

Pandemic Underscores Strengths of Life-Sciences Real Estate, BioMed CEO Says

By Matt Grossman

The market for commercial buildings that host lab space, drug-production facilities and the like is on the upswing, a trend that predates the pandemic and has been amplified by it.

The pandemic has showcased the stunning growth that upstart pharmaceutical and biotech companies can achieve when they are able to meet a pressing medical need. Overnight, companies like Moderna Inc. became household names.

But given the frequently long slog to bring new medicines to the market, drug development remains a chancy proposition. As a result, investing in life-sciences real estate requires some fine-tuning, says BioMed Realty Chief Executive Tim Schoen.

Research labs are specialized spaces, but early-stage companies often place make-or-break bets on new treatment approaches. That means life-sciences landlords need to figure out how to prepare their sophisticated, high-tech floorplans for turnover.

"If a tenant moves out, you need to make sure [a building] is reusable," Mr. Schoen said in an interview. "We have a lot of experience over the last 15 years designing buildings so that there's life after tenant." Special considerations include designing infrastructure like water and gas lines, exhaust systems and lab benches so that spaces are flexible for reuse in varied types of research work.

Given that life-sciences companies draw from a constrained talent pool, investing in the right markets is critical as well. Cities such as Boston, San Francisco and San Diego will likely remain the sector's indispensable stomping grounds, Mr. Schoen said. Occupancy rates are soaring in such cities, with companies in the sector ravenous for square footage, he said.

With its strong research universities and intellectual capital, New York City could also emerge as a more important market for life-sciences space, Mr. Schoen said. As of yet, however, the city's drug-development scene hasn't matured enough to make it a top-tier market in the sector, he said.

"Before the pandemic, for available space you were fighting it out with other industries, be it finance or tech or media," Mr. Schoen said of the New York market. "The average size of a user was smaller too."

In Boston, BioMed's largest tenants occupy three or four buildings. Few life-sciences companies have considered bringing operations of that size to the Big Apple.

BioMed, previously publicly traded, was acquired by a Blackstone Group Inc. fund in 2016. Blackstone had considered spinning out the company, but decided instead last year to sell it internally to another Blackstone fund, allowing Blackstone to remain invested in BioMed indefinitely. The deal valued BioMed at \$14.6 billion.

Mr. Schoen noted that BioMed is at the juncture of real estate—in which Blackstone has invested heavily for decades—and the life sciences industry, which Blackstone describes on its website as "one of our highest-conviction investment themes."

"I think we've created the killer app here," Mr. Schoen said of BioMed's institutional support from Blackstone's real-estate and life-sciences operations.

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