Back in mid-March, at the outset of stay-at-home orders across the country, we identified five key areas where we projected impacts to the Life Sciences Real Estate Sector from the SARS-CoV-2 virus and the local, state and national response to the pandemic. Three months later, as we approach the end of the second quarter of 2020, we have increased clarity about the impacts of SARS-CoV-2. The areas we addressed in March were lab productivity, expansion plans, development of new facilities, supply chain, the funding ecosystem and the regulatory process.

At the macro level, most of our observations today are consistent with what we reported in March. If anything, the Life Sciences sector has recovered from the shock and accelerated more quickly than anticipated. In addition, over the three months that have ensued, new themes have developed that provide a more nuanced outlook on the impacts to the Life Sciences sector that will play out over the remainder of the year and beyond. Of course, as we are writing this, stay-at-home and business operations directives are being relaxed across the country. There is uncertainty about whether the measures going forward will contain the spread of the virus because of inconsistent messaging and unpredictable public compliance to CDC and governmental direction.

Lab productivity was slowed but is recovering. COVID-related investigations are on a fast track.

As we highlighted in March, those companies focused on COVID-related treatments, vaccines, testing and prevention have accelerated their R&D activity while using measures like staggered shifts to address density and safety issues. In addition, over the past six weeks, we noted there are many companies that have identified COVID applications for their core or secondary investigations, and have redirected their efforts to contribute to broader public health solutions related to testing, vaccination and treatment for the SARS-CoV-2 virus. In many cases, this pivot to COVID-related initiatives has increased the activity, staffing and demand for lab space. While lab activity and productivity has recovered significantly from the initial shock, PPE remains a challenge as a result of redirected inventory to hospitals and COVID-related work. Finally, many non-COVID development initiatives have slowed because of delayed timelines for clinical trials resulting from greater challenges to secure volunteers and complications with necessary hospital visits that were considered non-essential when COVID cases spiked. As the number of critical COVID cases have leveled off in specific geographies and hospitals have been cleared to begin elective procedures, clinical trial activity for non-COVID therapies will restart.
The COVID spotlight has invigorated Life Sciences investment from many sources.

Back in March, we suggested that investment in Life Sciences might slow briefly and then accelerate over time. Three months appears to be more than enough time for the focus on and investment in Life Sciences to have accelerated quickly. With 24/7 coverage on the race for a vaccine, widespread testing and antibody testing, the Life Sciences have consistently been headline news. We have seen a significant increase in inquiries from investors, developers, lenders and private equity seeking to better understand the Life Sciences sector and more specifically the Philadelphia Life Sciences cluster.

Despite early and ongoing concerns about social distancing and a safe work environment, demand and activity at incubators and shared lab facilities continues to be strong with an active pipeline of prospective companies. Operators have responded quickly to the safety and support needs of their resident companies by providing operational protocols, necessary PPE and sanitization supplies, safe separation strategies and regularly scheduled communications and community conferences.

"We have seen a significant increase in inquiries from investors, developers, lenders and private equity seeking to better understand the Life Sciences sector and more specifically the Philadelphia Life Sciences cluster."

Expansion requirements are back on pace, even exceeding pre-COVID levels.

After the initial shock that caused drug development companies to restrict all non-critical activities and attempt to forecast what the new rules of engagement would be, these companies have begun to formulate for the new “normal.” In the weeks that have passed, they have a better understanding of both best- and worst-case scenarios and have returned their attention to achieving their timelines for developing therapies. This is evidenced by the reinvigorated pipeline of active requirements for new lab space lab building owners are seeing and the recent announcements of executed leases. Two weeks ago, Century Therapeutics announced the execution of a full floor lease in Philadelphia’s University City. In addition, Spark Therapeutics has executed leases for more than 120,000 SF in two locations near their HQ/R&D facility adjacent to Philadelphia’s 30th Street Station. Both leases were concluded since the initial response to the SARS-CoV-2 pandemic.

Despite early and ongoing concerns about social distancing and a safe work environment, demand and activity at incubators and shared lab facilities continues to be strong with an active pipeline of prospective companies. Operators have responded quickly to the safety and support needs of their resident companies by providing operational protocols, necessary PPE and sanitization supplies, safe separation strategies and regularly scheduled communications and community conferences.

As a result of uncertainty around SARS-CoV-2, direct investment in the Life Sciences has recovered quickly. Since the end of May, more than $450 million has been raised in Philadelphia alone by five drug development companies for non-COVID related projects. These funds will be directed toward clinical trials or commercial advancement of new therapies.

At the same time, investment in COVID-related R&D has rapidly accelerated overall investment in the Life Sciences. Companies pursuing vaccines and treatments have raised significant funding from a wide range of sources. The most notable has been the Trump Administration’s Operation Warp Speed program to deliver a safe, effective and widely available vaccine for the SARS-CoV-2 virus by 2021. The Biomedical Advanced Research and Development Authority (BARDA), part of Health & Human Services, is supporting four vaccine candidates, including up to $1.2 billion in a public private partnership with AstraZeneca. In addition, BARDA is supporting 7 treatments and 17 diagnostic tests to control and contain the SARS-CoV-2 virus. In April, Plymouth Meeting, PA-based Inovio Pharmaceuticals was cleared by the FDA to begin human testing for its vaccine product INO-4800. Following this announcement, Inovio has received grants from The Gates Foundation and The Coalition for Epidemic Preparedness Innovations.
Supply chain concerns continue, and both public and private sectors are focused on solutions.

The concern about supply chain vulnerability for critical consumables in drug development, fulfillment of patient prescriptions and PPE continues to be top of mind for industry leaders, Congress and the Administration. Numerous bills have been introduced to support the expansion and diversification of U.S. supply chain and encourage investment and development of domestic raw material, consumables and API manufacturing capacity in the U.S. This “reshoring” initiative has broad bipartisan support but there has not been consensus on the structuring of incentives to U.S. companies for such expansion. Further, there are complications as it relates to the broader trade issues related to China. Many U.S.-based drug development companies acknowledge the risks associated with reliance on offshore supply chain, CROs and CDMOs but cite the cost savings and efficiencies as the reason for continued outsourcing to China.

At the same time, we are seeing an uptick in requests from CDMOs seeking new facilities on the East Coast in response to this reshoring initiative and the growing demand from emerging drug development companies for small scale manufacturing closer to their R&D labs. While this expansion has been slow to develop, we anticipate several announcements in the coming months signaling that these concerns about supply chain are being addressed.

The FDA has retooled procedures to accelerate the trial and approval process.

In response to the SARS-CoV-2 pandemic, the FDA initiated the Coronavirus Treatment Acceleration Program (CTAP) to move new treatments to patients as rapidly, efficiently and safely as possible. This signals the movement from the FDA that we anticipated back in March. As of May 11, the FDA is tracking 144 active trials of therapeutic agents and 457 development programs for therapeutic agents in the planning stages. Through this initiative, the FDA has redeployed key staff to teams dedicated in reviewing COVID-19 therapies, involved senior management in the review process and dramatically reduced the turnaround time associated with requests, reviews and assessments. While this model was developed for a crisis response, it provides the blueprint for an accelerated process for the future review of other critical non-COVID therapies that will expedite delivering cures to patients.

The Life Sciences Sector has cleared the initial speed bump and is accelerating forward with increased momentum.

The shock of the initial outbreak of the SARS-CoV-2 virus in the U.S. slowed R&D and clinical trial activity and created concerns for the future. Now three months later, we have learned this shock has prepared scientists, drug development companies, shared lab and incubator operators, investors and building owners to operate under more challenging and less certain circumstances. The past few months have highlighted major exposures to the drug development and delivery system including staff safety, supply chain and trial/approval processes and timelines. In the face of the challenges created by the response to the SARS-CoV-2 virus and the susceptibilities revealed, the Life Sciences have rebounded more strongly and quickly than anticipated and has strengthened its position as a favored investment sector. We anticipate this trajectory will continue as drug development companies overcome challenges, attract funding, advance their investigations, trials and delivery of new treatments and cures. This sustained activity will drive continued investment in research lab and manufacturing buildings to support the demand created by these rapidly growing companies.
About Colliers International

Colliers International (NASDAQ, TSX: CIGI) is a leading real estate professional services and investment management company. With operations in 68 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice to maximize the value of property for real estate occupiers, owners and investors. For more than 25 years, our experienced leadership, owning approximately 40% of our equity, has delivered compound annual investment returns of almost 20% for shareholders. In 2019, corporate revenues were more than $3.0 billion ($3.5 billion including affiliates), with $33 billion of assets under management in our investment management segment.

Learn more about how we accelerate success at corporate.colliers.com, Twitter @Colliers and LinkedIn.

colliers.com

Copyright © 2020 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.