

Life Sciences Challenged By Overbuilding

Since last year, both demand for lab space and funding have diminished.

By Philippa Maister

It may have been a spirit of "irrational exuberance" that sparked a surge of new construction and a flood of private investment in the life sciences following the Covid pandemic, but that surge is now being tempered by reality.

Former Fed chairman Alan Greenspan coined the phrase "irrational exuberance" to describe the risk of unduly escalated asset values during the dot-com bubble of the 1990s. A new report on office space by CommercialEdge suggests a similar pattern in the life sciences since 2020.

"It has become clear that developers over-responded to demand for lab space, leading to a supply glut in the sector," the report stated. "Breakthroughs in mRNA and CRISPR technologies, alongside record low interest rates, led to billions of dollars in funding from both private and public sources pouring into the life sciences sector. Developers rushed to respond, bringing millions of square feet to market in recent years through new developments and conversions of existing buildings."

According to the report, 33.5 million SF of lab space have been delivered since the start of 2020. An additional 26.4 million SF are now under construction, especially in traditional life science hubs. Since 2023, however, both demand for lab space and funding have diminished. "Although we're not yet seeing a negative absorption of life science space overall, the current demand simply doesn't keep pace with the growing level of supply," the report noted.

Lab space deals have plummeted. In 2022, 62 properties sold for a total of \$6.2 billion at an average of \$890 per SF. In 2023, that fell to 20 deals totaling \$1.8 billion at \$631 per SF. "In 2024, our database has logged just three sales of life science properties," the report stated.

Among the hubs experiencing the greatest challenges is Boston, where 10.1 million SF of new construction over the decade has increased the city's stock by 9.8% with a further 8.2 million SF under construction. In San Francisco, 6.2 million SF (11.1%) has been added and 4.6 million SF are in the pipeline, and in San Diego, 3.3 million SF (12.5%) has been built and 2.5 million SF more is on the way.

Vacancy rates have also risen steeply in these hubs. In the Bay area, they leaped by 550 basis points since August 2023. Boston saw a 540 basis point rise, San Francisco 440 basis points, and San Diego 310 basis points.

According to CommercialEdge, 1QHQ's \$1.6 billion, 1.7 million SF Research and Development District in downtown San Diego – described on the life science firm's as "an iconic life science district" with lab/office/retail space – will open with no biotech tenants. The report also noted accounts of "frustrated office owners" marketing empty life science spaces for general use, at lower rates.

In time, however, there may be a silver lining. "Unlike traditional office space, the long-term fundamentals for life sciences remain solid," commented CommercialEdge director Peter Kolaczynski. "We expect life sciences to remain one of the strongest sub-use types in the office sector over the long run. Most life science work remains immune to remote and hybrid work, requiring carefully controlled physical spaces, and venture capital funding in the sector should pick up again as interest rates begin to come down."

Top Listings by Metro Area: August 2024

Market	Aug-24 Listing Rates	12 Month Change	Total Vacancy	12 Month Change	Top Listing	Price Per Sq Ft
National	\$32.78	2.7%	19.4%	200 bps		
Boston	\$53.25	15.4%	15.9%	540 bps	137 Newbury Street	\$96.17
Orlando	\$28.01	15.2%	16.8%	20 bps	801 North Orange Avenue	\$34.00
Dallas	\$31.04	13.4%	22.9%	430 bps	McKinney & Olive	\$86.31
Miami	\$51.25	11.1%	14.1%	80 bps	701 Brickell	\$140.00
Atlanta	\$33.80	9.0%	21.3%	260 bps	1180 Peachtree	\$63.00
Austin	\$45.84	7.0%	27.8%	660 bps	Indeed Tower	\$84.21
Philadelphia	\$32.78	6.6%	17.7%	350 bps	Two Liberty Place	\$53.50
Tampa	\$29.93	6.4%	14.7%	30 bps	Bayshore Place	\$52.00
Washington DC	\$41.60	3.0%	17.0%	170 bps	500 8th Street NW	\$79.58
Charlotte	\$33.43	2.6%	18.6%	310 bps	Morehead Place	\$46.00
San Francisco	\$66.93	2.3%	27.6%	440 bps	Sand Hill Commons	\$204.00
Los Angeles	\$42.94	2.2%	16.7%	100 bps	100 Wilshire	\$108.00
Detroit	\$21.92	1.8%	24.0%	-80 bps	Orchestra Place	\$36.14
Bay Area	\$54.43	1.4%	24.8%	550 bps	245 Lytton Avenue	\$147.48

Source: Source: CommercialEdge. Data as of August 2024. Listing rates are full-service or "full-service equivalent" rates for spaces available as of report period. National listing rate is an average of all markets.