

LIFE SCIENCES

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LIFE SCIENCES: DON'T WAIT, CREATE!



A thriving occupational market with very limited availability is pushing life sciences assets to the top of many investors' wish lists. But with assets in short supply and competition intense, many are eyeing development or repurposing to provide an entry point to the highly sought-after market. It does not come without its risks, however, and success is dependent on truly understanding local science-led ecosystems and occupiers' varying requirements, say Gerald Eve's Angus Minford and William Powles.

The leading role of UK-based scientists in the response to the pandemic has shone a spotlight on the sector and it has been a key catalyst to its recent growth. With heavy public and private sector backing and encouraging occupier characteristics, real estate investors and developers are quickly turning their focus to the opportunities it presents. Various opportunities and challenges planning presents for development in the life sciences sector.

These are considerable; life sciences is a high-value industry, often long-term in its requirements and usually well-funded by Government, large pharmaceutical firms or venture capital money. The UK is a world-leader, and the sector is growing in both size and stature. What's more, there's a shortage of dedicated life science space, and supply is unlikely to meet the surging demand.

Investors cannot expect there to be a constant pipeline of up and built product to acquire. The shortage of supply will continue and the level of competition will remain high. Unless the capital is very patient, investor strategies will need to be flexible as waiting is not an option.

'Over badging' of assets as life science opportunities seems to be flavour of the month. Yes, there are some gems out there as redevelopment or repurposing opportunities, but it is also a market that is hard to read and can be easily misunderstood. Like its occupiers, detailed research needs to go into where and what you offer, as it's far from a case of 'one size fits all'.

So: what should investors and developers look out for?



ECOSYSTEMS

It is no surprise that the UK's Life Science hub is centred on Oxford, Cambridge and London, widely known as the Golden Triangle. These cities are home to four of the world's top ten universities as well as other key scientific institutions whose specialist knowledge, talent and expertise have formed an engrained natural hub for occupiers and a magnet for funding, in an ecosystem that is both growing and relatively developed in comparison to the rest of the UK.

Demand is growing outside of these core areas, especially in the 'Big Six' regional conurbations and beyond. The clusters are less mature and more tightly focussed on educational/research institutions, but the skilled labour is available and can be retained in these well-connected, vibrant and amenity-rich cities – even more so in the post-Covid environment. These less mature locations will also benefit now and in the future from the Government's levelling up programme, the newly-formed National Science & Technology Council and the announcement of a substantial increase in their research and development spend in this year's Budget to £22bn. The ecosystems of these cities are still immature, and an even greater understanding of the key clustering locations and their individual characteristics is required.



FACILITIES – FLEXIBILITY IS THE KEY

Design flexibility and space adaptability for today's and future occupiers are the key attributes and should not be underestimated. There is also heavy emphasis on service infrastructure and the ability to sustain the operational intensity of multi-occupation of businesses of all sizes. Future-proofing is a commonly used phrase in real estate, in this instance it is crucial and will need to be blended with ESG credentials too.

As working and living patterns change, many investors are eyeing life sciences as a way of mitigating potential issues faced by their office, light industrial and retail portfolios. Opportunities in established locations are a starting point, but the analysis of what the conversion will provide against occupier demand has to be forensic.

Lab construction is costly and knowing the occupier market requirements in detail will prevent over enhancement, which could be costly especially in the current inflationary construction cost environment. In short, get the basics right and build in the maximum flexibility to create adaptable space for varying and bespoke occupier fit outs. These attributes will give an investor the strongest opportunity for consistent income in the medium to longer term.



FUTURE PROSPECTS – IS IT ALL ONE WAY TRAFFIC?

Life sciences is currently a strong bet, but there remain risks. Not all life science businesses are successful, and you can expect business failures and a healthy turnover at the incubator stage. Even successful businesses can be a threat to landlords, as the rate of expansion and growth in the sector is rapid and occupiers can outgrow space quickly or be subject to M&A activity. Again, further emphasis is required on flexibility and space being re-workable for the next occupier, who may be needed sooner than anticipated.

Life sciences is a sector that has already seen considerable yield compression in a very short timeframe, driven by the realisation that there is a finite amount of available stock in key locations. Yields have moved in as much as 100 basis points on some quoting yields and have hit levels in the low 4% for the best assets in prime locations, competing with the central London and industrial markets. With the continued appetite from venture capital and Government investment driving growth, it is not too big a leap to see life sciences challenging the might of the industrial market as best performing sector.



DON'T WAIT, CREATE

What is certain is that there is a shortage of lab space and occupiers need the space NOW. Swift delivery is key, so this sector's hunger can be fed and the UK's position at the forefront of research and development is monetised here rather than overseas.

The fundamentals of the life sciences sector – high and growing demand, low supply – present considerable opportunities here and now to capitalise on. This is a period of great change, and those that grasp the nettle – through repurposing existing buildings or committing to life sciences space within new development programmes – will fare best, and are likely to be able to access the market more efficiently and quickly than waiting for finished product opportunities.

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