

The Daily Dispatch

Weekly Special Feature

June 04, 2021

The \$10 Billion Bright Spot in the Battered World of Office Real Estate

By: John Gittelsohn.— Bloomberg (*Published on June 2, 2021*)



Photographer: Dhiraj Singh/Bloomberg

Even as the remote-work era clouds the future for offices, one segment of the business is drawing cash from investors including Blackstone Group Inc. and KKR & Co.

More than \$10 billion has gone toward buying buildings used for life sciences and other research this year, according to Real Capital Analytics Inc. That accounted for approximately 4% of all global commercial real estate transactions through May, double the share from last year.

That estimate doesn't count new construction, and fresh buildings are breaking ground in U.S. cities including Boston, San Diego and San Francisco -- many without having signed major tenants. Unlike workers in conventional offices, many scientists don't work remotely. And as vaccines help fuel the economic rebound, funding for medical innovations is expected to drive the need for more space, particularly in the U.S. and U.K.

"The pandemic only amplified the demand growth, but it's a trend we think will continue for years," Nadeem Meghji, Blackstone's head of real estate Americas, said in an interview. "This is about, broadly, advances in drug discovery, advances in biology and a greater need given an aging population."

Last year, as social-distancing emptied out office buildings and dampened investor interest in malls and hotels, life science

building sales and refinancing totaled about \$25 billion, up from roughly \$9 billion in 2019, according to Eastdil Secured. Blackstone, a veteran investor in the sector, booked a \$6.5 billion profit from refinancing BioMed Realty Trust, the largest private owner of life-science office buildings in the U.S. It also agreed in December to buy a portfolio of lab buildings for \$3.4 billion.

KKR paid about \$1.1 billion in March for a San Francisco office complex it plans to repurpose for life science tenants. Dropbox Inc. had rented the entire site in 2017, but gave up the space so employees could work remotely. In one high-profile U.K. example, a science campus is planned for a Canary Wharf site once slated as the London headquarters for Deutsche Bank AG. Overall, the U.K. life sciences market saw a 166% increase in the volume of transactions in the last three years, according to real-estate services firm Jones Lang LaSalle Inc.



People relax in Greenwich Park in view of the Canary Wharf business, shopping and financial district in London. Photographer: Jason Alden

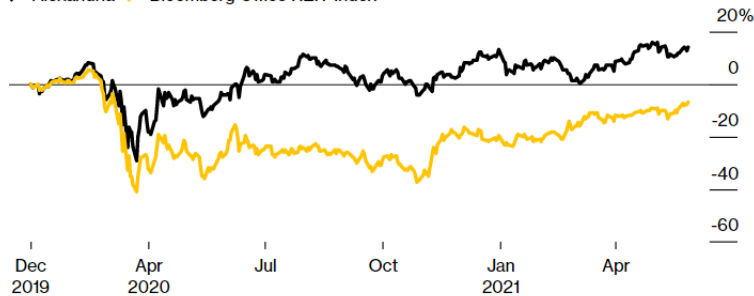
Even before the pandemic, life science property was on the upswing. Over the last five years, asking rents for such space soared 90% in the San Francisco Bay Area compared with 20% for conventional office space, according to commercial property brokerage Newmark. In Boston, which along with nearby Cambridge is an epicenter of the industry in the U.S., asking rents climbed three times as fast.

The Daily Dispatch

Labs Lead

Life sciences specialist Alexandria outgained office REITs through Covid-19

▲ Alexandria ▲ Bloomberg Office REIT Index



Source: Bloomberg Data

Investors see the higher rents translating into higher property values, which explains why construction projects are moving ahead without tenants lined up. Among the biggest spec builders is IQHQ, a startup that raised \$2.6 billion last year to develop laboratory buildings that are breaking ground without signed leases. In April, the firm launched construction of Fenway Center, a \$1 billion complex on a platform above Boston's Interstate 90 with a rooftop view of the famed Red Sox ballpark. The firm isn't concerned about filling up the space, according to President Tracy Murphy.

"We build spec, but we don't build blind," Murphy said in an interview from San Diego, where her firm is pouring concrete for a 1.6 million-square-foot waterfront lab complex. "I don't see any end in sight for money coming in."



Fenway Center is \$1 billion two-tower project near Boston Red Sox Fenway Park *Source: IQHQ*

Harrison Street, a Chicago-based alternative real asset investor, has about \$2.6 billion invested in lab properties and wants to double that over the next 24 months, Chief

Executive Officer Christopher Merrill said in an interview. Alexandria Real Estate Equities Inc., the largest life sciences real estate investment trust, also has big expansion plans.

In January, it paid \$1.5 billion for a project in Boston's Fenway neighborhood. The company has 4 million square feet of space under construction -- about 1 million of which still hasn't been leased.



RaDD (Research and Development District) is a 1.6 million-square-foot San Diego waterfront five-building project, which broke ground in 2020. *Source: IQHQ*

As investors clamor to break ground, there's a risk of an oversupply of space, said Jeffrey Langbaum, an analyst with Bloomberg Intelligence. Another hazard for developers is that lab space construction can cost as much as 15% more than conventional offices. Science buildings require stronger structures and higher ceilings to accommodate features such as enhanced air filtration. That limits potential other uses for the property if health-industry tenants don't materialize.

Lab buildings are trading for capitalization rates, a measure of returns for investors, of less than 4%, which is lower than apartment buildings or industrial properties. There's been cap rate "compression" over the last year amid a surge in investor capital flowing into the sector, according to Sarah Lagosh, managing director in the Boston office of Eastdil.

The recovery of traditional offices is expected to take time as companies call employees back over the next few months. Even then, many firms have said they'll let people stay home at least part of the time. That's raised concerns

The Daily Dispatch

about the future of downtown skyscrapers, while Covid-19 has added to the momentum for life sciences properties.

“The pandemic has pushed life sciences into warp speed,” said Jonathan Varholak, who runs the life sciences team in the Boston office of the real estate firm CBRE. “You can’t do chemistry from home.”

Source: John Gittelsohn (2021) ‘The \$10 Billion Bright Spot in the Battered World of Office Real Estate,’ *Bloomberg*.

Available at

<https://www.bloomberg.com/news/features/2021-06-02/blackstone-kkr-new-investment-in-commercial-real-estate-starts-with-science> (Accessed 3 June 2021)

The Daily Dispatch

June 04, 2021
TODAY'S TOP NEWS

Q1 foreign investment pledges fall

THE Philippines saw approved foreign investments decline by nearly a third in the first quarter due to uncertainty over the coronavirus pandemic. Foreign investment pledges slumped by 32.9% year on year to P19.55 billion during the first three months of 2021 from P29.14 billion recorded in the same period last year.

ABS-CBN, lenders reach 'standstill' deal

ABS-CBN Corp. on Thursday said that it had reached a standstill agreement with its existing lenders. The company said the effective date of the standstill agreement is May 31. To recall, the media company said in July last year that it was in talks with its creditor banks on its long-term debts.

Converge invests \$4.84M in Digital Crossing

Listed fiber broadband provider Converge ICT Solutions, Inc. announced that it had acquired shares in cable landing stations operator Digital Crossing, Inc. and Asia Netcom Philippines Corp. that owns the land assets where the East Asia Crossing (EAC) cable landing is located for \$4.84 million and \$2.66 million, respectively.

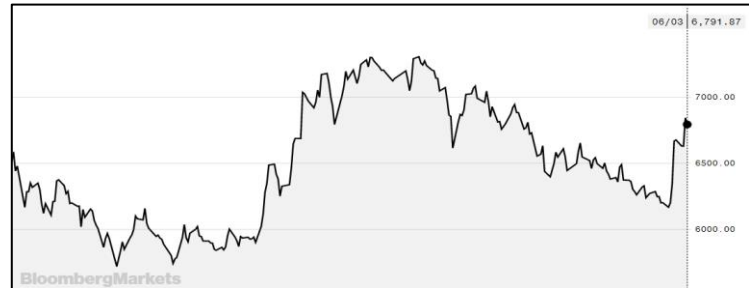
Smashburger opens in Brooklyn

Smashburger has opened a store in Brooklyn, New York's Kings Highway, marking the US expansion of the burger restaurant owned by Jollibee Foods Corp. Jollibee said the Brooklyn store opening is said to be the brand's biggest launch, exceeding sales and profit targets.

Cosco Capital settles P4-B corporate notes

LUCIO L. Co's Cosco Capital, Inc. said that it had paid its P4-billion seven-year corporate notes to its creditors. They had settled its loan with the following: Land Bank of the Philippines, Rizal Commercial Banking Corp., Maybank Philippines, Inc., Robinsons Bank Corp., Security Bank Corp., and United Coconut Planters Bank.

Philippine Stock Market Update



Previous Close:

6,791.87

Open:

6,789.03

52-Week Range:

5,691.74 - 7,432.40

1 Yr Return:

6.03%

YTD Return:

-4.71%

Source:

Bloomberg

Foreign Exchange

As of June 3, 2021

US Dollar	Philippine Peso
1	47.83

BVAL Reference Rates

As of June 3, 2021

Tenor	Rate
1Y	1.760
3Y	2.499
5Y	3.178
7Y	3.675
10Y	4.026
20Y	4.973

Daily Quote

Don't judge each day by the harvest you reap
but by the seeds that you plant.

--Robert Louis Stevenson

The Daily Dispatch

MORE LOCAL NEWS

Haus Talk bares IPO plans

Haus Talk Inc., a residential real estate developer, plans to go public this year to raise funds for expansion. Short term plans focus on three key strategic areas – focusing on pipeline projects, growing the economic housing brand and property management and construction.

BPI microfinance arm pushes digital platform

The microfinance arm of the Bank of the Philippine Islands (BPI) continues to reach out to its self-employed microentrepreneur (SEME) clients, urging them to go digital in conducting financial transactions amid the ongoing global health crisis.

Macquarie, SunAsia to develop solar plants

A portfolio company of Macquarie's Green Investment Group has teamed up with local solar developer SunAsia Energy Inc. to develop 1.25 gigawatts (GW) of solar projects in Luzon.

Cap on banks' forex deals raised

BSP Governor Benjamin Diokno said in his weekly press conference that the Monetary Board (MB) approved an increase in the net open foreign exchange position (NOP) limit for banks, which recognizes the increased demand for foreign exchange arising from the growth in the volume of underlying trade transactions and investments.

BSP to launch commercial property price index

In his weekly press conference, BSP Governor Benjamin Diokno said the central bank is releasing the Commercial Property Price Index (CPPI) within the year to complement the Residential Real Estate Price Index (RREPI) launched in the first quarter of 2016.

Govt debt surges to new all-time high

The government's outstanding debt reached a new record high of P10.99 trillion at the end of April due to increased domestic and external obligations, according to the Bureau of the Treasury (BTr). Treasury data showed on Thursday that the figure was up 2 percent, or P217.48 billion, from P10.77 trillion at the end of March.

WB okays \$300-M disaster loan

The World Bank on Thursday approved a \$300-million loan to enhance the safety and resilience of selected public buildings in Metro Manila. The amount will also be used to strengthen the capacity of the Department of Public Works and Highways (DPWH) to prepare for and respond to emergencies.

SMIC completes takeover of 2GO with 52.85% stake

Conglomerate SM Investments Corp. said Thursday it completed the acquisition of a controlling stake in transportation and logistics firm 2Go Group Inc. SMIC said in a disclosure to the stock exchange it acquired 550,558 million common shares in 2GO from Chelsea Logistics and Infrastructure Holdings Corp. of businessman Dennis Uy.

SBS sells Lence to Royal Cargo

SBS Philippines Corp., a chemical trader led by the Sytengco Group, announced on Thursday the disposal of its 65-percent stake in Lence Holdings Corp., a company that has warehouse facilities in the southern part of Metro Manila for P585.03 million.

BSP hikes net open FX limit

BANGKO Sentral ng Pilipinas Governor Benjamin E. Diokno announced on Thursday that they are increasing the net open foreign exchange (FX) position (NOP) limit for banks to respond to rising dollar demands.

The Daily Dispatch

TODAY'S TOP ASIAN NEWS

Garuda Indonesia to seek suspension of debt payments

National flag carrier Garuda Indonesia will seek a suspension of debt payments to creditors and lessors under a "standstill agreement" in order to avoid bankruptcy, a senior government official said on Thursday.

Ant Group said to be building gov't relations team

Facing scrutiny at home, billionaire Jack Ma's Ant Group is building a team to burnish its reputation with policymakers in the Asian markets on which its international ambitions hinge.

CFM to take 51% stake in firm selling pharma products

CFM Holdings has entered into a sale and purchase agreement to acquire a 51 per cent stake in Sing-SWE MM Biotechnology, a company that distributes and sells pharmaceutical products, for up to \$6.1 million.

China's service activity growth slowed in May

China's service sector expansion slowed last month, a private sector survey showed on Thursday (June 3), with weaker overseas demand and increased costs putting pressure on businesses.

BMW to build 360,000 EV charging sites in China

BMW AG plans to build 360,000 electric-vehicle charging sites in China this year, as the German automaker steps up its efforts to capture a larger slice of the world's biggest EV market.

TODAY'S TOP GLOBAL NEWS

Global home prices rise most since 2006

Housing prices worldwide are rising the most since before the global financial crisis, following a market frenzy seen in places from New Zealand to Canada to Singapore during the Covid-19 pandemic.

Facebook pitches new tools for businesses

FACEBOOK executives used the company's annual developer conference to tout new tools for businesses to power the future of digital commerce.

Toyota may move EV production to US

TOYOTA Motor may shift electric-vehicle production to the United States if demand continues to grow, a top executive said, the latest sign that the Japanese carmaker is joining peers in embracing the technology.

Bristol-Myers sued for \$6.4b over delayed cancer drug

Bristol Myers Squibb Co (BMY.N) was sued for \$6.4 billion on Thursday for allegedly delaying its Breyanzi cancer drug to avoid payments to shareholders of the former Celgene Corp, which the drugmaker bought in 2019.

Goldman Sachs expecting increase in mergers

Goldman Sachs Group Inc (GS.N) President John Waldron said on Thursday that the bank expects a ramp-up in corporate mergers in the United States, because company executives are feeling more optimistic about the economy.