GERMANY/LIFE SCIENCES

ESPG / Colliers study points to shortage of Life Science assets ahead

A useful new white paper jointly published by advisor **Colliers** and Cologne-based **European Science Park Group (ESPG)** - called *"Life Science & Tec Real Estate - Defining asset class. Identifying potential'"* came across REFIRE's desk recently. (*See above related article in this issue, "Healthcare and pharma industries becoming integral to real estate sector"*)

The study looks at the performance of Germany's life sciences and technology sector since 2018. The report highlights detailed research and analyses from the Colliers research database and ESPG's own sector expertise, as well as interviews with 14 experts in the field.

More than 1 million sqm has been taken up on the leasing market over the last five years, or an average of 209,000 sqm annually. Actually the figure was 302,000 sqm in 2022, a full 70% more than in 2018, so the trend is accelerating. The study shows that only about 43 % of leases signed involved stock properties, suggesting that life sciences & tec real estate does involve specific requirements that are best addressed with new-build space.

So future take-up is likely to revolve around new purpose-built developments, but the latest data shows that only about 330,000 sqm of suitable properties are scheduled for completion by 2025. Combined with growing demand, this indicates a likely severe shortage of supply ahead.

According to **Christian Kadel**, the head of capital markets at Colliers in Germany, "We can expect to see more leases being signed for space in downtown locations. According to the experts interviewed, a growing number of tenants, occupiers and investors are interested in life sciences and tec properties that are situated in the urban environments of city centres. Occupiers and tenants are therefore generally willing to pay higher rents, which the profitability of the sector makes possible. Competition for talent is also a key factor driving this demand."

Nearly 70% of the leases signed in the sector over the past five years were in Germany's top seven cities and their surrounding area. Greater Munich, Berlin, Frankfurt and Hamburg proved the most popular locations, while leasing activity began picking up in Düsseldorf, Cologne and Stuttgart in 2021. Interest in university cities such as Leipzig, Heidelberg and Mainz is also growing.

REFIRE met with **Ralf Nöcker** *(pictured, right)***,** at the MIPIM recently to discuss the study and his own company's involvement in the sector. ESPG (European Science Park Group) has morphed out of what used to be called **Diok Real Estate**, with which REFIRE was familiar. Nöcker starts off by defining what a life science and tec property actually is. "It must be in a specific location, have a dedicated space such as a laboratory, contain a dominant technology and tenant that have other reasons to be"sticky" to our science park," he says.

In practice, most of the properties in the life science and tec asset class have a campus-like feel, or feature mixed-use neighbourhood structures. Examples of existing science parks, such as the **Life Science Factory** in Göttingen and the **BioLab** in Heidelberg, highlight this collaborative approach in established urban academic settings, says Nöcker.

In terms of unit size, more than two-thirds of properties transacted are for under €50m. ESG and smart building compliance feature highly on investors' list of criteria, as well as smooth integration into surrounding urban landscapes, with Nöcker citing developments such as **FUHUB** and **HYBRICK** in Berlin, the **Life Science Center Gräfelfing** near Munich, and **Innovationspark Mainz**.

Nöcker said that the revamped ESPG is targeting building its portfolio in the sector to "just under €400m" It currently owns 16 properties valued at about €250m, and if two current deals under negotiation go ahead, Nöcker says the target will be reached.

For the moment, the priority is in refinancing legacy bond issues from the Diok Real Estate days, with a corporate €46.6m bond due to expire in October. How the refinancing will be resolved is not yet clear - whether through a new bond issue, a convertible bond, a loan, or stock exchange buyback through the raising of new equity or bringing in a new partner.

The company (Diok) already brought in new shareholders last year to reduce its debt burden, with US asset manager **AlTi** (ex-Alvarium-Tiedemann) taking 49% of the shares, **Science Park Acqui** taking 20% and hedge fund manager **Louis Moore Bacon** (of **Moore Capital Management** fame) bringing in 10.1% equity. Nöcker represents the largest shareholders' interests, with industry veterans **Markus Drews** and **Daniel Grosch** holding 10% each of the new business.