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National Office Report

September 2024



Life Science Struggles With Supply Glut

- Coming out of the pandemic, lab space was in high demand. Breakthroughs in mRNA and CRISPR technologies alongside record low interest rates led to billions of dollars in funding, from both private and public sources, pouring into the life sciences sector. Developers rushed to respond, bringing millions of square feet to market in recent years through new developments and conversions of existing buildings. This year, it has become clear that developers over-responded to demand for lab space, leading to a supply glut in the sector.
- Since the start of 2020, 33.5 million square feet of lab space have been delivered, and an additional 26.4 million square feet are currently under construction. Most of this new supply is concentrated in top life science hubs. Boston has delivered 10.1 million square feet this decade (9.8% of stock), San Francisco 6.2 million (11.1%) and San Diego 3.3 million (12.5%). The supply will continue to roll into these markets in the coming quarters. Boston has 8.2 million square feet under construction, San Francisco has 4.6 million and San Diego 2.5 million.
- At the same time the wave of new lab space has come to market, funding into the sector has dried up. In San Diego, IQHQ's \$1.6 billion mixed-use Research and Development District (RaDD) downtown is opening with no biotech tenants. Recent reporting suggests that frustrated office owners have begun listing empty life science buildings for general office usage, offering space at much lower rates than they could receive from life science occupiers.
- Investor appetite for lab space has completely cratered, following the fever pitch the sector hit coming out of the pandemic. In 2022, there was \$6.2 billion in life science sales across 62 properties, with an average sale price of \$890 per square foot. In 2023, life science sales volume fell to \$1.8 billion across 20 transactions, with properties trading at \$631 per foot. In 2024, Yardi Matrix has logged just three sales of life science properties.
- While the glut of space may take a while to work its way out, we expect life sciences to remain one of the strongest sub-use types in the office sector over the long run. Most life science work remains immune to remote and hybrid options, requiring carefully controlled physical spaces, and venture capital funding in the sector should pick up again as interest rates begin to come down.

