

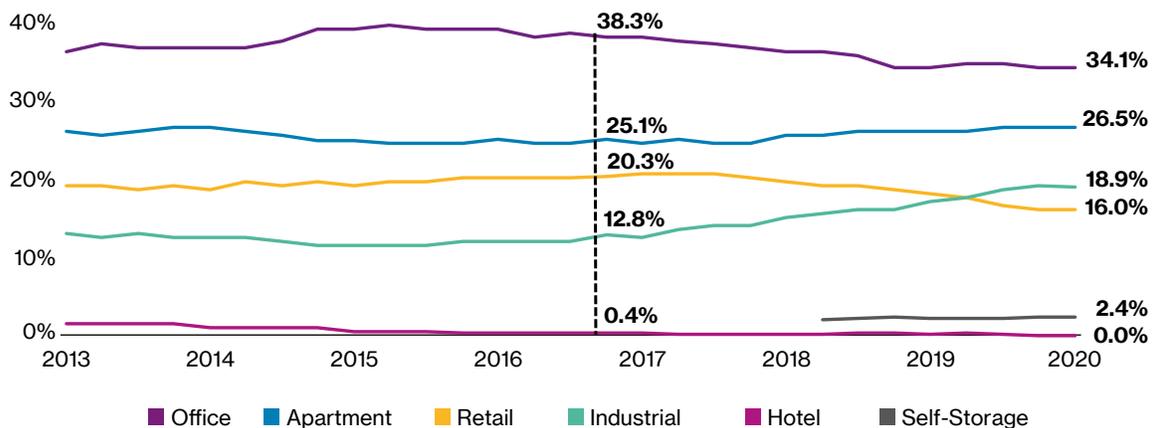
Life Sciences: unique needs, unique spaces, unique investment opportunity



Sweeping changes in social, secular and demographic themes, have created high levels of uncertainty surrounding many traditional real estate sectors. Some of these have been amplified and accelerated by the recent effects and nearer term implications of COVID-19. This uncertainty is challenging the way we think about investing in real estate;

no longer is investing solely in the traditional property sectors of the past the best or the only option for the investor seeking diversifying, risk adjusted value from real estate. Historically institutional real estate investors have held allocations to office, retail and industrial property types while avoiding a whole host of alternative sectors.

Figure 1: Historical Allocations of ODCE Sectors



Source: NCREIF, first quarter 2020. Note: Data labels of weightings are based on fourth quarter 2016 and first quarter 2020.

We believe looking beyond these traditional sectors and adapting your real estate portfolio to incorporate newer long-term themes can help to achieve enhanced returns with an improved overall risk profile.

Thematic investing allows investors to take advantage of longer-term tailwinds while reducing exposure to those sectors likely to experience headwinds, but it can also help to reduce uncertainty in your portfolio by providing diversification as well as potential income stability. As an example, in mid-2018 we recognized and identified a demographic shift and changing behavior of millennials, leaving dense, urban centers for more affordable, larger space which enabled us to pinpoint single-family rentals as an attractive investment opportunity. As a result of how the current COVID-19 pandemic has focused attention on more and lesser attractive sectors within real estate, much has been made of this single-family rental market in the media as one of the largest untapped real estate sectors by institutional investors and the 2020s potentially being the decade of US suburban rental demand.

While we continue to view single-family rentals as an attractive asset class, we believe it's important to continue to seek out additional and emerging opportunities. More recently, we have been excited about life sciences. This includes everything from space to develop pharmaceuticals, to the research and development of biotechnology, as well as the development and adoption of medical technology such as specialized diagnostics and devices. Properties are usually located in clusters near or connected to universities

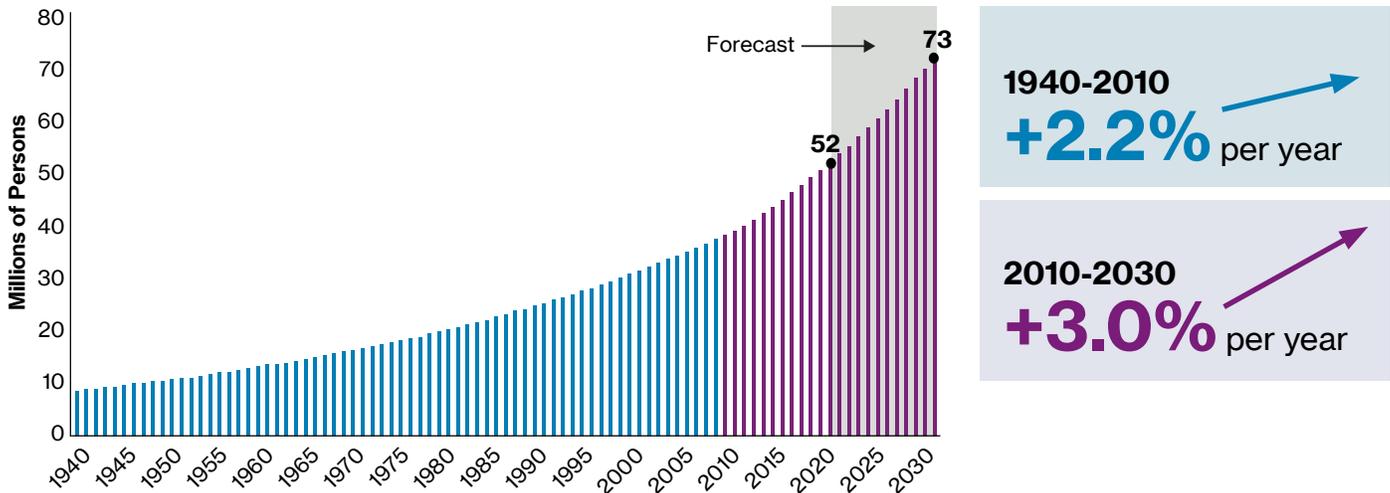


Source: Osborn Triangle – Cambridge, Massachusetts. Harrison Street Capital

and medical hubs and often provide a commercial component (hotel, residential, retail). They are generally rich in amenities as tenants try to keep and attract new talent.

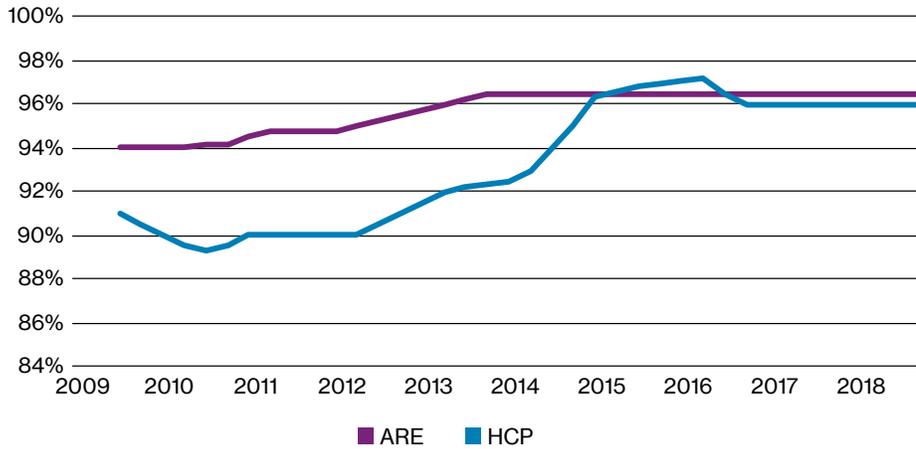
In a world of uncertainty, one of the most attractive aspects of life sciences property is the non-cyclical demand. The specialized nature of the real estate, equipment and supporting infrastructure makes moving locations complicated and expensive, providing for a highly “sticky” tenant base relative to typical office. Life science employment during recent recessions has proven resilient for occupancy. But perhaps even more compelling are the strong demographic tailwinds driven by an aging population in the US, and its resulting implications for the healthcare sector. In fact, the population over age 65 is expected to increase in size by 40% over the next decade. Slightly more near term, as “baby boomers” age, the inevitable increase in demand for healthcare should boost innovation in medicine, new and better medical equipment and more cost effective and efficient medical technology.

Figure 2: US Population 65 and Older



Source: US Census Bureau

Figure 3: ARE and HCP Life Science Portfolio Occupancy



94%

10 Year Occupancy Average
(ARE Life Science Portfolio)

>80%

Tenant Retention Rate
(ARE Life Science Portfolio)

Source: Breakthrough properties, ARE Investor Day 2018, HCP Annual Report

Naturally, these changing demographics have created a massive demand for life sciences real estate, which has only further accelerated recently as a result of COVID-19. Record levels of fundraising for research and development, inspired by advances in biotechnology for unmet medical demands, are pouring in from public, private and corporate sources. Venture capital funding went up by an annual rate of 20% from 2012 to 2018 and funding from the National Institute of Health has increased north of 225% in the last 20 years¹. A robust pipeline of drug approvals as well as regulatory efficiencies in the approval process have boosted employment levels in the last decade by 5.1%,² more than tripling the increase in total employment. However, the increasing demand and expected growth, is accompanied by a limited supply of appropriate life sciences real estate, as well as barriers to increasing that supply. This results in strong fundamentals for the life sciences sector including higher rents, better retention and higher occupancies.

With the current uncertainty surrounding office, retail and other traditional property types, we recommend investments in life sciences real estate to our clients, as well as a continued search for other opportunities in alternative sectors in order to achieve the desired return and diversification benefits from an allocation to real estate in your portfolio. There's a lot of change in the world right now, from digitization of products and services to changing demographics to changing regulation. Portfolio evolution requires considering these changing themes and what asset classes we can invest in that will allow us to capture value from them. Life sciences is just one example, but one that we are currently very excited about.



All of these factors support our view that the growing life sciences sector makes for an attractive investment.

The quality and “stickiness” of the tenant base provides a favorable backdrop for income stability and the supply and demand imbalance driven by strong growth prospects allow for potential rent and value appreciation.

¹IREI, National Institutes of Health 2020
²CenterSquare, September 2020



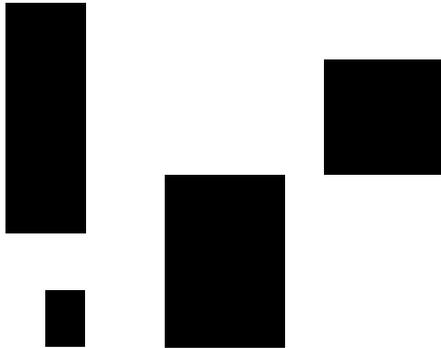
For more information, please contact:

Ben Leach
Senior Portfolio Specialist

ben.leach@willistowerswatson.com

Peter Rogers
Senior Portfolio Manager

peter.rogers@willistowerswatson.com



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