts
- Style
- Travel
- Jobs
- Real Estate
- Automobiles
- Back to Top

- Privacy Policy
- Search
- Corrections
- RSS
- First Look
- Help
- Contact Us
- Work for Us
- Site Map