

THE NEW GEOGRAPHY OF PRODUCTION

Supply chains are being reorganised around resilience, proximity and political alignment. Industrial and logistics real estate is central to this era of nearshoring



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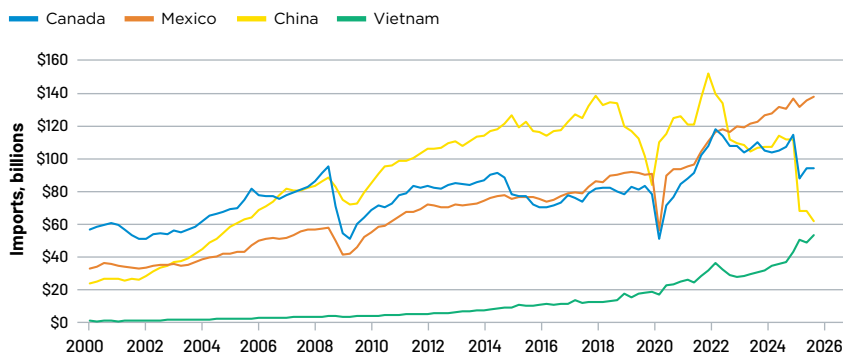
After a turbulent start to the decade, globalisation is settling into a new equilibrium. A series of major economic and geopolitical shocks have reshaped the cross-border flows of goods, capital and people that defined the previous era of 'Great Moderation'.

A key driver of change is an increase in state influence. Governments have implemented around 220 new investment policy measures annually since 2022. This represents a 75% increase on the pre-Covid-19 average, according to analysis of the UN Conference on Trade and Development's Investment Policy Monitor.

These initiatives are designed to meet a broad set of objectives, including responding to common structural pressures such as growing economic and technological competition. Many focus on supporting 'strategic' sectors, including semiconductors, clean energy and digital infrastructure, often with a national security dimension.

This activity further distorts the global allocation of capital, already buffeted in recent years by rising geopolitical risks. According to the US Federal Reserve, global foreign direct investment (FDI) is

US major goods imports by origin



Source: Savills Research using Macrobond

increasingly fragmenting along ideological lines, with capital flowing disproportionately between like-minded economies – a trend known as friendshoring.

The trend is also showing up in global trade patterns. In the three largest single markets – the EU, the US and China – the share of domestic consumption reliant on foreign input has been in steady decline since 2020, according to the WTO. Even beyond these markets, trade flows have become more regional over the same period.

However, this does not mean a retreat to domestic production. The average number of stages in global value chains (GVC) has increased over the past five years.

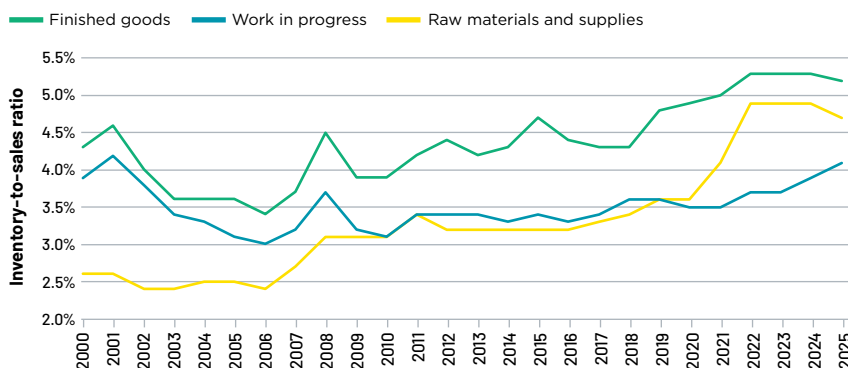
This suggests that, rather than uproot existing networks, many businesses are reorienting to reduce vulnerabilities across jurisdictions. This is especially true where domestic production is limited by a lack of expertise or capacity constraints. The reorientation of production towards geographically close partners, known as nearshoring, has become a defining feature of global supply-chain strategy.

Indeed, FDI in the global manufacturing sector (particularly in automotive, electronics and apparel) has increased in recent years, underpinned by a need to rebalance global production and reduce bottlenecks in supply chains. This has principally benefited economies in East Asia (excluding China), Eastern Europe and Central America, with strategies such as 'China Plus One'.

These trends are visible in the strained relationship between the US and China. Until recently, China was the largest import partner of the US, before trade barriers and investment restrictions took effect. Mexico has now overtaken China, driven by increased nearshoring activity, while Vietnam is emerging as a key destination for those diversifying away from China.

Industrial and logistics real estate, ►

Japan's manufacturing inventory holdings



Source: Savills Research using Macrobond

which provides the physical infrastructure that underpins production and supply chains, is experiencing the impact of these shifts. Location, flexibility and innovation are key.

The new location calculus

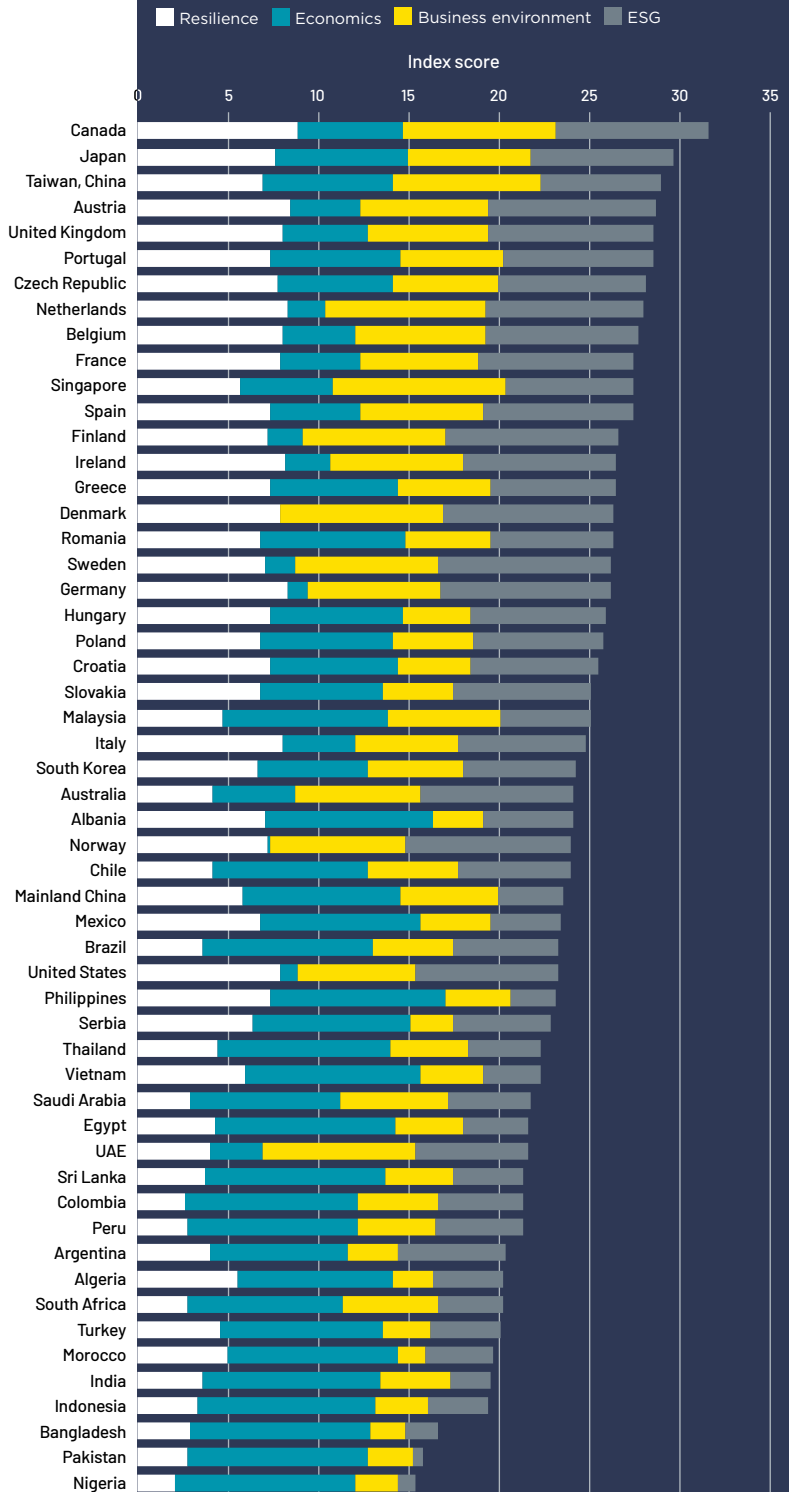
In the current climate, location is an increasingly complex decision for global manufacturing firms. Location decisions are no longer driven almost solely by a desire to minimise costs. Instead, businesses are taking into account considerations such as resilience, energy security and the policy environment, many of which pull in opposite directions.

Even when considering cost alone, the decision about where to locate is more nuanced than it may seem. Businesses must balance low vacancy and higher rents in established locations with the growing need for proximity to final customers. In the 2025 DHL e-commerce trends report, the two largest frustrations for shoppers were delivery costs (58%) and long delivery times (52%), both of which can be reduced by locating closer to market.

This dilemma is reflected in the Savills Nearshoring Index, which aims to capture the primary factors influencing global firms' decisions on where to locate production. It is composed of four equally weighted pillars:

- Resilience captures the local policy environment and proximity to final consumers.
- Economics is benchmarked on the cost of domestic labour.
- Business environment highlights the ease of doing business and the quality of trade infrastructure.
- ESG brings together environmental and labour protection standards, as well as energy security.

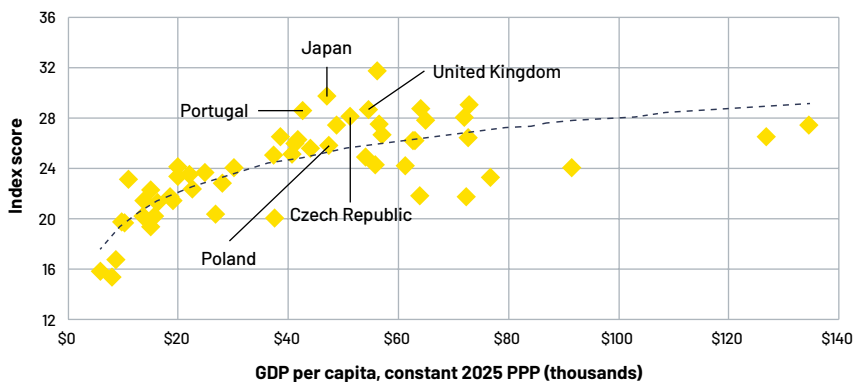
Savills Nearshoring Index



Source: Savills Research



Nearshoring Index and economic development



Source: Savills Research using IMF

The index is positively correlated with economic development: higher-income economies generally score near the top of the rankings.

There is an element of co-determination to this: high-income economies perform better on business environment because this is a pre-condition for productivity growth. They are also clustered geographically – notably in the EU, the largest single market in the world – so are beneficial from a market access perspective.

More interesting, however, are the markets that over- or underperform relative to economic development. In the Americas, both Canada and Mexico rank higher than would be expected, in part given preferential access to the large US market,

especially in an environment of rising trade tariffs. As highlighted by Gregg Healy, Head of Industrial and Logistics, Savills North America, “We’re seeing nearshoring play out in real time across North America. Location decisions are no longer driven by cost alone. Occupiers are prioritising resilience and proximity to demand, and that’s driving strong activity across industrial markets.”

In Europe, while Austria is the highest-ranking market – perhaps not an obvious leader, but one underpinned by its central geographic position in Europe, highly skilled workforce and strong credentials across resilience and ESG metrics – Portugal and the UK also perform well. So do many Eastern European economies, which

provide a good balance across all four pillars.

Finally, in APAC, a mix of high- and middle-income economies outperform the benchmark, including Japan, Vietnam and China, the latter confirming its continued strength as a global manufacturing superpower.

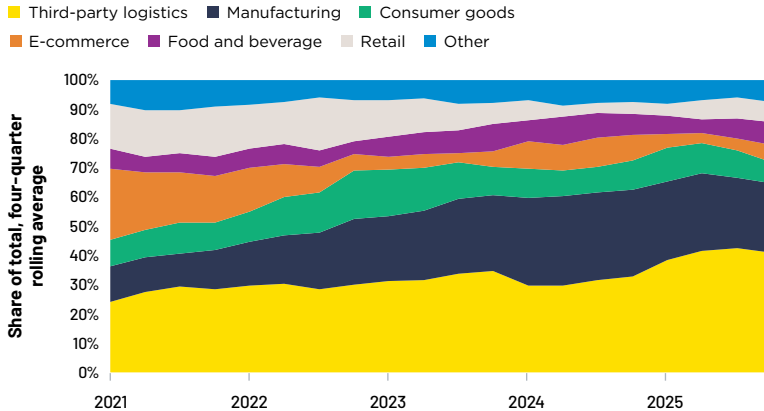
Location is also critical from an inventory management perspective. Many businesses are transitioning from a ‘just-in-time’ supply-chain strategy that prioritised costs to a ‘just-in-case’ system that favours resilience. This means retaining larger inventories in storage and holding them closer to consumers, mitigating future disruptions. This practice has contributed to strong demand for warehousing space in recent years.

Flexibility over commitment

The ability for global businesses to remain flexible, pivoting to different markets as consumer and economic conditions rapidly change, is an important asset in today’s volatile environment. Chinese manufacturers, seeing more than 15 years of US market share eroded over the past three years, have been able to pivot to other global markets, exporting a record \$3.8 trillion of goods in 2025. Businesses have responded by rapidly leasing logistics space in new markets, often with very short lead times.

Real estate commitments are inherently inflexible. Businesses are, therefore, instead adapting how they use real estate to stay agile. This has led to growth in third-party-logistics (3PL) firms, which manage warehousing and distribution operations on behalf of customers, giving businesses access to larger distribution networks without the associated real estate commitments. In the US, 3PLs have increased their share of leasing activity from around 23% in 2020 to more than 40% in 2025.

US industrial and logistics leasing by industry



Source: Savills Research. Based on top five leases in 27 major US markets

Automation as arbitrage

Technology can be used to mitigate the additional costs associated with nearshoring production. High-cost economies dominate the top of the rankings in our Savills Nearshoring Index, in part due to their proximity to large consumer markets.

Automation, therefore, makes relocation a more feasible option in a cost-competitive environment. A 2025 survey from Rockwell Automation found that over 40% of manufacturing occupiers cite the

introduction of AI and automation as a core strategy for addressing labour costs and skills shortages. In China, where automation is most advanced, fully automated ‘dark warehouses’ now operate around the clock with limited human oversight.

To enable this technology, modern logistics facilities require significant power capacity. These energy concerns are not only a site selection issue, but also increasingly a geopolitical one, tied to broader

concerns around energy security. Many facilities are already building solar capacity and other forms of on-site energy generation are likely to follow in the future. “Over the past decade, rising power demands from modern logistics operations have become a structural driver of demand for industrial and logistics assets,” says Sam Quellyn Roberts, Director, Global Occupier Services/ EMEA Logistics Markets, Savills. “Since 2023, geopolitical events have further forced occupiers to factor energy price volatility and security into operational strategies, incentivising diversification of power sources.”

Globalisation is not retreating, but reorganising around new strategic and security considerations. Supply chains remain global, but the geography of production is becoming more politically aligned, more regionally concentrated and more responsive to risk. Industrial and logistics real estate will remain at the forefront of this shift, serving as the platform on which the next phase of globalisation is built. ■

REGIONAL PERSPECTIVES: WAREHOUSING IN ASIA AND EUROPE



JOHN TALBOT
CEO,
LCA SAVILLS

“Multiple factors influence warehousing development in Asia. But a consistent theme is that businesses that require warehouses are prioritising them as a competitive tool. Increasingly, they are turning to warehouse automation to lift performance while reducing exposure to labour scarcity and associated operating cost pressures.

Warehouse automation’s rapid growth means the skills and experience required for design and delivery processes are in short supply. We therefore anticipate that among many automation success stories, there will also be some high-profile failures.

Property developers are responding to demand for high-quality warehouse space by erecting multi-floor, ramp-up facilities, usually clustered around logistics hubs close to major conurbations.”



“Three key factors have been driving our European clients to make changes to their warehousing estate and operations.

Automation is the most significant. Different types of automation – from robotics and automated guided vehicles to more conventional technologies – have a big impact on the warehouse space they choose and the financial benefit case.

Next is nearshoring, for greater resilience and reduced reliance on China. And third is the need for greater service reliability, with trade barriers and unpredictable ocean lead times causing clients to move inventory closer to customers.

Demand for sustainable warehouse buildings also remains important, with green road transport influencing warehouse locations.”



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