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What's Shaking Up India's Life Sciences Real Estate Sector?

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India, in the last few decades, has witnessed the IT and manufacturing sectors invest heavily in real estate and infrastructure. However, in the post-pandemic era, we see life sciences companies require space to innovate, for R&D, and manufacture at scale. The demand for life sciences-related real estate has significantly increased. Both greenfield and brownfield projects have surged, as the pandemic fuelled the demand for locally manufactured pharma and medical products. This story attempts to encapsulate the changing facets of the life sciences real estate market in India, where the country is remarkably progressing in innovation and R&D, which in turn are fuelling the demand for specialised facilities, biotech/MedTech parks, research hubs with modern amenities and collaborative multidisciplinary ecosystems under one roof.

In 2021, a California-based life sciences real estate development company acquired Hotel Buckminster. This acquisition was done to redevelop the closed hotel into a life science lab space. Again in May 2021, a facility that housed the Berkeley Art Museum and Pacific Film Archive was transformed into a new life sciences lab on the campus of the University of California, Berkeley.

During the same year in India, a Canadian Pension Fund along with a Singapore-based wealth and asset management firm jointly invested $100 million (Rs 7.5 billion) in life sciences R&D facilities in Genome Valley, Hyderabad. This investment, according to reports, proved to be a stepping stone for more equity investments in this segment. On February 6, 2024, life sciences real estate developer, Rx Propellant announced an initial investment of $75 million in phase 1 of the Navi Mumbai Research (NMR) District, as part of its continued regional expansion strategy across India.

In all the four developments mentioned above, it is clear that post-pandemic, the demand for life sciences-related real estate has significantly increased. Both greenfield and brownfield projects have surged, as the pandemic fuelled the demand for locally manufactured pharma and medical products.

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Fast-evolving life sciences market

India is one of the fastest-growing life sciences markets in the world and the sector is poised to see multi-fold growth by 2030 led by a fast-increasing population, rising life expectancy, a strong industrial base and inclusive government initiatives. In addition, India's demographic dividend, strong industrial base and policy push are known to be the growth drivers for the life sciences sector in the country.

The increasing government spending on the healthcare sector, cost benefits in terms of affordable manpower & real estate expenses, and the availability of a large talent pool are the catalysts of life sciences growth in India. Schemes like Production Linked Incentive (PLI) have boosted domestic manufacturing which has resulted in the need for more space in industrial and tech parks. Also, global exports of pharmaceutical and biotechnology products and medical devices from the country have forced many companies to invest in capacity building and human resources.

Notably, India ranks second globally in terms of the number of US FDA-certified plants located outside the US, closely followed by China. Strengths of this kind and the constantly evolving sector are furthering the requirement for large-scale manufacturing, MSMEs, wet laboratories, R&D hubs, incubators, and data centres coupled with other IT & ES support.

Over the next decade, it is estimated that the requirement for life sciences R&D real estate in India is likely to grow to somewhere between $16 billion (Rs 1,200 billion) and $34 billion (Rs 2,550 billion) as per conservative and optimistic scenarios.

Push from PEs and VCs

India's life sciences R&D real estate is emerging as a high-potential asset class for institutional investors. Aided by exponential global demand growth, geopolitical environment, policies initiatives, and skilled workforce this sector is rapidly transforming.

Atul Bhardwaj, Business Head, Lighthouse Canton Real Estate, indicates that both domestic and international investors are demonstrating a strong interest in India's life sciences real estate market. According to Bhardwaj, private equity firms, venture capitalists, and real estate developers are actively investing significant capital in the development of specialised facilities to meet the requirements of life sciences companies. He says, "Biotechnology parks and clusters are emerging as key focal points for life sciences research and manufacturing in India. These specialised hubs offer world-class infrastructure, shared amenities, and a collaborative ecosystem that encourages innovation and cooperation among industry stakeholders, academic institutions, and research organisations."

Citing one other compelling factor of the life sciences real estate market to surge, Bhardwaj, says, "This sector's operational model does not accommodate the concept of working from home, which presents a compelling opportunity for real estate developers. The recent pandemic underscored the resilience of the pharmaceutical sector. While many industries, including office realty, experienced significant disruptions, the pharmaceutical sector's demand for space significantly increased, further cementing its critical role in the global economy."

Arvind Nandan, Managing Director – Research & Consulting, Savills India, says, "Venture Capital funding into the life sciences industry in India stood at $448 million (Rs 34 billion) in 2021 through August, almost 3x of the annual average of the previous years, making it clear that this segment will play a pivotal role in the overall growth of the Indian Real Estate industry."

Adopting the asset light model

We know that globally organisations across all sectors – be it small or big – are undergoing massive digital transformation and smart business strategies that are sustainable and cost-effective are implemented. Owing to that, businesses are constantly seeking new and innovative ways to scale up faster, which has given rise to many alternate models of operations, including the concept of going asset-light.

Asset-light model offers a strategic approach where companies minimise their ownership of physical assets (such as buildings or land). Companies go asset-light by owning fewer capital-intensive assets compared to their operational assets. By doing this, life sciences companies focus on their core competencies (such as research, development, and production) and avoid heavy investments in real estate.

Merck & Co., Inc. (MSD outside the US and Canada) is a prime example of an asset-light pharmaceutical company. Merck collaborates with specialised Contract Development and Manufacturing Organisations (CDMOs) for various stages of drug development and production. By leveraging external partners, they avoid heavy capital expenditure on building and maintaining several of their own manufacturing facilities.

Sharing his view on the asset light model, **Rx Propellant's CEO Milind Ravi**, says, "While traditionally dominated by 'user-owned' models, an evident but slow shift to 'asset-light' options in India indicates growing demand for agile growth-ready infrastructure. With its increased focus on innovation, India's life sciences market is expected to grow threefold in the next decade, reaching $130 billion by 2030. This in turn is set to generate demand for over 100 million square feet of specialised infrastructure across several existing ecosystems including Mumbai, Bengaluru, Hyderabad, Ahmedabad, Chennai, Vizag, and Pune among others."

Another aspect to asset-light operations is the advantage companies draw from sharing infrastructure elements. Atul Bhardwaj opines that the model of providing comprehensive amenities under one roof offers significant benefits to companies by eliminating the need for capital expenditure on individual pieces of equipment such as chillers and DG sets. This approach, he says, not only reduces the initial capital outlay but also lowers the overall opex for companies, as costs related to maintenance, security, and technical manpower are shared.

"This cost model is particularly advantageous, as it would otherwise be a substantial financial burden for a company to bear alone for its standalone unit. Real estate developers who offer high-quality infrastructure can further reduce a company's upfront expenses by providing essential utilities like nitrogen generators and vacuum systems. A multi-tenanted building thus emerges as a mutually beneficial arrangement for both developers and tenant companies," says Bhardwaj.

Sustainable infrastructure

In almost every industry, the board members, shareholders advocate the importance of the mandates of Environmental, Social, and Governance (ESG) of business operations. The threat of climate change has prompted many industries to develop environmental strategies to reduce their carbon footprints, with the life sciences industry on the top of the pyramid.

Being climate conscious has brought in new concepts in smart buildings and other digitally supported facilities and infrastructure models. Open floor plans, shared workspaces, and flexible furniture are some of today's trends that are known to foster interaction and knowledge sharing, similar to what's seen in modern IT work spaces. This shift in life sciences too encourages cross-disciplinary research, faster problem-solving, and quicker innovation and most importantly sharing resources.

"Emerging trends in innovation have seen an increase in demand for next-gen spaces with flexible workspaces, integration of wet lab-computation stations, highly sensitive zones for increasingly sophisticated equipment and process flow optimisation. New developments designed to accommodate such variables offer sustainable long-term solutions," Milind Ravi opines from his experience.

Also, leading life sciences companies in India prefer to operate from large-scale clusters that can meet both their office and R&D needs. Startups and MSMEs are also increasingly opting to locate themselves in prominent clusters with a clear industrial positioning and abundant R&D resources. Genome Valley (Hyderabad) and Electronic City (Bengaluru) are great examples of such collaborative ecosystems.

So, if, today, we were to walk into any of India's life sciences parks, we would be delighted to see those spaces being built on modern modular designs having mobile equipment and reconfigurable layouts, with amazing aesthetics and classy landscaping.

What will also be evident is that the traditional life sciences technicians confining themselves to sterile laboratories would be ancient. Today's workplaces recognise the need for a more holistic environment with sprawling cafeterias, breakout huddles, and interactive/entertainment spaces. Apart from being modern with the changing times, such amenities are considered by

the HR department as a way to attract and retain talent.

Leasing: a preferred business model

Savills, in its report titled ‘Unlocking Opportunities: Life Sciences and Real Estate in India’, indicates that leasing properties to the biotech industry can provide a steady stream of rental income and long-term investment potential for real estate developers.

Since life sciences is a rapidly growing and promising sector with significant investments and advancements, by leasing to them, real estate companies become part of their growth story, giving them the advantage of increased long-term value and brand association.

Leasing also brings about several advantages to realtors. Life sciences companies typically require specific and tailored facilities, leading to lesser turnover compared to other commercial leases. This translates to reduced management costs and higher occupancy rates. Also, life sciences companies often require long-term leases due to the complex nature of their facilities and research projects. This stability translates to predictable and dependable income for the real estate companies.

Speaking from his company’s perspective, Milind Ravi, *says,* “We bring a very inclusive approach to support companies of all scales not just with infrastructure, but a gamut of ecosystem services that play a pivotal role in their overall experience. We lease laboratory spaces on tailored models based on the need, timelines, intended use and life-stage of our tenant partners. Our standard offering constitutes modular spaces in shared or dedicated formats – in both ‘warm shell’ and ‘plug-and-play’ models as part of integrated and life science-focussed clusters. Apart from this, we also deliver built-to-suit campuses in required specifications of the tenant.”

“While our facilities are built for multi-tenancy where each organisation can work independently, we are also working towards developing co-working laboratory spaces with shared equipment and amenities. These are becoming increasingly popular, especially among startups and small research teams,” says Milind Ravi.

Growth is certain

A report titled ‘Life Sciences Industry & Real Estate Perspective 2024: Putting Asia Pacific under the microscope’ by global real estate company JLL sheds light on India’s pharma industry's growth trajectory. While the pandemic undeniably spurred investment due to the vaccine race, the report emphasizes that interest was already on the rise owing to the ongoing breakthroughs in areas like immuno-oncology and neonatology. This pre-existing momentum, fuelled by technological advancements, has directly translated into increased commercial real estate leasing within the pharma sector. This may be true to India’s life sciences sector too.

JLL stresses on the fact that when companies get funding from venture capitalists, they need lab space in order to deliver as soon as possible. Also, sizeable investments bring with them a plethora of life sciences jobs, which can also spur development of housing, retail and other urban amenities that serve the people who live and work for the expanding companies.

From Bhardwaj’s inputs we can infer that India has a robust domestic market, bolstered further by the Government of India's *‘Jan Aushadhi’* scheme, aimed at providing quality generic medicines at affordable prices to its citizens. As the third-largest exporter of pharmaceuticals by volume and the thirteenth by value, the demand for space is going to grow.

While the pharma industry presents sufficient scope, the medical device industry is not any less. Considered as the sunrise sector, the medical devices industry is estimated to reach $50 billion by 2030. In the last five years, the export of medical devices has been increasing at a rate of 9.37 per cent. India’s policy to allow 100 per cent foreign investment under an automatic route in the medical devices sector has helped attract significant investments, which has further pushed the demand for real estate. The Production Linked Incentive (PLI) scheme for the medical device industry in India has also helped augment the domestic manufacturing and in reducing dependence on imports. Hence, manufacturing hubs are being set up in many economic zones of the country.

We can therefore conclude with the evidence that there is immense potential for life sciences real estate development to surge in India. Though the country has limited core life sciences real estate investable stock at present, majority of the growth will come from developing new facilities that entail typical development and leasing risks. The stakeholders, however, forecast an increasing investor appetite for Indian life sciences real estate as the sector gains scale over time.

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