ProLogis: Vital link in global supply chain

Industrial real estate company emphasizes service

Participants in the Faculty Development in International Entrepreneurship program (FDIE) toured the ProLogis headquarters and several distribution facilities in Denver and heard a presentation on the company. Following is an interview with Arthur Hodges, ProLogis’ vice president, corporate communications.

Timing and an entrepreneurial drive have enabled ProLogis to seize opportunities and grow from a domestically-focused company to become the largest owner, manager and developer of distribution facilities worldwide.

Formed in 1991 and headquartered in Denver, ProLogis operates in 20 countries and 105 markets with nearly $30 billion in assets under management. Said Arthur Hodges, “40 percent of that $30 billion is in Europe and Asia.” The international growth is noteworthy considering the original business plan was oriented toward “industrial warehouses in eight western US states,” said Hodges.

Customer service was the defining element of the business plan, “a concept that had not been widely applied in the industrial development business.” Instead of building and selling its properties, ProLogis’ approach was to own and lease its facilities and deliver excellent customer service to the lessees. The objective was to create ongoing relationships with customers that could be leveraged in other markets and in other circumstances.

Satisfied customers in one city would be motivated to do business with ProLogis in other cities. “Over time the company would be able to create a more robust portfolio with better quality tenants than a builder who was just building a commodity product,” said Hodges.

ProLogis leases space to “big companies that move a lot of product around the world: manufacturing companies like Procter & Gamble; major retailers like Wal-Mart; logistics companies like DHL; transportation companies like FedEx, UPS; shipping companies like NOL, NYK.

“Customers let us know when they want to be in India or in China or Japan. We go in when our due diligence tells us there is a pent-up demand for high quality, modern warehouse facilities in a given market.”

The due diligence process is a long one. “There are all sorts of factors we have to look at before we actually put money on the table.”

Revolutionary changes

According to Hodges, the company’s timing was excellent because early in its history revolutionary changes were taking place that affected the production and distribution of goods and thus created significant opportunities for ProLogis to extend its reach across the ocean and into Latin America.

“When Asia, Eastern Europe and Mexico became low-cost manufacturing centers for the world, supply chain networks had to be reconfigured to ensure that goods got from point of origin to point of sale in the US, western Europe and elsewhere,” said Hodges.

“The distribution center became a critical component of the new supply chain which is long, linear, highly complex and involves an intricate web of partners, vendors, and different companies.”
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Hodges added, “The distribution center was always an important component of the supply chain but the old supply chain was much shorter and simpler” when the goods didn’t have so far to go from the manufacturing plant.

Local nationals in local markets

Hodges attributes the company’s international success to its policy of relying “almost exclusively on local nationals in each market.” He cited Japan, where the entire staff is made up of Japanese nationals. Whether in Asia or Europe, “ProLogis hires people who understand the market and understand how to talk with our customers in a way that’s culturally sensitive.

“Corporate headquarters identifies the appropriate business strategy for a market and then trains people locally in that strategy. You have to be able to attract and recruit the right people to carry the strategy forward. That’s one key aspect of our international expansion.”

What factors could hurt the company going forward?

“We’re very well diversified regionally and we have diversified income streams and a diversified customer base,” said Hodges. “The main thing that would be a threat to the health of the business would be a total global economic slowdown that would curtail business spending and hurt demand across the board.”

That kind of scenario is hard to hedge against, Hodges said. “We’re not seeing that right now; demand is still very healthy. Occasionally we have markets that are weaker than others but generally the market dynamics in industrial real estate at this time are running on all cylinders.”

Property fund management fuels growth

ProLogis operates as a REIT – real estate investment trust. “REITs don’t pay federal taxes on their operating income but they’re required to distribute 90 percent of their operating income to investors in the form of quarterly dividends,” Hodges explained. Funding growth with the remaining 10 percent is a challenge.

In order to expand its options for growth, ProLogis innovated a financing mechanism that allows it to create and manage property funds. The fund “might have half a dozen institutional investors who have pre-agreed to purchase specific industrial properties at the appraised value,” said Hodges.

“We will then build a building with our own risk capital. Six months later the building is completed, leased and has an appraised value considerably higher than construction costs because of the dedicated income stream. ProLogis sells that building to the property fund at the appraised value recovering costs, and uses the profit from the transaction to buy an equity stake in the property fund.

“So we get an equity interest in the fund and collect a pro rata share of the rents. We can then redeploy the original capital in the next project,” said Hodges. ProLogis manages 13 property funds, which combined own more than $12 billion of high-quality industrial real estate assets all over the world.