

What Goes Around, Comes Around: Life Sciences Bringing Old Buildings Back

By Patrick Sisson

Six years ago, when Ancora CEO Josh Parker first visited the Electric Works site in Fort Wayne, Indiana, a former General Electric industrial campus that had once employed 20,000 people, city leaders discussed demolition, turning the plant into a greenfield site ripe for redevelopment.

Parker couldn't stress how much they needed to hit the brakes. Boasting 1M SF of buildings over 40 acres, the campus was a prime example of a historic asset that could be repurposed and reinvigorated as a community hub for life sciences and innovation, bringing back jobs and cutting replacement costs.

Fast-forward to today, and Phase 1 of the reincarnated campus, the \$286M adaptive reuse of 10 buildings on 12 acres, is ready for its unveiling, demonstrating how century-old symbols of an industrial economy can transform into anchors for innovation. Tenants like Parkview Health Systems have started moving into the space.

"When we started construction, the very act of opening up all the windows and putting in new glass started to send a message that this place was alive and active," Parker said. "The idea of people driving by something dead and decaying, that they knew was fundamental to the area's economy, and seeing that repurposed, is crucial."

The Electric Works redevelopment is one of many adaptive reuse projects across the nation tapping into life sciences as an engine for economic growth and an anchor for larger mixed-use developments.

Building conversions are common for life sciences companies, especially in urban markets where top-tier universities sit near older manufacturing sites. But recent shifts in the economics of lab development, expansion of the industry to smaller markets and the pressing demand for lab space has made former retail, industrial and manufacturing sites key for larger life sciences development.

It can be more cost-effective to transform former factory or manufacturing sites, with plenty of egress and transit access, into in-demand biomanufacturing sites.

"Adaptive reuse has become a hot topic lately," said Wexford Science & Technology Executive Vice President Thomas Osha, whose firm has long focused on innovation centers, including renovating older buildings. "The lack of space means folks are looking anew at different asset classes for reuse."

That's especially true in secondary and tertiary markets like Fort Wayne, which benefit from the faster time to market and lower costs that come with renovation versus ground-up construction.

They also tend to have older building stock, which in primary markets has been a common demolition target in recent decades, making way for redevelopment.

Developing these kinds of unique spaces helps solve the capital question, and it can serve as a recruiting tool by offering something above and beyond a typical lab space, Parker said. As interest rates creep up and qualified talent becomes harder to find, both of these elements are crucial for life sciences companies and the developers that seek to house them.

Cost savings is the main driver behind a wave of conversion happening in Houston, where redevelopment is coming to serve up the kind of mid-tier space that is affordable for growing startups, Transwestern Executive Managing Director of Healthcare & Life Sciences Advisory Services Justin Brasell said.

Houston is also home to large-scale, ground-up, Class-A development, like the massive TMC3 project, but conversions are an important piece of the puzzle. TMC itself began converting 60K SF of a former Nabisco plant into wet lab space earlier this year.

“Houston needs functional space that is move-in ready, and they need it now, and they don't want to pay top-of-market rents,” Brasell said. “The challenge historically in Houston has been getting traditional building owners that have product in Houston to buy into the conversion costs and risk profile.”

Examples of biotech-focused adaptive reuse can be found across the country. In California, downtown San Diego's Horton Plaza Mall will be converted into Campus at Horton, a 1M SF urban campus with 40% of the office space turned over to life sciences tenants, Alexandria Real Estate Equities plans to convert a San Bruno mall into a biotech megacampus and Los Angeles has seen a spate of industrial-to-life sciences conversions. Lord & Taylor locations across Massachusetts are being turned into biotech centers and Pittsburgh's Assembly, a Ford plant turned into an innovation and life sciences center by Wexford, recently opened.

In addition to taking advantage of the Federal Historic Tax Credit, which provides incentives to restore existing structures, retail spaces are often good conversion candidates and may be struggling to find tenants. This is in stark comparison to office spaces, often spoken of as potential conversion candidates, but which, due to lower ceiling heights, multiple stories and urban locations, present more challenges for life sciences renovations.

“[Certain mall landlords] aren't making a lot of money off the land, and the stores are vacant, so why wouldn't they do that?” Cushman & Wakefield Managing Director Eric Giles said. “Most of them are single floor, so it's a low cost, high gain for them.”

These kinds of projects don't typically attract the big-name biotech firms, Giles said, rather the small to midsized startups. Their demand for cheaper workspaces has been the driving force for these kinds of conversions.

He's also seeing the growth of cell and gene therapy adding to this kind of demand as opposed to more traditional pharma firms that would centralize research and production around a single lab, and plant, cell and gene therapy firms that tend to seek multiple locations and numerous strategic hubs across the country.

Parker says it is important for developers to better understand the community and regional economy when diving into adaptive reuse projects and adjust the tenant mix in response. Electric Works combines innovation space, retail, restaurants and life sciences, but has a smaller focus on the latter, due to the size and needs of the local biotech sector.

"We fall into the trap sometimes in the real estate industry of getting excited about a particular asset class, and then everybody just starts building that everywhere," he said.

Parker sees the Electric Works project as part of "leveling up" the local economy through investment in a science and innovation ecosystem. Like many such renovation projects, the older, often single-story buildings offer excellent floor plates, high ceilings and plenty of dock and elevator access for new lab space. The multi-use aspect of the larger development, and the transit connectivity of the campus, also make it an ideal tool to attract employees, who gain access to retail and restaurant options while at work.

Wexford's Osha cautions that the building's connection to the surrounding neighborhood fabric is also key. Numerous Wexford projects succeeded, in part, by having the right location to create density and interact with surrounding buildings. He worries that some mall conversions, for instance, might not always be the best in terms of wider placemaking efforts.

It's also important for developers to understand the demand, since the significant capital investments for life sciences conversion are akin to "jumping off a cliff," Transwestern's Brasell said. Adaptive reuse can save versus ground up, but it's still capital intensive, and very specialized, unlike industrial conversions and projects, which are easier to tweak to meet the needs of changing tenants.

"It's easy in these projects to get past the point of no return," Brasell said.

Osha agrees. While the temptation may be there to convert buildings that aren't ideal candidates, he believes they will reveal themselves to be poor investments over the long term, even during a supply crunch.

"Quality of the space is always an important factor," he said. "Some of the spaces getting