

Three Key Leasing Models in Life Sciences



The real estate needs of life sciences companies can be fluid and complex, with early stage companies typically needing smaller flexible space and later stage companies typically requiring larger build-to-suit space. With an equally diverse group of life sciences landlords and business terms on the table, there are many variations of leasing models and terms to be negotiated between the parties.

However, perhaps as a result of a natural life cycle of a life sciences company, there are currently three major types of leases emerging in the U.S. for companies seeking space for research and development and laboratory uses:

Flexible License Model

Often used by early stage and pre-Series A companies, this model is often described as an “incubator,” “accelerator” or the “WeWork” model of life sciences. Characteristics include functioning as a license, versus a full-fledged lease, and full-service amenities, including everything a company needs to immediately start performing their science.

Shorter-Term Lease Model

Sometimes referred to as “incubator-lite”, this second model is often times attractive to companies seeking their Series A financing round that in its pre-clinical or discovery phase. The underlying agreement is generally in the form of a lease (versus a license), and is often for a two or three year period. Services can vary, but generally include those services that are capital intensive, such as conference facilities, common lab support areas and equipment.

Longer-Term Lease Model

The final model is more in line with other asset-classes and takes the form of a seven-ten+ year lease, largely with little to no landlord-provided services. Though for buildings with multiple tenants there can be shared services for things like a backup life safety generator and pH neutralization system, the landlord tends to take on very little responsibility for these shared systems. These long-term leases are often capital intensive for both the landlord and the tenant, with large improvement allowances, but the maximum flexibility for a user in terms of being able to program the space to best fit its needs. By the time a company gets to its Series B or C fundraising rounds and gets to a clinical phase of development, it has grown to the point where it needs to invest in its own space. Companies at this stage of life often need to weigh their financial situation, including their burn rates and pipelines, in order to ensure they are right-sizing their capital commitments for long term leases.

From the short-term license to the long-term lease, as life science companies move through their life cycle, their needs with respect to physical space will evolve along with the science. With many new owners and investors potentially pivoting towards this asset class alongside industry veterans, it seems like the sky is the limit as to innovation and growth both for and in partnership with life science companies.

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