“RESHORING INITIATIVES AND THE INDUSTRIAL REAL ESTATE MARKET ”



Transforming Business Worldwide

CUSHMAN & WAKEFIELD®
BUSINESS CONSULTING

Reshoring:

the new paradigm for global manufacturing strategy

What is Reshoring ? – Reshoring Overview

The Return of Manufacturing to our Shores

- Opposite of Offshoring. It is the business process outsourcing work domestically within a given country
- "Reversal of outsourcing; the transfer of a business operation back to its country of origin." Wiktionary (www.wiktionary.org)

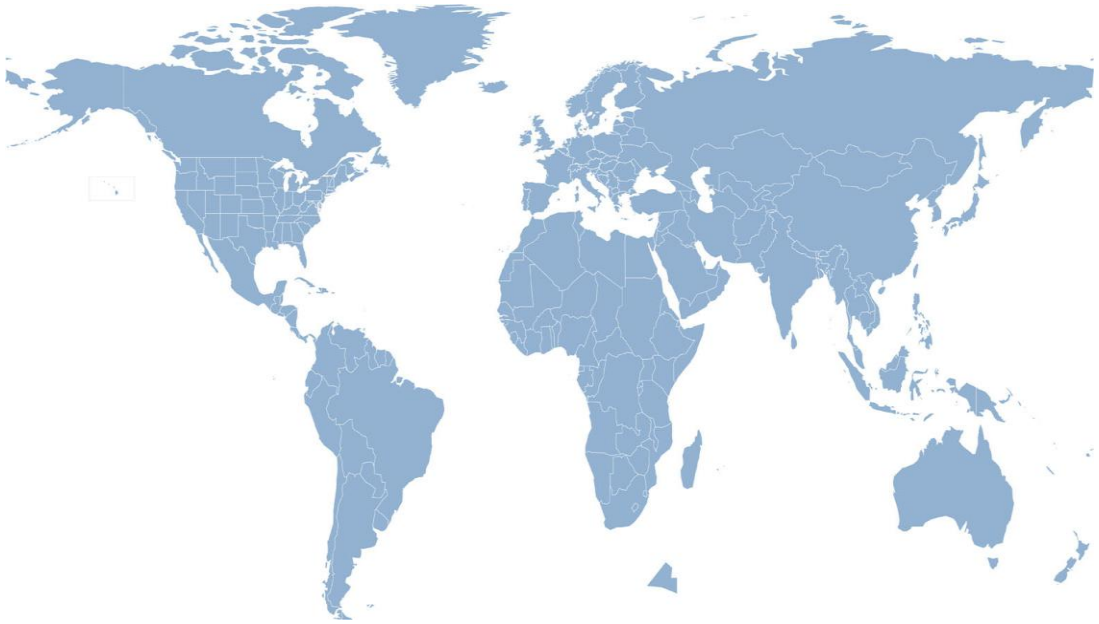
- Reshoring is the practice of bringing outsourced personnel and services back to the location from which they were originally offshored.



What is Offshoring ? – Reshoring Overview

Relocation of a business from one nation to another. To move some of a company's processes or services, overseas, esp. in order to take advantage of lower costs.

•**Offshoring** describes the relocation by a company of a business process from one country to another—typically an operational process, such as manufacturing, or supporting processes, such as accounting. Offshoring has been associated primarily with the sourcing of technical and administrative services supporting domestic and global operations from outside the home country, by means of internal (captive) or external (outsourcing) delivery models – Wikipedia



Why Do (Did) Companies Offshore?

1. **Strengthen their Competitive Advantage**
2. **Low Domestic Labor Costs**
3. **Cost Effective and Efficient**
4. **Few or No Environmental Regulations**
5. **Type of Product being Manufactured**
6. **Non-Core Products or Competency**
7. **Less Governmental Regulations**
8. **Lower Taxes**
9. **Global "Free Trade" Mentality**
10. **Outsourcing Jobs**



Why are Companies Reshoring ?

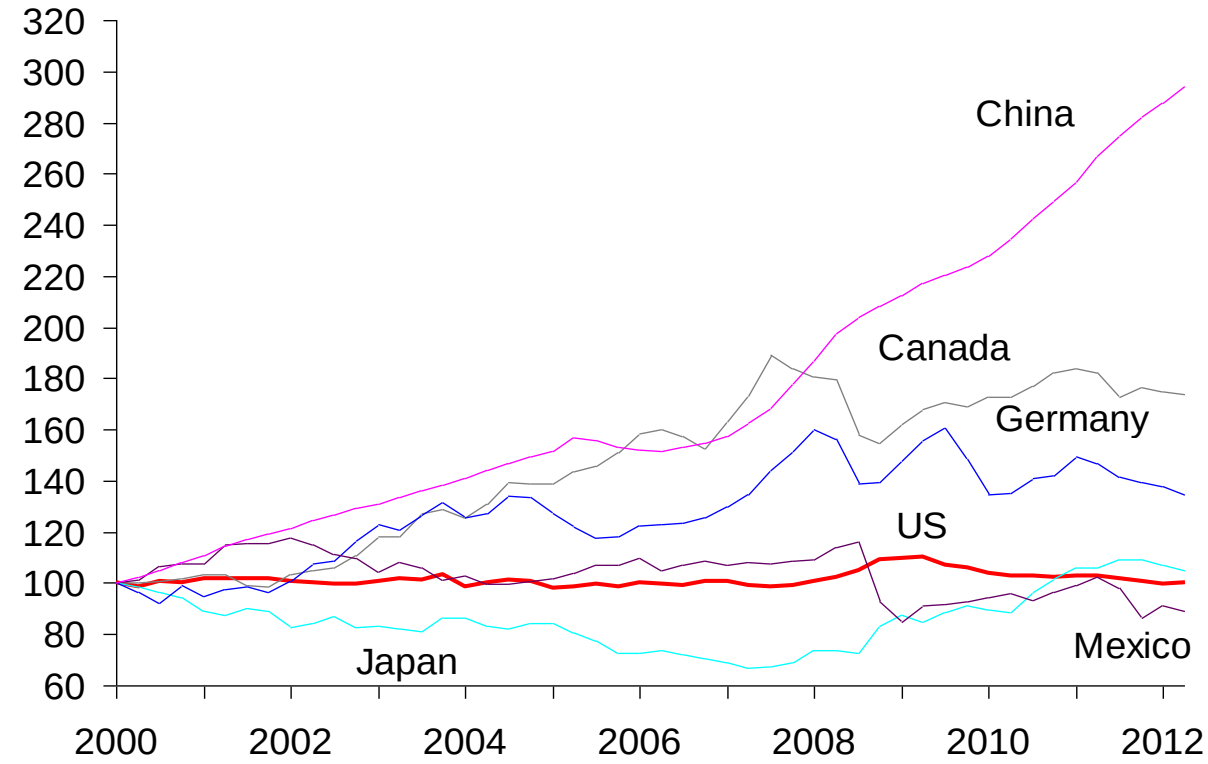
1. **Long Lead Times**
2. **Inventory Issues / Quality Issues**
3. **Higher Fuel Costs**
4. **Near-shoring / Proximity to US Base Facility**
5. **Automation**
6. **Diminished Customization or Innovation Capability**
7. **Risks**
8. **Increased Total Cost of Ownership**
9. **Interest in Sustainability**
10. **Increasing 3PL Adoption**



US manufacturing now very competitive…

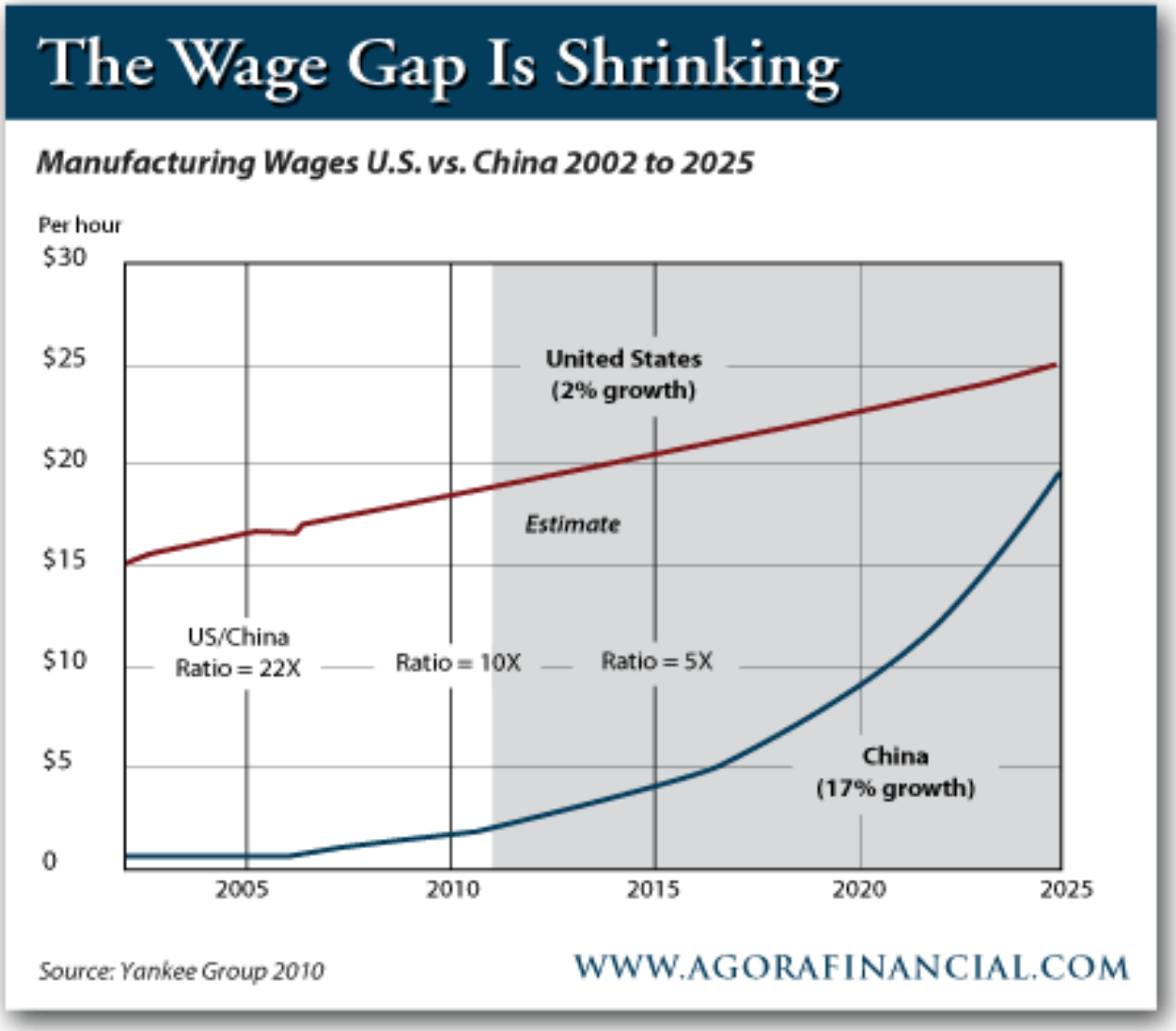
Unit labour costs in manufacturing in US$

2000Q1=100



Source : Oxford Economics/Haver Analytics

CHINA's labor arbitrage shrinking



Local Manufacturing vs Global Reshoring

United States Vs Mexico

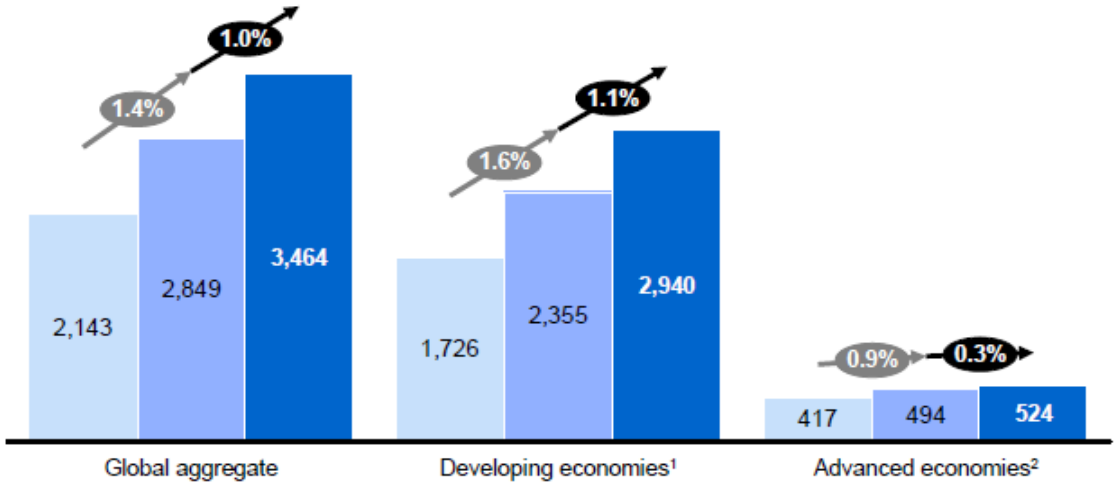
Labor Force Growth Flat In Developed Economies

Developing economies growing faster

Exhibit 17

Labor force growth will likely slow worldwide and become flat across advanced economies by 2030

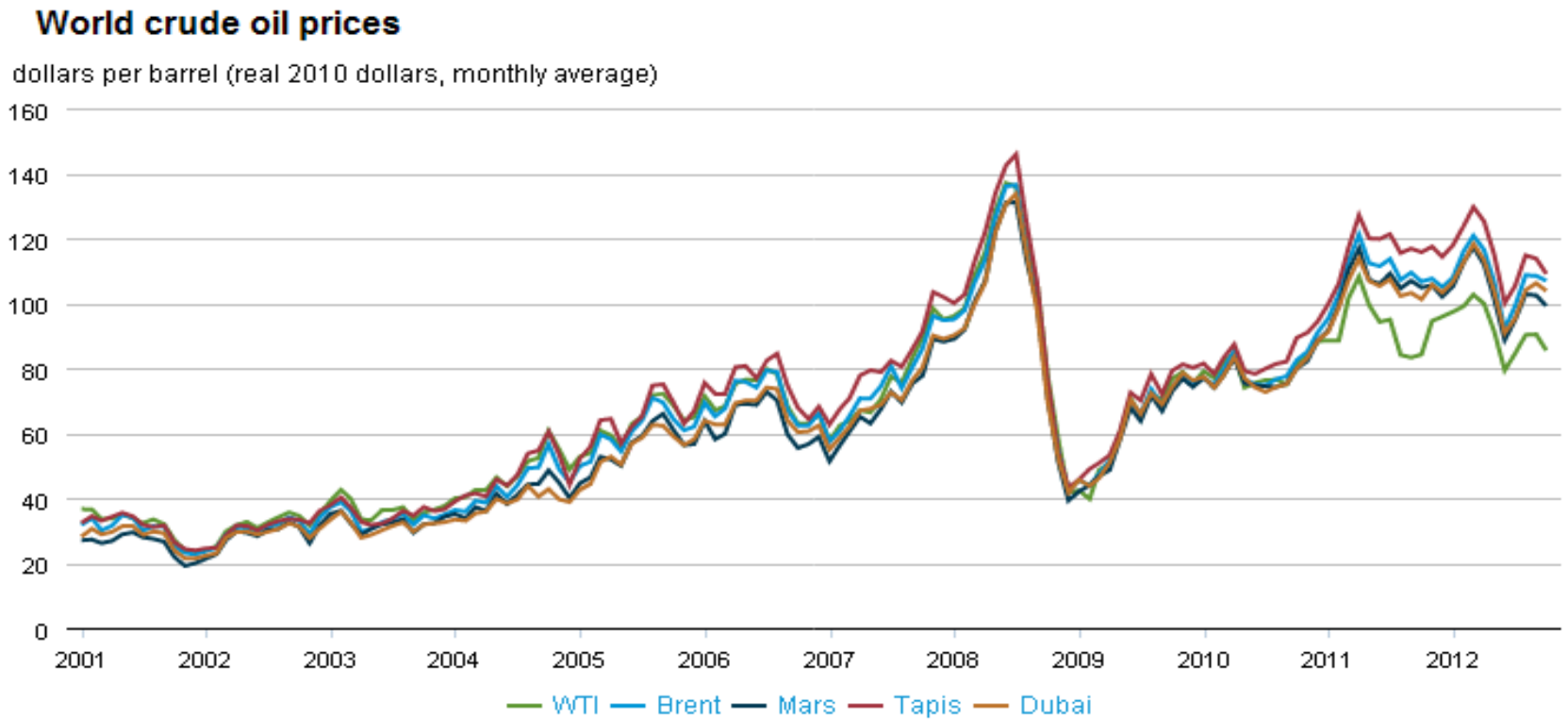
Labor force
Million workers



1 Includes 45 countries from the Young Middle-Income, China, India, Young Developing, and Russia & CEE clusters.
2 Includes 25 countries from the Young Advanced, Aging Advanced, and Southern Europe clusters.
SOURCE: United Nations Population Division (2010 revision); ILO; local statistics for China and India; McKinsey Global Institute analysis

Oil Prices

Back into Spring of 2008 Territory

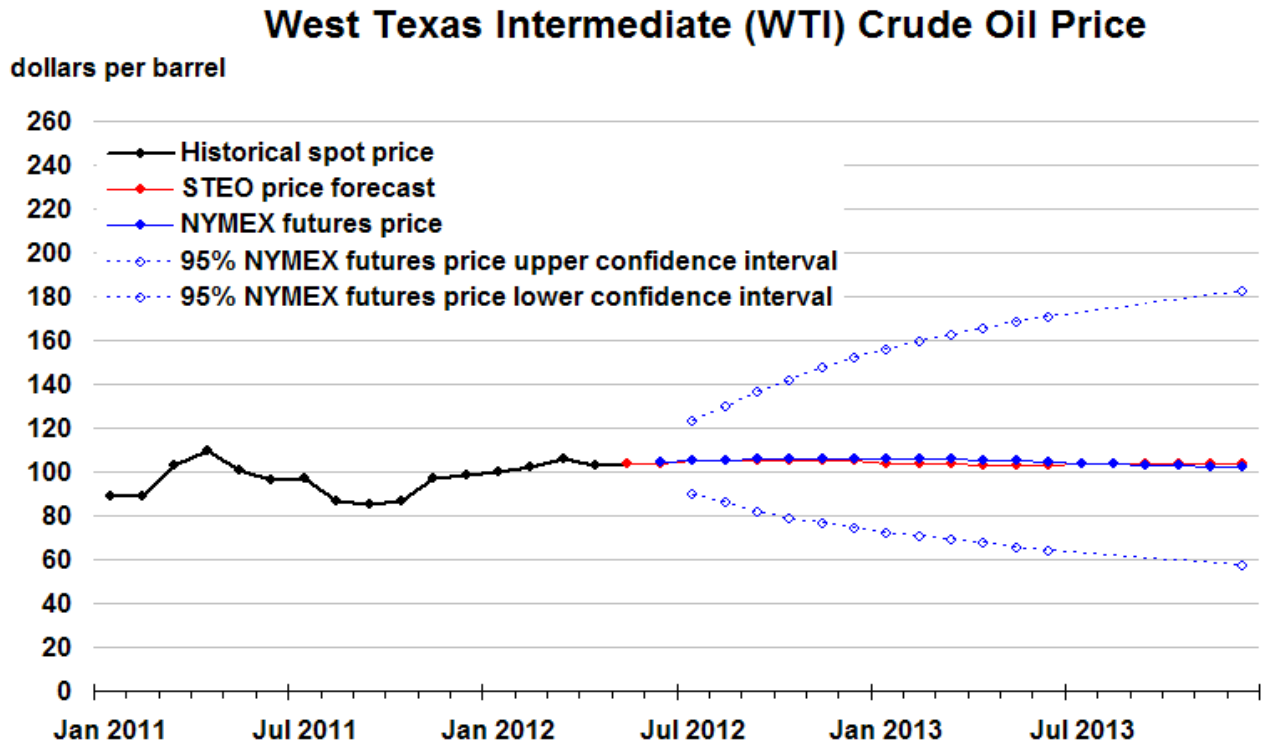


Sources: Bloomberg , Thomson Reuters . Published by: U.S. Energy Information Administration .
Updated: Monthly | Last Updated: 9/28/2012

Many types of crude oil are produced around the world. Variations in quality and location result in price differentials, but because oil markets are integrated globally, prices tend to move together.

U.S. Government Forecasts

EIA expects on-highway diesel fuel retail prices will average $4.15 per gallon in 2012 and $4.11 per gallon in 2013.



Reshoring Initiative

The Reshoring Initiative

Harry Moser – www.reshorenow.org



•Founded by Harry Moser in 2010, is an industry-led effort to bring manufacturing jobs back to the United States.

•The initiative works with U.S. manufacturers to help them recognize their profit potential as well as the critical role they play in strengthening the economy by utilizing local sourcing and production.

•Helps U.S. manufacturers realize that local production and sourcing often reduce their total cost of ownership of purchased parts and tooling.

•Trains suppliers to demonstrate to these manufacturers the economic advantages of local sourcing.

•Through reshoring, manufacturing in the United States is starting to gain momentum. Companies such as NCR and General Electric are already repatriating some of their manufacturing.

Total Cost of Ownership Estimator™

The Total Cost of Ownership Estimator is a complimentary tool provided by the Reshoring Initiative.

Total Costs of Ownership Analysis

•Calculations of each source's cost
•An accumulation of all costs into cost categories
•A grand total cost
•Line charts showing each source's current price, total cost of ownership and 5-year forecast

Benefits of the Total Cost of Ownership Estimator

•Calculations are based on your unique data. (System provides freight and duty rates.)
•Incorporates 29 cost factors
•Automatic calculation of freight rates for 17 countries
•Automatic duty rate calculations for parts or tools
•Provides the current total cost of ownership value, as well as a 5-year forecast based on the user's forecast of wage and currency changes
•Free to use

The Reshoring Initiative

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Who should use the Total Cost of Ownership Estimator?

The Total Cost of Ownership Estimator is a user-friendly software designed for businesses of all sizes and capacities. Allows users to determine which sources best meet their company's profitability and strategic objectives.

- Supply chain managers
- Accounting
- Manufacturing management
- Industrial engineering
- Line management
- Salesmen
- Economic development groups
- Government

Goal of the Reshoring Initiative

Reshoring Initiative will continue its "return-manufacturing-home" message until all U.S. manufacturers are making objective sourcing decisions and thus realize America is increasingly the place to produce and source goods to supply the U.S. market.

Reshoring Risks

What are the Risks?

- **Impacts on inventory.** The risk of order disruption and resulting high inventories will continue if components continue to be sourced, including from second- and third-tier suppliers, from near the original offshore location.

- **Capital risk.** Manufacturing plants, which have to be fitted out, at substantial cost, to a specific product group. Therefore, re-shoring can mean an inherent loss of flexibility.

- **Supply risks.** If new tiers of suppliers are recruited at the new location, there is significant supply and quality risk associated. When a manufacturer sets up offshore operations, that company goes through a long process of identifying suppliers.

- **Intellectual property.** When a plant is closed offshore, or a process moves, and an empty building, or an unemployed worker is left behind, someone is going to find something valuable. People are the bigger risk than technology in this discussion

- **Execution risk.** Reshoring requires changing systems and training new staff, all of which present operational and financial risks.

Essentially, the risks in reshoring can be as great as the risks associated with offshoring in the first place, and the balance between offshoring, near-shoring and reshoring will change continuously. Companies considering reshoring should start by reviewing the drivers and assumptions that caused them to offshore in the first place.

Case Studies & Surveys

MIT Forum U.S. Reshoring Survey

2012 Annual Re-Shoring Report

- 340 members of the MIT Forum for Supply Chain Innovation and Supply Chain Digest Community
- 198 Manufacturing Only Companies
- 156 Headquartered in the United States

- Types of Manufacturing Companies by Industry – Electronics, Computer, Chemicals, General MFG, etc
- Revenue Sizes (Billion) –
- Under $1B (52.6%)
- $1 - $10 B (22.2%)
- Greater then $10B (25.2%)

- Distribution of Manufacturing Operations
- 52.6% United States
- 21.1% China
- 7.5% Mexico/CA

MIT Forum U.S. Reshoring Survey

Results

- Company's Revenue Increases the portion of Manufacturing and Distribution of Sales in the US decreases
- 33.6% are "considering" bringing manufacturing back to the U.S.
- 15.3% are "definitively" planning to re-shore activities to the U.S.
- Sales exceeds Manufacturing for developed countries - 60.8% MFG and 79.2% Sales
- Manufacturing exceeds Sales for emerging markets - 39.2% MFG and 20.8% Sales

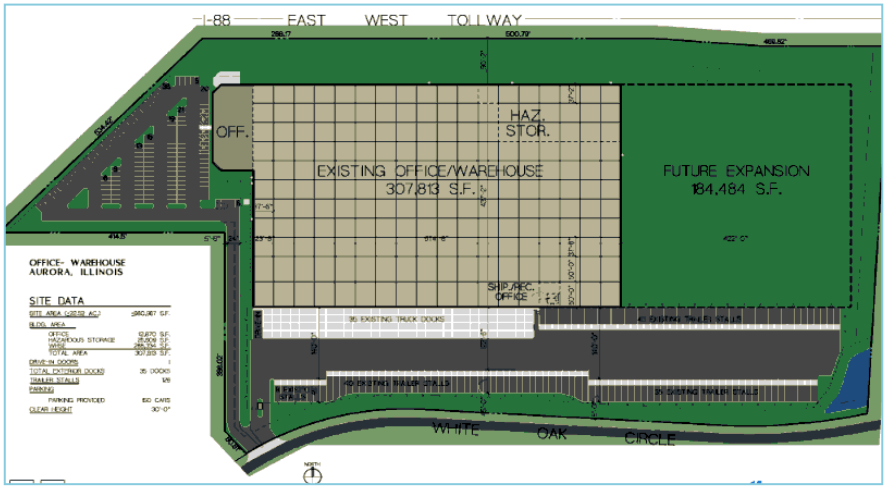
MIT Forum U.S. Reshoring Survey

Conclusion

- Significant shift in manufacturing footprint
- 33.6% of respondents stated that they are "considering" bringing manufacturing back to the U.S.
- 15.3% of U.S. companies responded that they are "definitively" planning to re-shore to the U.S.
- Middle of a transformation from a global manufacturing strategy, focus is on low cost countries, to a more regional strategy, where China is for China, U.S. (or Mexico and Latin America) is for the Americas and Eastern Europe is for European markets.
- Manufacturing is now going through a genuine transformational period, driven particularly by the changes described earlier.
- Huge opportunity for U.S. companies and policy makers to accelerate this trend and return the country to an era of manufacturing growth.

Peerless-AV Reshoring Case Study

- Peerless-AV – manufacturer of mounts and brackets for TV's
- 2300 White Oak Circle, Aurora
- 307,000 Square Foot Facility
- Brought 400 Jobs from Cook County and China to Aurora
- State and Local Incentives Available
- Peerless-AV moved back to the U.S. from China, after they had to pay seven figures in legal fees to battle intellectual property theft and knock-off products. Moving back afforded Peerless better intellectual property protection, reduced inventory by 20 percent, achieve cost efficiencies, shorten lead time and allowed them to bring products to market faster.





Apple Reshoring Case Study

On December 6, 2012, Apple's CEO, Tim Cook announced a plan to invest $100M in manufacturing a line of Mac Computers in the U.S.

While cynics may say that this is only assembly, will create only 200 jobs and is partly motivated by public relations, there may still be practical considerations for the move and it may ultimately have some positive unintended consequences for U.S. manufacturing.

The next day, Foxconn, the largest contract manufacturer in the world and manufacturer of Apple's iPhone, indicated that it wants to expand operations in North America due to increased demand for products with 'made in America' labels.







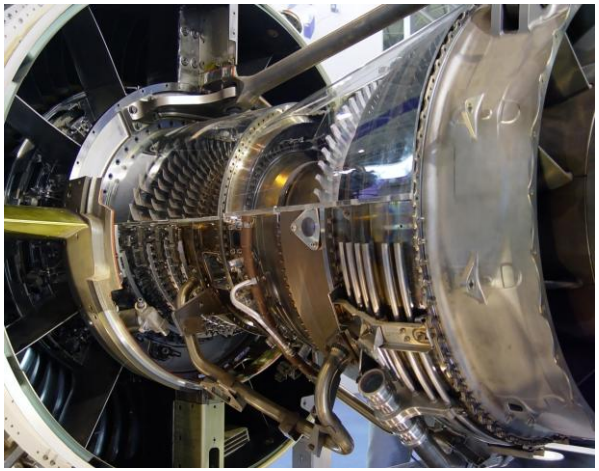
Mexico as a Case Study

United States Vs Mexico

Mexico Summary

- Mexico is booming due in part to favorable trade agreements (NAFTA)
- Auto industry has produced and exported over 2 million cars from Mexico in 2011 alone (Nissan, Mazda, Volkswagen, Chrysler, Honda and GM)
- Aerospace Industry has attracted over $1 billion in investments in 2010 alone a 25% increase from 2010. (Bombardier Aerospace (Canadian), General Electric and Safran (French)
- Flexible order quantity and Expedited Delivery Schedule Vs China

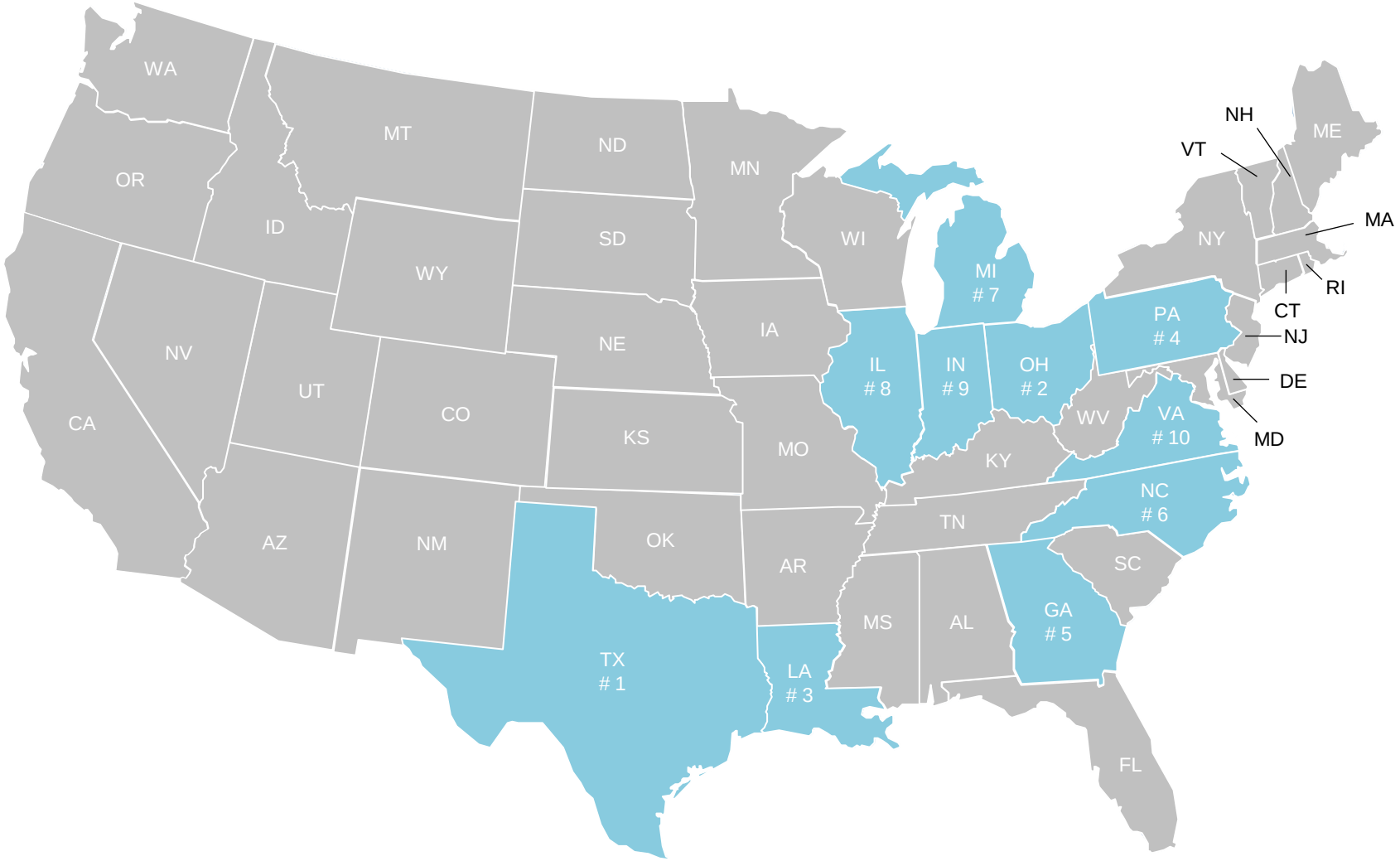




Expected Impact on Properties & Real Estate

Where will these jobs go?

2010* Top 10 States – By Number of Projects**



** Capital Investment =>$1 million, 50 new jobs or 20,000 sf of construction.
Source: Site Selection Magazine.

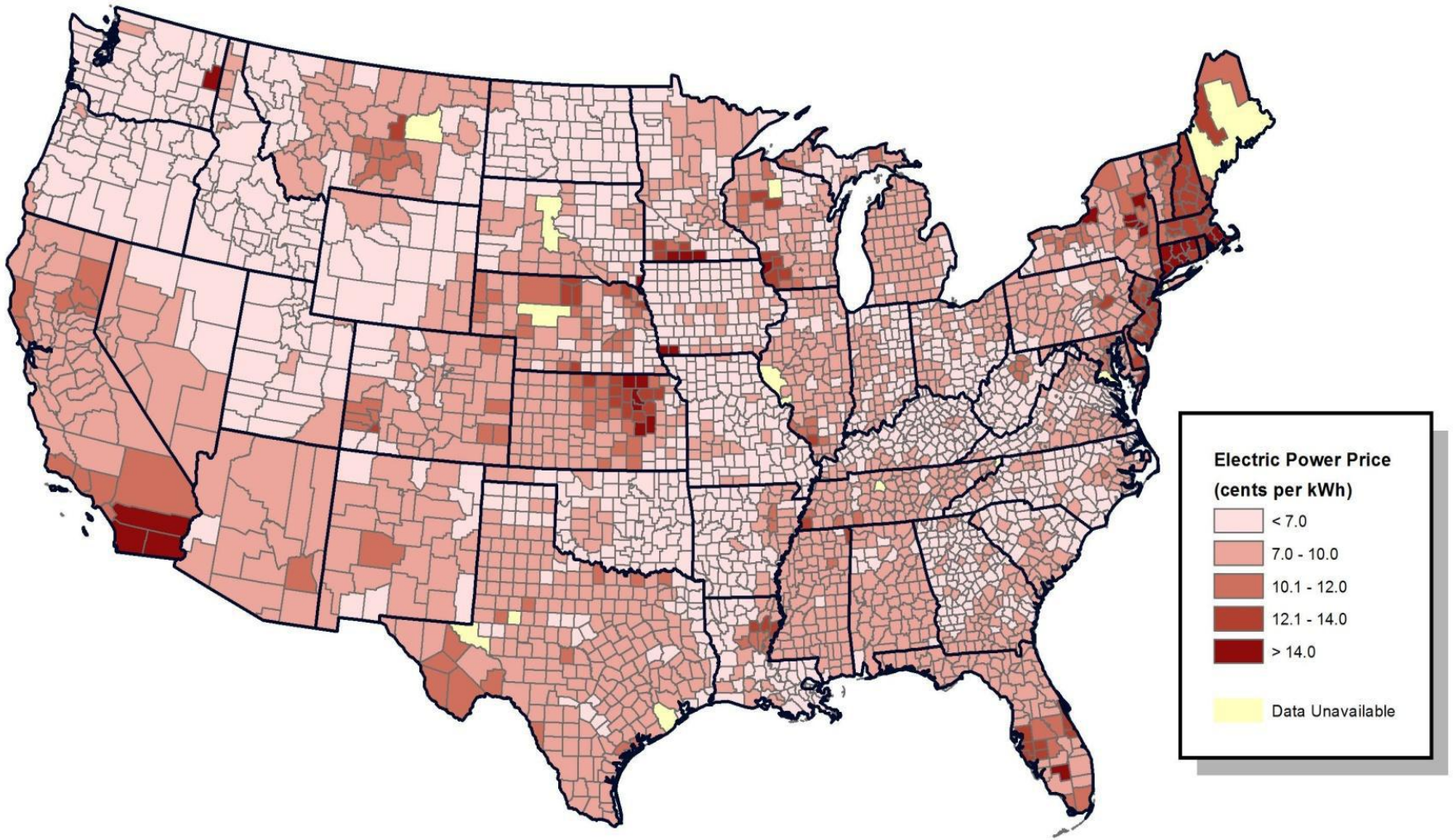
What do these states have in common?

Where will these jobs go?

- Florida
- Texas
- South Dakota
- Washington
- Wyoming
- Nevada

Where will these jobs go?

Average Industrial Electric Power Retail Price by County, 2008-2010 (cents per kWh)



Source: *Electric Sales, Revenue, and Average Price Industrial Sector, U.S. Energy Information Administration.*

Industrial Forecast

1st Quarter 2013 Industrial Market Stats

Snapshot of the Market

STATS ON THE GO

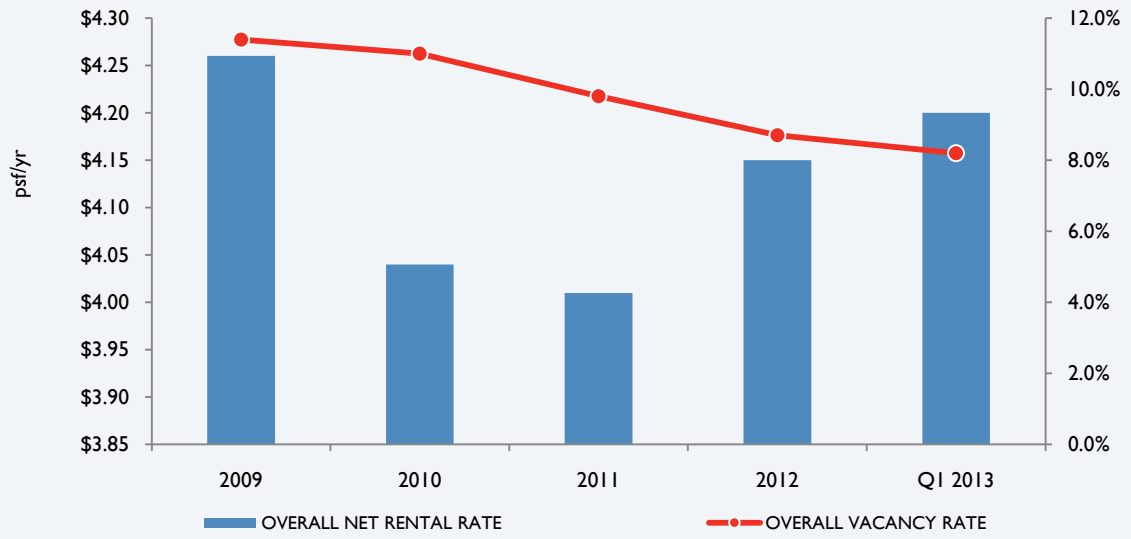
	Q1 2012	Q1 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	9.7%	8.2%	-1.5pp	
Direct Asking Rents (psf/yr)	$4.06	$4.24	4.4%	
YTD Leasing Activity (sf)	8,007,669	7,848,754	-2.0%	

- New leasing activity for the Chicago industrial market measured 7.8 million square feet
- Recent employment gains in the manufacturing sector coincided with an uptick in manufacturing leasing activity.
- 2.1 msf of leases signed by manufacturing companies accounted for 27% of all leases signed first quarter.
- Average direct net asking rents increased 4.43% over first quarter 2012 to $4.24 psf – the highest amount recorded in the last two years.
- Demand for Class A properties in desirable areas remained higher than demand for class B or C properties, yet options for class A facilities continued to diminish.

1st Quarter 2013 Industrial Market Stats

Snapshot of the Market

OVERALL NET RENTAL VS. VACANCY RATES



- 8th consecutive quarter, the overall vacancy rate improved and measured 8.2% at the end of first quarter, a decline of 1.5 percentage points from this time last year
- Lowest overall vacancy rate recorded for the Chicago industrial market since 3rd quarter 2001, when vacancy rate measured 5.6%.
- Chicago remains one of the country's strongest markets and market fundamentals are expected to show further improvement in the coming quarters.
- Currently there are 2.3 msf under construction sparking the return for speculative construction for these high demand industrial spaces in the Chicago market.

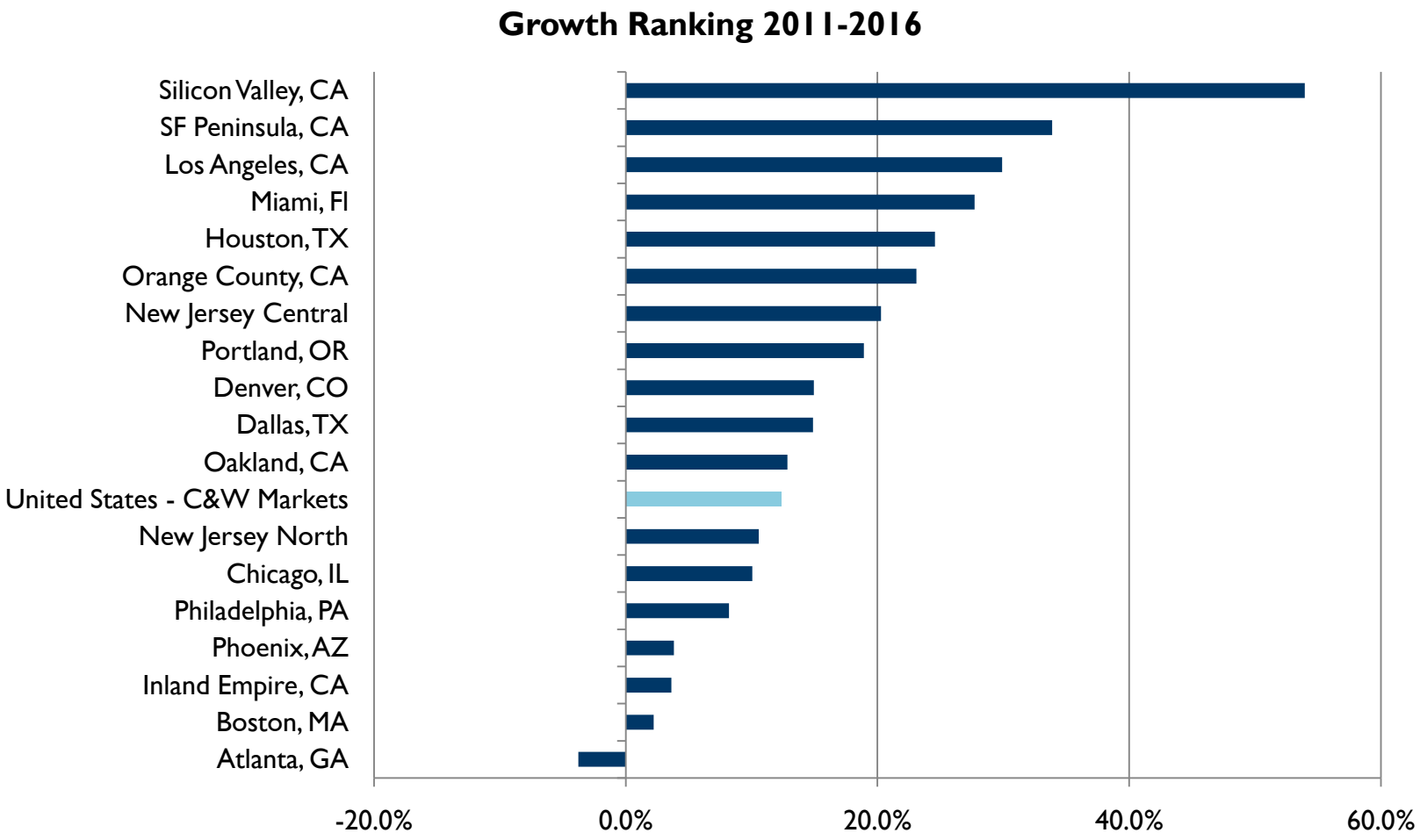
Vacancy Stabilizing

VACANCY DECLINES VS. JOB GROWTH



MAJOR MARKETS

RENT FORECAST



INDUSTRIAL MARKET STATS

OUTLOOK /FORECAST

ECONOMIC OVERVIEW

- At the close of first quarter 2013, the Chicago industrial market showed further signs of improvement. Companies are more willing to spend and take risks
- Strong market fundamentals provide reason for optimism in the industrial sector.
- Purchasing Managers Index published by the Institute for Supply Management reached 51.3 in April, expanding for the fourth consecutive month.
- Increasing sales and product demand are driving companies to expand into new space.

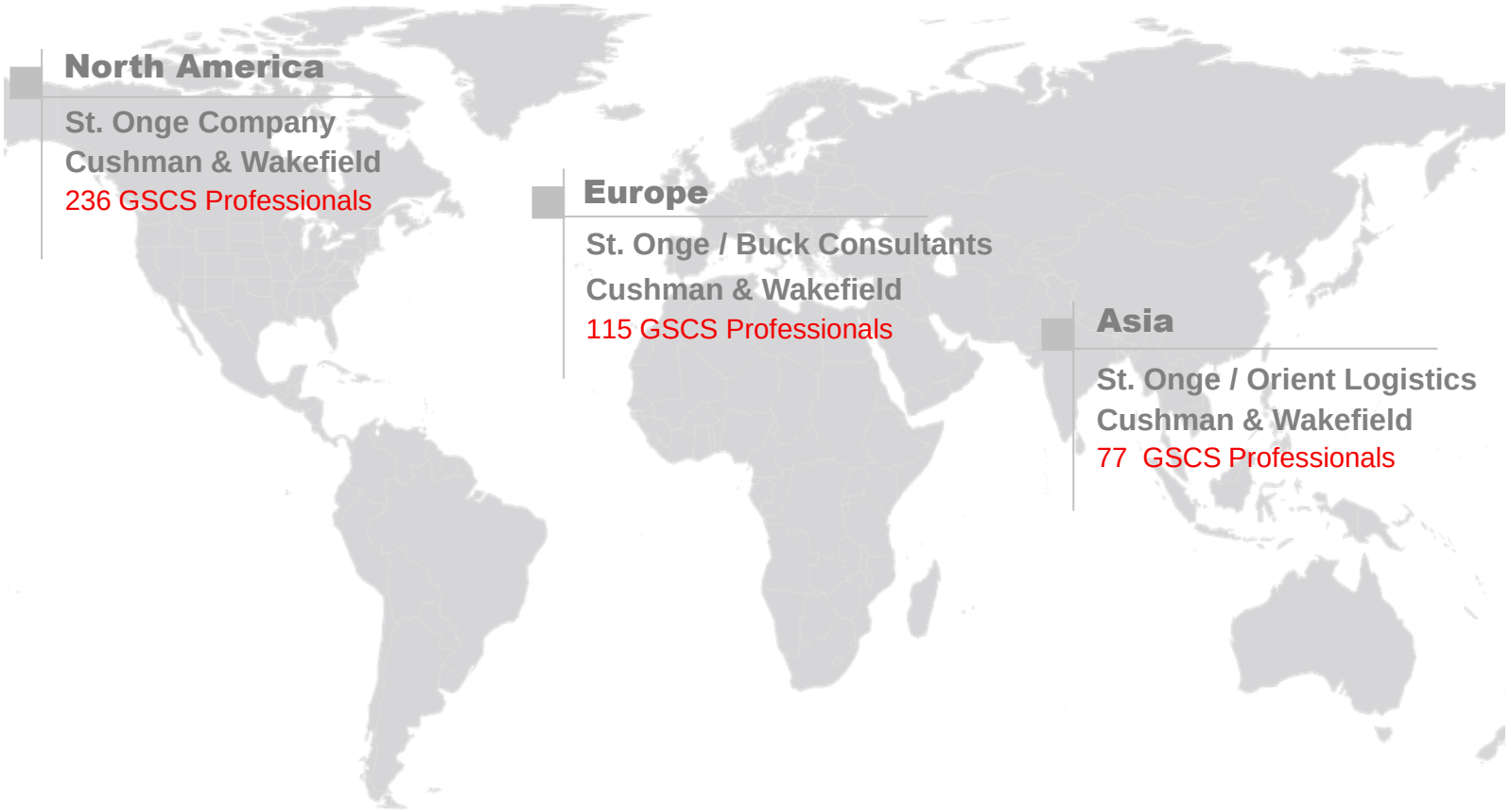
OUTLOOK

- Industrial demand is expected to remain stable for the remainder of the year.
- Consumer confidence begins to turn around and spending increases
- Demand for manufacturing and distribution space will accelerate in the near term.
- Net asking rental rates beginning to appreciate in the majority of submarkets
- The need for modern, functional industrial space rising, construction levels should gain momentum in 2013 and beyond.

Questions?

QUESTIONS?

C&W's Supply Chain Global Consulting Alliance



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