(Y)OURSPACE
ANTHOLOGY

Knight Frank

July 2025 | Industrial Edition #1 | knightfrank.com/research

RETHINKING INDUSTRY'S FOOTPRINT

Contents

Foreword

Welcome to the inaugural issue of our new (Y)OUR SPACE Industrial Anthology, a new series crafted for industrial occupiers navigating one of the most volatile eras in global commerce. Grounded in insights from the 4th Edition of (Y)OUR SPACE, this collection of articles traces the forces redrawing the industrial real estate map and reshaping corporate strategy in real time.

DR. LEE ELLIOTT

Head of Global Occupier Research
Knight Frank

We are living through a rupture. The familiar rhythms of globalisation – steady, optimised, borderless – have given way to a more fractious, unpredictable world. Tariffs have returned with force. Industrial policy has turned defensive, and trade has become a contested domain, weaponised in the name of national resilience. From Trump's tariff escalations to Europe's subsidy battles, the rules of the game have changed and so has the field of play.

Across these eight articles, spanning supply chain realignments, corporate breakups, defence remobilisation, and the new economics of factory construction, we see a business world under pressure, pivoting from just-in-time precision to just-in-case preparedness. Strategy today demands agility. And increasingly, it demands a rethink of place.

Corporate real estate is no longer a backdrop to transformation; it's a frontline lever of change. As companies split, reshore, automate, and diversify, the physical footprint must flex. That means faster build times, more resilient locations, and facilities that can absorb the shocks of a world in flux.

This anthology doesn't just track what's happening. It brings you voices from the frontlines, offering insight into how the industrial sector is adapting at speed and at scale. Because in this new era, industrial real estate isn't just responding to change; it's helping to drive it.

INDUSTRIAL INSIGHT 1[1]

Corporate Fissure: The Shattering of Industrial Giants

Like tectonic plates shifting under immense pressure, the corporate world is undergoing a profound fissure, reshaping the landscape of industry giants. The discussion around Smiths Group potentially splitting into separate entities following pressure from activist shareholders marks yet another high-profile case of corporate restructuring. While Smiths Group has not officially announced a split, it has acknowledged investor calls for a review of its business structure. The British engineering giant, long known for its diversified industrial portfolio of medical technology, security systems, and energy solutions, is under pressure to explore whether its varied businesses would be better served as independent companies.

This latest development indicates a broader trend sweeping through the corporate world, where once-mighty conglomerates are being dismantled in favour of streamlined, focused enterprises. In many ways, discussions about Smiths' potential breakup echo the seismic shifts seen at General Electric, which completed its long-awaited split into three businesses: GE Aerospace, GE

[1]This article was first produced and published on February 3rd 2025

Vernova (focusing on energy), and GE Healthcare in 2024.

However, corporate breakups are not a new phenomenon. The breakup of Standard Oil in 1911 due to antitrust regulations serves as a historical precedent where market conditions and regulatory scrutiny necessitated the dismantling of large entities. Similarly, the forced divestiture of AT&T in 1984 led to the creation of the "Baby Bells," reshaping the telecommunications industry and proving that breaking up large companies can drive competition and market efficiency.

What are the Drivers of Corporate Fissure

The forces behind these transformations are multifaceted. A major driver has been the relentless pressure from activist investors, who have increasingly targeted sprawling corporations they view as undervalued. The Smiths' case mirrors the situation at Vivendi, which has faced similar activist pressure but has not announced a definitive plan to break into four separate entities: Canal+, Havas, Louis Hachette Group, and the remaining Vivendi. In both instances, shareholders, weary of what they see as conglomerate discounts, have advocated for such splits to unlock value and ensure each business is evaluated on its own merits.

Beyond shareholder activism, market dynamics have played a crucial role in fuelling these breakups. The rapidly evolving economic landscape demands that companies be more agile, responsive, and innovative - qualities often stifled in large, unwieldy conglomerates. Take 3M's decision to spin off its healthcare division in April 2024: the company recognised that the regulatory landscape, technological advancements, and shifting consumer expectations in healthcare necessitated a level of specialisation that could not be fully realised under the broader 3M umbrella.

Similarly, while DuPont has undergone restructurings, there has been no official announcement of a new split into three distinct publicly traded companies. The argument for such a move remains compelling, particularly in technology-driven sectors, where rapid innovation cycles require companies to be nimble and focused. This trend is also evident in Warner Bros. Discovery's operational restructuring, which saw the media giant streamline into two key divisions - Streaming & Studios and Global Linear Networks, but without any confirmed spin-off plans at present.

Where Next?

If Smiths Group's scenario is any indication, we will likely see continued discussions around breakups, particularly in industries where legacy conglomerates struggle to compete with more agile, specialised firms. Activist investors are unlikely to relent, and as long as the public markets reward companies that focus on a singular mission, we can expect more industrial giants to follow suit.

However, while the current climate favours fissure, the long-term trajectory remains uncertain. A countervailing trend could emerge if economic volatility increases, prompting companies to seek the stability that diversified conglomerates once provided. Moreover, as industries consolidate and supply chains become more interconnected, businesses may see advantages in reintegration. The next phase may not be as simple as splitting up but rather a reimagining of corporate structures that balance focus with resilience.

For now, the corporate fissure shows no signs of slowing. The landscape continues to fracture and reshape, much like shifting geological formations under immense pressure. Whether this tectonic movement will ultimately create new thriving entities or unstable fault lines remains to be seen. Still, one thing is sure: the age of the monolithic conglomerate is under threat.

What Does This Mean From a Corporate Real Estate Standpoint?

This wave of demergers and spin-offs carries significant implications from a corporate real estate perspective. As large conglomerates break into smaller, more specialised entities, their real estate needs will shift dramatically.

Companies that once centralised operations within expansive headquarters or sprawling campuses may find such spaces excessive for their newly defined, leaner structures. This could lead to increased subleasing activity, property disposals, and a general re-evaluation of office footprints across multiple markets.

Similarly, newly independent companies will need to establish their own real estate strategies, which may prompt a surge in demand for new right-sized HQ facilities, flexible office solutions, co-working spaces, and regional hubs tailored to their specific operational needs. This could provide opportunities for commercial landlords and developers to attract new tenants, particularly in cities with established infrastructure and talent pools suited to high-growth industries.

Given the nature of the companies most typically experiencing fissures, industrial and logistics real estate will be particularly affected. With many breakups occurring in manufacturing, energy, and technology sectors, there could be increased demand for specialised facilities, such as research labs, production hubs, or distribution centres. Supply chain restructuring from these splits could further alter demand patterns, with companies seeking more strategic locations to optimise their newly separated and refined operations.

EXAMPLES OF INDUSTRIAL CORPORATE FISSURE 2020-2025

COMPANY	TRANSACTION	DATE	DETAILS
ABB Ltd	Sale of Power Grids to Hitachi	July 1, 2020	Completed sale of 80.1 % of its Power Grids business to Hitachi, enabling ABB to refocus on electrification and automation; announced share buyback afterward (reuters.com)
Siemens AG	Spin-off of Siemens Energy	September 28, 2020	Distributed 55 % of its Energy unit shares to shareholders at a 1:2 ratio and listed Siemens Energy on Frankfurt Xetra, retaining 45 % to divest over 12–18 months (reuters.com)
Fortive Corp	Spin-off of Vontier	October 9, 2020	Separated its Industrial Technologies segment via a tax-free spin-off; Vontier began "regular way" trading on NYSE under ticker VNT; Fortive distributed 80.1 % of shares (investors.fortive.com)
RTX (Raytheon Technologies)	Formation via merger	April 3, 2020	United Technologies spun off Otis and Carrier, then merged its aerospace arm with Raytheon to form Raytheon Technologies, a pure-play aerospace & defence giant (en.wikipedia.org, reuters.com)
General Electric	Spin-off of GE HealthCare	January 4, 2023	GE HealthCare Technologies debuted as an independent company on Nasdaq following a spin-off of GE's medical-imaging and life-sciences arm (reuters.com)
General Electric	Spin-off of GE Vernova (energy businesses)	April 2, 2024	GE Vernova began trading on the NYSE; shareholders received one GEV share for every four GE shares; GE Aerospace remained as a standalone GE Aerospace (reuters.com)
3M Co	Spin-off of Solventum	April 1, 2024	Completed spin-off of its healthcare business as Solventum; 3M retained ~19.9 % stake; Solventum began trading on NYSE under ticker SOLV (en.wikipedia.org)
Johnson & Johnson	Share exchange spin-off of Kenvue	August 21, 2023	Completed exchange offer to separate its consumer health unit; shareholders exchanged JNJ stock for KVUE shares; J&J retained ~9.5 % stake (reuters.com)
Fortive Corp	Spin-off of Ralliant	June 28, 2025	Completed 100 % spin-off of its Precision Technologies segment; shareholders received one RAL share per three FTV shares; ~113 M shares distributed; began trading under RAL (businesswire.com)

INDUSTRIAL INSIGHT 2[2]

The Engine Rebuild: How Germany's Manufacturing Powerhouse Is Gearing Up for a New Industrial Era

Revving Up an Industrial Engine Amid Political Shifts

Imagine Germany's manufacturing sector as a high-performance engine - precision-engineered, finely tuned, and renowned worldwide for its power and reliability. For decades, this industrial engine fuelled Germany's economic might and set global standards in engineering, efficiency, and craftsmanship. However, after years of relentless operation and exposure to shifting global conditions, even this powerhouse shows signs of wear. Rising energy costs, geopolitical disruptions, and evolving market demands have caused the once-reliable engine to sputter.

The federal election on February 23, 2025, has introduced new variables into this complex machinery. The conservative CDU/CSU alliance, led by Friedrich Merz, secured a plurality with 28.5% of the vote, positioning Merz to become the next chancellor.

[2]This article was first produced and published on March 3rd 2025

Notably, the far-right Alternative for Germany (AfD) achieved a historic second place with 20.8%, reflecting significant political realignments. The centre-left Social Democrats (SPD) experienced a substantial decline, obtaining only 16.4% of the vote.

This political shift is expected to bring significant policy changes, with the new government likely to prioritise deregulation, pro-business reforms, and a tougher stance on energy policy, especially concerning nuclear and fossil fuels. While this could alleviate energy cost pressures on manufacturers, it also introduces potential risks of labour unrest and trade tensions due to more stringent immigration and international trade policies.

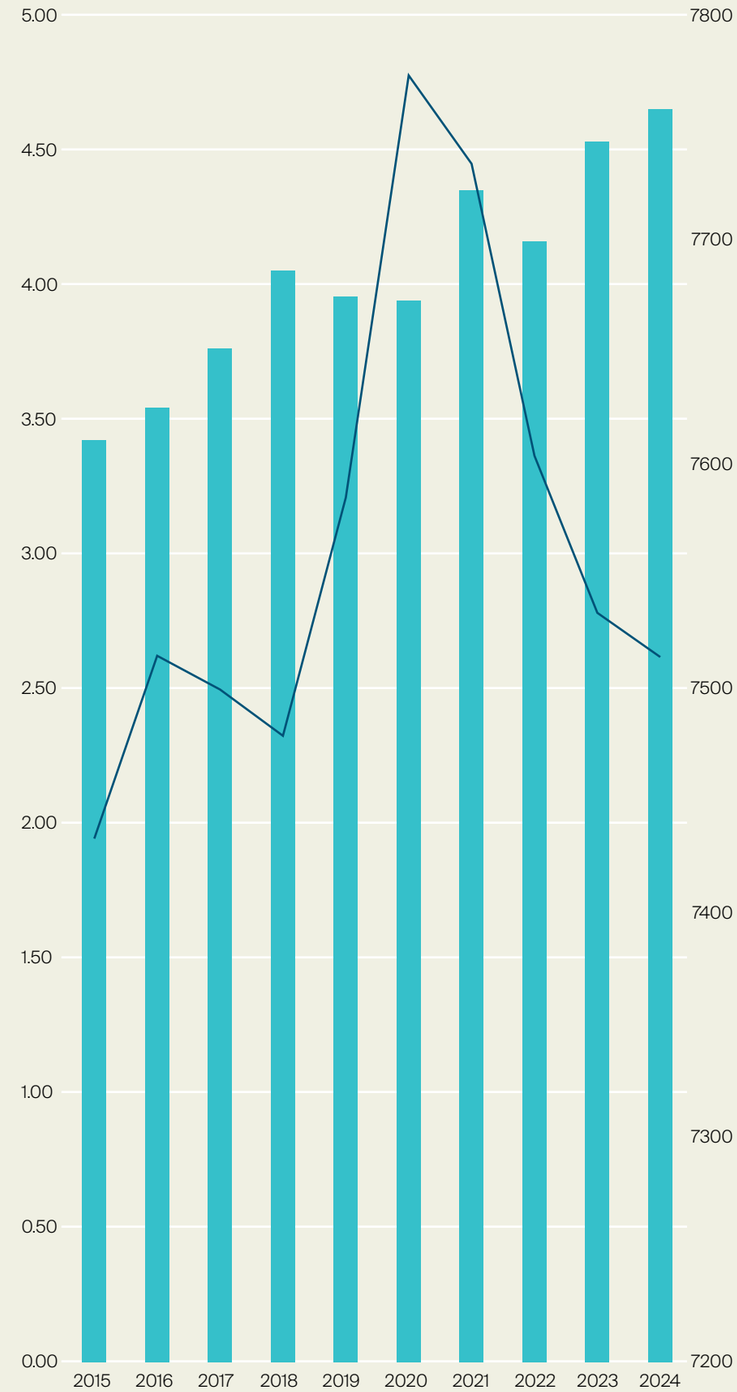
As the political landscape shifts, German manufacturers are undertaking a comprehensive engine overhaul, replacing outdated components with cutting-edge technologies, fuelling up with sustainability, and installing smarter, adaptive systems to ensure that this industrial titan roars back to life - stronger, faster, and future-ready.

Germany Manufacturing: Losing Power?

Germany's manufacturing sector, once the cornerstone of its robust economy, has been on a downward trajectory in recent years, marked by significant declines in employment, gross domestic product (GDP) contribution, and the number of operational enterprises.

Since the onset of the COVID-19 pandemic, the country has lost nearly 250,000 manufacturing jobs, exacerbated by high energy costs, weakened consumer demand, and intensified competition from China. This contraction is evident in key industries such as automotive manufacturing and machinery production, which have experienced marked declines in output. The Federal Statistical Office reported a 3.0% drop in manufacturing output in 2024 compared to the previous year, highlighting the sector's ongoing challenges.

German GDP and Manufacturing Employment, 2015-2024



Source: World Bank and Destatis.de

The economic impact extends beyond employment figures. Germany's GDP contracted by 0.3% in 2023 and a further 0.2% in 2024, marking the first instance of consecutive annual declines in over two decades. This downturn is primarily attributed to reduced industrial production and the escalating costs of energy imports. The manufacturing sector, which traditionally accounted for a substantial portion of the nation's GDP, has seen its contribution diminish, reflecting the broader industrial slowdown.

Moreover, the number of manufacturing enterprises has been on the decline. In 2020, Germany had approximately 220,608 manufacturing enterprises; by 2022, this number had decreased to about 205,180, indicating a reduction of over 15,000 enterprises within two years. High operational costs, stringent regulatory environments, and global supply chain disruptions have led to numerous plant closures and relocations. Notably, major companies like BASF have announced significant job cuts and the shutdown of key facilities, underscoring the challenging business climate.

This confluence of job losses, reduced economic output, and a shrinking number of manufacturing firms paints a concerning picture of Germany's industrial landscape, indicating a pressing need for strategic interventions to revitalise the sector.

Strategic Realignment: Replacing Worn Parts with New Capabilities

To better understand the current industrial transformation, the following table provides an overview of key strategic and transformation initiatives announced by German manufacturers since the start of 2024.

The table below underscores the diversity and ambition of Germany's manufacturing revival, highlighting how traditional industry leaders and innovative newcomers adapt to a changing economic landscape.

Every engine needs to replace outdated parts to stay functional, and German manufacturers are doing just that through strategic realignment and diversification. Take *Rheinmetall*, traditionally an automotive supplier, which is now pivoting towards defence manufacturing. Facing declining demand in the automotive sector, Rheinmetall is repurposing its Berlin and Neuss plants to focus on producing defence equipment. These plants are evolving into hybrid facilities, maintaining some automotive output while increasing defence-related production. It's akin to swapping out old engine components for more powerful, versatile ones to meet new performance demands, particularly as Europe boosts defence spending amid geopolitical tensions.

COMPANY	HQ LOCATION	STRATEGIC INITIATIVE
Rheinmetall	Düsseldorf	Repurposing Berlin and Neuss plants for defence manufacturing, reducing reliance on the automotive sector.
ThyssenKrupp	Essen	Restructuring with a focus on efficiency, divesting steel and marine systems, and investing in green transformation.
Siemens	Munich	Launched Siemens Xcelerator to enhance digital integration for SMEs, promoting Industry 4.0 adoption.
Cylib	Aachen	Constructing a battery recycling facility in Chempark Dormagen to boost sustainable EV battery production.
Volkswagen	Wolfsburg	Investing in EV production and software development, focusing on expanding battering technology and autonomous driving.
Bosch	Gerlingen	Developing AI-powered home automation systems, focusing on IoT advancements for industrial use.
BASF	Ludwigshafen	Launching a major decarbonisation initiative aimed at reducing emissions in chemical manufacturing processes.
Daimler Truck	Leinfelden-Echterdingen	Expanding hydrogen fuel cell development for commercial trucks, aiming for carbon-neutral logistics solutions.
Continental	Hanover	Investing in advanced tyre technology and smart mobility solutions, focusing on sustainability and autonomous vehicle systems.

Similarly, industrial giant *ThyssenKrupp* is reworking its internal mechanisms. Facing significant revenue drops, down 7% to €35 billion, and a 20% decrease in operating profits, CEO Miguel López has initiated a radical transformation program. The focus? Enhancing operational efficiency, shedding legacy divisions like European steel and marine systems, and leveraging growth opportunities tied to the green transition. This shift is like upgrading an ageing engine's transmission system to enhance overall performance and efficiency, preparing the company to operate smoothly in a rapidly changing economic landscape.

In addition, *Bosch* is advancing AI-powered home automation systems, aligning with the broader industrial shift toward smart manufacturing and IoT integration. Meanwhile, *BASF* spearheads decarbonisation in chemical production, demonstrating a strong commitment to reducing industrial emissions. Automotive supplier *Continental* is also making significant strides by investing in advanced tyre technology and smart mobility solutions, focusing on sustainability and the future of autonomous vehicles.

The new government's pro-business stance could potentially accelerate these strategic shifts by reducing regulatory hurdles and offering new incentives for industrial modernisation.

Digitalisation: Installing a Smarter Engine Control System

A modern engine is incomplete without intelligent control systems, and in Germany's industrial reboot, digitalisation serves this crucial role. Known as Industry 4.0, this digital revolution is transforming German manufacturing from traditional assembly lines into smart, data-driven ecosystems.

Leading the charge is *Siemens* with its groundbreaking initiative, *Siemens Xcelerator*. This open digital platform integrates IoT-enabled hardware, software, and services, particularly targeting small and medium-sized enterprises (SMEs) that traditionally struggled to adapt to digital innovation. Think of it as installing a cutting-edge engine control unit (ECU) that optimises every system in real-time, enhancing productivity, reducing costs, and future-proofing manufacturing capabilities.

Germany's Mittelstand, its backbone of SMEs, has also embraced this digital shift. Traditionally strong in sectors like machinery and auto parts, many Mittelstand companies are integrating automation, data analytics, and AI into their production lines. This digital overhaul doesn't just fine-tune the engine, it supercharges it, allowing these firms to offer customised, efficient solutions and maintain a competitive edge in global markets.

The new administration is likely to expand support for digital infrastructure and AI research, especially for SMEs, to strengthen Germany's competitive position on the global stage.

Sustainabillity: Switching to a Cleaner, More Efficient Fuel Source

No engine upgrade is complete without cleaner, more sustainable fuel, and for German manufacturers, sustainability initiatives are the new energy source driving growth.

Germany's National Circular Economy Strategy (NCES), introduced in December 2024 under the "Circularity Made in Germany" initiative, encourages manufacturers to minimise waste and promote resource reuse. This policy shift is akin to refuelling the industrial engine with cleaner, renewable energy instead of fossil fuels, ensuring long-term efficiency and environmental responsibility.

In the automotive sector, sustainability efforts are accelerating rapidly. Start-up *Cylib*, backed by industry giants *Porsche* and *Bosch*, is constructing a battery recycling plant at Chempark Dormagen. Once operational in 2026, the facility aims to recycle up to 30,000 tons of end-of-life batteries annually. This closed-loop system will ensure that vital raw materials are reused, making EV production more sustainable and reinforcing Germany's green credentials.

Under the new government, however, there may be a policy pivot that softens some environmental regulations to boost industrial output. While this could alleviate immediate economic pressures, manufacturers must balance short-term growth with long-term sustainability commitments.

The Road Ahead: A Rebuilt Engine Ready for New Roads

Despite significant progress, Germany's industrial engine still struggles with persistent faults. High energy costs, international competition and structural shifts, especially in the automotive and chemical sectors, are causing ongoing disruptions.

The loss of almost 250,000 manufacturing jobs since the pandemic underscores the need for deep-rooted change. Like an ageing engine prone to stalling, these challenges require more than surface-level fixes. Manufacturers must continue innovating, investing in digital infrastructure, and adopting sustainable practices to stay competitive.

Germany's manufacturing engine is undergoing one of the most significant overhauls in its history. With the political landscape reshaping government priorities, manufacturers must adapt quickly, balancing economic incentives with the pressures of sustainability and global competition.

By realigning strategies, embracing digitalisation, investing in sustainability, and leveraging supportive new policies, German manufacturers are setting the stage for a powerful resurgence. The transformation journey mirrors rebuilding a high-performance engine, disassembling outdated systems, upgrading components, and recalibrating for maximum efficiency.

The road ahead may be challenging, but with its engine rebuilt and running stronger than ever, few would bet against Germany's manufacturing sector playing a leading role in the next industrial revolution.

INDUSTRIAL INSIGHT 3[3]

Bridging the Fractured Supply Chain: The Ripple Effects of Tariff Wars and Geopolitical Shifts

The New Supply Chain Cartography

Global supply chains, once a seamless web of efficiency, have become battlefields where trade policy and geopolitics dictate the movement of goods. The U.S.-China trade war, Brexit, and the rise of protectionist policies have created a world where businesses can no longer rely on stability. Companies have had to redraw their logistical maps, seeking alternative routes and manufacturing bases to avoid the rising costs and unpredictability of tariff wars. Much like tectonic plates shifting beneath our feet, the geopolitical landscape reshapes where and how goods are produced, stored, and transported. This article explores how these forces have transformed supply chains, detailing the responses from corporations and nations alike.

From Silk Road to Barbed Wire: Tariffs and the Redirection of Trade

Trade has long flowed like a great river, shaped by natural efficiencies and economic incentives. But in

[3] This article was first produced and published on March 10th 2025

recent years, tariffs have acted as artificial dams, forcing companies to reroute their operations. The U.S.-China trade war, which escalated in 2018, saw sweeping tariffs placed on over $360 billion worth of Chinese goods, with retaliatory measures from China exacerbating disruptions. The result was an exodus of manufacturers who had relied on China's vast industrial ecosystem. Companies in industries ranging from textiles to semiconductors scrambled to find alternative production hubs, giving rise to the "China-plus-one" strategy.

Vietnam, Thailand, and India quickly became the primary beneficiaries of this shift. Industrial land prices in Vietnam doubled in key zones as manufacturers raced to relocate their facilities. Meanwhile, Mexico emerged as an even more attractive destination, leveraging its proximity to the U.S. and the trade protections of the United States-Mexico-Canada Agreement (USMCA). By shifting final assembly to Mexico, companies could bypass tariffs while still accessing the U.S. market duty-free. Industrial vacancy rates in key Mexican border cities fell below 1%, and rents surged as factories moved in, proving that supply chains follow not just cost advantages but also trade policy incentives.

In Europe, Brexit created another kind of trade disruption. Once an integral part of European distribution networks, the UK saw a shift as companies moved warehousing operations to mainland Europe to avoid the added customs frictions. Rotterdam, Belgium, and France became preferred logistics hubs, offering smoother access to the EU market. In response, the UK introduced Freeports to maintain its relevance in global trade, but the fundamental shift in distribution patterns had already taken hold.

Industrial & Logistics: The Unsung Winners of Supply Chain Disruptions

While manufacturers scrambled to adjust to shifting trade policies, another sector quietly benefited: industrial and logistics real estate. Warehouses, once considered secondary to production facilities, became critical assets. The unpredictability of tariffs led companies to stockpile goods, securing warehouse space in key distribution hubs. U.S. port-side warehouse leases hit all-time highs in 2024 as companies sought flexibility to buffer against trade volatility.

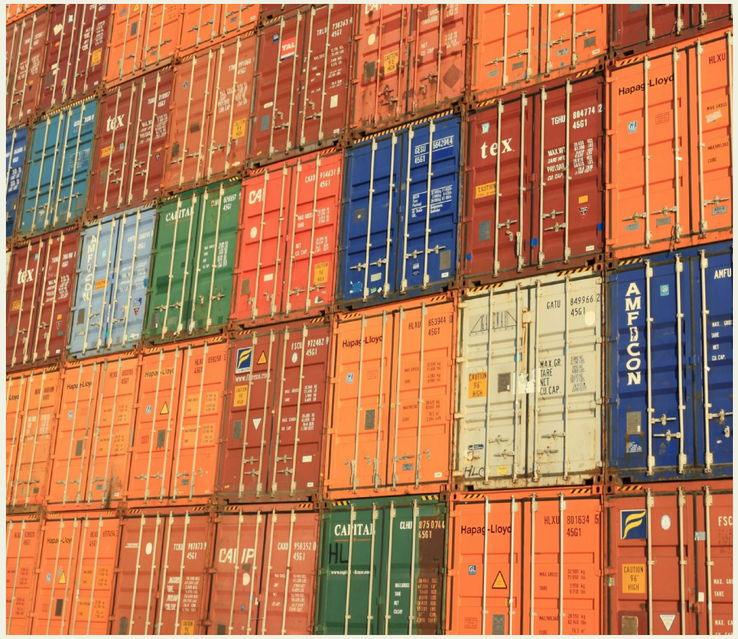
The growing demand for warehouses is not limited to North America. Thailand and Malaysia have also emerged as new nodes in global supply chains as companies sought to move away from China. These nations had the advantage of stable trade agreements and improving infrastructure, making them attractive alternatives for storing and processing goods bound for Western markets.

However, the benefits of increased demand for industrial space came with a cost. Tariffs on steel, aluminium, and lumber inflated real estate development costs, delaying new projects and driving up rents. Developers are forced to either absorb higher costs or pass them on to tenants, creating additional financial pressures on businesses struggling to navigate trade uncertainties.

The Office Sector & The Corporate Footprint Shift

While the impact of tariffs is most visible in manufacturing and logistics, corporate real estate decisions have also shifted. As companies moved production out of China, many reconsidered their regional headquarters. Large multinational firms that once centralised management in Shanghai or Shenzhen began relocating regional offices to Singapore, Vietnam, and Mexico City to maintain proximity to their shifting supply chains. This migration of office demand followed a clear pattern - executive functions needed to be near production, distribution, and regulatory centres.

Uncertainty around trade policies also influenced leasing decisions. Many companies adopted a "wait-and-see" approach, opting for flexible lease agreements rather than long-term commitments. The logic was clear: with trade relations between major economies in flux, businesses wanted the ability to pivot without being locked into fixed real estate footprints.



Trump v2.0: The Next Wave of Tariff Wars?

As the first quarter of 2025 draws to a close, the second Trump presidency raises critical questions for global supply chains and corporate real estate strategies daily. The Biden administration's aggressive stance on tariffs, particularly against China, reshaped global trade patterns. Trump's proposed universal 10% tariff on all imports and 60% tariff on Chinese goods could trigger a new wave of supply chain reconfigurations.

Businesses are already preparing for this possibility. Returning to widespread U.S. tariffs could accelerate nearshoring, particularly in Mexico and Canada, assuming current USMCA trade protections remain intact. At the same time, Southeast Asian nations like Vietnam and Thailand would continue to attract investment as companies seek to maintain access to Western markets without facing U.S. tariffs. The renewed uncertainty surrounding China could also push firms to diversify further into India, which has positioned itself as an alternative manufacturing hub.

Corporate real estate professionals are factoring in the potential impact of new tariffs on site selection for logistics hubs and industrial developments. In the U.S., Southern states with existing manufacturing clusters - like Texas and Tennessee - benefit if reshoring accelerates under protectionist policies. Meanwhile, U.S. firms with reliance on Chinese imports may face rising operational costs, increasing demand for warehouse space for stockpiling as businesses pre-emptively build inventories to avoid tariff spikes.

Trump's second term may also amplify trade tensions with Europe, where disputes over digital taxes, auto tariffs, and agricultural trade policies remain unresolved. Occupiers with European exposure will need to monitor policy shifts closely, as supply chain disruptions could affect the dynamics in key logistics corridors.

The New Geopolitical Playbook: Trade as a Tool of Power

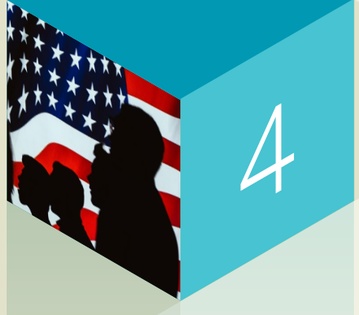
Trade has always been an economic tool, but it has become a weapon in geopolitical power struggles in recent years. The U.S., EU, and China have all used tariffs, sanctions, and export controls to shape global supply chains in their favour. Nowhere is this more apparent than in the technology sector. The U.S. CHIPS Act, designed to reduce reliance on Chinese semiconductor production, has led to multi-billion-dollar investments in domestic manufacturing. Similarly, the EU has committed significant funding to develop local EV battery production to reduce dependence on Asian imports.

Corporate real estate professionals are now conducting "tariff audits" to assess how trade policies affect their portfolios. A logistics hub that once seemed like a strategic location could suddenly become obsolete if trade restrictions change. Companies are increasingly choosing locations for long-term political stability and cost efficiency. Those anticipating and adapting to these changes will secure competitive advantages in an uncertain world.

The Future is Regionalised, Resilient and Policy-Driven

The era of hyper-globalisation is giving way to a world where supply chains are more regionalised, politically secure, and resilient to shocks. Companies no longer optimise solely for cost but for trade policy alignment, supply chain flexibility, and long-term geopolitical stability. Whether or not another tariff war materialises, supply chains will continue to evolve in response to the interplay of policy, economic pressures, and national security concerns.

Corporate real estate is no longer just about location, location, location - it's about agility, adaptability, and resilience. Those who understand how trade policy shapes space demand will be the ones who thrive in this new era.



INDUSTRIAL INSIGHT 4[4]

Ten Market and CRE Implications of Trump's 2.0's Trade Wars

Since the first Trump administration, the real estate consequences of tariffs and trade wars have shaped markets. Trump v2.0 is set to supercharge these trends, deepening old fractures while creating new market dynamics. Here's how corporate real estate dynamics may change:

#1 The Great Shoring Debate - Variety Derives from Uncertainty

Reshore, nearshore, friendshore, greenshore? No one's sure. The options for supply chain realignment are multiplying, but volatility in trade policy and geopolitics is making decision-making harder than ever for occupiers. Many companies will hesitate to commit to long-term strategies, unsure whether tariffs will intensify, alliances will shift, or incentives will change. Example: Some U.S. and European manufacturers are reshoring and moving production back home due to political pressure and supply chain security concerns.

Meanwhile, friend-shoring will drive investment into India, Vietnam, and Mexico, where firms see more predictable trade relationships. However, indecision is also evident; several major corporations have postponed large-scale relocations, waiting for clearer tariffs and geopolitical stability signals.[5]

#2 APAC Industrial Real Estate Becomes the Big Winner

China's loss is Southeast Asia's gain. Manufacturing exodus from China has supercharged industrial real estate growth in Vietnam, Thailand, and Malaysia, with FDI surging by ~20% across the region. Example: Vietnam secured $16 billion in manufacturing investment in 2023, while Indonesia attracted $33 billion.

#3 Construction Costs Soar, Squeezing New Development

Tariffs don't just hit trade - they also inflate the cost of building. Tariffs on steel, aluminium, and other materials have driven construction costs up 30% since 2019, delaying projects and forcing developers to pass higher costs to occupiers. This could add further pressure to development pipelines worldwide, acting as an additional stress on the financial viability of development. Example: CRE developers have already started incorporating material cost hedging into long-term contracts to mitigate volatility.[6]

#4 U.S. Nearshoring and Reshoring Redraws Industrial Maps

Made in Mexico, not China. In a historic shift, U.S. imports from Mexico overtook China in 2024, driven by companies reshoring production or moving it closer to home. Of course, Mexico is also in the cross-hairs of Trump 2.0, meaning that the longevity of the Mexico playbook is by no means certain. Example: Texas border towns are booming as industrial tenants shift supply chains south.[7]

#5 Trade Uncertainty Freezes Real Estate Decisions

When trade policy changes overnight, so do business strategies. Companies are delaying significant real estate commitments due to tariff unpredictability, fearing abrupt cost spikes or supply chain disruptions. Example: U.S. and European automakers and electronics firms paused factory expansions in China in early 2024, waiting for clarity on Trump's next tariff moves before committing to long-term leases. A major Japanese auto manufacturer has shelved plans for a $500 million China plant, redirecting investment to Thailand instead.

#6 "Tarriff Triggers" in Leases - Flexibility is the New Standard

Adapt or overpay. Corporate occupiers are embedding tariff clauses in leases, allowing them to adjust costs, shift locations, or terminate contracts if trade barriers escalate. Example: Industrial tenants in Southeast Asia now negotiate "tariff relief" provisions, letting them renegotiate or relocate if new tariffs disrupt supply chains. U.S. industrial leases are incorporating cross-border contingency clauses for manufacturers needing flexibility.

#7 Stability Now Trumps Cost for Manufacturers

The cheapest option is no longer the best option. Companies are paying a premium for geopolitical stability, locking in longer-term leases in Vietnam, Thailand, and Mexico instead of chasing the lowest labour costs. Example: Over two-thirds of new factory tenants in Thailand's industrial parks in 2024 were firms relocating from China.[8]

#8 Logistics Space Tightens, Vacancy Hits Record Lows

Stockpiling is back. To hedge against tariffs, companies hold more inventory, fuelling record-low logistics vacancy rates and double-digit rent hikes in key APAC markets. Example: According to our forecasts, excluding mainland China and Hong Kong SAR, average industrial rents in the APAC region could rise by up to 6% for some markets.[9]

#9 One-Country Sourcing is Dead, Diversification Wins

Don't put all your factories in one basket. Companies are signing leases across multiple APAC markets to stay nimble if tariffs shift again. For example, Dell and HP moved 30% of laptop production from China to Vietnam, Thailand, and Mexico to hedge against trade risks.[10]

#10 Trade Policy is Now a Real Estate Decision

Real estate strategy now includes a trade policy playbook. Businesses aren't just picking locations based on tax incentives, they're choosing sites based on tariff exposure and geopolitical risk. Example: Semiconductor firms are expanding in Malaysia and Japan instead of China to sidestep U.S. technology export restrictions.[11]

One Final Thought

Tariffs aren't just tax codes - they are real estate game changers. Trump 2.0 will deepen fragmentation in global trade, accelerate regionalised supply chains, and reshape corporate real estate investment strategies. The winners will be those who pivot fast, build flexibility into their real estate, and stay ahead of shifting trade policies. That, of course, is no easy task.

[4] This article was first produced and published on March 10th 2025

[5] McKinsey, 2024

[6] Barron's, 2024

[7] Reuters, 2025

[8] Reuters, 2024

[9] Knight Frank, 2025

[10] Asia Financial, 2025

[11] McKinsey, 2024

5

INDUSTRIAL INSIGHT 5[12]

Manufacturing in an Era of Uncertainty

At the CoreNet Global Summit in Singapore (March 2025), a Knight Frank-sponsored panel titled *Chain Reaction* brought together industry insiders to talk about the problem no one wants to think about until it becomes a problem: the supply chain. James Pang from Continental and James Sherrin from TMX supported the session. Knight Frank's Head of Global Occupier Research, Dr Lee Elliott, began the conversation with a book reference - Tim Minshall's *Your Life is Manufactured*, a brand new primer on how the manufacturing process in the global economy works, how it moves, how it stutters. Minshall understands what many of us prefer to ignore: the distance between the things we need and the places that make them is vast, and that distance carries risk.

We talk about the supply chain as if it were some abstract force, a distant hum of cargo ships and factory lines, but it is neither of those things. It is not distant at all. It is the cup of coffee you hold in your hand, the screen you are reading this on. It is the 15,000–30,000 components in your car, the six million in an airliner, the shipping container rolling silently into a port halfway across the world, waiting for a crane, a truck, and a warehouse. It is fragile and invisible; when it fails, everything stops.

[12] This article was first produced and published on March 17th 2025

The Illusion of Efficiency

For decades, we were told that lean manufacturing was the answer. Cutting costs and streamlining production was a triumph of modern industry. We believed this, even as our factories disappeared and our ability to *make* atrophied in favour of an ability to *buy*. We built supply chains so efficient they could be disrupted by the slightest tremor. And then they were.

It started with empty shelves. The COVID-19 pandemic was a slow-motion unravelling of everything the global economy had taken for granted. At first, it was masks, gloves, hand sanitiser. Then, it was semiconductors, car parts, and furniture. Factories shut down. Ports clogged with stranded containers. Shipping costs surged tenfold. The cracks were no longer theoretical. They were everywhere, exposing how little redundancy had been built into a system designed for cost, not resilience.

Then, as if to make the point unmistakably clear, the *Ever Given* wedged itself sideways in the Suez Canal in March 2021. For six days, $10 billion in global trade sat motionless *every single day*. Some ships turned around. Some went the long way round. Some waited. And the rest of the world, for the first time in a long time, looked at a single supply chain failure and saw not an abstraction but something very real.

There is a kind of arrogance to globalisation, an unspoken belief that things will continue to move simply because they always have. But lean manufacturing, it turns out, was a misnomer. Lean meant vulnerable. Lean meant sending Scottish fish to China for processing, then shipping them back to British supermarkets because somewhere in an algorithm, that made sense.

A System of Contradictions

Shanghai moves more containers than the top five U.S. ports combined. China produces one-third of the world's manufactured goods, 70 million bicycles a year, more than three-quarters of the global supply. And yet, in terms of manufacturing output per person, Switzerland and Singapore rank higher, two economies that have not abandoned production in favour of services and understand the interplay between making and moving and consuming.

An iPhone travels 250,000 kilometres before it reaches a customer. That distance is not a metaphor. It is six times around the Earth, the reason disruptions ripple outward in ways we still struggle to grasp. Add refrigeration, *cold chain logistics*, the delicate dance of keeping products at precise temperatures across thousands of miles, and the complexity deepens. Everything, all of it, requires energy. Unilever found a way to stabilise ice cream at

-12°C instead of -18°C, cutting freezer energy use by 25%. One small shift. A massive impact.

The Collapse of Industrial Memory

Harvard researchers Pisano and Shih call it the *industrial commons*: the tacit knowledge, the infrastructure, the ability to *make* that disappears when a country offshores too much, for too long. And once it's gone, it does not come back quickly or easily.

The United States and the United Kingdom once believed they could shift to service economies and that manufacturing was a relic of the past. But the 2008 financial crisis cracked that illusion. Then came the pandemic, a slow-motion realisation that resilience had been traded for short-term profits somewhere along the way. Today, reshoring, nearshoring, and friendshoring - words that barely existed a decade ago - are at the forefront of policy discussions. There is no easy way to unwind globalisation, no simple way to repair what was lost.

And so the conversation shifts.

The Environmental Reckoning

Manufacturing is not only about efficiency. It is about impact. Cement production alone accounts for 8% of global CO_2 emissions, four times the emissions of the entire aviation industry. Six billion tonnes of food are produced annually, yet 2.5 billion tonnes go unused.

There is a way to fix this or at least mitigate it. Move less. Transport less. Slow down. If container ships reduced their speed by 20%, carbon emissions would drop by 34%. But modern consumers, trained to expect speed and convenience, may not be willing to wait. The most challenging shift may not be technological but psychological.

The Reckoning Ahead

The supply chain is no longer a quiet, unseen mechanism. It is no longer a given. Every shock: pandemics, trade wars, and geopolitical tension has made that clear.

For years, cost was king. Companies chased the lowest price, the most efficient route, and the slimmest margins. But now, resilience is emerging as the new priority. And in that shift, corporate real estate leaders will find themselves at the centre of the response. Warehouses are no longer just storage; they are strategic assets that need to be closer to consumers, more flexible, and more sustainable. Manufacturing hubs must be reimagined, balancing just-in-time efficiency with just-in-case preparedness.

For CRE leaders tasked with navigating this new landscape, Minshall's *'Your Life is Manufactured'* is not just a useful read but an essential one because the world is changing. Because the next disruption is always on the horizon. Because the spaces where we *make* and *move* are just as critical as the products themselves.

INDUSTRIAL INSIGHT 6[13]

From Factories to Firepower: How Europe's Defence Surge Is Transforming Corporate Real Estate

Across Europe, defence is no longer just a matter of policy; it is becoming a matter of property. As countries from the Baltic to the Atlantic ramp up military spending to historic levels, the realignment of industrial activity is leaving a visible mark on the built environment. Ammunition plants are running three shifts. Vehicle factories are being retooled. Civilian industrial assets are being reactivated, converted, or co-located with defence production.

For corporate real estate and facilities leaders, this is more than a political backdrop. It's a live operational shift with new space demands, tighter timelines, zoning and permitting complexity, and growing pressure to make physical infrastructure more adaptable to strategic use. In short, Europe's defence mobilisation is becoming a driver of industrial real estate transformation.

A New Strategic Era: 2024 in Review, 2025 in Motion

The Ukraine conflict has moved Europe from reactive to systemic rearmament. As of March 2025, 23 NATO members, up from just 3 in

[13] This article was first produced and published on April 7th 2025

2014, are meeting the 2% of GDP defence spending target. Some, like Poland and Estonia, have exceeded 3% or even 4%. Germany has now committed to make its €100bn Sondervermögen permanent. The UK aims for 2.5% of GDP by 2030 and has allocated £58bn to defence in 2025.

France's Loi de Programmation Militaire (2024–2030) locks in €413bn in defence investment, while Italy has announced a phased 15% increase in defence spending over the next three years, bringing 2025's total to €29.6bn. Spain has confirmed it will reach the 2% threshold by 2029, with €28.4bn allocated in 2025.

This sustained momentum is redrawing the demands placed on land, facilities, and logistics, especially as supply chain security and strategic autonomy become national priorities. Industrial occupiers are being asked to scale quickly, reconfigure space rapidly, and comply with increasingly complex regulatory frameworks.

FACILITY CONVERSIONS ACCELERATE: CASE STUDIES ACROSS EUROPE

COUNTRY	DESCRIPTION
Germany	Rheinmetall is converting former automotive parts plants in Berlin and Neuss to produce components for armoured vehicles and munitions. In Unterlüß, a €300m artillery shell plant is under construction, repurposing legacy infrastructure for heavy manufacturing.
United Kingdom	BAE Systems has ramped up artillery shell production at Radway Green and Washington, while a major expansion at Barrow-in-Furness (with a new £200m government funding package announced in the Spring Statement) is bringing new requirements for logistics handling and worker accommodation.
France	Nexter has expanded production of Caesar howitzers in Roanne through modular construction on an adjacent industrial plot. In Bourges, old electronics labs have been converted into ballistics testing and quality assurance zones.
Poland	The Cegielski plant in Poznań is being adapted to co-produce K2 tanks under a Polish–South Korean partnership. In Rzeszów, logistics terminals near the airport have been converted into NATO-approved inspection zones.
Italy	Leonardo is repurposing aircraft hangars in Turin for drone production and adapting rotorcraft test sites in Vergiate for next-gen combat helicopter assembly.
Czech Republic	STV Group has reopened Cold War-era bunkers for ammunition output, while Zetor has converted part of its tractor plant in Brno for armoured vehicle engine production.
Norway	Nammo's artillery line in Raufoss is expanding into adjacent aerospace assembly halls after upgrades to power supply and secure fencing.
Sweden	Saab is adapting a former Volvo plant in southern Sweden to meet demand for next-generation infantry weapons.
Spain	A legacy aircraft hangar in Zaragoza has been reclassified and modified to serve as a storage and repair centre for NATO-supplied combat vehicles.
Slovakia	At Dubnica, the ZTS site is operating in partnership with Ukraine to handle artillery and turret systems, requiring on-site international liaison offices and dual clearance protocols.

Logistics Infrastructure, Operational Pressures, and Real Estate Implications

Europe's defence buildup has overwhelmed existing logistics networks. Military occupiers are increasingly demanding:

- Proximity to railheads, airbases and dual-use infrastructure
- Reinforced floors for heavy tracked vehicles
- Facilities with secure perimeter fencing and high-definition surveillance
- Blast-resistant storage bays for sensitive munitions

In the Baltics, NATO has leased former timber storage sites and reclassified them for fuel and vehicle component warehousing. In Belgium, a network of 12 logistics centres are being modernised for munitions transit.

Power grid capacity is also becoming a critical site selection factor. In Finland and Norway, defence occupiers are coordinating with utilities to ensure high-load manufacturing processes can be supported, even during peak demand.

The logistics race is not just about storage; it's about throughput. Occupiers are investing in vehicle staging areas, drone-proofing hangars, and real-time inventory management systems that can meet the operational tempo of contemporary defence.

Expanding the Footprint: Support Ecosystems and Secondary Demand

The knock-on effects of defence facility activity are being felt across wider real estate ecosystems. In regions hosting major defence conversions, from Kielce in Poland to Barrow-in-Furness in the UK, demand is rising for:

- Temporary workforce housing and modular accommodation for specialist contractors
- On-site and adjacent training centres, particularly for advanced manufacturing and safety certification
- Co-located supply chain units, including precision tooling, composites, and maintenance depots

In Brno, Czech Republic, the reopening of a munitions factory has triggered local demand for bolt-on facilities from subcontractors, who require small-batch production units and flexible warehousing within 15–30 minutes' drive. In western Germany, the state of North Rhine-Westphalia is working with defence occupiers to map excess land for future drone and counter-drone test corridors.

Cross-Border Collaborations and Standardisation Pressure

As Europe ramps up production for common systems, including howitzers, tanks, and air defence, shared standards for logistics facilities are emerging. NATO and EU agencies are encouraging standardised specifications for blast safety, rail siding lengths, power redundancy, and even guard-post design.

This trend is increasing demand for facilities that can serve multiple NATO or EU clients, requiring occupiers to adjust layouts and lease terms to accommodate rotational or joint-venture use.

In Slovakia, for example, the ZTS plant in Dubnica is serving both Slovak and Ukrainian needs, prompting the creation of a jointly funded perimeter security upgrade and dual inspection lines, one for local oversight, one for foreign ministry liaison. Such setups will become more common as multilateral logistics and manufacturing deepen.

A Shifting Cultural Narrative for CRE Professionals

The defence transformation is also reshaping how corporate real estate professionals define their role. Many now find themselves liaising directly with military planners, civil servants, and strategic procurement offices, a far cry from traditional landlord-tenant negotiations.

Facility managers are being drawn into exercises in resilience planning, redundancy mapping, and crisis logistics simulation. A plant built in 1975 for commercial vehicles might now be a critical NATO node, requiring a radically different risk profile, insurance framework, and maintenance model.

These shifts place a premium on institutional memory, engineering adaptability, and proactive collaboration. Corporate real estate, long a backstage function, is now playing a front-line role in the physical architecture of European security.

Strategic Innovation and Technology Clusters

As defence needs evolve, so too does the geography of innovation. Emerging tech clusters are now being pulled into the defence orbit, often requiring occupiers to co-locate with military research agencies or form new public-private partnerships.

In southern France, a new campus adjacent to the CEA (Atomic Energy Commission) is being configured for dual-use R&D. In the UK, a former telecoms hub near Reading is being upgraded for classified electromagnetic testing, showing how even digital infrastructure can be repurposed for defence.

These spaces require bespoke CRE solutions: shielding, access zoning, cyber-integrated facility management, and tenant coordination protocols. The skillsets demanded of CRE professionals are becoming as strategic as the facilities themselves.

Conclusion: From Occupation to Obligation

Europe's rearmament is reshaping not only its defence industry but its industrial geography. For those managing corporate estates, the pressure is on to transform passive assets into active enablers of strategic capability.

What was once idle floor space is now in high demand. What was once a logistics afterthought is now a front-line consideration. The occupier's role in Europe's defence landscape has shifted: from supporting cast to critical infrastructure.

As geopolitical tensions persist, and as Europe continues to harden its economic and military defences, corporate real estate professionals will find themselves central to the continent's preparedness, one retrofit, rezone, and recommissioned facility at a time.

OFFICE INSIGHT 7[14]

Tarriffs, Trade, and Transformation: Reshaping Indsutrial Real Estate

MARCUS BURTENSHAW

Partner, Head of Industrial Strategy & Solutions,
Knight Frank Thailand

Fstoppers, a U.S.-based photography gear company, faced a stark reality: producing a simple component domestically would cost over $80 per unit, compared to $7.50 in China, a more than tenfold increase. Their choice was not whether to reshuffle their supply chain but whether to continue selling the product at all.

This example highlights the intense pressures tariffs can impose on manufacturers, pressures that ultimately reshape decisions about production locations, facility requirements, and logistics networks. As these decisions evolve, influenced by factors like geopolitical tensions and the growing need for supply chain resilience, they significantly impact the industrial real estate sector, influencing demand for warehouse space, manufacturing plants, and distribution hubs globally.

This article examines the real-world implications of tariff policy, with a particular focus on small and medium-sized enterprises (SMEs), manufacturing competitiveness, supply chain realignment, and foreign investment. It revisits the lessons from the first U.S.–China trade war and explores

[14] This article was first produced and published on April 14th 2025

how China sidestepped tariffs through mechanisms like foreign direct investment (FDI) into third-party markets and supply chain restructuring. The analysis centres on recent U.S. tariffs arising from its trade tensions with China but draws broader conclusions relevant to policymakers, manufacturers, and investors navigating today's multipolar trade landscape. In doing so, it seeks to move the conversation beyond rhetoric towards a more strategic, evidence-based understanding of how to build lasting industrial competitiveness.

The SME Perspective - Undervalued but Essential

Small and medium-sized enterprises (SMEs), often hailed as engines of innovation, face structural disadvantages in trade policy. SMEs play a crucial role in U.S. imports from China, particularly in sectors such as consumer electronics, tools, and specialised inputs, and lack the scale of larger corporates to absorb tariffs, which increase costs and threaten viability. Many rely on China's manufacturing infrastructure for affordable tooling and prototyping.

Real Estate Implications:

- Increased costs and uncertainty may reduce demand for smaller industrial units, especially in SME-heavy areas, potentially lowering lease rates
- Policies supporting SME reshoring and localised supply chains could drive demand for flexible spaces like incubator units or maker spaces
- These spaces, particularly near manufacturing clusters and logistics hubs, may become more valuable
- SMEs need policies supporting access to suitable, affordable industrial space for a resilient property sector

Effective support mechanisms (unlike fragmented U.S. programs) are crucial. SMEs need access to capital, global networks, and trade architecture acknowledging their limitations

Bigger Firms, Bigger Challenges

Large manufacturers, while better equipped to manage tariffs, face re-shoring and restructuring constraints. Multinationals can often restructure networks or shift capital, and some seek policy exemptions (less accessible to SMEs). However, reshoring is complex due to high domestic costs, scarce industrial land, and hollowed-out supply chains. Geopolitical concerns and disruptions also prompt manufacturers to prioritise supply chain resilience and regionalisation.

Where production returns, automation increases. A 2017 McKinsey Global Institute report estimated that 60% of manufacturing tasks are automatable, with re-shoring often relying on capital investment in robotics and AI, reducing direct job creation.[15]

Real Estate Implications:

- Re-shoring and resilience efforts may increase demand for large, highly automated facilities
- Key facility features include high ceilings, large floorplates, and advanced power and IT infrastructure
- Scarce industrial land, especially in the U.S. and Europe, is a major challenge
- Automation can reconfigure existing facilities, potentially reducing space needs but increasing infrastructure demands

The Automation Mirage

Where production does return, it does so under radically different terms. Contrary to popular expectations, reshoring manufacturing rarely recreates previous employment levels. Automation and robotics significantly reduce the labour intensity of production processes, transforming manufacturing into a capital- and technology-intensive pursuit. A McKinsey report estimates up to 60% of manufacturing tasks are already automatable with existing technologies, meaning fewer, higher-skilled jobs will accompany reshored facilities.

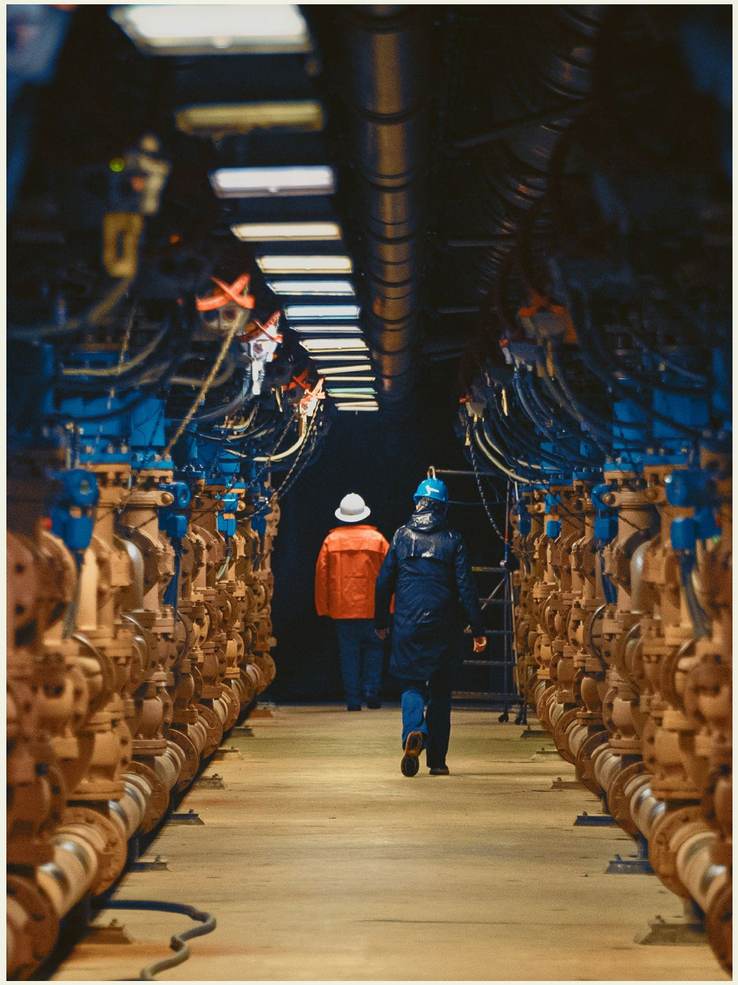
This shift profoundly affects industrial real estate. While automation reduces the need for traditional assembly space, it substantially increases the technological and infrastructure requirements of manufacturing facilities. Modern factories must incorporate reinforced flooring, greater ceiling heights, robust power capacity, advanced climate control systems, and high-speed digital connectivity to accommodate robotics and data-driven production.

These specialised facilities also come with significantly higher capital expenditure, often substantially more expensive to develop or retrofit compared to traditional industrial spaces. This higher upfront investment places further pressure on manufacturers and developers, forcing them to carefully evaluate long-term viability, scalability, and returns on investment when committing to automation-driven reshoring strategies.

Where Capital Goes When Certainty Doesn't

While tariffs are intended to redirect manufacturing back home, their immediate impact has frequently been geographical diversification away from China. The "China-plus-one" strategy has become standard practice for multinationals seeking cost efficiency and geopolitical insulation. Countries like Vietnam, Thailand, Malaysia, Canada, and Mexico have emerged as beneficiaries, supported by regional trade agreements, competitive labour costs, and proximity to key markets.

However, recent U.S. tariff actions and threats of further tariffs on Mexican imports, particularly those *invoked in relation* to immigration concerns, signal a significant policy shift.[16] The latest wave of high tariffs targeting Mexican imports explicitly seeks to disrupt the momentum of nearshoring, reflecting the administration's deeper intent to halt production from simply shifting across borders and to force companies into re-shoring fully within U.S. borders. This approach markedly increases uncertainty around Mexico as a stable nearshoring destination, threatening to reverse recent investment flows into its industrial hubs.



China, meanwhile, has actively adapted to tariffs, with Chinese manufacturers increasingly shifting production to third-party countries to maintain cost efficiency. There is also evidence from OECD reports and academic studies that foreign direct investment (FDI) in markets such as Vietnam and Thailand, among other strategies, can be utilised to indirectly maintain global market access and potentially mitigate the impact of U.S. sanctions.[17] Such moves contribute to a fragmented and increasingly uncertain global manufacturing landscape, further complicating decisions for firms evaluating supply chain locations.

Real Estate Implications:

- Uncertainty surrounding Mexico due to U.S. tariffs could cool previously strong industrial real estate demand, potentially stalling new investments or expansions along the U.S.-Mexico border and in Mexican manufacturing centres
- Countries in Southeast Asia may become even more attractive as alternative nearshoring destinations, intensifying demand for warehousing, distribution hubs, and logistics infrastructure in the region
- Real estate investors and occupiers must closely track policy developments and consider the potential volatility and increased risk in traditionally favoured nearshoring locations

What About Strategic Protection?

Tariff supporters cite "infant industry" arguments or national security concerns. Sectors like semiconductors, pharmaceuticals, critical minerals, and defence may warrant support due to geopolitical risks and supply chain vulnerabilities highlighted by recent events. However, tariffs alone are often insufficient. Shielding industries may provide breathing space but doesn't guarantee innovation or competitiveness. The U.S. solar industry, despite tariffs, has lagged due to factors like underinvestment. "Industrial rebirth" requires more than tariffs; it needs investment in technology, workforce, and ecosystems.

Real Estate Implications:

- Strategically important industries will likely require specialised manufacturing and R&D facilities
- Key facility features include secure locations, advanced infrastructure, proximity to research, and robust utilities
- Tariffs and support policies may drive demand for custom-built industrial real estate
- This creates development opportunities but requires navigating security, regulation, and long-term demand

Conclusion - Choose the Foundation, Not the Fix

Tariffs may shift trade flows, but they don't consistently benefit industrial real estate. They raise costs, create uncertainty, and often erode the competitiveness that drives demand for modern industrial space. A reliance on tariffs can distort markets, hinder investment, and increase volatility.

A sustainable revival of industrial capacity requires a broader foundation: investment, skills, and strategic coherence. For real estate, this means policies promoting long-term growth, stability, and innovation, rather than short-term fixes. This includes fostering resilient logistics networks, supporting environmentally sustainable and adaptable facilities that can accommodate changing production technologies, and leveraging technology to optimise space. Public-private collaboration is also crucial to address land scarcity, infrastructure development, and workforce training.

Policymakers face a choice: continue tariff-centric approaches that risk fragmenting supply chains and investment or invest in the structural foundations for a healthy industrial property market.

To navigate these complexities, stakeholders in the industrial real estate sector should prioritise:

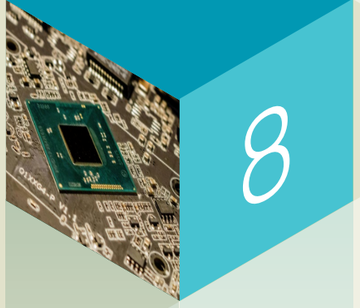
- Support SMEs with access to finance, relocation, and networks, and ensure access to suitable, affordable, and flexible industrial space
- Modernise the workforce with vocational training aligned with advanced manufacturing and logistics, attracting investment
- Restore policy coherence to create a stable environment for real estate development and planning
- Foster resilient logistics networks and incentivise the development of environmentally sustainable and adaptable facilities that can accommodate changing production technologies

Real competitiveness is built through innovation and collaboration, driving demand for cutting-edge industrial real estate and economic prosperity.

[15] McKinsey Global Institute, "A Future That Works: Automation, Employment, and Productivity," 2017

[16] Office of the United States Trade Representative, "President Trump Announces Tariffs on All Imports from Mexico," May 30, 2019, and Wall Street Journal, "Trump Threatens Tariffs on All Goods From Mexico to Force Action on Border," May 30, 2019

[17] Organisation for Economic Co-operation and Development, "Global Value Chains: Preliminary Evidence on Drivers, Scope and Measurement," 2012, and Journal of International Business Studies, "The impact of tariffs on the location of foreign direct investment: Evidence from the US-China trade war," 2021



INDUSTRIAL INSIGHT 8[18]

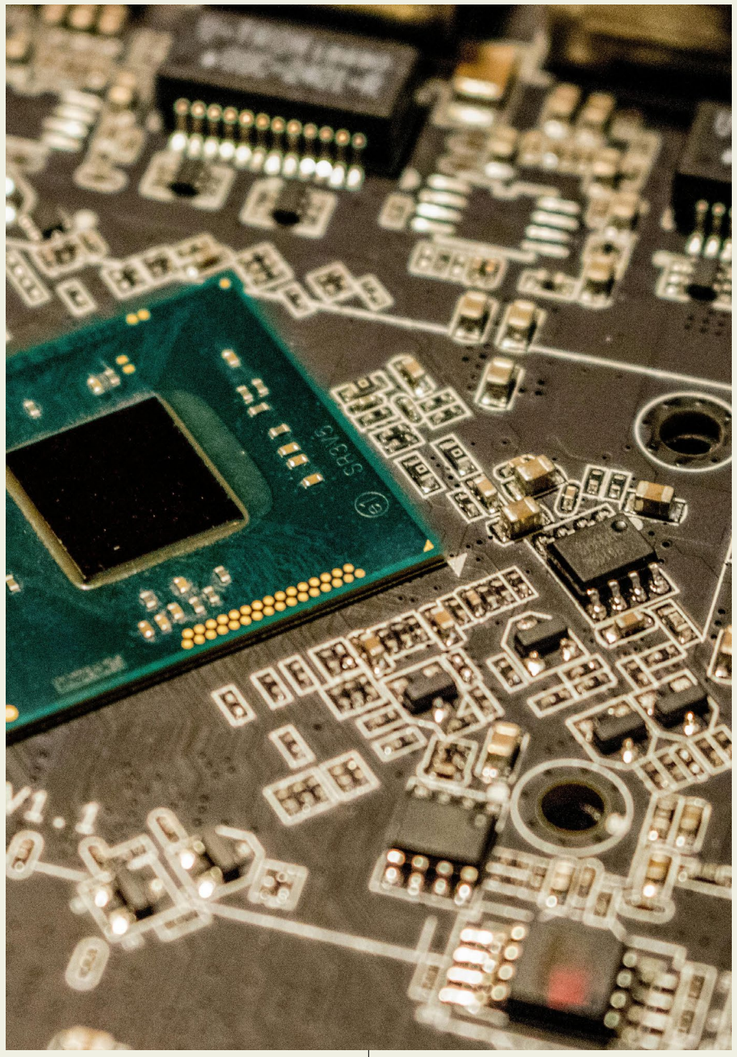
Built for Speed, Stuck by Design: The Modern Factory Dilemma

The modern factory is evolving, but it's also getting stuck.

Across global supply chains, the factory has re-emerged as a front-line instrument of strategy. No longer the slow-moving backend of global production, today's facilities are being designed and delivered at unprecedented speeds. Think of Tesla's Gigafactories, operational within 18 months of site selection, or Foxconn's newly operational iPhone facilities in India, which were completed in record time to support Apple's push for diversification. These aren't outliers. They are symbols of a fundamental shift in how businesses approach industrial capability.

In northern France, Verkor's new gigafactory, designed to supply low-carbon batteries to Renault and other European EV manufacturers, completed construction and commissioning in early 2025. The factory, part of Europe's emerging "battery valley," is expected to begin production later this year, less than 24 months after site preparation began. Its rapid development highlights how industrial strategy and capital deployment can now move at the

[18] This article was first produced and published on April 28th 2025



pace of disruption.

And yet, while the pace of delivery accelerates, another force pulls in the opposite direction: capital intensity. Modern factories must be automated, digitally integrated, and resilient to environmental shocks to be viable. These demands don't come cheap. The investment required to build a genuinely future-facing facility can exceed $1 billion, locking companies into specific geographies, infrastructure ecosystems, and regulatory regimes for decades.

This is the paradox of the new industrial age: factories are being built faster, but the decisions behind them carry far more weight. In a volatile world, the modern factory must be agile in function but fixed in form.

Building Faster, Thinking Harder

What's changed most visibly is speed. Digitally enabled design and construction tools like BIM, AI-driven scheduling, and modular build systems allow companies to compress timelines that once stretched over five years into mere months.

Foxconn's manufacturing plants in India, now producing iPhones at scale, exemplify this speed shift. Their ability to move from ground-breaking to operations in less than two years shows how factory deployment has become a tool of supply chain repositioning as much as production itself. Similarly, Verkor's Dunkirk facility underscores how quickly capital projects can be mobilised when political will and industrial strategy align.

This acceleration is no longer just a sign of operational excellence—it's a strategic hedge. In the shadow of escalating tariffs, sanctions, and export controls, the business case for proximity has grown stronger. Local production reduces exposure to policy shocks and logistics delays while aligning with shifting regulatory demands and consumer expectations around resilience and sustainability.

Yet speed doesn't mean simplicity. The same factories being delivered in record time are more complex than ever. Advanced automation, integrated data systems, AI-driven quality controls, and clean energy infrastructure are now baseline requirements. And that complexity creates cost.

The Weight of Capex and the Risk of a Moving Target

The factory of the future may be smart, flexible, and connected, but it is also expensive. In March 2024, Intel secured $8.5 billion in U.S. federal support to help fund four semiconductor fabs in Arizona and Ohio, part of a broader $100 billion capital programme stretching into the 2030s. Micron received $6.1 billion to develop chip campuses in New York and Idaho. These are not tactical facilities. They are monumental bets on national alignment, policy stability, and the promise of reshoring.

This level of capital outlay introduces what economic geographers term *spatial fixity*, a strategic commitment to place. When a factory requires billions in investment, proximity to energy grids, fibre optics, water supply, universities, and skilled labour markets becomes non-negotiable. The result is that companies can no longer afford to treat factories as migratory assets. Once built, they are economically and operationally rooted for decades.

But that fixity is at odds with the velocity of today's geopolitical environment. The global trade map is redrawing itself faster than ever. Tariff frameworks change with elections. Export controls evolve by quarter. Sanctions arrive overnight. As seen with the sweeping tariff package introduced by the U.S. administration in April 2025, including a baseline 10% levy on all imports and a punitive 145% tariff on Chinese goods, the rules of trade can shift dramatically in real-time. China's immediate retaliatory tariffs only reinforced the volatility.

For manufacturers, this creates a jarring asymmetry: the investment horizon of a factory might be 30 years, but the shelf life of a trade policy is often 30 weeks.

This tension is now at the heart of industrial strategy. To build is to commit. However, to remain competitive, companies must maintain optionality. And optionality is increasingly scarce when you're anchored to a facility designed to serve one market, now walled off by tariffs from another. A semiconductor fab in Ohio may receive subsidies under the CHIPS Act, but if export restrictions to Asia tighten, its commercial viability could suffer. A battery plant built in Southeast Asia to serve European EV markets may be undercut by the EU's Carbon Border Adjustment Mechanism.

The result is not a retreat from capex but a recalibration of what that capex must achieve. Companies are not only building for production; they are building for resilience. That means designing factories with multi-market compatibility, dual-use capabilities, and the ability to switch supply sources or end markets without rewriting the business case.

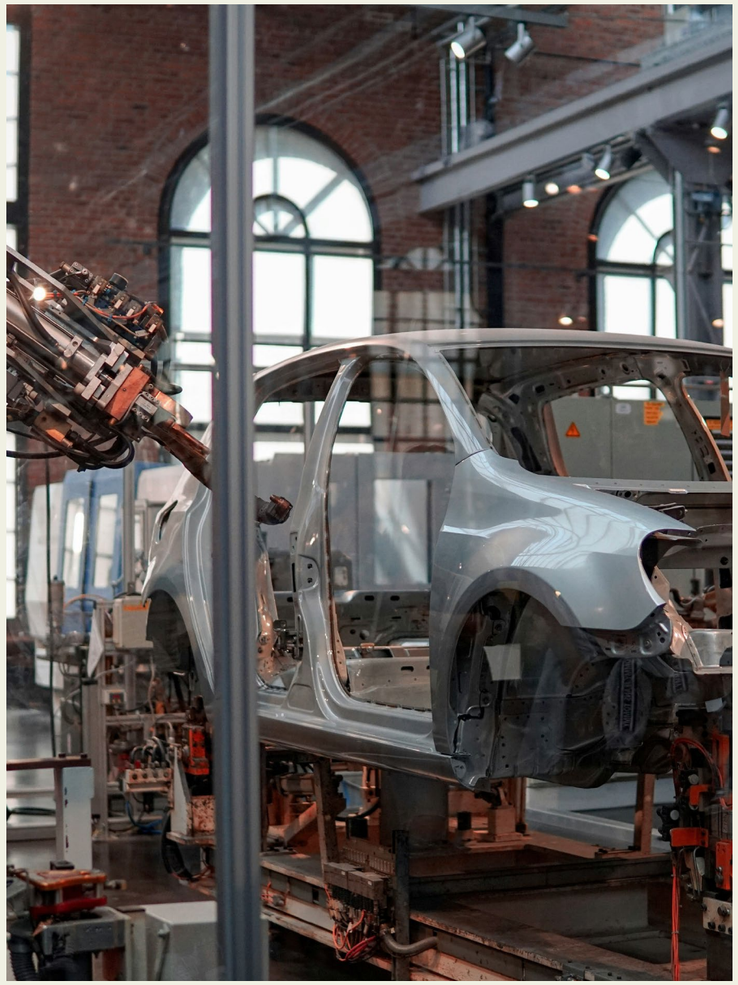
In essence, companies are spending more but hedging harder. They invest in permanence while designing for adaptability. And that paradox sits at the core of modern industrial strategy: factories are becoming more fixed in an era of faster trade shifts.

Automation as a Reconciler

One of the key tools for resolving this tension is automation. By reducing the variable costs of labour and increasing the productive versatility of facilities, automation helps occupiers justify long-term commitments.

Tesla's Gigafactory in Texas illustrates this approach. Operational since 2021 and still expanding, it uses a high degree of robotics and AI to produce both Model Y and Cybertruck vehicles on reconfigurable production lines. In Japan and Germany, digital twins enable manufacturers to simulate production changes virtually before implementing physical adjustments. This allows for rapid responsiveness within fixed facilities.

Automated factories can shift output faster, consistently maintain quality, and run continuously. These advantages don't reduce capital intensity—they increase it—but they make the investment more resilient to change. In this model, flexibility comes not from moving the factory but from upgrading what's inside it.



When Tarriffs Redraw the Map

Nowhere is the interplay between speed, capital, and geopolitics more visible than in the current trade environment. In early April 2025, the U.S. administration introduced a sweeping new tariff framework that upended global trading norms. A universal 10% tariff now applies to all imports, with sharply higher rates on goods from strategic rivals. Chinese imports, in particular, now face a staggering 145% duty.

The retaliation was swift. China responded with its own set of punitive tariffs, targeting sectors where the U.S. is attempting to reshore capacity, such as semiconductors, electric vehicles, and pharmaceuticals. These moves have reignited a full-scale trade war, leaving global manufacturers scrambling to adapt.

For many companies, factories built to serve global markets are now at risk of becoming regulatory silos, locked into one bloc and unable to serve others. For instance, a battery plant in Southeast Asia may find itself priced out of Europe under the EU's Carbon Border Adjustment Mechanism. A U.S.-based semiconductor fab may be subsidised today but constrained tomorrow by content and sourcing rules.

Companies are investing in regional redundancy, modular product design, and more distributed production footprints to mitigate these risks. But these strategies come with real costs. They deepen the capital burden and increase the strategic permanence of each new facility.

The New Factory Playbook: Long-Term Bets in a Small World

This emerging reality demands a new mindset that embraces fast execution but makes no illusions about long-term commitment. If the 20th-century model was about scale, the 21st-century model is about optionality within constraint.

Factories are no longer just places where things are made. They are strategic platforms designed for reconfiguration, embedded in ecosystems, and expected to deliver capability and resilience. Their success now depends as much on the quality of local infrastructure, permitting agility, and data connectivity as it does on traditional cost metrics.

To build wisely in 2025 is to anticipate volatility, not avoid it.

The Last Word: From Fracture to Foundation: Why Industrial Real Estate Is Now the Story

If this anthology reveals anything, it's that industrial real estate has moved from backdrop to centre stage in the drama of global transformation. No longer just the setting for production and storage, it has become the lever through which companies navigate uncertainty, assert resilience, and pursue reinvention.

Across all eight insights, one thread is unmistakable: disruption has become structural, not cyclical. Multinationals are splintering into sharper, leaner entities. Global supply chains, once orchestrated by spreadsheets and spreadsheets alone, are now being rewritten by geopolitics, tariffs, and national security priorities. Factories are rising faster than ever, but they are also anchoring firms to geographies and political realities for decades. Warehouses, once silent utility players, have become nodes of strategic advantage. Defence spending is reshaping the industrial landscape. Tariffs, once abstract policy tools, are now embedded in boardroom decision-making.

This isn't volatility. It's realignment.

The world ahead is more regional, more regulated, and more reactive. Efficiency alone no longer guarantees advantage. Optionality, adaptability, and strategic foresight are the new currencies of competitiveness. The winners won't be those waiting for clarity. They'll be the ones who invest with conviction amid uncertainty.

And what they invest in – factories, logistics hubs, innovation corridors – is no longer just real estate. It's industrial infrastructure with intent. A bet not just on economic cycles, but on technological transformation, political resilience, and human capital.

For corporate real estate leaders, this is an invitation to step up. Your role isn't just operational. It's foundational. You are shaping the geography of strategy. You influence whether a supply chain bends or breaks, whether reshoring is substance or spin, whether space is a constraint of a catalyst.

We hope this anthology informs, challenges, and inspires. But most of all, we hope it sparks conversation.

Because in a world this fluid, the last word is never truly written.

Contact Us

Dr. Lee Elliott
Head of Global Occupier Research
+44 7468 729 187
Lee.Elliott@knightfrank.com

Tim Armstrong
Global Head of Occupier
Strategy and Solutions
+65 6429 3531
Tim.Armstrong@asia.knightfrank.com

Philipp Ueberschaer
EMEA Head of Occupier
Strategy and Solutions
+44 7811 771 416
Philipp.Ueberschaer@knightfrank.com

Ross Criddle
COO - Occupier
Strategy and Solutions
+44 7870 379 519
Ross.Criddle@knightfrank.com

Knight Frank