How BioMed Realty Insulates Itself From the Life Science Slowdown

Blackstone Development Arm Widens Bet on Demand for Research, Lab Space Despite Industry Pullback

BioMed Realty's Gateway of Pacific life science campus in South San Francisco, California, is set to span nearly 2.3 million square feet once completed. (CoStar)

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It's rare to find a full parking lot at any Bay Area office campus these days, but the level upon level of packed cars at BioMed Realty's Gateway of Pacific complex in South San Francisco, California, is proof it's no ordinary campus.

Spread across 36 acres of waterfront land, the multi-building property is a stark reminder of the kinds of activity offices drew before the pandemic. It was an era when employees for some of the biggest names in the life science industry headed to the campus cafeteria for lunch, walking along the property's network of trails or squeezing in a workout at the on-site fitness center that rivals a hotel spa.

"It's the largest concentrated life science campus under one ownership globally," Kevin Tremblay, BioMed's senior vice president of leasing for its California markets, told CoStar News during a visit to the campus. In the background, Rick Springfield played over the loudspeakers to motivate gym-goers taking one of the dozens of classes provided through a company the developer hired to run the health programs.

"The value of having the amenities on site means companies don't have to offer them themselves," Tremblay added. It's a "big benefit to help recruit and retain talent. This way nobody has to get in their car and leave campus. They can get everything here,"

Construction on Gateway of Pacific's fourth phase is underway and will add another roughly 320,000 square feet to the campus' expanse. (CoStar)

While economic uncertainty from higher interest rates and inflation have triggered a pullback in demand for research and development space across the country after more than a decade of a growth-at-any-cost mentality, life sciences companies are proving themselves willing to invest in space — as long as it's the right type.

In a manner similar to the flight to higher-quality buildings that have unfolded across the national office market, biotech giants and startups alike are chasing after space in the top slice of the lab real estate sector to take advantage of the newer space that has recently been added to major biotech hubs such as the San Francisco Bay area, Boston or San Diego.

For BioMed, a development affiliate of private equity conglomerate Blackstone, that's exactly what the firm has bet on all along.

When it comes to space at properties including Gateway of Pacific, "these are companies that are focused on things like finding a cure for cancer, so to work in premium space and have most everything taken care of, that's a big draw," Tremblay said.

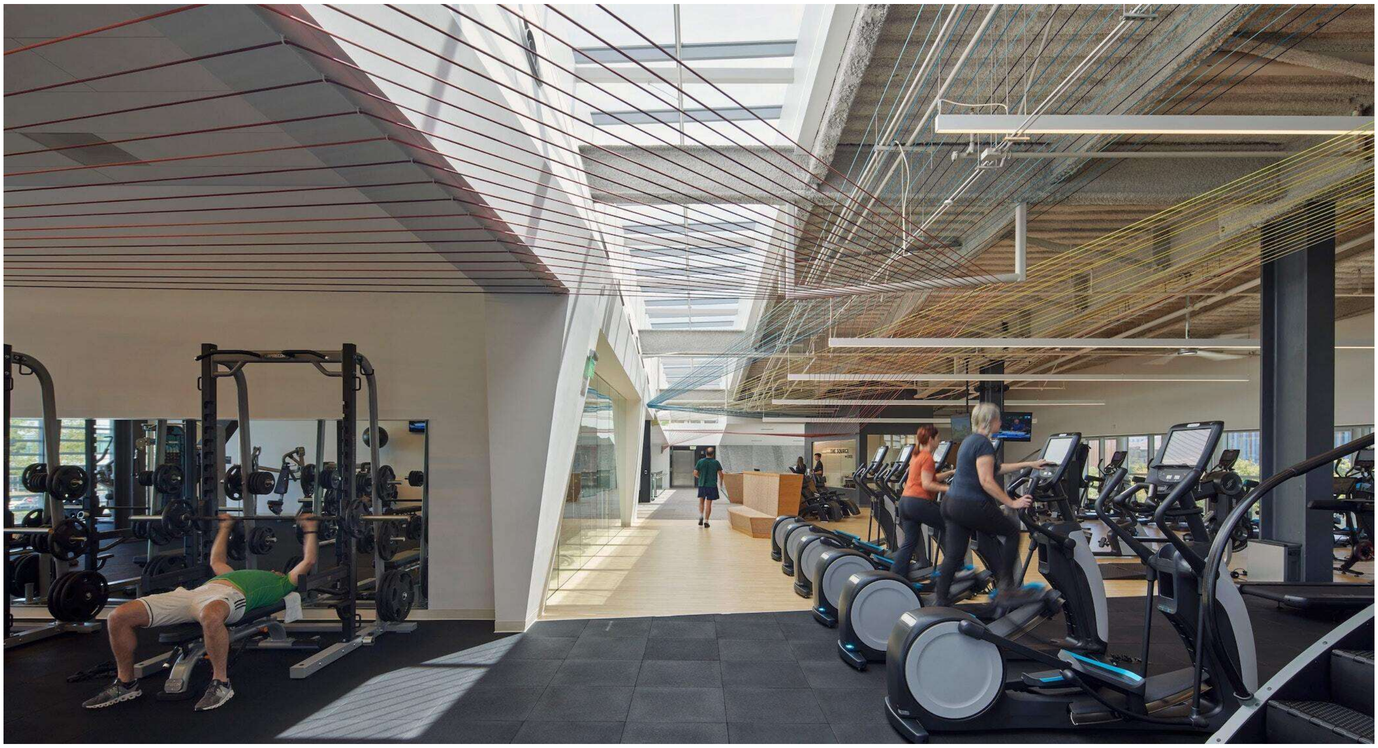
He added that "especially with new construction, you're designing from scratch to accommodate for life science, specifically. It's purpose built, whereas with repositions or conversions there are often some compromises that have to be made. Those projects are typically driven by budget, whereas this is more about what is best in class and how to make it dynamic. That's far more appealing to tenants, and a campus like this will perform better."

Long-Term Investment

A lot has changed in the six years since BioMed broke ground on the first of what will ultimately be Gateway's 13-building South San Francisco footprint.

Yet throughout all the seismic shifts in the macro-economic, political and social landscapes, the San Diego-based developer's all-in investment philosophy hasn't wavered.

"The beauty of the sector is that you have those multiple funding sources and multiple sources of demand," on Jon Bergschneider, president of BioMed's West Coast markets, told CoStar News. "Things have changed a little bit and some companies have pulled back, but once you get funded, you still need space. It's not as if cancer or the need to discover new drugs is going to go away."



Gateway of Pacific is designed to give tenants access to health and wellness options, including a high-end fitness center operated by a third-party partner. (BioMed Realty rendering)

And when they do shop for space, Bergschneider said, those companies are only interested in the highest-quality space.

That means a specialized build out with roster of on-site amenities such as fitness, food and beverage offerings, and event space; as well as a central location that makes it easy for employees to commute to the office.

"It's not like you can test drugs while working from home," Bergschneider said.

Since construction on the sprawling campus made it past the halfway mark at the beginning of the year, BioMed has landed a number of wins to underscore that its investment is already paying off. AbbVie signed up for 480,000 square feet in the first phase not long after it broke ground. Amgen and SmartLabs took 241,000 square feet and 140,000 square feet, respectively, in the second phase. Moderna signed a lease for about 35,500 square feet in phase three.

With leasing efforts underway for the third phase and construction already kicked off for the fourth, the Gateway campus is moving full steam toward its potential build out, which could include up to about 3 million square feet.

Lone Optimism

BioMed's willingness to plow ahead with its national development pipeline, which spans upward of 3.3 million square feet, is in stark contrast to other big-name life science investors who have adopted a more cautious approach to the industry's leasing slowdown.

New leasing for biotech space over the first four months of this year fell from the same time in 2022. Activity generated by new deals, excluding renewals, fell by more than 65% in popular biotech markets such as the San Francisco Bay Area and San Diego, according to CoStar data.

A wave of layoffs at companies such as Thermo Fisher Scientific and Genentech have also meant a rare burst of sublease listings have been added to the market. Combined with millions of square feet of space that was developed over the past year, life science developers have scattered.

"You saw some of the moves we made last year in South San Francisco, exiting a number of assets," Alexandria Real Estate Equities Chairman Joel Marcus told analysts on its most recent earnings call in April. "We passed on an option we had to do a development. And so we're being pretty darn cautious there, and you'll see that continue."

Alexandria Real Estate Equities and Prologis were planning to partner on a life science campus project in South San Francisco, California, before Alexandria pulled out of the project because of uncertainty in the biotech market. (ZGF rendering)

Boston Properties, one of the country's largest office landlords, is also tempering its enthusiasm for the life science market after pivoting the bulk of its development pipeline away from traditional office in the early years of the pandemic to capitalize on rising demand for research and lab space.

Life science tenants contribute about $226 million to Boston Properties' total annual revenue, or about 8%, president Doug Linde said when discussing its most recent earnings.

"The most dynamic and expanding reservoirs of demand over the last decade, technology and life science users, are now focused on profitability, cost reduction and capital preservation," the Boston Properties executive said. "Activity in the life science market continues to be slow across both greater Boston and South San Francisco, and there is new unleased space being added to the market. There are a few large requirements that are touring, but the bulk of the demand is from small private companies that are looking for fully built space."

Big Perk: Flexibility

Despite the slowing demand, BioMed's Bergschneider said the stable fundamentals of the biotech industry means any downturn will probably be short lived.

"Large pharma and biotech are still growing, and we've seen some large space requirements from that area," he said, looking out at the 12th-floor view of the newest addition to the Gateway campus, a building surrounded by cranes and active construction sites spearheaded by both Biotech and other firms.

Ideaya Biosciences, a cancer-focused biotechnology firm, recently signed a lease with DivcoWest at the developer's property in the Sierra Point life science cluster in South San Francisco, California. (CoStar)

"It has tempered a little bit, especially since not as many companies are guarding for expansion space, but what's been especially challenged is the middle area where public companies have had to pull back and weather the storm," he said. "We're seeing that middle area get a little softer, but the smaller-stage and larger-stage companies are still very active. That’s a trend we’re seeing across all the markets, so if we’re talking about Boulder, Seattle or Boston, I’d tell you something similar."

Yet even with some tenants pumping the brakes on expansion plans, the properties that ultimately prove successful in weathering the current downturn will not offer amenities, they'll also come with another major perk: plenty of room to grow.

Even with tens of thousands of square feet of tenant amenity space, Bergschneider said the biggest draw for tenants to sign deals at Gateway is the ability to expand within the campus.

And when it comes to benchmarks such as drug approvals or new funding rounds, "because of the investments required in this space, the terms are long and companies' growth can be exponential at times based on their milestones," he said.

He added that "companies can expand inside and they don’t have to leave. Part of why they come here is because they have that roadmap, and some will be in expansion mode and some will be in contraction mode. Either way, we have a variety of buildings and tenants that interlock with each other and perpetuate the growth."