

Last updated: September 19, 2008 05:45pm

Life Sciences Remains Lively in Downturn

By Bob Howard

PASADENA, CA-Locally based Alexandria Real Estate Equities Inc. reported what CEO Joel Marcus termed a "superbly solid quarter, in a highly uncertain and financially challenging macro environment" when the REIT conducted its latest earnings conference call. Alexandria reported higher FFO and improved results in virtually all of the categories that measure REIT performance--something that would not have seemed unusual a year or so ago when office REITs of every stripe were riding high on a cresting economy.

In view of current economic and office market conditions, however, the results of companies like Alexandria that specialize in life sciences space demonstrate that they dwell in a different realm from those that operate in the general office space arena. Demand continues to climb and construction continues to grow in the life sciences realm, as illustrated by a [GlobeSt.com report recently](#) that outlined the plans for a 60,000-sf Biomedical Research Laboratories and Community Sciences complex at the University of Texas at Brownsville. The \$33-million project will be the launching point for the university's life science and research zone, just one of a host of life sciences projects under way or planned around the country despite the overall slowing of construction nationwide of general office space.

Other examples of new construction include a 100,000-sf build-to-suit project with an option to expand by 50,000 sf that the New York City-based pharmaceutical giant Pfizer Inc. has agreed to lease from Alexandria. The Pasadena, CA-based REIT is developing the new space in San Francisco, which claims the country's largest concentration of life sciences space. The life sciences facilities in or near the city by the bay include high-profile corporate campuses like locally based Genentech Inc. and Amgen Inc. of Thousand Oaks, CA, both of which occupy San Francisco area laboratory and office space owned by Health Care Property Investors, a Long Beach, CA-based REIT that spent \$2.9 billion last year to acquire a portfolio of properties including the Genentech and Amgen campuses.

Demand for life sciences space continues to grow in the San Francisco Bay Area, the quarterly results from Alexandria suggest. CEO Marcus cited an increase from 96.9% occupancy to 97.6% for the second quarter--a small increase, but welcome news in an environment in which general office REITs are struggling to maintain their occupancies. Alexandria also reported an uptick in its Eastern Massachusetts portfolio from 96.6% to 97% and an increase in its Southeast properties from 89.5% to 94.2%.

The factors driving the life sciences office market include the growth of the pharmaceutical and biotech industries, which are expanding in part to develop new drugs and treatments for an aging American population, along with overall consumer demand for improved healthcare. Experts say this demand is not tied to job growth and the overall US economy in the same way that demand for general office space relies on a strong economy and steady job growth.

Despite the factors that set it apart, the life sciences office market is not without its challenges. A recent report from CB Richard Ellis, for example, points out that development costs for life sciences space far exceed those for general office space. In addition, life sciences projects rank

among the most complex to develop.

Despite whatever challenges the industry may face, Alexandria sees significant potential for growth in the development of life sciences office space. The company already owns 160 properties, totaling about 11.7 million rentable sf, and it is under way on ground-up development of nearly 1.6 million sf. In addition, the company's executive team forecasts it has the potential to grow to approximately 22.4 million sf through future ground-up development.

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