# PropSci Perspectives: Breakthrough Properties


The Goodwin **Propsci** team has partnered with several well-known companies for a short video series that explores what's happening in the real estate life sciences industry.

In our latest installment, Susie Harborth, Chief Business Officer at Breakthrough Properties, joins **Nicole Riley** for a thought-provoking discussion. Breakthrough Properties is a life sciences real estate development company that leverages cross-sector collaboration to deliver environments that foster innovation and scientific breakthroughs.

Watch the video **here**.

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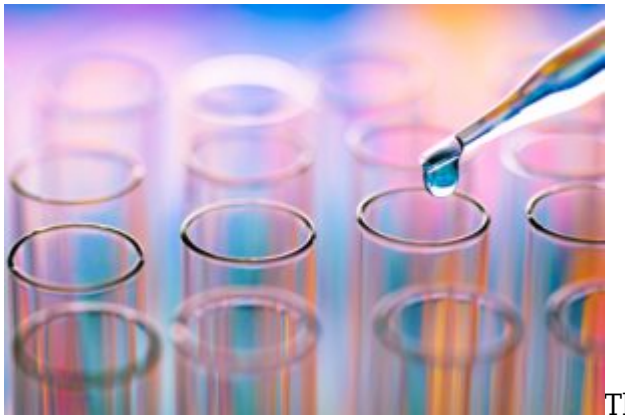
# Propsci Perspectives: LabCentral/BioLabs



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In our latest installment, Johannes Fruehauf, CEO of LabCentral/BioLabs, joins Goodwin's **Nicole Riley** and **Jim Barrett**. LabCentral/BioLabs is a first-of-its-kind shared laboratory space designed as a launchpad for high-potential life sciences and biotech startups.

We invite you to learn more about the platform that Johannes and his team created, and the strategy of dealing with the complexities of life sciences real estate.

Watch the video **here**.

# Propsci Perspectives: SmartLabs

The Goodwin **Propsci team** has partnered with several well-known companies for a short video series that explores what's happening in the real estate life sciences industry.

In this video, Goodwin's **Nicole Riley** is joined by Daisy Riquelme, Associate Director of Business Development, at SmartLabs, a lab platform that supports workflows at every stage of development.

We invite you to learn more about the SmartLabs business model and how companies in the life sciences ecosystem benefit from their capabilities and offerings. Daisy and Nicole will also go into more detail on how SmartLabs has been problem-solving for the broad range of real estate needs that life sciences companies face during all stages of their lifecycle.

Watch the video **here**.

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# Propsci Perspectives: A Goodwin Video Series

The Goodwin **Propsci** team has partnered with several of our clients for a short video series that explores what's happening in the real estate life sciences industry.

Goodwin's **Nicole Riley** is joined by Doug Cuff, Vice President of UK Real Estate for **IQHQ**, a development company focusing on acquiring, developing and operating life sciences properties in the innovation hubs of San Francisco, San Diego and Boston in the United States, and in the Golden Triangle in the United Kingdom.

We invite you to learn more about IQHQ's Innovation Park located in Andover, Massachusetts. Doug will discuss why this was an attractive investment for IQHQ, how the COVID-19 pandemic impacted decisions throughout the acquisition and development process, and the importance of speed- to-market especially during this period of intense tenant demand.

Watch the video **here**.

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# Navigating the New Normal: Biomanufacturing Goes Local

 The pandemic has spared no industry. The life sciences industry knows this well and perhaps learned this lesson the hardest way during the pandemic when overseas supply shipments were delayed or, worse, when overseas manufacturing facilities were shut down because of government-mandated quarantines. Producing novel biologics is, unfortunately, not so easy to pick up and relocate, especially during a pandemic and even moreso when there are not enough domestic producers to begin with. As the life sciences industry continues to rapidly grow and mature in the U.S., life sciences clusters are growing and expanding into the next phase: biomanufacturing onsite and building their own self-sustaining supply operations. Learn more about the expansion of the domestic supply chain here.

Read the **full insight**.

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# An Underestimated Real Estate Asset Class in Germany

World affairs are currently clouded by the global COVID-19 pandemic. In a very short period of time, approximately 191 vaccine projects have been launched according to the World Health Organization (WHO). Among the countries with a particularly large number of projects, approximately twenty in total, is Germany. This already displays the role Germany holds in the global life science market. Germany is known for its established and leading life science companies such as Bayer and Merck, but there are a number of other German life science companies that show potential to establish themselves on the world market such as BioNTech and CureVec. Moreover, a new and constantly growing generation of start-up companies has emerged in Germany in the field of life sciences, constituting 8.5% of all German startups established in 2019. The life sciences field therefore makes up the third strongest growth area in the German start-up scene.

**Read the Alert >>**

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# Building Flexible (and Sustainable) Laboratory Spaces For The Future

Flexibility provides the greatest value in laboratory space design for both owners and users of life sciences real estate.  Science and technology are evolving at such a rapid pace that it is difficult to predict future needs. Bespoke spaces can become obsolete before they are even occupied.  Spaces that can easily adapt to changing needs not only support the science long-term, but they can provide the most sustainable solution as well.  Below we explore the various interests of investors, developers, owners, and users that must be considered; as well as how these concepts of flexibility and sustainability can be realized when creating a laboratory space.

**What Are The Owner/Developer/Landlord Considerations When Designing and Building a Lab Space?**

Owners and developers of real estate generally have to walk the fine line between seeking to attract maximum prospective tenant interest, through things like amenities and unique spaces, and creating the highest possible return on investment based on a projection of what the future holds.  Life sciences presents a unique opportunity and challenge to create a space design that can adapt to the market.

**What Are The End User/Tenant Considerations When Designing and Building a Lab Space?**

From a tenant or end user perspective, if a group cannot perform its science in a space, there is no point to leasing it.  It is also important to recognize that regardless of the tenant improvement

allowance packages being provided by landlords, the cost to develop a lab can often dwarf the numbers being provided by the landlord and require a significant capital investment by a tenant. Another reality for life sciences users is the necessity to lease for growth. Given how quickly life sciences companies can increase their employee counts, having to plan for exponential growth year over year means more square footage for say, a year or two, while a company grows into a space. If excess space can be programmed for uses from a collaboration space to a laboratory, it would provide the user with the largest amount of flexibility for a company's long-term needs, which are often an unknown when a lease is initially signed.

**How Does Technology Help in Integrating Flexibility Into Such Technical Spaces?**

Flexibility and adaptability can be easily achieved in lab spaces by implementing a strategic approach to design. Planning for the future through building systems, support spaces, and a flex zone will offer the greatest value for all project stakeholders. Flexible lab furniture will allow the tenant to maximize a building's potential. Building systems are typically the largest investment on a lab project, for every stakeholder. Mechanical Electrical and Plumbing (MEP) systems account for 30%-50% of total construction cost, and it is vastly more difficult and expensive to retrofit MEP systems than to build initially. Thus, it is critical to design building systems that can support the long-term evolution of a facility.

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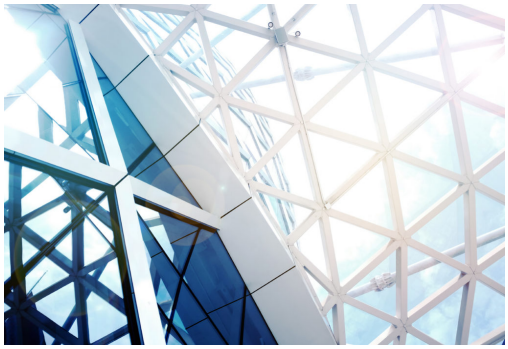
# Underwriting Life Sciences Companies: What Owners and Developers of Real Estate Should Think About When Entering the Life Sciences Market



The process of underwriting tenants can be complex at the best of times, even more so when you add the particular requirements of early stage and/or fast growing life sciences companies and a global pandemic into the equation. With that in mind, we have summarized a few of the key landlord considerations when underwriting life sciences tenants.

**Understanding the science (where possible)**

It is important to try both to understand the viability of a tenant's business/financial model and, where possible, to make an assessment of the value of their science. This allows landlords to better understand the background of a life sciences tenant and to seek to weed out, on their assessment of the strength or otherwise of their science, those which they consider may not have a sustainable

business plan. Knowledge obtained from this exercise can also afford landlords the opportunity to capitalize on gains to be made in early investment perspective into life sciences companies by sitting alongside venture capital investors.

**Understanding the source of capital**

Life sciences companies are typically only funded for the next stage or two of their development. Landlords will need to undertake careful due diligence to enable them to understand how a prospective tenant is financed: is it venture backed? Does it get its capital from a foreign parent? Does it rely entirely on the strength of its science or its reputation for its pipeline of fundraising? Or is it financed in some other way? The source of capital and the security or availability of future financial support can make a significant difference from a financial underwriting and .

**Protecting landlords from future financing difficulties**

Landlords should keep in mind the fact that most life sciences companies will run out of money only a few years (or even sooner) into a 7 – 10+ year lease term and so security deposits and future sources of capital are essential. Whilst parent guarantees from venture firms are pretty much unheard of, to the extent that there is another source of capital available, landlords should seek out upper tier entity guarantees wherever possible.

**Design considerations**

Life sciences companies can have complex requirements in terms of the fit out of their space, some will need a bespoke, fully operational, laboratory and given the innovative nature of their work they will often demand a very high specification in terms of the security of their premises.

A key landlord consideration when reviewing large tenant improvement or specification packages is to make sure that the design of the space is going to be useful for second generation tenants. As noted above, life sciences companies can run out of funding before termination of their lease and so a space which can be easily re-purposed will be leased again more quickly and will require less investment in terms of future specification. Consequently landlords are becoming much more involved in the planning, review and approval of design modifications to ensure that their property will remain attractive to a range of future tenants.

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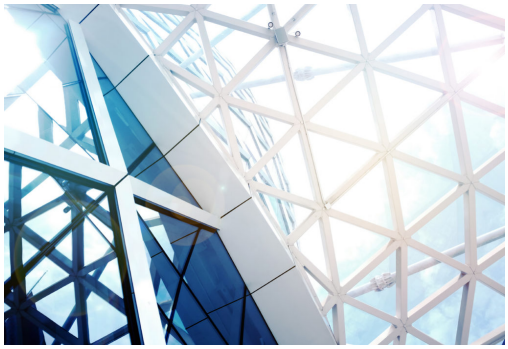
# Life Sciences Real Estate Clusters: US and UK Perspectives



**Life sciences real estate clusters**

Record investment in the life sciences sector has created geographic concentrations of interconnected life sciences companies and institutions, or "clusters," forming in key global locations, including the U.S. and the UK. The forming of clusters has been driven by a variety of factors, including a broad recognition that proximity between market participants can drive overall productivity. While it may seem paradoxical for a company to locate near its competitor, a deeper examination reveals that clustering creates synergies for all participants who can benefit from communal resources, regional trade, lobby and support groups, shared infrastructure and logistics channels, and a common regulatory and legal framework (and in some instances local tax incentives). In this way, life sciences real estate, or "**propsci**", is becoming more than just an operational decision for life sciences companies – it can provide a competitive advantage through strategic access to talent, funding, innovation, and shared resources. Not surprisingly, real estate investors are looking to capitalize on this trend, and we anticipate seeing a desire by a growing number of capital allocators, investors and developers to add propsci investments to their portfolios in key geographies.

**U.S. perspective**

The top 3 propsci clusters in the U.S. are (1) the San Francisco Bay Area, (2) Boston and (3) San Diego. These three markets have been the dominant clusters for life science companies and investors as well as for real estate.

Looking beyond the traditional "big-3" clusters, there are several secondary clusters that have attracted substantial capital and governmental investment and appear ripe for significant for more growth and in turn, propsci. Among these markets are places like Chicago, Philadelphia, New Jersey, and Baltimore. These locations share many of the same characteristics (and opportunities) as Boston, San Francisco and San Diego – well-regarded research universities, high-levels of private investment and governmental grants and a deep and growing talent pool to draw from.

**UK perspective**

In the UK, the "golden triangle" of London, Cambridge, Oxford, and surrounding areas is the most advanced of the life sciences clusters, where around 80% of all UK life sciences investment happens. This cluster is home to a diverse and large population consisting of academics, clinicians, leading universities, research centres, healthcare providers, innovative SMEs and startups, and large industry corporates, as well as fit for purpose real estate and infrastructure.

The golden triangle is followed by Edinburgh, Glasgow, Manchester and Nottingham, and more recently, Birmingham, Liverpool, Leeds and Newcastle, where there are also significant amounts of concentrated activity. These emerging destinations all have key ingredients for success – world renown universities in close proximity, great transport and infrastructure links, and a UK Government intent on investing to rebalance the UK economy in favour of regional locations.

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# Review of Joint Ventures in Life Sciences

# Real Estate Deals

The convergence of life sciences companies and traditional real estate developers has led to the emergence of an alternative real estate asset class known increasingly as "**PropSci**".

In this blog, we review:

1. features of the PropSci sector that make the joint venture ("JV") model attractive for market players; and
2. key terms that parties may wish to consider before embarking on a PropSci JV.

## Why pursue a JV model?

### Cost and scale

The high cost of building PropSci space (usually large-scale, mixed-use schemes sometimes including residential, retail and social spaces) means the ability to pool capital with partners in a JV is appealing.

### Shortage of expertise

PropSci requires a marriage of capital and expertise with each party having a particular role in the transaction/project, e.g., funding, asset management, market creation, etc. and there is a relative scarcity of recognized specialist real estate operators in this space.

### Public/private partnerships

There are numerous opportunities for private-sector players to partner with government and public sector bodies via public/private JVs as this is a key area of focus for government and public sector bodies (in the U.S., U.K. and E.U.).

## Which standard JV terms require a more nuanced approach for PropSci JVs?

### Transfer rights

In PropSci JVs, the operator's identity is critical to investors so the investor may wish to restrict any change of control/ownership of the operator or its exit from the venture. This may be further bolstered with "key person" protections. Conversely, the operator may wish to resist 100% ownership requirements and transfer prohibitions to give itself some flexibility.

### Control

In investor and operator PropSci JVs, operational control of the assets typically rests with the specialist operator with certain key decisions requiring unanimity.

**Default remedies**

Removal of a PropSci operator mid-stream (as a default remedy) may not be possible/desirable as the investor may not have the expertise to handle the PropSci operations. Accordingly, alternative default remedies should be considered. The Operator may also wish to consider default remedies in the event of a material default by the investor (e.g. a funding default).

**Exit**

The parties to PropSci JVs may have different expectations on hold periods for the underlying real estate and, accordingly, the JV arrangements between such parties will need to provide for exit mechanisms.

**Exclusivity**

In investor and operator PropSci JVs, the investor may desire exclusive access to the operator's PropSci investment pipeline. Conversely, the operator may push for freedom to pursue opportunities independent of the investor provided the relevant key persons are devoting sufficient business time to the JV and there being no conflicts of interest.

The features of the PropSci market lend themselves to JVs, which are familiar to most commercial real estate market players. However, it is worth noting the particular quirks of PropSci and considering the useful tools available to parties to address these nuances and align JV participants.