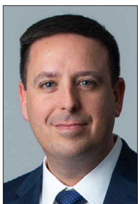
US Reindustrialization: How Geopolitics and Policy Are Creating Opportunities for Industrial Investors

Lange Allen
Affinius Capital

Mark Fitzgerald
Affinius Capital

Jason Hans
Affinius Capital



Paul Segreto
Affinius Capital

The US is undergoing a manufacturing revival driven by geopolitical shifts, supply chain challenges, and technological advances. Policies and strategies such as the CHIPS Act and nearshoring to North America are fueling investment in domestic and regional manufacturing, creating significant demand for industrial real estate. Although policy shifts, such as additional tariffs and immigration restrictions, could alter the landscape, on balance, Affinius Capital expects the reconfiguring of supply chains to offer compelling opportunities to US logistics investors.

Demand Drivers

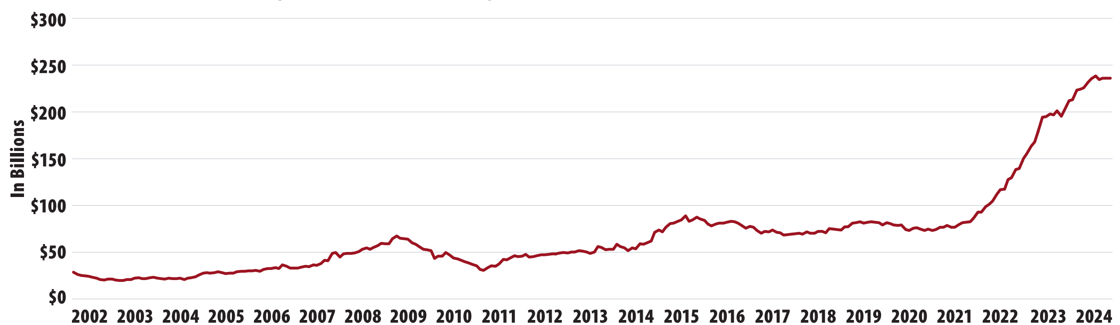
The US is in the midst of a manufacturing resurgence, one that is not only unexpected but also fundamentally transformative. For decades, the prevailing wisdom was that globalization had irreversibly shifted the center of manufacturing to countries such as China. The US seemed content to specialize in design, software, and services, while the physical making of things—particularly at scale—was outsourced. But a confluence of geopolitical, economic, and technological forces is shifting the narrative.

- The pandemic highlighted the risks of relying heavily on overseas manufacturing, particularly in critical sectors such as semiconductors, pharmaceuticals, and electronics. These disruptions to global supply chains prompted US businesses and policymakers to prioritize domestic production for greater control and stability.
- Escalating tensions with China, strategic unease about that country's dominance in critical industries, and intellectual property concerns have fueled this change as well.
- The rise of automation, robotics, and artificial intelligence is making domestic manufacturing more competitive, helping offset higher US labor costs and allowing for more efficient production.

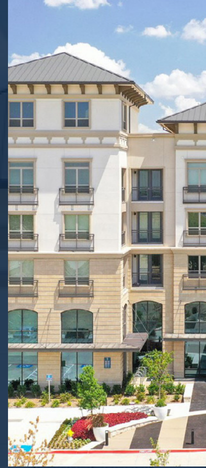
Fueled by these tailwinds, onshoring manufacturing has become a unifying issue despite a polarized US political climate, as demonstrated by three pieces of legislation passed in recent years supporting building domestic manufacturing capacity:

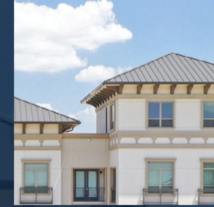
- CHIPS and Science Act: Enacted in 2022 to bolster domestic semiconductor manufacturing, research, and innovation, it allocates more than $50 billion to incentivize chip production, strengthen supply chains, and fund research and development (R&D) in advanced technologies. Several firms, including Intel, TSMC, Micron, and Samsung, have leveraged funding from this act to build fabrication plants.
- Infrastructure Investment and Jobs Act: Passed in 2021, it provides $1.2 trillion to modernize

Exhibit 1: Total Manufacturing Construction Spending in the US



Sources: US Census, FRED St. Louis, Affinius Capital Research





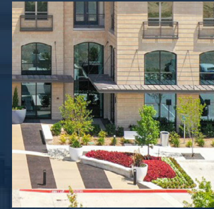


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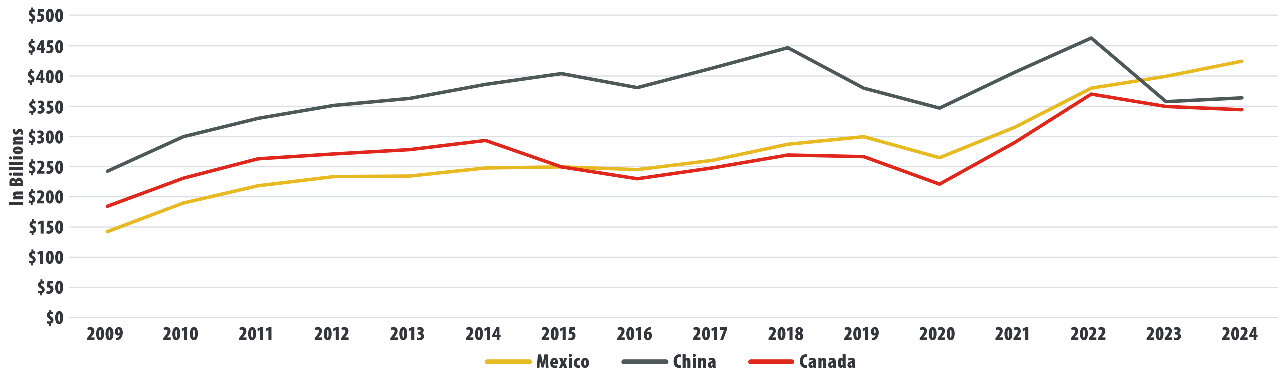
Exhibit 2: US Imports of Goods and Services by Largest Trading Partners (Trailing 4Q)



Sources: US Bureau of Economic Analysis, Affinius Capital Research

US infrastructure, and includes "buy American" requirements for materials, energy investments, and training programs to build a skilled workforce for US manufacturing and infrastructure projects.

- **Inflation Reduction Act:** Signed into law in 2022, it provides tax credits for domestic manufacturing, investment in clean energy production, and funding to strengthen US supply chains for critical materials.

President Donald Trump's endorsement of Project Stargate, targeting $500 billion to US digital infrastructure, is indicative of continued support for US reindustrialization. The effects of these initiatives are already becoming evident. Since mid-2021, the pace of manufacturing facility construction in the US has more than tripled (Exhibit 1). Leading this growth are the Sunbelt markets, particularly the Southeast, which has emerged as the fastest-growing manufacturing region in the country. Over the past decade, the South has added more than 100 million square feet of manufacturing space, and it now accounts for nearly half of all manufacturing space currently under construction in the US.[1] Meanwhile, the Midwest, long considered the heartland of American manufacturing, is also experiencing a notable uptick in activity across key markets, reaffirming its central role in the sector's evolution. As these manufacturing facilities deliver and begin production over the next several years, they will require updated networks of industrial facilities to store and deliver these goods. It is estimated that for every $1 billion investment in an onshore plant, 5–10 million square feet of logistics space will be required.[2]

The same trends driving US manufacturing are also encouraging nearshoring to Canada and Mexico. The three largest trading partners of the US (China, Mexico, and Canada) compose 37% of total imports. As a result of tariffs and policies aimed at boosting North American manufacturing capabilities, Mexico surpassed China as the US's largest trading partner in 2023, and this trend continues to gain steam, as shown in Exhibit 2. Canada also moved ahead of China recently.

Mexico is particularly well positioned to capture the nearshoring opportunity, driven by several factors:

- **Proximity to the US:** Shipping times are faster and transportation costs are lower compared with those of Asian manufacturing hubs, and better time zone alignment makes collaboration easier.
- **Cost-Effective Labor Pool:** Mexico's younger demographic profile compared with that of most developed markets is attractive, with a growing base of skilled workers and wages significantly lower than the US and even China, where rising labor costs have surpassed Mexico's over the past 20 years.
- **Established Manufacturing Infrastructure:** Regions such as Monterrey, Guadalajara, and Querétaro have established supply chains and infrastructure, and Mexico already has manufacturing strongholds in industries such as automotive, electronics, aerospace, and medical devices.

Manufacturing supply chains between the US and Mexico are highly integrated, with Mexico often

1. Nick Pipitone, "Manufacturing Reshoring Is Breathing New Life Into US Industrial Markets," Propmodo, Jan. 9, 2025.
2. Florence Chong, "Onshore, Nearshore, Unsure," *IPE Real Assets*, November/December 2024.

handling labor-intensive production and assembly, while the US focuses on high-value design, R&D, and advanced manufacturing. For example, it is common that a car manufactured in North America may see its parts cross the US-Mexico border several times before the vehicle is complete.

Potential Impact of Shifting Trade and Immigration Policy

The Trump administration is poised to ramp up tariffs on key trading partners and tighten border security, with a particular focus on the southern US border. This approach has significant implications for inflation and trade, as highlighted in the December 2024 minutes of the Federal Open Market Committee: "Almost all participants judged that upside risks to the inflation outlook had increased," citing recent inflation trends and the potential effects of shifting trade and immigration policies.[3] While the previous round of tariffs on China catalyzed on- and nearshoring trends, recent proposals have suggested that broader tariffs on not just China but also Mexico and Canada might be on the horizon.[4]

While designed to encourage domestic manufacturing and reduce trade deficits, sweeping tariffs on the US's North American trading partners could have many adverse effects, including higher costs for American consumers, reduced consumption, and retaliatory tariffs from targeted countries, hurting US exporters. Key industries would be negatively affected because the manufacturing process is highly interconnected across North American companies, and domestic manufacturers would face both higher input costs on materials imported from US trading partners and increased payroll expenses if immigration policy reduces available labor supply. The auto industry and electronics, machinery, and commodity markets would be particularly impacted because they are domestic industries with the highest trade levels with Mexico. For example, a 25% tariff on Mexico could reduce US auto production by up to 20%, given that 16% of auto parts are sourced annually from Mexico (plus nearly 2.7 million finished vehicles are sourced annually from Mexico).[5]

Yet several factors suggest the ultimate impact of these tariffs may fall short of initial fears:

- **Limited Bipartisan Support:** The Biden administration not only left inherited Chinese tariffs in place but also enacted further tariffs on strategic industries that went far beyond anything from the first Trump term. Unlike tariffs on China, widely viewed as strategic tools for protecting national security and reducing trade imbalances, tariffs on Mexico and Canada are seen as disruptive to regional cooperation, could violate the US-Mexico-Canada Agreement (USMCA), and would face political resistance.
- **Negotiating Leverage:** Historically, tariffs on Mexico have served as a pressure tactic rather than a long-term strategy. For instance, in 2019, threats of escalating tariffs led Mexico to enhance border security and cooperate on migration issues. Similar tactics could play out again, with tariffs used to drive concessions on migration and cartel activity. The USMCA is scheduled for review in 2026 and serves as another negotiation lever.
- **Domestic Industry Resistance:** Broad tariffs on the country's closest trading partners would hurt US industries reliant on integrated supply chains. Tariffs on intermediate goods (i.e., manufacturing inputs) make domestically produced goods more expensive, reducing the effectiveness of the tariffs. This would impact various industries; increased prices on steel and aluminum imports raise the costs of US-built autos, airplanes, and appliances. Affected sectors are likely to apply political pressure to limit the tariffs' scope.
- **Exchange Rate Dynamics:** Currency adjustments often neutralize the intended effects of tariffs. For example, following previous tariffs on China enacted in 2018–2019, the yuan depreciated by 14%, of which two-thirds was attributed to the tariffs.[6] Previous tariffs have also served to make Chinese products more competitive in the global market. A strengthening dollar makes US imports relatively cheaper and exports more expensive, having a counter effect to the stated aim of making domestic manufacturing more competitive.
- **Rerouting Global Supply Chains:** These disruptions often lead to rerouting of global supply chains, as we've

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3. Board of Governors of the Federal Reserve System, Federal Open Market Committee Minutes, Dec. 17–18, 2024.
4. On Feb. 1, 2024, the Trump administration announced tariffs of 25% on imports from Canada and Mexico and an additional 10% on imports from China. On Feb. 3, 2024, the administration announced that the implementation of tariffs on Canada and Mexico would be delayed 30 days to see whether new economic deals could be structured.
5. Chris Isidore, "Why Mexico Is So Important to the American Auto Industry," CNN Business, May, 31, 2019.
6. Olivier Jeanne and Jeongwon Son, "To What Extent Are Tariffs Offset by Exchange Rates?" *Journal of International Money and Finance*, Vol. 142, April 2024.

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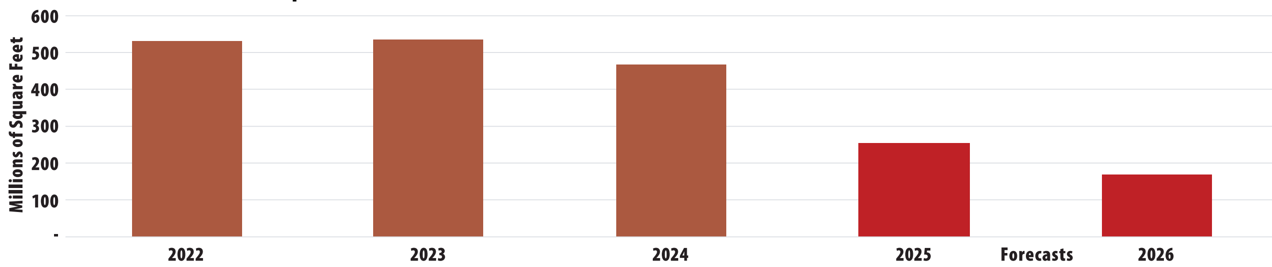
Exhibit 3: US Industrial Net Completions



Sources: CoStar, Affinius Capital Research

seen with China the past several years. This has largely occurred in two forms:

1. Building Manufacturing Capacity in Other Countries. Chinese greenfield foreign direct investment hit an all-time high in 2023, more than doubling levels of the past decade, with more than $6 billion targeted to Mexico alone. Asian e-commerce and third-party logistics companies are actively leasing space today, driven in part by the China Plus One manufacturing model, which seeks to diversify supply chains beyond China into both the US and Mexico.

2. Selling Intermediate Goods to "Assemblers" in Third-Party Countries Not Subject to the Tariffs. Semiconductors are a good example of an intermediate product that is difficult to track and implement tariffs on.

The factors listed above should limit the impact and scope of tariffs imposed by the US over its North American trading partners for the next few years. Many of these factors minimized the negative impact of the tariffs from Trump's first administration; it is estimated that tariffs enacted on China in 2018–2019 caused a one-time, transitory impact on US consumers of just 10–30 basis points of GDP.[7]

The Opportunity for Logistics

On balance, tariffs would also strengthen the US manufacturing boom illustrated in Exhibit 1; this will fuel requirements for strategically located modern logistics and storage infrastructure, driving sustained demand in industrial real estate for years to come. The record levels of industrial net absorption seen since the pandemic, as companies reconfigured and reinforced supply chains, offer a glimpse of the trajectory ahead. This trend reflects a broader strategic focus on rebuilding domestic manufacturing capabilities and strengthening supply chain resilience.

Shifting policy dynamics could further shape the market opportunity. US industrial new supply is likely to decline 70% in 2025–2026, relative to recent peaks, the lowest levels since the market was emerging from the global financial crisis (Exhibit 3). Elevated borrowing and construction costs the past few years made developments difficult to pencil. Implementation of additional tariffs could reaccelerate construction costs, particularly given that 32% of building materials for US commercial real estate—such as cement, lumber, steel, and electrical equipment—are imported.[8]

The impact of rising materials costs could be compounded by labor shortages driven by stricter immigration policies. Executive orders issued in the early days of the second Trump administration focused on reducing immigration, particularly people crossing the border illegally. With immigrants composing 26% of the US construction workforce—higher in key states such as Texas and California and roughly half of those being unauthorized immigrant workers[9]—reduced labor availability could further inflate construction wages, which grew at a 4.4% clip in 2024, and exacerbate a worker shortage already estimated at 439,000 in 2025, according to Associated Builders and Contractors.[10] These dual pressures could increase replacement costs and constrain new industrial development, creating upward pressure on rents and values for existing properties. Regions

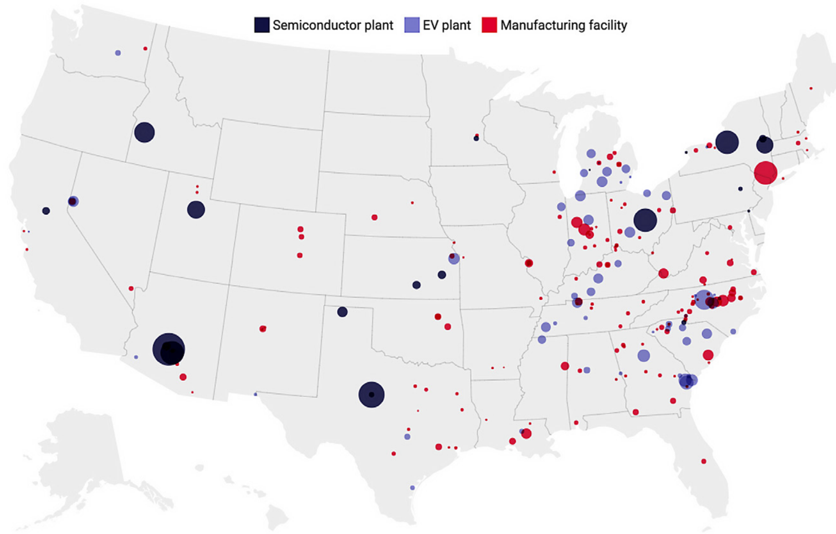
7. Pablo D. Fajgelbaum et al., "The Return to Protectionism," National Bureau of Economic Research, Working Paper 25638, October 2019; Mary Amiti et al., "The Impact of the 2018 Trade War on US Prices and Welfare," National Bureau of Economic Research, Working Paper 25672, March 2019.

8. Sebastian Obando, "Buy America Provisions Can Improve Construction Lead Times—For a Price," Construction Dive, Feb. 8, 2023.

9. Sahana Mukherjee and Jens Manuel Krogstad, "Most US Voters Say Immigrants—No Matter Their Legal Status—Mostly Take Jobs Citizens Don't Want," Pew Research Center, Oct. 21, 2024.

10. "Construction Industry Must Attract 439,000 Workers in 2025," Globe Newswire, Jan. 24, 2025.

Exhibit 4: Top Manufacturing Projects by Value, Location, and Type, Announced Since August 2022



Source: Construction Dive

such as the Sunbelt and Midwest, where manufacturing activity is concentrated, stand to benefit most, while coastal markets may see slower relative growth (Exhibit 4).

Nearshoring markets in the US and Mexico will feel the impact of tariff policies differently depending on their scope and implementation. US efforts to bring supply chains closer to home have already driven significant growth in border markets such as Laredo and El Paso, TX, which have expanded their industrial inventories by more than 20% since 2020. Although tariffs on Mexico could create headwinds, some of this risk may be offset by Mexico's growing role as a labor pool for US manufacturing firms seeking cost-effective solutions for lower value-added production. More restrictive US immigration policies could increase the need to tap Mexico's labor market, further integrating cross-border supply chains.

Ultimately, shifting policies will create both challenges and opportunities, reshaping global supply chains and investment patterns. Winners and losers will emerge, but those positioned to adapt to these changes—particularly in logistics and industrial real estate—will find compelling opportunities in this evolving landscape.

Conclusion

The US reindustrialization is transforming global supply chains. What began as a response to pandemic-induced disruptions and geopolitical tensions has now become a structural reconfiguration driven by technological advances and strategic policies such as the CHIPS Act and the Inflation Reduction Act. This resurgence isn't isolated; it's catalyzing a broader wave of nearshoring, with Mexico emerging as a critical partner because of its proximity, cost advantages, and established manufacturing infrastructure. However, the path forward is shaped by policy risks—particularly proposed tariffs on North American trading partners and restrictive immigration measures—that threaten to impact the opportunity in certain markets and countries, particularly border markets and Mexico. That said, manufacturing and supply chain investments don't change direction quickly; these are decades-spanning infrastructure commitments, and Mexico is a key element of scaling up North American manufacturing.

These dynamics will create both challenges and opportunities. Modern logistics networks will need to be expanded to meet the demand from new manufacturing facilities. Though higher tariffs and labor shortages could strain key industries and inflate costs, they could also place a governor on new supply, creating upward pressure on industrial rents and values. Industrial investors that strategically navigate these shifts stand to gain from the evolving landscape, capitalizing on the intersection of manufacturing resurgence and real estate opportunity. ■

Lange Allen is Senior Managing Director and Head of North American Industrial Development, Mark Fitzgerald is Head of North American Research, Jason Hans is Senior Managing Director of Industrial Portfolio Management, and Paul Segreto is Managing Director of Logistics at Affinius Capital.

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