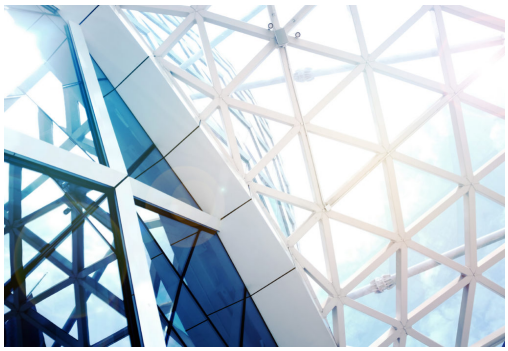
Underwriting Life Sciences Companies: What Owners and Developers of Real Estate Should Think About When Entering the Life Sciences Market



The process of underwriting tenants can be complex at the best of times, even more so when you add the particular requirements of early stage and/or fast growing life sciences companies and a global pandemic into the equation. With that in mind, we have summarized a few of the key landlord considerations when underwriting life sciences tenants.

Understanding the science (where possible)

It is important to try both to understand the viability of a tenant's business/financial model and, where possible, to make an assessment of the value of their science. This allows landlords to better understand the background of a life sciences tenant and to seek to weed out, on their assessment of the strength or otherwise of their science, those which they consider may not have a sustainable business plan. Knowledge obtained from this exercise can also afford landlords the opportunity to capitalize on gains to be made in early investment perspective into life sciences companies by sitting alongside venture capital investors.

Understanding the source of capital

Life sciences companies are typically only funded for the next stage or two of their development. Landlords will need to undertake careful due diligence to enable them to understand how a prospective tenant is financed: is it venture backed? Does it get its capital from a foreign parent? Does it rely entirely on the strength of its science or its reputation for its pipeline of fundraising? Or is it financed in some other way? The source of capital and the security or availability of future financial support can make a significant difference from a financial underwriting and .

Protecting landlords from future financing difficulties

Landlords should keep in mind the fact that most life sciences companies will run out of money only a few years (or even sooner) into a 7 – 10+ year lease term and so security deposits and future sources of capital are essential. Whilst parent guarantees from venture firms are pretty much unheard of, to the extent that there is another source of capital available, landlords should seek out upper tier entity guarantees wherever possible.

Design considerations

Life sciences companies can have complex requirements in terms of the fit out of their space, some

will need a bespoke, fully operational, laboratory and given the innovative nature of their work they will often demand a very high specification in terms of the security of their premises.

A key landlord consideration when reviewing large tenant improvement or specification packages is to make sure that the design of the space is going to be useful for second generation tenants. As noted above, life sciences companies can run out of funding before termination of their lease and so a space which can be easily re-purposed will be leased again more quickly and will require less investment in terms of future specification. Consequently landlords are becoming much more involved in the planning, review and approval of design modifications to ensure that their property will remain attractive to a range of future tenants.