LIFE SCIENCES

Doing More with Less (for Longer)

MARCH 2023

At Savills, our dedicated Life Sciences team understands the complexities of life sciences – the intense competition for talent and space, the need to balance your vision with your runway, and the infrastructure required to support the science.

Some of the exercises and solutions we offer our clients during this time include:

- Re-imagining lab workflows early on for efficient use of space
- Utilizing the sublet market to offload unutilized space
- Phasing your construction to make the most out of the tenant improvement allowance
- Identifying your team of strategic partners early in the process to create a reliable and efficient real estate plan
- Bringing in workplace experts to create compelling workspaces for employee retention

Following the surge of Life Science investments from 2020 through 2022, funding for these companies has slowed in the last year, causing organizations to make strategic decisions to extend their cash runways further. Although it may be viewed as a downswing in the sector, many experts view it as an opportunity to pivot and embrace a return to the "new normal." Herein, we look to provide a unique lens into the pendulum swing of rapid growth over the last several years, to the rapid deceleration we are seeing now. Moreover, we'll describe the impact the pandemic and public markets are placing on real estate and offer a glimpse at solutions that show how life science companies can adapt to the current environment.

Is 2023 the Year of Headwinds and Opportunities?

The close of 2022 revealed a challenging economic environment marked by inflation, rising interest rates, recessionary fears, and declining equity values. Biotech investors indicate that the risky environment heavily influences valuations, mergers and acquisitions, pacing, and deal flow. Although Pitchbook reports a record level of $290 billion for venture capital investors to support startups, investments are undergoing rigorous due diligence, scrutiny and facing more competition than in previous years. Additionally, there is a longer, more conservative timeline to receive funding.

Companies with promising innovations, exceptional science and disruptive technology with the potential for massive impact, will be prioritized for funding moving forward. Specifically, we are seeing venture capitalists especially interested in biotech projects that involve an AI element. The opportunity to gain efficiencies and efficacy through innovative computer-based modeling is attractive to investors notwithstanding the economic environment. This trend is also being felt outside of the life sciences sector, as AI is beginning to be a force reckoned with in every industry.

This shift represents a significant change from the recent growth in the industry driven by pandemic-related therapies and vaccine development, which caused a massive supply boom. In lieu of these headwinds, the government is working to keep the industry from falling into a decline. Proposed funding from the National Institute of Health has increased significantly for the fiscal year 2023, and the current administration has proposed $2 billion in investments to expand the U.S. Biotech and Biomanufacturing sectors.

As life science companies are re-prioritizing and evaluating their costs, we are seeing companies extending their time in incubators for much longer, reducing their office space by eliminating desks for scientists, approaching their landlords with reduce and extend proposals, rightsizing through utilization studies and offloading space via the sublease market. It is evident as with certain clients that capital constraints can make or break a growing company, and understandably these companies want to put any funding behind talent and capabilities, rather than real estate. As we have witnessed the softening of the real estate market since 2020, it is critical to be creative and flexible in creating a strategy for clients when looking to extend the runway of their available cash and research footprint.

With a recent transaction, a medical device firm in Mountain View, California found itself needing to conserve cash in the very near term, with its lease for 52,000 square feet in a standalone building expiring in 2024. The entire headquarters was not being fully occupied however the company planned on growing back into the full space in the coming years. Leveraging the integrated Savills lab planning, location strategy and brokerage team, the company evaluated the costs associated with relocation, the impact on employee commute and the forecasted space needs based on company projections. The company was able to leverage the availability of multiple suitable buildings as alternatives to secure a very favorable and aggressive early lease renewal. The tenant secured nearly $1,000,000 in upfront free rent and put up a portion of the space for sublease for an additional flow of cash in the short-term.

Five Strategies to Maximize Efficiency and Minimize Costs

1. Re-imagine your lab workflows early on for efficient use of space

Companies should develop a space program to benchmark minimum square footage requirements and identify adjacencies between personnel and equipment. The use of technology to visualize space, floorplans, and layouts help optimize workflows before implementation. It can also be beneficial to utilize vetted contract research organizations (CROs) to outsource resource-intensive processes attached to well-defined milestones.

2. Utilizing the sublet market to offload unutilized space

Flexibility is key right now for early life sciences companies and the lack of built out lab space with flexible terms is a hot commodity. Clients who engage in a space utilization study and find they have an abundance of underutilized space, or a block of space slated for future growth are entering the sublet market to recoup some costs in the near term, while also remaining in control of their space. When properly executed, clients can reduce capital expenditure in the near term, while also controlling their phased growth via the structuring of a sublease.

3. Phase construction to make the most out of your tenant improvement allowance

To fully capitalize on tenant improvement allowances, leave space in shell condition for future expansion and include subdivision for subtenant in initial design and construction of the space. Alternatively, due to post pandemic reduced office utilization, plans can be created to convert offices into labs over time, and extend the use of existing space by reconfiguring offices to create "touchdown" work spaces. This approach allows tenants to remain in their existing space, expand laboratories and better utilize flexible office space to support efficient operations.

4. Identify your team of strategic partners early in the process to create a reliable and efficient real estate plan

A team of specialists and tenant representatives can advocate for maximum rent savings through phasing and creative lease terms. Companies should plan to leverage experts for short and long-term real estate strategic counsel. Consider tenant only real estate solution partners for a view through a conflict-free lens on the current state of the market and evaluation of multiple scenarios in parallel.

5. Bring in workplace experts to create compelling workspaces for employee retention

We have seen a huge shift in the use of the workplace over the past several years and can deploy a dedicated workplace specialist to support the client in developing an action plan to revisit the current floorplan, function, and use of your space. The main trends that drive the addition of a workplace specialist surround employee retention, hiring, workflow, and space identity to further the client's mission.

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