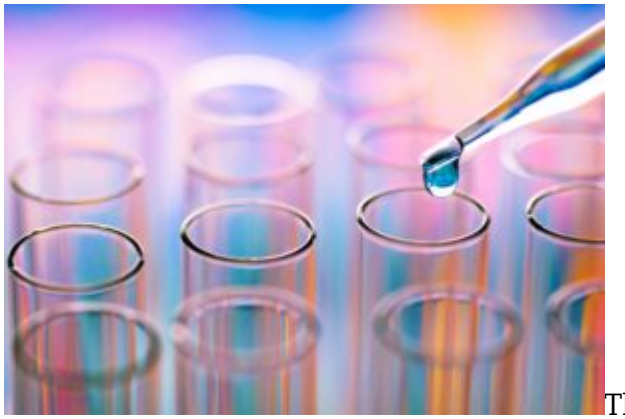
PropSci Perspectives: Breakthrough Properties

The Goodwin **Propsci** team has partnered with several well-known companies for a short video series that explores what's happening in the real estate life sciences industry.

In our latest installment, Susie Harborth, Chief Business Officer at Breakthrough Properties, joins **Nicole Riley** for a thought-provoking discussion. Breakthrough Properties is a life sciences real estate development company that leverages cross-sector collaboration to deliver environments that foster innovation and scientific breakthroughs.

Watch the video **here**.

Propsci Perspectives: LabCentral/BioLabs



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In our latest installment, Johannes Fruehauf, CEO of LabCentral/BioLabs, joins Goodwin's **Nicole Riley** and **Jim Barrett**. LabCentral/BioLabs is a first-of-its-kind shared laboratory space designed as a launchpad for high-potential life sciences and biotech startups.

We invite you to learn more about the platform that Johannes and his team created, and the strategy of dealing with the complexities of life sciences real estate.

Watch the video **here**.

Propsci Perspectives: SmartLabs

The Goodwin **Propsci team** has partnered with several well-known companies for a short video series that explores what's happening in the real estate life sciences industry.

In this video, Goodwin's **Nicole Riley** is joined by Daisy Riquelme, Associate Director of Business Development, at SmartLabs, a lab platform that supports workflows at every stage of development.

We invite you to learn more about the SmartLabs business model and how companies in the life sciences ecosystem benefit from their capabilities and offerings. Daisy and Nicole will also go into more detail on how SmartLabs has been problem-solving for the broad range of real estate needs that life sciences companies face during all stages of their lifecycle.

Watch the video **here**.

Propsci Perspectives: A Goodwin Video Series

The Goodwin **Propsci** team has partnered with several of our clients for a short video series that explores what's happening in the real estate life sciences industry.

Goodwin's **Nicole Riley** is joined by Doug Cuff, Vice President of UK Real Estate for **IQHQ**, a development company focusing on acquiring, developing and operating life sciences properties in the innovation hubs of San Francisco, San Diego and Boston in the United States, and in the Golden Triangle in the United Kingdom.

We invite you to learn more about IQHQ's Innovation Park located in Andover, Massachusetts. Doug will discuss why this was an attractive investment for IQHQ, how the COVID-19 pandemic impacted decisions throughout the acquisition and development process, and the importance of speed- to-market especially during this period of intense tenant demand.

Watch the video **here**.

Building Flexible (and Sustainable) Laboratory Spaces For The Future

Flexibility provides the greatest value in laboratory space design for both owners and users of life sciences real estate. Science and technology are evolving at such a rapid pace that it is difficult to predict future needs. Bespoke spaces can become obsolete before they are even occupied. Spaces that can easily adapt to changing needs not only support the science long-term, but they can provide the most sustainable solution as well. Below we explore the various interests of investors, developers, owners, and users that must be considered; as well as how these concepts of flexibility and sustainability can be realized when creating a laboratory space.

What Are The Owner/Developer/Landlord Considerations When Designing and Building a Lab Space?

Owners and developers of real estate generally have to walk the fine line between seeking to attract maximum prospective tenant interest, through things like amenities and unique spaces, and creating the highest possible return on investment based on a projection of what the future holds. Life sciences presents a unique opportunity and challenge to create a space design that can adapt to the market.

What Are The End User/Tenant Considerations When Designing and Building a Lab Space?

From a tenant or end user perspective, if a group cannot perform its science in a space, there is no point to leasing it. It is also important to recognize that regardless of the tenant improvement allowance packages being provided by landlords, the cost to develop a lab can often dwarf the numbers being provided by the landlord and require a significant capital investment by a tenant. Another reality for life sciences users is the necessity to lease for growth. Given how quickly life sciences companies can increase their employee counts, having to plan for exponential growth year over year means more square footage for say, a year or two, while a company grows into a space. If excess space can be programmed for uses from a collaboration space to a laboratory, it would

provide the user with the largest amount of flexibility for a company's long-term needs, which are often an unknown when a lease is initially signed.

How Does Technology Help in Integrating Flexibility Into Such Technical Spaces?

Flexibility and adaptability can be easily achieved in lab spaces by implementing a strategic approach to design. Planning for the future through building systems, support spaces, and a flex zone will offer the greatest value for all project stakeholders. Flexible lab furniture will allow the tenant to maximize a building's potential. Building systems are typically the largest investment on a lab project, for every stakeholder. Mechanical Electrical and Plumbing (MEP) systems account for 30%-50% of total construction cost, and it is vastly more difficult and expensive to retrofit MEP systems than to build initially. Thus, it is critical to design building systems that can support the long-term evolution of a facility.

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.

Learn more about **Goodwin's PropSci Practice**.

Envisioning the New Normal in the Life Sciences Industry

The life sciences industry affects a substantial portion of the U.S. and European economies, in terms of both GDP and the number of individuals employed. And in the context of a global pandemic, the life sciences sector obviously plays an existential societal role. Accordingly, ensuring the safe and continuous functioning of life sciences companies is not only paramount for the industry itself, but for society as a whole. This post considers how laboratories and life sciences manufacturing facilities are adapting to the "new normal" in an effort to abide by governmental guidance and adopt operational best practices.

Laboratories

Unlike many other skilled industries, “work from home” is not a precautionary avenue available to laboratories to mitigate the risk of COVID-19. Given the need for on-site collaboration and nature of the work being performed, remote or virtual work is nearly impossible in the laboratory environment. Adding to the difficulty is that the highly-technical structure of laboratories can make space reconfiguration—for purposes of accommodating social distancing guidelines—challenging and expensive. And when one considers the high incidence of multiple-use items such as testing machines and apparatuses (not all of which can be easily washed down after each use), further health and safety obstacles emerge.

Despite some challenging realities that affect laboratories, the setting does possess certain intrinsic characteristics that provide advantages in a COVID-19 world. Widespread use of personal protective equipment (PPE), fastidious efforts to prevent contamination, use of fresh air, and systematic sanitization are fundamental aspects of the laboratory modus operandi and serve as effective tools to minimize the transmission of COVID-19.

In addition, some life sciences companies have redeployed the innovation endemic to the industry to create or utilize **proptech**-type preventative devices for their laboratories. For example, one Boston-based life sciences laboratory generated an app that maps out scheduling data to show the physical presence of employees in the laboratory, thus aiding social distancing efforts. Other laboratory operators are considering enhance safety measures such as thermometer screenings, contactless entry, and the establishment of designated spaces for various forms of decontamination and disinfection.

Life Sciences Manufacturing Facilities

Considering the production processes involved, like laboratories, a fully remote workforce is unrealistic for biomanufacturing and other life sciences manufacturing facilities. Consequently, such facilities need to address the risk of COVID-19 through on-site measures. Personal protective equipment, social distancing policies, and facility sanitization are essential. Moreover, as advances in artificial intelligence and robotics enable life sciences manufacturing facilities to further automate their production processes, companies should consider whether the inclusion of these technologies can eliminate workplace situations that lend themselves to the spread of COVID-19.

Looking Ahead

Given the likelihood of the continued presence of COVID-19, aging populations and myriad other factors, the life sciences sectors will continue to play a crucial role in the economies and societies of the U.S. and Europe. Accordingly, identifying and incorporating operational best practices that adapt to the “new normal” will be an ongoing, evolving and collaborative endeavor for companies and organizations in the life sciences realm.

Goodwin’s **PropSci** practice is an extensive, global network of nearly 300 life sciences and real estate lawyers facing the market. Whether advising companies on pre-Series A financing through exits via IPOs and acquisitions, construction and financing of life sciences facilities, or leasing transactions, our PropSci practice works seamlessly to advise companies and investors across all stages and multiple business needs.

*For a longer discussion of return to work issues affecting both the life sciences and healthcare industries, please see **our recent article** or reach out to **PropSci@goodwinlaw.com** with any questions.*