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Life Sciences Study Reveals Emerging Markets Becoming More Competitive as Prime Locations for Operations

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Though life sciences companies continue to center their headquarter relocations and biotechnology start-up and innovation activity in clusters within Europe, the United States and Japan, the emerging markets of Brazil, India, China and others located throughout Asia and Latin America are becoming more competitive, according to Jones Lang LaSalle's Global Life Sciences Cluster Report. Major life sciences entities are increasingly trying to balance operations among the Americas, EMEA and Asia Pacific.

A perfect storm of complex macro and micro factors have forced the life sciences industry to re-examine traditional business models and location strategies and to rebalance the portfolio of assets among regions of the world. Struggling economies, increased competition, pricing pressure, depleted new-product pipelines and heightened regulatory processes have all strained profitability, influencing the industry's facility and location decisions.

The Greater Boston area continues to be a leading global industry cluster that supports all aspects of the life science industry including biotechnology, pharmaceuticals, medical devices, diagnostics and bioinformatics. Because of the industry's mature critical mass in the area, new companies and venture capital investments are common.

The Drive for Discovery and Innovation

The drive for discovery and innovation is causing companies to rethink the way they make location decisions, creating a new focus on balancing the real estate costs of established life sciences clusters with their increased efficiency in generating innovation.

"While real estate costs are higher within these established clusters, the intellectual capacity and enhanced odds of discovering the next powerful, profitable drug justifies the price premium," said Bill Barrett, Executive Managing Director, Life Sciences at Jones Lang LaSalle. "Since ideas are the new currency of the modern enterprise, the knowledge workers within established clusters can compete globally based on the quality of their innovation, regardless of the hard costs of location."

This dynamic is bifurcating in what regions the drug discovery process takes place, with discovery aspects likely to remain in-house and in already established, high-cost clusters while testing and viability measures will leverage the lower costs of emerging clusters via contract research organizations (CROs) and other outsourced resources.

“Following global economic trending, regional life science clusters in Greater Boston are evolving within established submarkets,” said Vice President Don Domoretsky. “Kendall Square remains the nucleus, as real estate demand drives the need for research and development infrastructure. The discovery process demands efficiency, collaboration and intellectual prowess. Cambridge is the elite provider creating that element of connectivity.”

Gap in Foreign Investment Narrows among Established and Emerging Markets

Due to changing market dynamics, major life sciences companies are placing greater scrutiny on their facility strategies and footprints to determine the best locations for revenue growth potential, improved operating margins and improved returns on installed assets. This has led to a shift in facility configurations and adaptations to improve competitiveness.

Manufacturing facilities represent a large share of operations in emerging clusters, and while investment in non-R&D facilities experienced a pause during the recession, Barrett expects to see investments return to emerging clusters as we come out of the recession. “Factors such as growing economies, large populations, rising personal income levels and progressive political policies in emerging clusters encourage growth and direct investment from industry leaders. Additionally, companies will leverage favorable conditions in emerging clusters as they bring on additional manufacturing capacity to take advantage of lower cost structures.”

“In most emerging markets, local consumers seek affordable drugs from known, trusted makers so early establishment in population-dense countries like China, India and Indonesia is vital to capture market share,” said David Wilton, Regional Director, Corporate Solutions for Jones Lang LaSalle in Asia Pacific. “Demand for drugs within these markets is increasing due to the shift in lifestyle created by the rise in personal income and purchasing power. This has resulted in a heightened awareness of traditionally Western diseases and associated treatments.”

A large share of inward investment in the United States and established countries throughout Europe continues to be focused on manufacturing aspects of the industry. However, these locations are seeing investments shift away from manufacturing as Brazil, China, India and other smaller clusters emerge as cost-advantageous sites that provide both revenue and margin opportunities.

Emerging Cluster Presence Includes More High-tech Aspects of the Value Chain

Emerging market governments in Asia and Latin America are making significant capital investments and improving political policies in order to become more competitive in high-tech aspects of the industry and to be in contention for CRO opportunities. Massive research parks in these emerging global clusters are fuelling growth in R&D. Some examples include:

- Biopolis in Singapore: As Singapore’s largest research park, Biopolis spans 2.4 million square feet and is dedicated to providing space for biomedical research and development activities and promoting peer review and collaboration among the private and public scientific community.

- Suzhou BioBay in China: Located in the Dushu Lake Science & Innovation education district, the park spans more than nine square miles and offers innovation incubator and accelerator support.
- Butantan Institute in Brazil: Affiliated with the São Paulo State Secretary of Health, the research development and training center is the largest producer of immunobiologics and biopharmaceuticals in Latin America. Earlier this year, the São Paulo state government announced that the country's first plasma fractionation plant will be located within the institute, to be operational by mid-2012.

Among the emerging clusters, Singapore is best poised to increase its high-tech research presence based on its strong intellectual property laws, stable and industry-supportive political structures and mature business environment that make the island-nation an ideal launching pad into other Asia-Pacific markets.

In China, the government's five-year plan includes programs designed to stimulate growth in sectors such as biotechnology. These investments are paying off with several big pharmaceutical players expanding beyond manufacturing facilities by opening research operations in the country, the intellectual property risks being outweighed by the sheer size of the market.

In India, companies have already made significant headway in manufacturing generic versions of expensive drugs, showing they have the local skills to be globally competitive. The government hopes to expand beyond the country's strong generic and contract manufacturing presence into biosimilars and contract research. The Indian government has even created competitive tax concessions to encourage R&D.

In Latin America, several countries are emerging as competitive clusters in agricultural biotechnology; infrastructure built around this sector could serve as a springboard into further developments in human-use drugs and biotechnology.

United States & Europe Remain Prominent Global Players

Though emerging clusters are playing a more prominent role in the global life sciences industry, Europe, the United States and Japan are undoubtedly still world leaders in the sector, especially in the R&D aspects of the value chain.

"World-class research universities, sustained venture capital and other investments coupled with the supporting infrastructure within these mature clusters continues to fuel innovation in the United States and Europe," said Charles Tillet, National Director, Corporate Solutions, and head of EMEA's Life Sciences practice. "Requirements from small start-ups and the occasional right-sizing or re-locating of headquarter operations remain prevalent in established clusters in the United States and Europe."

The analysis shows real estate activity is most prominent in cornerstone locales, such as Boston, the Bay Area, the New York / New Jersey corridor, San Diego, Seattle, Philadelphia, the United Kingdom, France, Switzerland and Germany, and Jones Lang LaSalle predicts these clusters will remain leaders in site selection for headquarter operations and R&D functionalities.

To download a copy of the full report, [click here](#).

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