

Redesigning Commercial Space: the Rise of the Life Sciences Real Estate Market



Amidst the downturn in office space rentals and a generally rocky outlook for the return to work, life sciences is one sector that's been going strong over the past few years. The demand for life sciences properties has been on the increase, especially in major cities like New York, with serious investment capital flowing into the sector.

Location, Location, Location

It might be a cliché, but it's never been more relevant than it is in the life sciences sector. One of the key requirements for successful bio-innovation is access to an ecosystem of related services. Life sciences companies often want to collaborate with others. They may need hospitals and universities nearby, a pool of scientific talent and easily accessible sources of capital. In short, a city like New York is just about perfect.

In many cases, the space usage needs of life sciences start-ups also change quite rapidly, making it imperative for them to operate in an area where they can easily upgrade or relocate based on evolving requirements.

What that means from a CRE perspective is that there's a lot to think about in terms of how space for life sciences tenants is designed.

Building for the Biosciences

One thing that makes life sciences properties different from other work-space rentals, is that they tend to cater to specific stages of a company's offering. At each stage, the amount of floor space, equipment and the ratio of office to laboratory space will differ, with some companies requiring far more specialized (and costly) installations.

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For example, in the start-up phase, when the company is conducting their initial research and development, their requirements are often fairly generic. From a development perspective, this is attractive, because it means that the lab facilities that have been built out can easily be repurposed for another start-up's use after the first vacates.

Late-stage companies, on the other hand, may require far more substantial investments into manufacturing and warehousing space, which also changes the footprint of their needs substantially. They also tend to need more specialized lab facilities that come with their own complex regulatory and safety considerations.

In almost all cases, buildings intended for laboratory use will need certain general upgrades as well. These include more powerful HVAC (heating, ventilation and air conditioning) systems and other structural changes, potentially pushing costs into multiple hundreds of dollars per square foot.

The Life Sciences Outlook

Despite the higher costs associated with development or adaptation for life sciences usage, the outlook for this market in the US is exceedingly bright. PwC's emerging trends in real estate 2022 report highlights the sector as a top contender in terms of both investment and development, as the demand for healthcare and biotech research continues to skyrocket.

This trend is holding up in other countries as well, with the Canadian government having committed to \$2.2 billion in funding for biomanufacturing initiatives over the next few years, and the PwC Europe report listing life sciences as a top contender across the continent.

Taken together, this certainly paints a picture of an asset class that the savvy CRE professional can't afford to ignore. But, given life science's development and operational costs, the real challenge lies in finding the best investment strategies to take advantage of the trend.

