The ElmTree Edge
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Onshoring Fundamentals

Updates and insights into an evolving global industrial demand driver

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During the last two years, the U.S. industrial market saw record demand fundamentals, with rent growth and net absorption reaching new highs. E-commerce sales growth and a continuing shift toward higher inventory volumes continue to play a role in this demand growth. But it's a third factor—onshoring supply chain operations—that promises to have a potentially dramatic industrial sector impact in the coming years.

A global trade ceiling?

Global trade has seen rapid growth over the last 50 years, becoming a pillar of most modern economies. Between 1973 and 2008, the percentage of the world's economy attributed to international trade nearly doubled, increasing from approximately 30% to 59%. The growth in international trade has slowed (and even slightly reversed), with imports making up 55% of U.S. trade as of November 2022. Growing skilled labor demands for increasingly complex manufacturing processes, unstable geopolitics, supply chain disruptions, and unpredictable fuel pricing have sapped some of the globalization momentum. With higher wages (Chinese manufacturing wages have increased 183% since 2014), backups at ports, and often unpredictable fuel prices (the price of diesel fuel has been volatile), the two biggest drivers of overseas production—cheap labor and efficient air freight and cargo shipping—have become significantly less impactful.

Pandemic perspective

Pandemic pressures led to shipping bottlenecks, trade restrictions, regulatory complexity, and political uncertainty, prompting many companies to re-evaluate the globalization of their supply chains. Growing numbers of decision-makers are analyzing whether the savings provided by global supply chains outweigh the risks associated with supply chain disruptions. With geopolitical uncertainty expected to remain elevated for the foreseeable future, we expect to see U.S. companies increasingly favoring domestic supply chains over overseas operations.

U.S. manufacturing drivers

How much of a concern is lingering supply chain instability and persistent geopolitical unrest (e.g., the Russia-Ukraine conflict, Chinese lockdowns)? 70% of manufacturers surveyed recently expect to continue reshoring or near-shoring manufacturing operations, many citing supply chain instability as a primary cause. At the same time, government incentives like the CHIPS and Science Act of 2022 and the Inflation Reduction Act are incentivizing companies to produce more goods domestically. The CHIPS Act provides $39 billion in U.S. manufacturing incentives and $13.2 billion in R&D and workforce development, and the Inflation Reduction Act provides a $7,500 tax credit for electric vehicles that use batteries made in the U.S., while also mandating that EV manufacturers source at least 40% of critical battery minerals domestically. And with the difficulty attracting skilled labor overseas, the increasing sophistication of many manufacturing processes also bodes well for stateside hiring that taps into a relatively high concentration of skilled workers.

Reshoring (and onshoring) momentum

In 2022, Intel broke ground on its $20 billion semiconductor chip plant in Columbus, Ohio. Walmart has announced that it will spend $350 billion over the next decade on goods produced domestically. Hyundai announced last year that it would build a $5.5 billion electric vehicle battery plant in Savannah, Georgia. Taiwan Semiconductor Manufacturing Company recently announced a $40 billion investment in a plant located in Phoenix, Arizona, and SK Innovation has announced a new $2.9 billion plant and 1,500-acre campus outside of Memphis, Tennessee. In February 2023, Texas Instruments announced plans to build a semiconductor wafer fabrication plant in Lehi, Utah, with an estimated investment of $11 billion. In June 2023, BMW broke ground on a new high-voltage battery assembly plant near Greenville-Spartanburg, South Carolina and Tesla announced plans to invest over $3.6 billion to grow its Gigafactory located near Reno, Nevada. In Syracuse, New York, Micron is planning on constructing a massive semiconductor manufacturing plant with a total investment of $100 billion. These are just some of the large-scale manufacturing projects currently underway in the U.S., representing over $100 billion in investment.

A sustained shift

Over the last several decades, a focus on globalization saw companies expanding supply chains overseas to minimize costs. However, due to changing labor, political, economic, and manufacturing dynamics, we believe the industrial market is in the infancy of a shift towards onshoring manufacturing operations to the U.S. and Mexico—particularly in the semiconductor and automotive industries.

Additionally, we believe the onshoring of supply chain operations will have a significant impact on tenant demand for industrial space in the U.S. According to the Reshoring Initiative, onshoring and foreign direct investment are expected to create approximately 400,000 manufacturing jobs in 2023 alone. This correlates with additional demand for industrial space of approximately 160 million square feet (400,000 forecasted new jobs x 100,000 square feet/250 new employees).

We believe companies are still in the early stages of reshoring and onshoring their supply chain operations. And, due to the infrastructure and suppliers required to service large-scale manufacturing, we believe that the markets with significant manufacturing growth will experience improving industrial fundamentals in the years ahead.

Lastly, we believe this onshoring trend should allow the industrial sector to sustain tenant demand growth for the foreseeable future, and that growth in manufacturing operations domestically should contribute to sustaining positive supply and demand fundamentals and healthy leasing performance for the sector over a long-term investment horizon.

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