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Navigating the “patent-cliff”: The role of corporate real estate in the life Science industry

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The Life Science industry is standing on the edge of a "patent cliff." In 2015, the world's biggest pharmaceutical firms stand to lose up to US$47.5 billion in revenues from the expiry of the patents of some of their biggest blockbuster drugs. For example, Celebrex – an arthritis drug which contributed almost US$3 billion to Pfizer's revenues in 2014 – is set to see its patent expire later this year, opening it up to competition from "generic" alternatives which are often sold at much cheaper prices.

This has triggered a wave of consolidation activity within the industry as firms look to replace best-selling drugs whose patents are expiring with newer drugs that have the potential to grow revenues. According to the Thomson Reuters Full Year Mergers & Acquisitions Review, the Life Science industry saw more than US$390 billion in transactions in 2014, and transactions are expected to remain at similarly high levels throughout 2015.

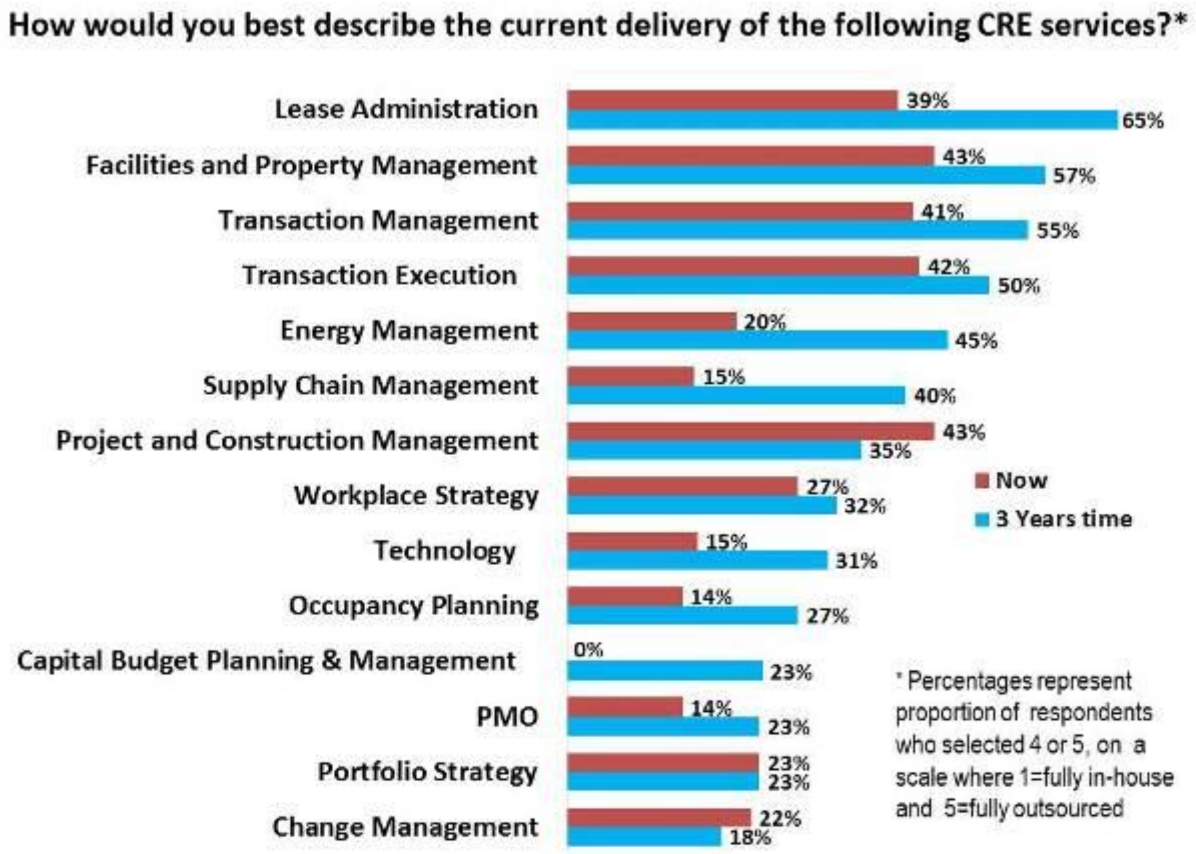
With revenue streams becoming more uncertain, many firms are also focusing on reining in costs to maintain overall profitability. While these cost pressures impact all aspects of a firm's operations, they are being felt more keenly in corporate real estate (CRE). In the 2015 Global Corporate Real Estate Survey conducted by JLL, 92% of CRE executives from the Life Science industry felt that the demand from their senior leadership for them to reduce operating expenses had increased. This represents a marked increase from the already substantial 85% of executives from the industry who felt the same way in the last survey conducted in 2013.

At the same time, a substantial proportion of CRE executives also reported rising demand from their senior leadership for them to deliver across the following areas that could help to further manage costs:

- Increasing portfolio flexibility (71%)
- Challenging the business about presumed space needs (71%)
- Reducing portfolio size (71%)

Correspondingly, CRE teams in the Life Science industry now say that they feel more empowered within their organisations, with 88% of Life Science industry respondents reporting that they have stronger or much stronger mandates now compared to three years ago.

Life Science firms are also making plans to aggressively outsource the delivery of many CRE services over the coming years. According to the survey, significant outsourcing activity is expected to take place from now to 2018 (see figure). In particular, CRE services like lease administration, facilities and property management, and transaction management, which are more transactional in nature, are expected to be outsourced at the quickest pace.



Source: JLL

Notably, the increased demands being placed on CRE teams in the industry appears to have significantly stretched their current capabilities: three out of four CRE executives indicated that they were not confident of meeting all the demands that were being placed on them.

To learn more, click here to download the Global Corporate Real Estate Trends 2015, and also look out for upcoming industry specific content!