

# Plenty of Candidates for the Next Great Life Sciences City

Markets to consider tend to be near university and research hubs and with R&D funding.

By **Paul Bergeron** | December 14, 2022

When looking for the next great life sciences hub for the US, candidates can be found all over the map.

For example, JLL senior research director Amber Schiada pointed to Houston in its recent Life Sciences Research Outlook.

“Houston has historically been undersupplied in terms of purpose-built lab space, which is critical for companies to scale operations,” she said in prepared remarks.

“Markets without the proper facilities to support growth will be less attractive to companies looking to scale quickly. But what comes first, the chicken or the egg – or in commercial real estate terms, the development or the demand?”

When analyzing the 34 cluster cities highlighted in JLL’s 2022 report, middle-of-the-pack markets like Houston, Minneapolis-St. Paul and Pittsburgh all had one thing in common: their commercial real estate growth potential puts them at an excellent advantage for scaling the industry, according to Schiada.

Other markets to consider tend to be near university and research hubs.

## **Commercial Drug Manufacturing a Key to a Successful Hub**

Nick Cassaro, Vice President, Life Science Development, BentallGreenOak, tells GlobeSt.com that when looking for the next big life science city there are multi-industry factors that account for a successful hub.

“There should be recognized university affiliated hospitals, a stable housing market, formidable shipping and logistics paths and ties to venture capital/NIH funds,” Cassaro said.

“As we have seen in Boston, San Francisco, and San Diego, these factors can start and maintain a life science hub as we see in year over year growth today. For the next life science hub, we anticipate it will be multi-use for both research and development as well as commercial drug manufacturing.”

### **Philadelphia Looking a Lot Like Boston**

Tucker White, northeast regional manager – insights and innovation, Avison Young, tells GlobeSt.com that Philadelphia is on deck as the next life sciences hotspot on the East Coast. “A lot of parallels can be drawn from where it is now and where Boston was in the mid-2000s,” White said.

### **Orange County Has Educated Workforce, Great CA Lifestyle**

Bob Dougherty, principal, Luminous Capital Management, tells GlobeSt.com, “Orange County (Calif.) presents a very strong case as an emerging biotech hub.

“It is already a worldwide epicenter for medical device design and production, so it offers a highly educated workforce for life sciences,” he said.

Orange County’s other innovation drivers include established bioscience companies such as Edwards Lifesciences and Allergan (a division of global pharmaceutical giant, AbbVie), both of which are headquartered in Irvine.

“Additionally, UC Irvine is a rapidly growing institution which is a national leader in producing STEM graduates and attracting investment through public-private initiatives,” Dougherty said.

“These generators are complemented by an increasing patient population which will be spurred by \$4 billion of investments in healthcare – in Irvine alone – by UCI Health, Hoag, and City of Hope.”

Orange County's renowned public schools attract workers globally, and although it remains quite expensive to live in the county, the area is targeting well-compensated knowledge workers who can afford a coastal California lifestyle, according to Dougherty.

### **Emerging, Secondary Markets**

David Lari, Partner at Cox, Castle & Nicholson, tells GlobeSt.com that some of the major life science markets such as Boston, San Diego, and the San Francisco Bay area, have several emerging and secondary markets "that offer tremendous growth potential."

He said some of the secondary life science markets that are thriving and poised for continued growth include the North Carolina research triangle, Houston, Austin, and Nashville.

"These emerging markets have three things in common: 1) top caliber universities that provide a steady flow of young talent; 2) strong healthcare facilities; and 3) desirable and more affordable areas where people want to live."

### **Look to Markets with R&D Funding**

Lauren Gerdes, real estate senior analyst with RSM US, tells GlobeSt.com that labor is in short supply for the life sciences industry, "so it will be critical for emerging markets to have access to premier universities to train the talent pool, and a vibrant city to retain graduates."

She said hot markets with ample space to continue development in the sector, such as Denver/Boulder, Minneapolis-St. Paul, and Nashville, are prime for attracting and retaining a steady flow of talent and have also received consistent increases in R&D funding from National Institute of Health (NIH), a major funding institution of R&D grants.

"The life sciences sector is not immune to higher borrowing costs and significant construction cost increases stemming from inflation," Gerdes said. "This has caused deal volume to slow and institutional investment to pull back on spec builds, focusing their sites on build-to-suit."

"Higher returns on investment can be found in emerging markets with access to R&D funding driving future investment from venture capital, such as Minneapolis-St. Paul, New Jersey and

Houston, which have received significant increases in funding in 2022 compared to 2021 (16%, 13%, and 7%, respectively) from the National Institute of Health (NIH).”

### **Life Science Cap Rates Outpacing Office**

Tenants are not requiring Class A builds, which offer conversions of Class B & C office or industrial-flex spaces as a unique alternative to ground up development, Gerdes said.

“Cap rates for life sciences continue to outpace traditional office,” she added.

Conversions come at a cost of \$150 to \$400 per square foot, well below the \$675 to \$1,200 per square foot for a new build in the key life sciences markets.

“As of Q3 2022, emerging life sciences markets of Chicago, New York, Philadelphia and Denver/Boulder are among the top 10 markets with the highest vacant square footage of Class B & C office space in the US, according to RSM US.

### **Academic Research Institutions are Life-Science Magnets**

David Bitner, executive managing director, global research at Newmark, tells GlobeSt.com that life science clusters tend to develop around leading academic research institutions with specific strengths in medicine, biomedical engineering, biology and genomic sciences.

For example, Raleigh-Durham has Duke and UNC-Chapel Hill; Boston has MIT, Harvard, Boston College, and a slew of others; San Diego has UC-San Diego; the Bay Area has Stanford and UC-Berkeley; and Philadelphia has Johns Hopkins and the University of Pennsylvania.

As it pertains to emerging life science clusters, there are a few cities that are well-positioned in this regard, Bitner said.

“Georgia Institute of Technology is the second ranked biomedical engineering program in the country,” he said.

“Atlanta is a fast-growing market, both in terms of population and its rising popularity as a headquarters destination for a growing number of companies. Combined with an attractive cost of living, a business-friendly environment, and a workforce that is continuously upskilling, and

you have the makings of a growing life science market. Additionally, Emory has one of the top genomics programs.”

### **Pittsburgh, Austin Houston Make a Strong Case**

Bitner said that Pittsburgh could emerge as an interesting new life science epicenter due to Carnegie Mellon, which has already become a hub for autonomous vehicles, as well as the University of Pittsburgh.

He added Austin to the list as it has already garnered notable attention as a leading tech market, and “I wouldn’t be surprised to see its economy further diversify, building in part on the strengths of UT-Austin,” he said.

Additionally, from Bitner, Houston tends to get a lot of focus due to its dependence on the energy sector, but it also boasts Rice University and the institution’s leading programs in medicine, biomedical engineering and other related fields; Texas A&M sits just 90 minutes to the north.

Like Atlanta, Houston also has a fast-growing population that adds to the city’s strength as a candidate to support an ever-expanding life science sector.

### **Lots to Like About Boulder**

Elizabeth Berthelette, director of research, Boston, at Newmark, tells GlobeSt.com that the prevalence of premier hospital and healthcare systems contribute to the strength of a regional life science ecosystem.

She said that in Houston, for example, life science development at the Texas Medical Center is driving interest in this emerging market.

“Boulder also seems to be gaining attention and traction as an emerging life science cluster,” Berthelette said. “The area hosts more than half of Colorado’s federally funded labs, as well as the public research institution at the University of Colorado Boulder, which altogether contribute more than \$1.5 billion to the local economy.

“The size of the aerospace industry in Boulder is also 12 times larger than the national average, and this industry is expected to grow exponentially over the next decade, serving as a continuous demand driver for life science space throughout the city.

“Life science companies have leased or purchased over 1.3M SF of space in Boulder and the surrounding areas since 2021, and from the onset of the pandemic, more than \$1 billion of life science properties have been acquired in across the region — ranging from stabilized assets to conversion opportunities to owner-user facilities.”

### **Chicago is Fertile, Central Ground**

Bernie Baker, Executive Vice President at PMA, tells GlobeSt.com, “As the biggest city in the Midwest and the home to some of the country’s top academic institutions, Chicago has the potential to establish itself as a prominent life sciences hub on the level of the coastal clusters in Boston and San Francisco.”

The Midwestern metropolis currently ranks No. 6 for job growth out of the top 25 life sciences markets, and its journey to becoming the next major destination for life sciences companies is well underway, he said.

“To accelerate this process, Chicago lawmakers need to focus on enhancing long-term tax credits and incentives for life sciences companies, creating an ecosystem to attract more VC funding, and continuing to build out the physical and electrical infrastructure that can support long-term sector growth in the city,” Baker said.

“We expect to see major growth in the Chicago life sciences industry over the next few years given the number of life sciences projects in the region that are already in process or are currently at the planning stage.”

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