

**Envisioning the New Normal:**

# Real Estate + Life Sciences



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## Part 3: Global Trends and Opportunities in Life Sciences Real Estate – Spotlighting the US and the UK

An aging global population, a once-in-a-century pandemic and the continued convergence of scientific breakthroughs like cell and gene therapies and artificial intelligence are among just a few of the key factors that continue to fuel investment in the life sciences field. While the COVID-19 pandemic has presented unique short-term challenges for the industry<sup>1</sup>, given the pandemic is a fundamentally life sciences centred problem it is not surprising that governments, investors and society as a whole have continued to turn to the life sciences sector for solutions. This has caused investors to maintain interest in the sector as the pandemic has developed – from venture capital and government grants contributing to the growth of digital health and medtech companies, to listed biotechs experiencing significant valuation leaps off the back of successful early stage COVID-19 vaccine trials. Accordingly, in just the first half of 2020, over \$16 billion was invested globally in life sciences companies, demonstrating the resilience of the sector.

Given the continued white-hot growth of the life sciences industry, it comes as no surprise that the demand for real estate facilities that tailor to these companies is also in high demand. With that demand comes the real estate capital allocators, investors and developers looking to capitalize on these opportunities. These real estate players also now view life sciences real estate, or “propsci,”<sup>2</sup> as an asset class within the real estate industry that is distinguished from office or industrial space and that warrants a separate allocation consideration for diversification and growth opportunities.

### Life Science Clusters and Real Estate Considerations

The growth of life sciences has created geographic concentrations of interconnected life sciences companies and institutions, or “clusters,” forming in key global locations, including in the U.S. and the UK. The forming of clusters has been driven by a variety of factors, including a broad recognition that proximity between market participants can drive overall productivity. While it may seem paradoxical for a company to locate near its competitor, a deeper examination reveals that clustering creates synergies for all participants who can benefit from communal resources,

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<sup>1</sup>“**Envisioning the New Normal in the Life Sciences Industry**,” *Goodwinlaw.com*

<sup>2</sup>**PropSci Webpage**, *Goodwinlaw.com*

regional trade, lobby and support groups, shared infrastructure and logistics channels, and a common regulatory and legal framework (and, in some instances, local tax incentives).

Traditionally, life sciences clusters have organically developed over time near recognized research universities and teaching hospitals, as these provide ready access to talent across key scientific disciplines and easy means for intellectual property transfer from these institutions to private companies. In recent times, traditional big spenders on R&D in the life sciences sector (like big pharma) have increasingly favoured collaboration, often with smaller venture-funded companies that have spun out from leading academic institutions, as a means of achieving a stake in innovation while reducing in-house R&D risk and expenditure. An interesting by-product of the growth of venture-funded companies is the increasing availability of flexible short-lease lab spaces targeted at covenant weak start-ups and SMEs ([click here](#) to read more on flexible leases in the life sciences sector).

Meanwhile, like in many other sectors, big data (and small data) analytics is increasingly seen as a means to achieve a competitive advantage in the life sciences sector, especially given the broad data sets that are generated, analysed and used. This is leading to many life sciences companies considering headquarters in central metropolitan locations to compete with Big Tech for the recruitment and retention of “data talent” (from graduates to senior executives) who are increasingly desiring a dynamic urban work address for lifestyle reasons. The trend towards data is also leading to a greater proportional occupation of office-like space, rather than laboratory space, to support a more computer (data) focused workforce.

Life sciences real estate covers the specialized real estate requirements for companies involved in life sciences, including the biopharmaceutical, medical technology, genomics, diagnostics and digital health sectors, which focus on end products that use the latest technology to improve the efficiency of healthcare delivery. Whether a start-up with a

promising cell therapy or an established big pharma company with expanding product lines, the real estate need for life science companies can vary greatly – whether it is lab space or diagnostic testing or more traditional R&D space. Investors looking to add propsci to their portfolios need to be mindful of the operational elements required for life science companies as well as the flexibility to expand as treatments or drugs are approved for further testing and production. In this article, we will explore some of the traditional propsci “clusters” in the U.S. and the UK as well as emerging clusters that may be well-positioned for investment opportunities.

### US Hot Spots and What’s Next

The top three propsci clusters in the U.S. are the San Francisco Bay Area, Boston and San Diego. These three markets have been the dominant clusters for life science companies and investors as well as for real estate. As of the end of 2019, the vacancy rate in markets like Boston/Cambridge and San Francisco was at or near zero. In 2019, more than one million square feet of life sciences dedicated space was delivered in San Francisco (without including the Oakland/East Bay market that saw another 500,000 square feet of space).<sup>3</sup> In the Boston market (which includes Cambridge), there is over three million square feet of life sciences space under construction. In San Diego, demand is outpacing new supply and rental rates are up as much as 12% from 2019. Given the existing talent pool as well as the continued venture capital investments and National Institute of Health (NIH) grants that will be made to life science companies in these markets, we expect to see real estate developers and investors continue to look for new opportunities in these markets. As an example, the owner of the Hilltop Mall, a traditional retail mall located in near Oakland, California that has struggled in recent years to keep or add new retail tenants, has announced that the project is being redeveloped as a biotech and life sciences campus.

Looking beyond the traditional “big-3” clusters, there are several clusters that have attracted substantial capital and governmental investment and appear ripe

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<sup>3</sup> [Cushman & Wakefield: Life Sciences 2020: The Future is Here](#) & [JLL: 2020 Life Sciences Real Estate Outlook](#)

for significant propsci growth. Among these markets are places like Chicago, Philadelphia, New Jersey and Baltimore. These clusters share many of the same characteristics of Boston, San Francisco and San Diego – well-regarded research universities, high levels of private investment and governmental grants and a deep and growing talent pool to draw from. As an example, Chicago, home to some of the largest pharmaceutical companies in the world as well as medical device and diagnostic companies, has seen vacancy in the low single digits and the number of life sciences employees doubling since 2010. In Philadelphia, there are more than 49,000 people employed by approximately 800 life sciences companies. Philadelphia is the third largest recipient of National Institute of Health Funding in the U.S. and is the largest recipient of NIH funding for gene and cell therapy research. In New Jersey, more than 85,000 people are employed by life sciences companies.<sup>4</sup> Real estate investors are focused on both central and northern New Jersey for investments opportunities. Baltimore, like many of the other “clusters,” has seen vacancy at 1% but new development has been more limited. Given the cluster approach taken by the industry, markets like Chicago, Philadelphia, New Jersey and Baltimore, as well as other more recently emerging clusters such as Raleigh-Durham, Seattle and Minneapolis, investors looking at these markets not only have the benefit of geographic diversity but also industry diversity as these life science clusters are home to companies with different focuses within the life sciences industry.

### UK Hot Spots and What's Next

On the other side of the pond, the UK is now the number one destination for life sciences capital raisings in Europe, with over £1 billion raised annually over the last five years, and with more than half of this coming from venture capital. This achievement has been underpinned by life sciences being a focus of the UK Government's Industrial Strategy, which has resulted in over 5,600 life sciences companies operating in the UK, generating a turnover of over £60 billion. Covering the life sciences product development, supply and services chain, these companies contribute to the employment of over 220,000 people.

In the UK, the “golden triangle” of London, Cambridge, Oxford and surrounding areas is seen as the most advanced of the life sciences clusters, where around 80% of all UK life science investment happens. This cluster is home to a highly-diverse and large population consisting of academics, clinicians, leading universities, research centres, healthcare providers, innovative SMEs and start-ups, large industry corporates, and fit-for-purpose real estate and infrastructure.

The golden triangle is followed by Edinburgh, Glasgow, Manchester and Nottingham, where there are also significant amounts of concentrated activity. Next tier emerging destinations include Birmingham, Liverpool, Leeds and Newcastle. These secondary and emerging destinations all have a key ingredient for success – world-renown universities in close proximity. These destinations also have the potential to benefit from the UK Government's publicized goal to invest in rebalancing the UK economy so that it is not overly-reliant on the UK's south-east region where the golden triangle is located. Furthermore, given the compact size of Great Britain (being smaller than each of the U.S. states of Idaho and Kansas by comparison), there is an argument that it has the potential to operate as one big cluster in its own right, with participants having access to the same synergies, business benefits and networking opportunities as those which exist in a more conventional compact cluster, especially given the advanced integrated transport links between cities. The rollout of the High Speed Two (HS2) rail network over the next few years will reduce existing travel times between London, Birmingham, Manchester, Leeds, Newcastle, Liverpool, Edinburgh and Glasgow, further advancing the argument that “Great Britain is one big cluster.”

The UK is also seeing real estate investors capitalizing on the increased demand and success of clusters by developing ground-up, large-scale multi-purpose communities that cater to life sciences businesses at every stage of their life cycle, from start-up to scale-up and developed corporates. This can be seen in Central London – for example, White City's life sciences district

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<sup>4</sup> Figures courtesy of **Cushman & Wakefield: Life Sciences 2020: The Future is Here** & **JLL: 2020 Life Sciences Real Estate Outlook**

which houses multiple global life sciences companies alongside Imperial College's White City Campus. This can also be seen in regional cities – for example, Alderley Park in Cheshire, which offers more than one million square feet of high specification lab space, a range of on-site scientific services, an accelerator delivering a comprehensive program of business support for start-ups and scale-ups, state-of-the-art connectivity and conference centers, and collaborative workspaces suitable for tech workers cohabitating near and working together with life sciences companies.

James Sheppard of Kadans Science Partner in London comments: "Although the creation of life science real estate is essential, it is also important to build and enhance the life science ecosystem – this can only happen by having a deep knowledge of a local ecosystems strengths and weaknesses." Kadans see the UK as an area with significant growth potential and considerable opportunities both in and outside the Golden Triangle. "The UK's academic research base is world class and its commercialization ability is increasing all the time, providing a pipeline of exciting high- growth companies. Although the UK life science market is changing, there are still considerable challenges in life science real estate. For example,

understanding the technical requirements of tenants, the suitability of buildings and the covenants of life sciences companies mean the barriers to entry in life science real estate remain high."

It is clear that life sciences real estate is more than just an operational decision for life sciences companies – it can provide a competitive advantage through strategic access to talent, funding, innovation and shared resources. Not surprisingly, real estate investors in the U.S. and UK are looking to capitalize on this trend and we anticipate seeing a robust desire by a growing number of capital allocators, investors and developers to add life science investments to their portfolios.

#### Part 4 Preview

The next article in the *Envisioning the New Normal: Real Estate + Life Sciences* series will explore some of the key considerations for landlords when underwriting new tenants operating in the life sciences industry. We will discuss the importance of understanding a company's science, as well as its funding and business model, and the ways in which landlords can seek to protect themselves against losses as a result of future financing difficulties and tenant specification packages.

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