



04

(De)globalisation 3.0

10 TRENDS FOR 2023

As we have commented in previous years, a variety of factors are combining to change the way in which producers and consumers view the world. Economic, political and social drivers are reshaping attitudes to risk in ways that are altering patterns of trade and investment, with significant real estate implications. 2022 brought some new and unwelcome twists to the discussion.

In 2020, we argued that the trend towards globalization – arguably the defining feature of the business environment of the last 50 years – was past its peak. Most of the “quick wins” from expanding the coverage of World Trade Organization (WTO) rules have been secured, and rising labour costs have started to erode the cost advantages of many traditional offshore manufacturing locations. Rising economic nationalism, highlighted by Brexit and the policies of Donald Trump, also reflected social concerns over the environmental and human impacts of globalised production patterns. Consumer demands for greater social and environmental awareness on the part of the companies they buy from encouraged a shift in priorities.

“From just-in-time to just-in-case”

In 2021, these drivers were accentuated by the impact of Covid-19.¹ We stated at the time that the biggest long-term global impact of the pandemic would be its influence on supply chains. Factory closures and disruptions to transport infrastructure highlighted the fragility of global supply networks. Research by Infosys concluded that 85% of supply chains were impacted in some way², and debates about network efficiency were rapidly replaced with a focus on resilience ... “from just-in-time to just-in-case”. Multinational companies were forced to rethink global footprints to find a new balance between cost-efficiency and business effectiveness.³ Discussions about regionalisation and localisation to mitigate potential risks by moving critical supply chains “closer to home” also reflected nearshoring’s commercial imperative; it enables shorter delivery times and greater localization of products, allowing companies to meet consumer demands and react to trends more quickly.

While the first few months of 2022 signalled improvements to global supply chains, the good news was short-lived. In addition to ongoing lockdowns in China, which continue to have huge economic and political ramifications, Russia’s invasion of Ukraine caused turmoil in global commodity markets and raised geopolitical tensions to a new high. Wheat prices hit a nine-year high and oil reached \$100 a barrel.⁴ Trade slowed as air freight diversions and decreased rail transit through Russia limited supply routes.⁵ Energy and food markets have seen some of the biggest impacts, but few industries have remained unaffected, as the Ukrainian conflict has been a key driver of the surge in inflation which has been the defining macroeconomic issue of the last twelve months. Unlike the Covid pandemic, however, there is less of a sense that “eventually things will go back to normal”. The subject of where we trade – and who we trade with – has become increasingly complex over recent decades, but the combined impacts of the War in Ukraine and Covid-19 have made the issue more political in nature.

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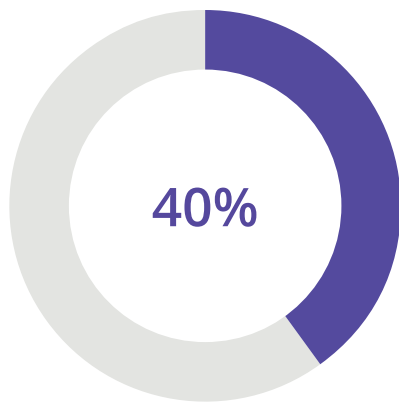
The global integration that was accelerated by the collapse of the former Soviet Union and the entry of China into the WTO has been challenged by a ratcheting up of geopolitical tension. It has driven public and private entities to reconsider trade relationships with countries that do not share likeminded political viewpoints or have differing objectives that increasingly appear misaligned with those of the major western economies. The concept of “friendshoring” has given new impetus to discussions around realigning supply chains, with an overtly political dimension.

In the U.S., the Biden administration undertook an assessment of vulnerabilities and resilience in supply chains deemed critical to the national economy, with a focus on semiconductor manufacturing, large capacity batteries, critical minerals and pharmaceuticals. It concluded that “structural weaknesses in both domestic and international supply chains threaten America’s economic and national security”.⁶

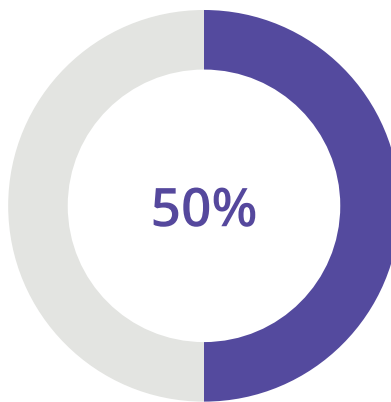
There is an increasing sentiment to near-shore supply chains.

Grants and loans from new and existing programs as well as government procurement are therefore being targeted towards priority sectors.⁷ Treasury Secretary Janet Yellen indicated that government efforts towards supply chain flexibility would focus on friendshoring to protect corporations and domestic consumers “from the price increases and disruptions caused by geopolitical and economic risk”.⁸ Strengthening ties with countries that are seen as “friends” and “allies” is seen as a crucial part of the process, reducing dependence on those that may be a less reliable trading partner in times of political or economic stress.

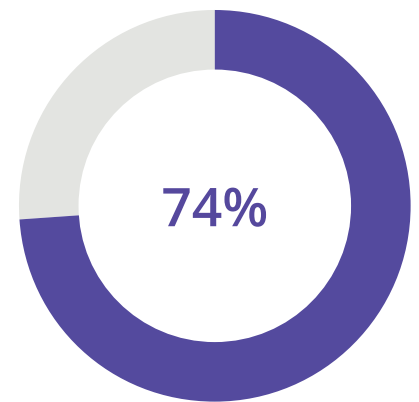
In response to global supply shocks and changing social and political attitudes, there is an increasing sentiment to near-shore supply chains. A survey conducted in June 2022 found that:



40% of American brands include near-shoring in their sourcing strategies for 2023.⁹



Similarly, 50% of European manufacturers indicated their desire to nearshore supply chains in 2023.¹⁰



74% of U.K. producers are facing increasing shipping costs driving a movement towards near-or re-shoring facilities.¹¹

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There are plenty of examples of significant investments being made in new U.S.¹² and European production facilities, including:

Intel

Intel's \$20 billion investment in its first new manufacturing site in 40 years, in Columbus, Ohio¹³

General Motors

General Motors' \$7 billion project to build battery cells and electric vehicles in Michigan¹⁴

MP Materials

Rare earth miner MP Materials' \$700 million investment to establish a fully domestic end-to-end supply chain for permanent magnets used in electric vehicle motors and wind turbines

Schneider Electric

Schneider Electric investing over \$100 million in various electrical product facilities in locations across the U.S. as part of a strategy of shortening its supply chains¹⁵

John Deere

Agricultural equipment manufacturer John Deere relocating production of vehicles currently made in China to Louisiana

Volvo

In July, Volvo announced plans to open their new electric vehicle factory in Slovakia indicating a shift away from pre-existing production facilities in China¹⁶

However, as we discuss in our latest [U.S. Reshoring and nearshoring review](#)¹⁷, evidence for wholesale relocation of facilities that were previously offshored remains limited – at least for now. The practical challenges associated with unwinding complex global supply linkages and replacing or replicating overseas production are more significant than the re-shoring narrative would suggest – even if the risk-adjusted financial analysis stacks up, which isn't always the case. Significant changes to supply chains are underway, but they will take time to become fully evident in patterns of production and distribution.

Evidence for wholesale relocation of facilities remains limited.

Two main issues

That said, there are areas where two issues that dominated the headlines in 2022 are combining to have long term real estate implications: **inflation** and the **climate crisis**. The global surge in inflation last year was heavily driven by rising food and energy costs, both of which have led governments to focus on the extent to which they are dependent on global supply chains which now appear more fragile and vulnerable to geopolitics than was the case in the past. Disruption to gas supplies from Russia resulting from the conflict in Ukraine, coupled with the need to decarbonise energy production are driving a twin focus on energy security and renewable sources of power.

This is playing out differently around the world, but increased emphasis on green and nuclear energy will create huge investment and development opportunities throughout many major economies. As McKinsey notes, the energy crisis of the 1970s ushered in a new era for the global economy and significantly increased diversification in global energy markets. They now foresee a period characterized by a heavy focus on renewables, regional re-alignment, and heightened resource competition.¹⁸

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A twin focus on energy security and renewable sources of power.

Food security is also attracting attention, with food prices at their highest level for decades¹⁹ and significant questioning of the way in which current global food chains operate.²⁰ The Ukraine conflict is having a further impact beyond the rise in grain prices, given that Russia is responsible for about 25% of the world's nitrogen fertilizer production.²¹

The rapid escalation in food prices is fuelling a small – but noticeable – uptake in urban and vertical farming. The global vertical farming market is expected to grow to \$9.7 billion by 2026 – a \$6.6 billion increase from the market's current size.²² The United Kingdom is currently home to the world's largest facility and U.K. operator Shockingly Fresh has committed to building 40 more warehouses for its facilities alone.²³ This year, American United Natural Foods Inc. (UNFI) announced a partnership with Square Roots to integrate vertical farming into their supply chains. The first Square Roots indoor facility will cover 20,000 sq ft in Wisconsin and is set to open in 2023. This facility is located to serve UNFI's retail customers in Wisconsin and Minnesota.²⁴ As money in the sector grows, there will be increasing demand for warehouse spaces located near transportation arteries and food distribution centres. Regionalization and localization will reduce the carbon footprint of food supply chains and may have significant socio-economic benefits for local communities.

Under pressure

Coupled with the pressure to maintain higher stock levels in the face of ongoing challenges to supply chains that are less robust than they originally appeared, these changes look set to maintain pressure on an industrial real estate market that is already seeing unprecedented levels of demand, particularly in up-and-coming transport hub and port markets.²⁵

In the U.S., industrial vacancy rates hovered around 2% at the end of 2022²⁶ and were at similar levels in the Eurozone²⁷, whilst lettings of top quality large warehouses was running well above average.²⁸ The sector is still seeing huge structural change driven by the transition to online retail, but these geopolitical influences are set to drive further evolution of one of real estate's most dynamic market segments.

Would you like to discuss this trend?

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³ <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

⁴ <https://www.dw.com/en/how-russias-invasion-of-ukraine-rocked-commodity-markets/a-61235041>

⁵ <https://blogs.worldbank.org/developmenttalk/how-war-ukraine-reshaping-world-trade-and-investment>

⁶ <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/08/fact-sheet-biden-harris-administration-announces-supply-chain-disruptions-task-force-to-address-short-term-supply-chain-discontinuities/>

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⁹ <https://www.qima.com/qima-news/news-q3-2022-barometer>

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¹¹ <https://www.cips.org/supply-management/news/2022/september/why-the-uk-is-facing-a-tidal-wave-of-nearshoring/>

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¹⁶ <https://fortune.com/2023/01/11/how-covid-changed-supply-chains-forever-distinguished-professor-just-in-case-just-in-time-onshoring-technology/>

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¹⁸ On the cusp of a new era? | McKinsey

¹⁹ Food and Agriculture Organisation's (FAO's) Food Prices Index <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

²⁰ <https://www.ft.com/video/21b95eed-77b6-49b1-afea-1f022946d77b>

²¹ <https://www.npr.org/2022/09/28/1125525861/how-the-war-in-ukraine-is-affecting-the-worlds-supply-of-fertilizer>

²² <https://www.nytimes.com/2022/04/06/business/vertical-farms-food.html>

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²⁴ <https://www.supermarketnews.com/issues-trends/unfi-deploy-indoor-farms-distribution-centers>

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²⁶ Avant by Avison Young

²⁷ <https://www.reutersevents.com/supplychain/supply-chain/european-logistics-vacancy-rates-hit-new-low#:~:text=Average%20vacancy%20rates%20for%20logistics,the%20third%20quarter%20of%202022.>

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