



Market Report

Pennsylvania

SCIENTIFIC REAL ESTATE *Mid-Year 2023*

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MARKET SUMMARY

Philadelphia is emerging as a top life science hub leading to an unprecedented increase in inventory despite slowdowns in venture capital funding.

The funding market slowdown through H1 2023 has resulted in significant layoffs and reduced lab space demand leading to unprecedented availability due to a surge in Philadelphia's scientific inventory. The new spaces emerge as spec suites and subleases - the latter resulting from companies hastily expanding their real estate during the funding boom, now seeking to downsize, and cut costs. Philadelphia's dense executive talent pool and prominent research institutions foster a diverse biotech ecosystem including drug discovery and gene therapy.

Tenants' risk-averse approach to real estate has increased interest in incubator's 'rent-a-bench' model and outsourcing scientific operations, especially for manufacturing. Contract-based groups continue to show interest in growth as many companies are keeping services local to maintain standards and quality controls. Despite a variety of space options, rental rates continue to grow due to the increased cost of construction, interest rates, and shortage of labor.

KEY TAKEAWAYS

Due to rising construction costs, tenant's out of pocket capital allocations are increasing as the gap between base costs and tenant improvement allowances grows.

Landlords are providing larger tenant improvement allowances (TIA) to mitigate rising rents; however, Philadelphia's TIA is less competitive compared to other hubs. The spread of tenant capital contributions to build out functional lab space is widening and leading to higher out-of-pocket expenses due to long leads times on equipment and building

MARKET SNAPSHOT

- ▲ AVAILABILITY
- ▲ RENTAL RATES
- ▼ ABSORPTION
- CONSTRUCTION DELIVERIES

materials.

Many projects that were going to be developed on a speculative basis are being put on hold despite being marketed as life science properties.

Proposed developments are having trouble getting financed and require a lead tenant to get out of the ground. With 830,878 SF of projects under construction in the pipeline, there is a growing base of both existing and shell space leading into 2024 that will give scientific tenants options they need to continue growing the city cluster.

Tenants' out of pocket capital allocations are increasing as the gap between base costs and tenant improvement allowances grows.

Venture capital firms are taking a cautious approach towards investments in early-stage life science companies given the heightened risks for startups that have a long runway.

Venture-backed firms are navigating a more turbulent economic landscape that has shifted their strategies to accumulation rather than deployment. Despite the heightened risks associated with investments in early-stage life science companies, given the long runway associated with R&D and clinical trials, activity has come in the form of mergers and acquisitions, or partnerships, that can be attributed to transactions increasingly focused on real estate needs not just technology.

Space options for lab tenants grow as subleases hit the market and spec labs gain momentum in their formation of clusters.

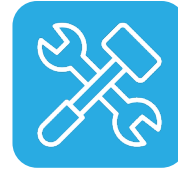
Life science companies are cautiously managing real estate needs to control costs and sustain organic growth. Despite record funding during the pandemic that enabled companies to sign larger, long-term leases, tightening credit conditions are pushing firms towards additional funding rounds for scaling and covering expenses.



Existing Inventory (SF)
8,419,133



Under Construction (SF)
830,878



Under Renovation (SF)
77,008



Proposed (SF)
2,231,580

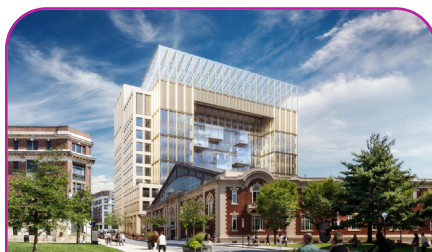


Availability Rate (%)
6.06%



Avg. Asking Rents (\$)
\$52.82

NOTABLE PROJECTS



Property Address
**3201 Cuthbert St.
Philadelphia PA**

Square Feet
519,647

Building Status
Under Construction

Delivery Date
Q4 2024

Tenant
**Drexel University
SmartLabs**

Owner
**Gattuso Dev. Partners, Vigilant
Holdings of NY**



Property Address
**2300 Market St.
Philadelphia, PA**

Square Feet
220,000

Building Status
Under Construction

Delivery Date
2024

Tenant
Available

Owner
Breakthrough Properties



Property Address
**200-206 Welsh Rd.
Horsham, PA**

Square Feet
152,184

Building Status
Under Construction


Delivery Date
Q4 2023

Tenant
NMS Labs

Owner
Maryland Avenue Holdings, LLC

Projects that were going to be developed on a speculative basis are being put on hold.

MAJOR LEASE TRANSACTIONS



Tenant Name
Invisible Sentinel

Property Address
**1201 Normandy Place
Philadelphia, PA**

Square Feet Deal Type
32,000 Direct



Tenant Name
Center for Breakthrough Medicines

Property Address
**Discovery Labs - 411
Swedeland Road
King of Prussia, PA**


Square Feet Deal Type
20,000 Sublease



Tenant Name
Ask Bio

Property Address
**Cira Centre, 2929 Arch
Street, Philadelphia, PA**

Square Feet Deal Type
10,404 Direct



Tenant Name
Mispro

Property Address
**Cira Centre, 2929 Arch
Street, Philadelphia, PA**


Square Feet Deal Type
7,558 Direct



Tenant Name
Environex

Property Address
**425 Technology Drive
Mavlern, PA**

Square Feet Deal Type
6,500 Direct



Tenant Name
Primera Genotech

Property Address
**5110 Campus Drive
Plymouth Meeting, PA**

Square Feet Deal Type
4,000 Direct

FUNDING (COMPANIES)

NeuBase Therapeutics
PIPE (\$5mm)

ECM Therapeutics
Late Stage (\$21.04mm)

iCura Diagnostic Laboratory
Early Stage (Undisclosed)

Drusolv
Series A (\$20mm)

Arrivent
Private Stock Sale (\$155mm)

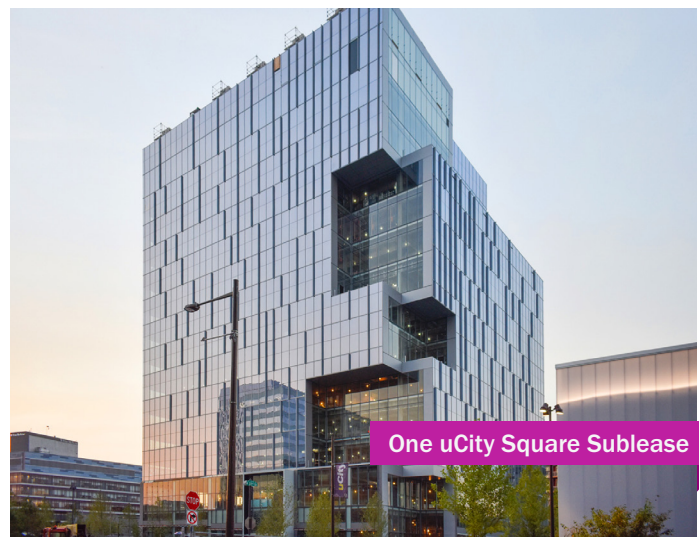
ACQUISITIONS

 **immunome** by Morphimmune*

 **immunetrics** by Simulations Plus

TMUNITY by Kite Pharma

*via reverse merger

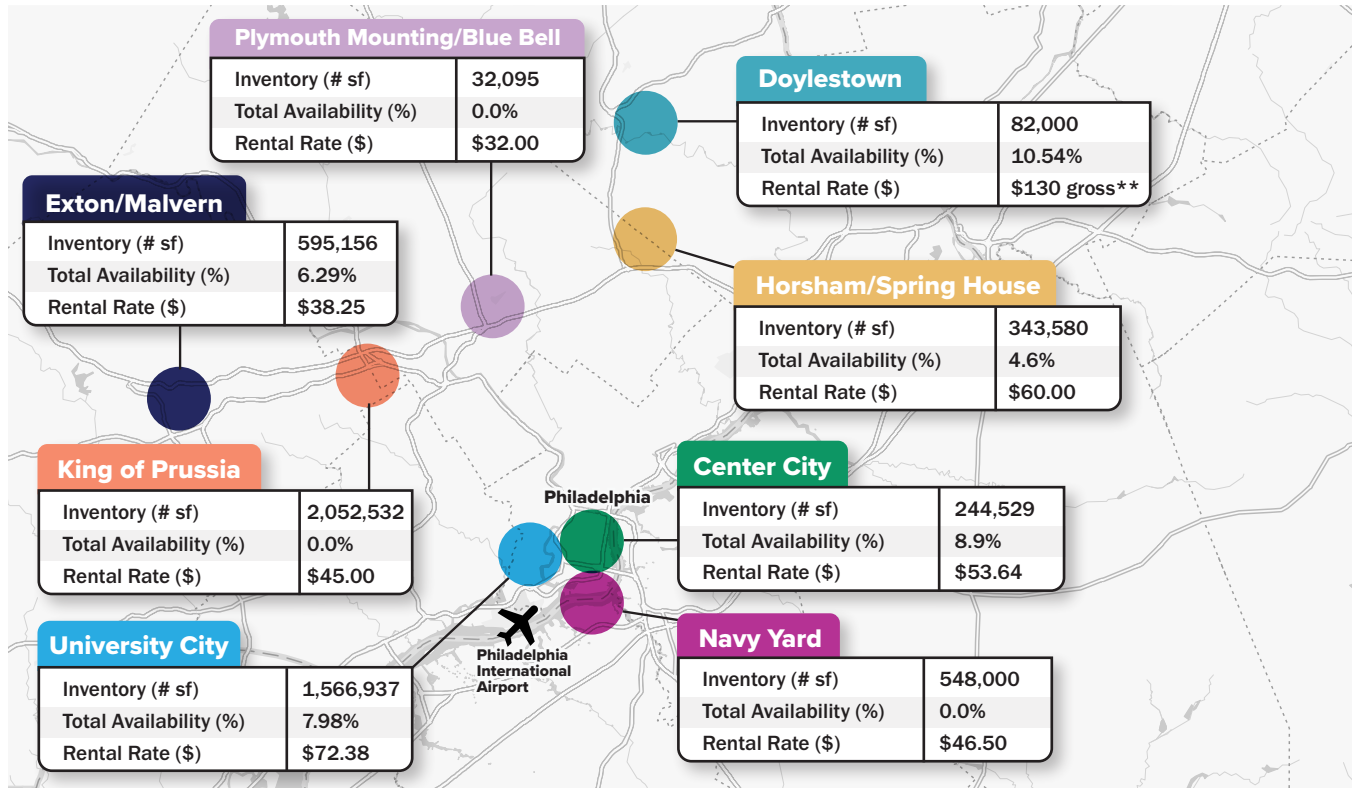


One uCity Square Sublease

Trophy class lab space under construction, delivering Q1 2024, available for sublease

Investment activity can be attributed to transactions increasingly focused on real estate needs not just technology.

EXISTING LAB SPACE



Note: Does not include asking rents for existing incubator space.

**Inventory only includes PABC

SUBMARKET SUMMARY

UNIVERSITY CITY

University City continues to dominate the life science market, completing three transactions for a total of 19,807 SF this year. Brandywine’s Cira Centre outpaces new construction by securing Ask Bio and Mispro for three of their five spec suites, the former expanding their R&D capabilities from Brandywine’s B.Labs. Mispro selected UCity due to its prominence in cell & gene therapy. Good Molecules took the previous Instil Bio suite at Wexford’s 3711 Market St. Despite the activity, UCity still offers the most available lab space at 131,500 SF, leading all submarkets.

CENTER CITY

Center City has seen significant spec suite development in 2023 despite muted leasing activity. Following the Curtis’s full lease up of their spec suites, 401 N Broad St built five, two of which are available. Iron Stone Real Estate Partners recently converted a former Drexel Lab building at 1421 Race St into spec labs, with two +/-8,000 SF labs ready for use. Curtis’s BioLabs incubator remains attractive with its ready-to-use graduate suites. Given these developments,

Center City is expected to be a highly active submarket in Q3-Q4 2023.

NAVY YARD

The Navy Yard continues to develop its life science capabilities with 2500 League Island Boulevard and 1201 Normandy Place leading the way. Ensemble and Mosaic signed the largest deal of 2023 at 1201 Normandy Place, with Invisible Sentinel signing on as the first tenant in the building at 32,000 SF. The Navy Yard continues to generate activity and we could see some of that availability being absorbed by active tenants soon.

KING OF PRUSSIA

Discovery Labs remains the hub for life science in King of Prussia, leading suburban leasing activity in Q1-Q2 2023, with the Center for Breakthrough Medicines subleasing Building 29A from NeuExcell Therapeutics. Subleasing has become a prevalent trend in the PA market, and we anticipate further sublease absorption in the upcoming quarters.

Space options for lab tenants grow as subleases hit the market and spec labs gain momentum in their formation of clusters.

PLYMOUTH MEETING/BLUE BELL

Activity across the suburbs was driven by Protecs, an owner/developer of life science buildings. Protecs leased their final lab suite at 5110 Campus Drive to Primera Genotech, and has begun construction in Blue Bell on three smaller spec suites. These suites, approximately 1,000 SF each, will cater to smaller companies and are expected to stimulate leasing activity in this submarket in early 2024.

HORSHAM/ SPRING HOUSE

Despite a quiet start, Horsham/Spring House, with the most suburban spec lab space, is poised for a strong second half of 2023, attracting life science tenants. The Center for Diagnostics Discovery will deliver its lab suites in December and Spring House Innovation Park will deliver three spec suites in November. Given its 2022 activity, we anticipate increased momentum in the latter half of 2023.

EXTON/MALVERN

Demand has decelerated despite available lab inventory. 18 Spring Mill Drive in Malvern and 435 Creamery Way in Exton have finished spec suites in the 10,000-12,000 SF range. Owners, noting reduced demand for larger spaces, are open to dividing suites for smaller users. As companies aim to minimize risk and costs during fundraising, we foresee this trend continuing.

DOYLESTOWN

The Pennsylvania Biotechnology Center of Bucks County (PABC) cements Doylestown as a significant life science sub-market. With limited lab space, we predict the market will remain quiet until a PABC tenant outgrows their current requirements and expands to graduation space. Given PABC’s success, this could happen soon.



Center for Diagnostics Discovery

Center for Diagnostics Discovery will deliver pre-built flexible lab configurations from 500-1,500 SF



PABC

PABC is down to their final lab and office suites as internal growth has fueled quick absorption



BioLabs

Biolabs graduate suites having limited availability has prompted growth for additional incubator space at The Curtis

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