

Life Sciences

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clients and investors.

Medicines

Geopolitics

European real estate



Creating space in
face of developing
geopolitics





Adapting to a new normal

Earlier this summer, we made the case that the real estate assets meeting the needs of the life sciences industry in Europe had the potential to deliver attractive risk-adjusted returns to investors.

The drivers are numerous, including attractive demographics, worldwide improvement in income and living standards, and exciting new technologies (e.g., new modal techniques in drug administration and artificial intelligence) that need the right real estate assets to be realized. However, another factor deserves special attention: geopolitics and its impact on supply chains.

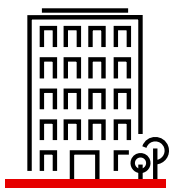
In 2023, widespread medicine shortages took place in Europe, a continuation of a trend from the COVID-19 pandemic. According to the European Association of Hospital Pharmacists (EAHP), 95% of European hospitals experienced some sort of shortages of medicines in 2023, up from 86% in 2014. In 2022, 55% of hospital pharmacists reported more than 10 times a shortage of medicines that have only one manufacturer. The shortages frequently caused delays in patient assistance, suboptimal treatment or altogether cancellation of care¹.

¹ EAHP 2023 Shortage Survey Report
shortages_survey_report_final.pdf (eahp.eu).
Accessed in September 2024.



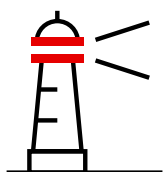
The supply chain in pharmaceuticals is complex and fraught with breaking points

The medicine supply chain in Europe is a complex and multi-layered system, which means that it has multiple potential breaking points.



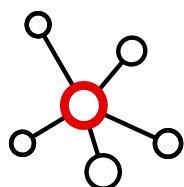
Manufacturing

Medicines are produced by pharmaceutical companies, both inside and outside of Europe. This involves the synthesis of active pharmaceutical ingredients (APIs) and the formulation of these APIs into final, consumable products. Worryingly for Europe, a large part of the API market is supplied by Indian and Chinese companies, exposing European producers and patients to geopolitical risks. Furthermore, almost half of the quality certificates needed for drug APIs to be used in Europe are held by Chinese and Indian companies.² The countries' share of final products is also often large. In 2020, China controlled more than 80% of the tetracycline/doxycycline (a type of antibiotics) supply, nearly two thirds of vitamin B1 and nearly half of all aspirin.³



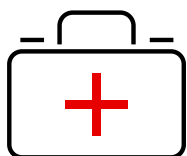
Regulation and Quality Control

The European Medicines Agency (EMA) and national regulatory bodies oversee the approval and quality control of medicines. This includes making sure that drug manufacturers outside of Europe are fulfilling quality standards. And, again, geopolitical risks are abound. Earlier in 2024, western pharmaceutical companies that have manufacturing sites in China ran into issues in certifying the quality of their production because China, on the back of newly adopted Chinese anti-espionage laws, threatened to arrest the inspectors as they'd be collecting data on Chinese manufacturing sites. The German Medicines Manufacturers Association (BAH) was amongst the industry bodies pointing out this problem.⁴



Distribution

Once manufactured, medicines are distributed through a network of wholesalers and distributors. This requires real estate units to store and transport medicines while ensuring they remain in optimal condition.



Pharmacies and Hospitals

Medicines are then supplied from distribution hubs to pharmacies and hospitals, where they are dispensed to patients.

^{2,3} The great medicines migration - Nikkei Asia. April 2022, accessed in September 2024.

⁴ Pharma groups warn of supply crunch over China spying law (ft.com). April 2024, accessed in September 2024.

European governments took notice

To improve supply chain security, European governments have already introduced measures. For example, the Swiss government, in August 2024, introduced measures to ease the imports of critical medicines and to build up and maintain a compulsory minimum of certain medicines in stock in the country. A closer cooperation with producers was encouraged, including increased domestic production capacities of critical drugs.⁵ The EU commission, back in 2023, introduced steps to prevent the shortage building up further. This included planned measures to diversify supply and modernize the production of critical medicines, especially within Europe.⁶ The Commission also wants to reform the EU legislation on pharmaceuticals.⁷ Amongst the aims is to create a true single market for medicines within Europe, to promote competitiveness and innovation within the pharmaceutical industry, improve access to affordable medicines and ensure the future supply of drugs in general.

And most recently, the report on The Future of European Competitiveness – authored by Mario “whatever it takes” Draghi – drew attention to the structural necessity of the pharmaceutical industry in general for Europe:

“Pharmaceuticals is also a sector of geostrategic importance... The capacity to swiftly develop, produce and administer vaccinations was crucial in allowing the EU’s economic recovery.”

⁵ Medikamentengpässe: Der Bund präsentiert neue Massnahmen - News - SRF. August 2024, accessed in September 2024.

⁶ Stepping up action to prevent shortages of medicines in Europe - European Commission (europa.eu). October 2023, accessed in September 2024.

⁷ Reform of the EU pharmaceutical legislation – European Commission (europa.eu). May 2024, accessed in September 2024.



What does all this have to do with real estate?



If European governments plan on making it easier for pharmaceutical companies and wholesalers to design, manufacture and distribute medicines within Europe, the industry will need more real estate to be able to meet such a challenge.

In fact, the market is already short on space. As an example, vacancy rates in wet labs in Europe are commonly around or below 5%.⁸ In-place demand for space that is not being met was around 30% of existing stock back in 2023.⁹ Prime space is consequently seeing strong rental growth – 36% and 15% YoY in Cambridge and Oxford respectively in 2023¹⁰ – despite the around 40% drop in venture capital funding from the peak in 2021 to 2023 on the European level. Furthermore, a vast net of distribution hubs, i.e., warehouses, must be built to meet any government-ordered requirements of minimum stock of critical medicines. That same net of distribution hubs must be able to act as storage hubs for medicines rolling off the conveyor belts at new medicine production points, which also must be built, across Europe if politicians' plans of improved supply chain security is to be met.

There are many things that can go wrong. Perhaps none of the governments' plans will come to fruition and Europeans will simply accept being exposed to increased supply chain risks in the future. But real estate investors focusing on the life science industry in Europe may, in the alternative scenario, be at the cusp of an era where European governments make it easier for them to build much-needed space for European pharmaceutical companies across the whole pharmaceutical supply chain.

⁸ See e.g. [life-sciences---trends-and-outlook-april-2024.pdf](#) (savills.co.uk). April 2024, accessed in September 2024.

⁹ Golden Triangle Lab Space Demand Continues Despite Shortage Of High-Quality Stock | United Kingdom | Cushman & Wakefield ([cushmanwakefield.com](#)). August 2023, accessed in September 2024

¹⁰ [life-sciences---trends-and-outlook-april-2024.pdf](#) (savills.co.uk). April 2024, accessed in September 2024.

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