

The Rise of Midtech



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Following the pandemic there was a surge in venture capital funding looking to invest in Life Science companies at many points along their journeys. The venture capitalists were less worried about business failure than they were about missing the chance of discovering a unicorn. In 2021, £4.5bn was raised in the UK for life sciences. In 2022, as the macroeconomic picture started to worsen, **the funding taps which were a deluge in 2021 turned towards a steady flow in 2022 with £3bn being raised** (still the second best year on record). By no means has the fundraising dried up, but without a doubt it has become more selective and the "COVID Effect" receded.

Life sciences and property are the meeting of contrasting minds and concept, the tangible vs the intangible, physical vs abstract, Oxford vs Oxford Brookes, but actually when it comes to understanding the real estate, it is the scientists who need the education, as real estate has come second in their minds for too long. Real estate costs were never a consideration for these companies when they had endless funding, but **as the funding pinch starts to be felt across the sector, the cost of the real estate begins to be a question on the scientist's lips.**

As cost becomes an issue, the question that keeps being raised is how we can deliver a value alternative to the full specification research and development buildings where investors have paid £10m+ per acre for the land. The answer is that you can't, but also that this is not a problem, not all companies need to be in the "CBD", there are locations on the fringes that often work much better for companies that are traditionally secretive and elusive. **The value alternative is not a 5 storey fitted lab building with a £500psf base build cost, but it is something close to DTRE's heart....a shed.** 4 walls and a roof with a loading door and a yard. Tenants have been using this product with their fit out for years, but landlords have not been rentalising it, they have achieved industrial rents despite the tenant fit out often being significantly higher in value than the real estate itself.

Is it just 4 walls and a tin roof? It is not quite that simple, life science is about the clustering of minds and businesses, it is about ecosystem creation and it is about access to talent. These buildings have to look the part (see image above). The internal however is less bespoke. It is an industrial shell on the ground floor, with a minimum height of approximately 4 metres to the underside of the mezzanine floor. The mezzanine should cover a minimum of 50% of the floor area to allow an adequate provision for write up space, and be fitted out to Cat A office, as speed to occupation is critical for these companies. The ability to load directly to the first floor is important, and the ability to have heavy manufacturing equipment often requires a portion of the building to be full height. When you pour these ingredients into the melting pot, what you get is mid-tech.

The greenery, the space, the ecosystem, the lack of competing supply all lead to the higher rents. To make mid-tech work, it has to be **located close to the high specification R&D to allow for the clustering effect**, whilst offering a value alternative to the differing business needs of these companies which will include GMP and logistics requirements. There is in excess of 3m sq ft of high value R&D being brought through the Cambridge planning system, and because of this, ancillary and lower value science and technology uses will grow. We will start to see the gap between mid-tech and those for advanced specification laboratory buildings close but there is a lot of headroom. Tenants in most cases where requirements are over 5,000 sq ft prefer to do their own fit out as it becomes more specialised than generic, so a base rent of £25 per sq ft instead of £60+ for a property delivered to them as shell and core will start to look attractive as the funding taps continue to tighten, which invariably they will, and capital preservation becomes increasingly important.

The growth of midtech will come around the life science clusters in the UK, they will come on the points of the Golden Triangle, not within the dark shaded area within the triangle where there is an embarrassing amount of commentary to say the entirety of the triangle has the potential to be a cluster. Until the University of Luton becomes a global leader in molecular biology then it has no life science ingredients at all, buildings on Capability Green do not have a 'life science angle'.

We have seen the birth of the 'mid-tech' sector at Oxford Technology Park and at Harwell, but these parks barely scratch the itch, **the goal is open – developers just need to take a shot.**

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