

The growth of European Life Sciences Real Estate



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COVID-19 has magnified the importance of life sciences by highlighting the need for the critical innovation life sciences firms are using to solve the current health crisis and to assist with solutions to other long-term health challenges. Life sciences companies are seeking solutions to these challenges through the development of new drugs, therapies, and devices that can cost effectively cure disease or improve the quality of life for patients across the healthcare spectrum. Despite a thriving entrepreneurial approach, the European life sciences market is less mature on a global scale when compared to more established regions like the United States and China.

However, the winds are beginning to shift. Significant public and private investment, strong fundamentals, a highly educated talent pool and support from leading research institutions and universities, are facilitating the rapid growth of the life sciences sector in Europe. Of course, there is still a long way to go.

Government support

Government support for early-stage life sciences firms can facilitate growth and propel ideas to market. Fortunately, both the European Commission and U.K. government have committed significant sums of capital to this effort. Among the most notable projects is Horizon Europe, the EU's research and innovation program

whose goal is to ensure Europe produces world-class science, removes barriers to innovation and makes it easier for the public and private sectors to work together in delivering innovation, and will spend €100 billion over the next 7 years¹. Horizon Europe follows Horizon 2020, the previous incarnation of the current project, that provided €80 billion of funding to EU based researchers over the past 7 years².

The U.K. plays a unique role as one of the most mature European life sciences markets with each of the global top 25 biopharmaceutical and top 30 medical technology companies currently operating in the U.K.³ The U.K.'s December 2020 agreement with the European Union to join Horizon Europe, provides the U.K. life science's market with a significant boost, ensuring that the U.K. will retain access to significant public funds in this space. The U.K. has also pledged to increase public research and development funding by 15% this year, more than doubling the current total funding to £22 billion by 2024-25⁴.

Demand for Life Sciences Real Estate

Investors have taken note of the activity in the life sciences real estate sector, which has remained resilient, particularly as other real estate sectors have slowed during the pandemic. Fundraising for life sciences-related firms headquartered

Figure 1: Global pharmaceutical E&D spending & forecast

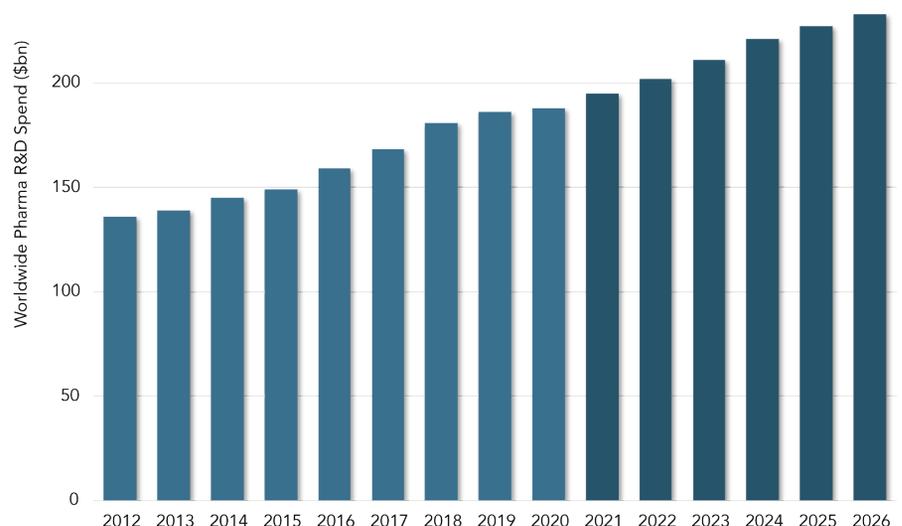
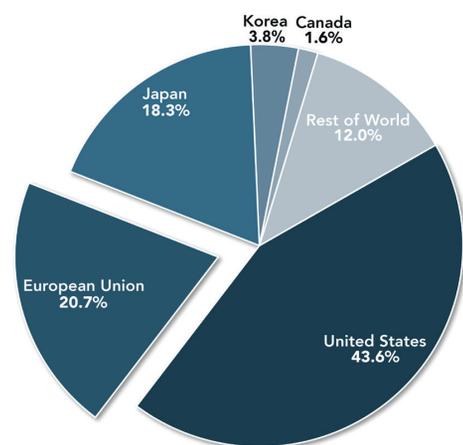


Figure 2: Share of global Life Sciences patents



Source: OECD. Data through 2016; latest available as of December 2020. Note: Data reflects priority data filings for biotechnology, medical technology and pharmaceutical patents based on applicant's country of residence. Due to a lag of filing to grant, data is "nowcasted" by OCD for each year.

in London totalled £2.89 billion by September 2020, 7% ahead of the £2.7 billion raised over the entirety of 2019⁵. Similarly, transaction volumes across the sector are up as well. The latest research from leading real estate adviser JLL has estimated that there is up to £15bn of capital allocated to UK life sciences real estate, of which less than 10% has been deployed to date⁶. The pandemic also highlighted the importance of domesticating pharmaceutical supplies and as a result, revealed the shortage in laboratory supply available to European life sciences companies.

With the rising need for development of new drugs, new technologies and new research in sciences, the European life sciences and technology real estate sector provides an attractive opportunity for investment. Europe has the top research institutions, university-supported spinout companies, life sciences patents, public and private funding sources and concentration of highly educated workers needed to successfully operate life sciences and lab space, yet the European real estate market for life sciences remains nascent due to the complexity of developing and operating lab space.

Among life sciences industries – biotechnology, medical technology and pharmaceuticals – the EU has consistently made up approximately 25% of the total global patent filing volume since the turn of the 21st century⁷.

Life Sciences clusters

The pace at which researchers have been able to advance Covid-19 vaccine candidates demonstrates how essential life sciences companies

have become. In order to scale operations and manufacturing capabilities to respond quickly to the health crisis, many biopharmaceutical companies are sharing technology platforms and developing ecosystems to facilitate collaboration. In April, five of the U.K.'s largest life sciences trade bodies (ABHI, ABPI, BGMA, BIA and BIVDA) signed a historic agreement to deliver medicines and health technology dedicated to fighting coronavirus and prioritise the supply of diagnostics, medicines, and health technologies for NHS patients⁸. This kind of collaboration signals a move toward creating life sciences clusters with stronger connectivity between industry players supported by a critical mass of talent and businesses.

Our research has identified life sciences clusters as a unique and promising model for investing in European life sciences real estate. Typically centred around a research university, state-of-the-art lab and office spaces are attractive to large biotech and pharmaceutical companies and offer access to academic and managerial talent, business and academic opportunities, and like-minded tenants. By investing in life sciences clusters, tenants can create environments that combine innovation, lifestyle and culture. Fostering relationships between companies, local universities, hospitals and research institutions can help support new collaborations, talent pools and ultimately, faster innovation.

“By investing in life sciences clusters, tenants can create environments that combine innovation, lifestyle and culture.”

Paul Bashir

Science and technology parks also provide a link between businesses and universities, laboratories, and hospitals. Many science parks act as incubators by supporting every phase of life sciences growth and development with technology, general science, research, and manufacturing capabilities.

Harrison Street's approach to supporting and growing Life Sciences

Harrison Street, along with our partner Trinity Investment Management, is the largest owner of life sciences properties in the U.K., managing more than 2 million square feet of real estate across ten science parks, while supporting more than 100 tenants through early-stage venture capital investment and accelerator programmes.

After entering the U.K. life sciences market in 2019 with a large life sciences portfolio transaction, we launched a tailored network of science parks that offered facilities ranging from small, flexible laboratories to pharmaceutical grade manufacturing. Our current strategy involves identifying multi-building life sciences campuses located close to leading universities that offer attractive amenities and competitive tenants.

We have continued investing along that model by most recently acquiring four life sciences parks across the U.K. with Trinity, which acquired BioCity Group, the U.K.'s leading life sciences business collective and incubator, as part of the transaction. The joint venture partnership is designed to leverage the economies of scale and harness the collaborative potential within universities, the National Health Service and national healthcare networks. We are committed to investing in life sciences real estate that supports the evolution of life sciences business through access to venture development and investment capital.

Forecast

Life sciences and technology real estate in Europe represents an opportunity to access a high growth sector and capitalise on Europe's status as a hub for innovation in these industries. The pandemic and the rapidly ageing European population have exacerbated the need to develop creative solutions to bring life sciences innovation to market efficiently. Europe has all of the key ingredients necessary to form successful life sciences clusters – top global research institutions, affiliated entrepreneurial spinout companies, life sciences patents, pharmaceutical and biotechnology companies and a highly educated workforce and knowledge base. Bolstered by support from government funding, the European life sciences real estate market, with its ability to form and support lasting life sciences clusters, makes an attractive opportunity for real estate investment across the continent.

FOOTNOTES:

- 1 European Commission 2018
- 2 European Commission 2014
- 3 UK Government Budget 2020
- 4 UK Government Spending Review 2020
- 5 Savills 2020
- 6 JLL February 2021
- 7 OECD. Data latest as of 11 October 2019
- 8 The Association of the British Pharmaceutical Industry

