

ONSHORING



Trucks lining up in Ciudad Juárez waiting to cross from Mexico into the US

Geopolitical uncertainty and deglobalisation is prompting a reconfiguration of global supply chains – with implications for logistics real estate. [Florence Chong](#) reports

ONSHORE, NEARSHORE, UNSURE

A reconfiguration of the global supply chains is now under way in what is seen as the beginning of a multi-year process that will play out over the next decade. Geopolitics, a pandemic and wars are driving the reorientation of how and where goods are being

manufactured and sourced. But the process and cost of relocating manufacturing are prohibitive, slowing the pace of relocation from one country to another.

The deglobalisation of trade is now a topic discussed by some multilateral agencies, concerned by what they see as an emerging trend. The World

Bank blames deglobalisation on “misguided populism” in many countries and says it is doing serious damage to global trade.

Many countries have lost their appetite for new trade agreements, the Washington-based bank says in a paper published in February this year. “In the 2020s, so far, an average of just five agreements have been signed each year – less than half of the rate of the 2000s. The appetite for trade restrictions, meanwhile, seems insatiable. In 2023, nearly 3,000 trade restrictions were imposed across the world – roughly five times the number in 2015.”

The underlying shift in global trade patterns is not yet apparent or material to many executives. Rather, companies are more preoccupied with the immediate future.

Logistics experts say that establishing resilient supply chains is critical for companies that were caught unprepared by the disruptions of COVID-19. For many, it was a wrenching experience, not to be repeated. But the trend towards ‘onshoring’ or ‘nearshoring’ – locating manufacturing domestically or in nearby countries – had begun long before the pandemic, not because of it.

“It was not just the global pandemic or port strikes or other shipping problems,” says Luke Petherbridge, chief executive of Link Logistics. “There are so many factors that highlight the fragility of the global supply chain. Long-term corporate users continue to bolster their supply chain and part of that bolstering is bringing manufacturing back closer to the US or within the US-Mexico corridor.”

Not surprisingly, an early beneficiary of this trend is Mexico, which has become the location of necessity to access the huge US market. Some

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MELINDA MCLAUGHLIN



countries in eastern and central Europe are also coming into focus for onshoring, reshoring and ‘friend-shoring’.

The economic spin-offs from nearshoring or onshoring on the local economies are being felt in terms of increased manufacturing and the flow-on effect of jobs and a higher standard of living. In the property market, the logistics sector has emerged as a clear winner.

Melinda McLaughlin, global head of research at Prologis, names three drivers for the push to onshoring and nearshoring. The first relates to the fact that manufacturing plants can cost billions of dollars to establish, prompting companies to ponder the long-term economics of workforce trends, demographics and infrastructure in a certain location before committing to it.

Second is geopolitics, which could involve trade restrictions or tariffs. Often, where there is conflict, such as in the Red Sea, there is a threat to predictability in the movement of goods. Corporates are concerned about costs and want to guarantee the smooth movement of goods in and out of a particular region.

The third driver is sustainability. “I do think we are at the very beginning of this trend. There are carbon emission benefits to producing high-transportation-cost goods closer to where they will be consumed,” says McLaughlin.

“There is not necessarily one dominant force, but supply-chain operators are looking at all these factors and, for some, it starts to make sense to move their manufacturing closer to their key markets.”

Prologis research on the now-established auto industry in Mexico, which grew out of servicing the US market, finds that the multiplier effect is significant. For every US\$1bn (€93bn) investment in an onshore plant, some 5-10m sqft of logistics space will be required.

Blackstone-owned Link Logistics estimates that in the US alone, up to 100m sqft of logistics facilities will be required to meet spillover demand over the long term. Link Logistics, which operates more than 500m sqft of logistics facilities, is the largest US-focused operator and owner of logistics real estate in the US.

McLaughlin says the impact of nearshoring is felt most in Prologis’s Mexico business, which is seeing elevated demand for space, in contrast to many other areas where demand has normalised back to pre-pandemic levels or even a little lower.

Prologis owns and operates 1.2bn sqft of industrial space in 20 countries. The near-shoring trend is reflected in the group’s expansion strategy. In August, Prologis acquired 77.14% of shares in Fibra Terrafina, which manages more than 42m sqft of industrial real estate across key markets in Mexico, for MXN29.7bn (€1.4bn).

The early wave of nearshoring was led by car manufacturers, taking advantage of existing supply chains in Mexico’s border area with the US. McLaughlin says that for a supply-chain cluster to grow, there must be suppliers, transportation routes and a skilled labour force.

Petherbridge says: “I would say the biggest driver to this sort of decision is really around managing supply-chain risk. That is why there is this diversification of the supply chain, which then enhances

onshoring and nearshoring here in the US.”

Government policy can also provide stimulus. Examples are the US Inflation Reduction Act and the CHIPS Act, which have encouraged the building of large factories and plants, “including over US\$500bn in factory commitments from chip manufacturing to energy transition industries,” Petherbridge says, pointing to Tesla’s Gigafactory in Austin.

In the past five years, the Tesla plant has generated demand for millions of square feet of spillover space. Taiwanese chipmaker, TSMC, which operates a huge semiconductor fabrication facility in Phoenix, is similarly generating a wave of demand for space in the city.

Petherbridge says there is strong demand for space in what is known as the ‘Battery Belt’, which stretches from the Midwest down to the Carolinas, and then to Texas in the south. But “it is not binary”, he says. “I don’t think everyone is going to be

from occupiers”, who are more concerned with how to incorporate the use of green energy, robotics, and artificial intelligence in their supply chains.

“Even then, we have seen more businesses trying to diversify their supply chains rather than to relocate,” he says. “On current evidence, it is likely that reshoring, nearshoring or onshoring as a direct result of trade tensions will take more time to arise. If these decisions are not economically successful, there are implications for the profitability of occupiers and, of course, real estate investors trying to generate strong returns.”

Petherbridge shares this view. For the foreseeable future, he says, decisions will continue to be driven by an imperative to ensure that supply chains are resilient, and this will mean locating more supply either onshore or at locations surrounding the US.

From China to Europe?

Onshoring and nearshoring are also taking place in central and eastern Europe. In this region, there are a different set of imperatives, and geopolitical tensions are not such a factor as is, say, the case between China and the US. But supply-chain resilience is still top of mind.

The European Central Bank found in a recent survey of large EU corporate firms that over the next five years these firms expect to become more active in relocating operations to make their business models more resilient.

As in Mexico, the industries that produce high value and high transportation cost goods are the ones making the move. “At the end of the day, we are not seeing consumer goods, toys or apparel,” says McLaughlin. “A lot of these things will remain either made in China or elsewhere in Asia.”

The business strategy of avoiding locating manufacturing in China alone – which has been dubbed ‘China plus one’ – is now evident with multinational companies establishing new plants in Vietnam, Thailand and India. A primary motivation is that China’s labour costs have risen sharply. The second reason is trade tensions between the US and China.

“The trend to onshoring or nearshoring is a slow-burn, multi-year driver of demand, rather than a short-term boost to the market,” says Henry Stratton, head of research at Tritax Group. “It will be a year-on-year process, given the size, scale, complexity and cost associated with any such change.

“It could be that companies will have a China-plus-one manufacturing strategy and that plus-one could be a plant in Central Europe or bringing the manufacturing of high-tech components to countries such as the UK or Germany. It makes sense to be close to the market where highly skilled labour and technology are available.

“In the first six months of this year, 28% of the UK logistics take-up was associated with manufacturers. That is a really significant number in the context of our market. In the Czech Republic, manufacturers have accounted for 50%-plus of logistics take up.”

Stratton says: “We are seeing people changing their supply chain, but it doesn’t necessarily mean they are completely giving up on Asian manufacturing plants, or that they are moving everything back to their home country.



“There are so many factors that highlight the fragility of the global supply chain”

LUKE PETHERBRIDGE

onshoring. Supply chains are very hard to pivot. If you are thinking of moving a plant to Mexico, you don’t just pivot it on a dime. These are decades-long infrastructure investment decisions.”

Raimondo Amabile, co-CEO and global CIO of PGIM Real Estate says: “It is unsurprising that there is not more evidence of reshoring, nearshoring, onshoring, given that it is a major strategic decision. It is costly, complex and operationally very challenging to enact while ensuring that wider business operations are not compromised.”

He says this “aligns with what we understand

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HENRY STRATTON



“We surveyed 500 European companies, and 25% of them told us they have shortened their supply chain by making and storing their goods closer to their market. They are not necessarily moving from one place to another. It is more that the company is adding and building up supply-chain capabilities and resilience, which in turn is driving them to take more space in the European market.”

But high-tech companies and those in the green energy transition industries are opting to be

in Europe, where both a skilled labour force and technology are available. Germany and the UK are such markets.

Tritrax plans to build a 600,000 sqft global research and development facility for Siemens Healthineer in Oxford. Again, Stratton says, this is not reshoring but rather high-tech manufacturing that requires the kind of highly skilled workers found in the Oxford healthcare cluster. The electronic goods maker Panasonic has taken more space

in the Czech Republic to support growth in its manufacturing capabilities in the country, he says.

Looking ahead, emerging factors such as tariffs and new regulations on ESG will also have a meaningful impact on the logistics market, because manufacturers may opt to produce in Europe.

“Manufacturers are certainly being more active in our market as they look out to the regulatory horizon,” says Stratton. “This could become a catalyst for more significant re-shoring.”