COX CASTLE

Inevitably, Life Sciences CRE in Boston Returns to 'Normal Pace'

GlobeSt.com

CBRE said fundraising constructions from the tough banking climate a key factor. **By Richard Berger | Originally featured on GlobeSt.com**

Recent turmoil in the banking sector is causing many life sciences tenants to re-evaluate and "stretch their cash runway" as pressure from difficult fundraising conditions is crimping the incredible performance run for this asset class in the Greater Boston market, according to a new report from CBRE.

Boston returned to a normal pace in Q1 2023 after an unprecedented run from the onset of the pandemic that saw record growth in the sector, according to CBRE's Q1 Boston Lab Figures report.

"Macroeconomic headwinds that started to break through the Boston metro life sciences market in mid-2022 have shifted the fundamentals in Q1 2023, introducing some uncertainty to the sector," Eric Smith, CBRE, said in a prepared statement.

While the construction pipeline has remained robust, the demand side of the market has seen a sharp slowdown from the 2022 peak as both private and public companies battle a difficult economic environment and record-high construction pricing.

Greater Constraints for Construction Loans

David Lari, partner, Cox Castle, tells GlobeSt.com that every sector of the commercial real estate industry, including life science, is being negatively impacted by current macro-economic factors such as higher interest rates, market volatility, and uncertainty in the banking sector, particularly after the Silicon Valley Bank collapse.

"Investors and developers in the life science sector are facing greater constraints in the capital markets, particularly with respect to construction loans," Lari said.

"Despite these factors and the overall economic slowdown, Boston, with its numerous institutions of higher education and established reputation as a major hub for the life science sector, will continue to be a go-to venue for life science investment and development for many years to come."

Philip Lamere, portfolio manager of Lendlease, tells GlobeSt.com that the life sciences industry's recent growth was unsustainable.

"Though most metrics are down from the highs experienced between 2020 and 2023, the long-term upward trajectory is still strong—even as venture investment and demand for life sciences real estate returns to more reasonable levels," he said.

"Despite industry-wide economic and capital market headwinds, the life sciences sector is propelled by demographic trends and an inelastic demand for life-changing scientific innovation.

"Boston offers a thriving ecosystem that harnesses the resources of universities, research hospitals, venture capital firms, the NIH, and government incentives to support life sciences enterprises of all sizes."

As a region, Boston perpetually ranks as the nation's top cluster for life sciences.

US Has a Record Amount of Lab Construction Underway

Bryan Northrop, executive vice president, and general manager for Skanska USA Building, New England Region, tells GlobeSt.com that across the US a record amount of lab construction is currently underway with 25 million square feet under construction, and Boston has the largest pipeline.

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"However, Boston is particularly well-suited as it provides all the key aspects that are required for life sciences to thrive: World-class educational institutions, world-class teaching hospitals, an extremely skilled workforce, and local venture capital firms who invest heavily in life science."

He said he's seen an increase in cell and gene therapy and personalized medicine.

"The 'manufacturing' of these therapies needs to be done in close proximity to the patients and that is why more and more of these facilities are being built in proximity to Boston and the

Longwood medical area," according to Northrop.

"Additionally, the Boston area has a constant pipeline of start-up and spinoff companies developing new drugs or therapies. Many will start a life in incubator spaces or utilize third parties to perform their manufacturing for clinical trials, but as they grow, they need to expand into their own facilities."

He said the available land and cost of land and operations in these areas are lower than in the city, while the location remains attractive and affordable for skilled workers.

"Life sciences companies can use some of this talent from the city by making it desirable with shorter commute times and, in some cases, a lower cost of living than in the city center," Northrop said.

"Another trend occurring in the Boston area is the increase in converted buildings and adaptive reuse for Life Science purposes. Playing into this, our lead times and pricing on raw building materials and sustainability goals increasing, so renovations are currently a very attractive option."

For example, Skanska recently converted a 1900s-era industrial building into pharmaceutical manufacturing, labs, and a cGMP warehouse for Acorda Therapeutics in Chelsea, Mass. It also completed an over 10,000-SF conversion for a confidential pharmaceutical client in Andover; the existing non-GMP production space was transformed into GMP manufacturing space with work including structural remediation for additional weight capacity requirements.

Leasing Activity 'Picking Back Up'

Tucker White, Northeast regional manager, insights & innovation, Avison Young, tells GlobeSt.com that he's seeing leasing activity start to pick back up.

"It is still a far cry from 2019 through 2021 but the potential for a larger amount of deal frequency is there for 2023," White said.

"Lab incubation has only grown in Boston despite a slowdown in funding, once the spicket is turned back on, investors and large life science companies alike, will not have a shortage of companies to deploy capital into."