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What's So Special About Life-Sciences Real Estate?

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The breakfast program tackled a growing and active segment of commercial real estate in the life-science industry.

SAN DIEGO—From legal considerations to zoning, permitting and other regulatory matters, the differences between traditional office and laboratory leases are vast, said speakers at the **Corky McMillin Center for Real Estate**'s recent breakfast event here. The program, titled "What Makes Life Sciences Real Estate Special?" tackled a growing and active segment of **commercial real estate** in the life-science industry.

Presenters included **Tracy Murphy**, regional VP, and **Marie Lewis**, VP for real estate legal, both from BioMed, a firm that develops, acquires, owns and operates offices and laboratory spaces for tenants in the life-science industry. The company was recently [acquired by Blackstone](#) for \$8 billion, becoming the second-largest privatization since **EOP**. BioMed holds a portfolio of 18 million square feet of rentable space worldwide, ranging from traditional **office** space to small lab spaces to state-of-the-art build-to-suit life-science properties.

The focus on the **life-science** industry was chosen due to the positive demographic trends, the aging population, rising **healthcare** costs, the demand for quality of life and, most importantly, the need for more efficient and effective treatments. These demands open the door to **capital investments** for life-science products and solutions, driving the need for laboratory space.

There are seven core US life-sciences markets that BioMed focuses on, including Boston, San Francisco, San Diego, Maryland, New York/New Jersey, Pennsylvania, Seattle and Cambridge UK. These markets emerged as primary hubs for **research-and-development** and production in the life-sciences industry. San Diego is the third largest hub, with four submarkets, 10% vacancy, a \$1-billion portfolio, 3 million square feet and it is 95% leased.

Murphy and Lewis spoke about the differences between office and laboratory leases that drive legal considerations, tenants' improvements, zoning, permitting and other regulatory matters. They spoke greatly about the operating considerations and hazardous materials. They also elaborated on the extension, assignment and subleasing, restoration, decommissioning and surrendering at the end of the lease term.

The life-sciences sector will continue to be a magnet for laboratory space in San Diego. As [GlobeSt.com recently reported](#), the trend to reshape San Diego's real estate and use it to spur on future scientific **innovation** will continue to grow during the next five to 10 years, **JLL VP Grant Schoneman** told us. The firm's recently released report on the [life-sciences](#) sector here revealed that after a strong 2014 that saw record **leasing** activity and healthy rent growth, 2015 continued to build on the momentum from the prior year with 1.7 million square feet of gross leasing activity, a 31%-increase from the five-year annual average. Transactions for new build-to-suit facilities have reached rents in the mid-\$4-per square-foot NNN range, a 10% to 15% increase from the end of 2014. Likewise, rates for second-generation class-A lab space have increased. Starting rents for deals signed at the end of 2015 ranged from the mid \$3 to low \$4 per square foot NNN, an increase of approximately 10% during the year.

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