

# Life Science Real Estate has been in the spotlight since the pandemic, but what are the sector dynamics for this rapidly growing asset class?

Focused on biological and pharmaceutical research, development, and study, the UK's life sciences industry has seen significant growth over the last decade. In the most recent budget the UK Government highlighted how the UK has "the largest life science sector in Europe". This critical sector is now driving demand for real estate that is tailored to its unique needs.

## People and Places

Whilst hybrid working has transformed many sectors, world-leading research cannot be undertaken from home in its entirety – purpose-built lab space in the right location is a key component for future success.

The majority of life science businesses operating in the UK are based in specialist science parks. However, across HSBC's clients, we're now seeing a growing trend of urbanisation, with city centres offering a compelling mix of talented labour and non-work amenities. The "cluster" effect cannot be underestimated – the triple helix of Academia, Industry and Government has to be in operation for a location to create a rich environment of knowledge sharing, innovation and collaboration.

Recognising these trends, developers, planners and funders need to consider the local area, rather than focus on a specific property, to ensure they create sustainable environments where scientists can afford to live, work and socialise.

Property owners are most successful when they work hand in hand with their clients to understand their requirements and how they plan to use the space. We're seeing our clients being offered fully fitted space or "plug & play"; this leads to higher rentals, and often higher retention rates.

## Closing thoughts

Demand for lab space will continue to grow as investment in life science industries continues to grow. What we're hearing is that there isn't enough top quality space now and that supply is not keeping pace. We expect further density on existing science parks will continue to be a trend – as well as updating existing stock to make it fit for purpose in today's terms. There will also be more purpose-built stock in new urban locations, perhaps in direct partnership with Universities. This is an exciting time for Life Science Real Estate, with significant growth potential in the UK. This is a bespoke and management intensive asset class and the partnership between landlords and their clients will continue to be absolutely key to the success of life science real estate investments.

## Sustainability

The environmental impact of construction and fit out is reasonably well understood, but with many life science occupiers being high energy users, reducing operational carbon is key as the UK transitions to a net-zero environment.

This will be increasingly true as lab-based science mixes with AI developments and med-tech, meaning the underlying energy demands are only likely to increase. Whilst sustainable building features, such as heat pumps, photovoltaics and glazing or sun shading can support this, it needs to be hand in hand with efficient operating practices, energy efficient equipment and through educating occupiers / the workforce on behaviours that promote sustainability. To achieve this, the landlord and tenant need to operate collaboratively and at HSBC UK, we're starting to see the growth of "green leases" with shared responsibilities, targets and data gathering built in.\*



## Who's investing in the real estate?

The changing structure of the industry where big pharma companies are downsizing their footprint, combined with the high level of demand and lack of supply (CBRE), puts the UK real estate market in a strong position to respond. This backdrop creates a new and enlarged alternative Real Estate sector in the UK. Over the last 5 years, HSBC UK has seen Institutional Investors move into this space, often with JV partners that know the market, as well as dedicated listed REIT investors, which we expect to see more of in the coming years. These investors are focused on new purpose-built developments, as well as repurposing of existing science park stock that has become obsolete over time but is in the right place. The retrofit of existing office space to viable lab space is an interesting debate, which may work for certain buildings in the right locations that have a suitable spec e.g. ceiling height, ventilation capability etc.

\*Today we finance a number of industries that significantly contribute to greenhouse gas emissions. We have a strategy to help our customers to reduce their emissions and to reduce our own. For more information, [click here](#).



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