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What We Learned About Life Sciences Asset Class In 2024

By **Nate Beck**

Law360 (December 11, 2024, 4:24 PM EST) -- With a rise in venture capital activity in hot areas such as weight loss drugs, the life sciences real estate sector in 2024 showed signs of a rebound as the industry awaits possible regulatory changes from a new presidential administration.

Experts told Law360 that the life sciences asset class has proved resilient since the COVID-19 pandemic, with popular diabetes and weight loss drugs called GLP-1s supporting growth in 2024.

Here, Law360 reviews what real estate industry watchers learned about the life sciences sector this year.


Life sciences companies don't seem to be leasing as much physical space as they might have before the pandemic, but JLL said a rebound is underway. (iStock.com/gorodenkoff)

Shifting Ground in Washington

Venture capital firms made larger investments in fewer companies this year, with stabilizing interest rates providing a more certain path to transact for buyers and sellers of assets. And the U.S. Supreme Court's June decision in Loper Bright marks a major change in how the courts are likely to evaluate agency rulemaking, said Maarika Kimbrell, a partner at Morgan Lewis & Bockius LLP.

"You can't really talk about life sciences in 2024 without mentioning the decision and its impacts," said Kimbrell, who held a variety of senior roles at the U.S. Food and Drug Administration.

Meanwhile, the FDA policies could be subject to change under a new presidential administration.

David Rosen of Foley & Lardner LLP, who worked at the FDA between 1978 and 1992, said compliance and enforcement concerns are hanging over the agency as a new administration prepares to take over.

Adding to the uncertainty that took hold in 2024, the potential for new leadership at other agencies such as the Centers for Medicare & Medicaid Services should bring a "tidal wave" of other changes to the healthcare industry at large, he said.

Staffing Shortage at FDA

The incoming administration may, meanwhile, show more deference to the industry even as the FDA is struggling to enforce quality standards for a global supply chain, Rosen said, due in part to a shortage of investigators since the pandemic.

Drug companies, as such, may be less concerned with FDA scrutiny of their operations than they once were.

"People were really nervous and scared when they were called in to meet with the director of the Office of Compliance, and they wanted to toe the line," Rosen said of FDA's oversight practices during his time at the agency. "We've seen differences in the enforcement posture at FDA over the years."

The Government Accountability Office found in a Nov. 13 report that the FDA in 2023 conducted 36% fewer inspections of both foreign and domestic drugmakers than it did in 2019, due at least in part to a shortage of investigators. The vacancy rate for such jobs at the agency has grown from 9% in 2021 to 16% in 2023, GAO noted.

The FDA in 2024 also contended with shortages that visited the drug manufacturing industry, Rosen said. In one case, a trade group's lawsuit prompted the FDA in October to reconsider a move pulling weight loss drug tirzepatide off its shortage list, an act that blocked companies from producing generic versions.

Investing in Domestic Space

Concerns over product quality are one force leading some U.S. drugmakers to consider undertaking the expense of investing in more domestic production, Rosen said, even if many raw materials are still made in countries with less stringent environmental laws.

One of his clients, a 70-year-old family business, has opted to invest in its U.S. manufacturing operation as a bid to compete on quality and reliability of sourcing, he said.

"Everybody wants to get the product, but if you can't get it, or if it's held up in customs, that's a big deal in the pharmaceutical and medical device world," Rosen said.

Commercial broker JLL in its most recent life sciences market report from September found that 45 million square feet of life sciences space could be available by the end of 2024.

More than 3 million square feet of sublease space also went on the market in 2024, increasing the availability rate for life sciences space to 30%, JLL said.

Such a disparity between demand and supply caused rents to fall 9% in 2024, returning to their levels in the first quarter of 2022, JLL said.

Richard Lyons, a New Jersey-based real estate partner at McCarter & English LLP, said that along with most tenants, life sciences companies don't seem to be leasing as much physical space as they might have before the pandemic.

"I think it's definitely still a tenant-friendly market," Lyons said.

JLL said a rebound is underway, however, with demand for space growing 3% in the second quarter of 2024.

VC Investment Bounces Back

The first half of 2024 also brought a 34% increase in venture capital investment, JLL reported, another sign of growth to come.

Boston-based Ropes & Gray LLP partner Rajarshi Banerjee said venture investments in life sciences companies for 2024 should beat the total volume from a year prior, although fewer companies in hot areas have been attracting bigger commitments recently.

"It's a bit of a K-shaped recovery," Banerjee said. "If you look at the last few quarters, you've got the haves and the have-nots."

JLL's September report found "mega-rounds" of more than $100 million made up 60% of venture funding in 2024, an increase of 40% from last year. Smaller, early-stage companies are meanwhile seeing just half the deal flow they saw in 2019.

Instead of investing seed money in many early-stage companies as they had in the past, venture capital firms this year have favored, for instance, assembling an experienced management team and making a larger investment, Banerjee said.

In another trend, venture capital firms are also working together to form entities that can license the assets of a pharmaceutical firm, giving it a stable foundation on which to operate, Banerjee said. Western venture capital firms have also recently struck cross-border deals to back Chinese pharmaceutical companies with clinical-stage drug programs, he said.

Emily Oldshue, a mergers and acquisitions partner at Ropes & Gray, likewise said companies with exciting assets — such as those related to GLP-1s or cancer — have commanded high prices for transactions in 2024.

Smaller companies, by contrast, are attracting little enthusiasm as acquisition targets even as high interest rates have made it tougher for them to access capital markets.

As a result, many small firms are agreeing to funding deals that give Big Pharma companies the option to acquire them at some point in the future. In other transactions, parties have shown more willingness in 2024 to form joint ventures or take other means to close deals in a tough environment, Oldshue said.

"People are getting really creative with structures," she said. "The competitive assets continue to be expensive to buy, but people are buying them."

--Additional reporting by Dan McKay. Editing by Haylee Pearl.