

A land and sector of opportunity: Indian life sciences real estate

Since 2010, India has risen from being the ninth-largest to the fifth-largest economy in the world, overtaking the United Kingdom, France, Italy and Brazil, along the way. It is also one of the fastest-growing countries by national output, with India's real GDP forecast to grow at a rate of 6.5 percent this year, according to the International Monetary Fund. To add to the momentum, there is no sign of this growth slowing in the near term, with huge private and public investments into infrastructure playing a key part in this rapid and sustained growth. One particular area that is emblematic of India's fast-growing economy is the life sciences sector.

There is no question that India is a life sciences powerhouse, but zooming in on key statistics makes the magnitude of the sector in the country apparent. Not only does India dominate vaccine production, contributing approximately 60 percent of the global total, it is responsible for producing almost 40 percent of generic medicines consumed in the United States, along with a quarter of all medicines consumed in the United Kingdom. These figures bring home the sheer scale of the country's life sciences industry.

Projections indicate the sector in India is poised for robust expansion, with an anticipated compound annual growth rate of 13 percent by 2030, propelling it to a value of US\$427 billion. Another telling statistic is that India also has more plants approved by the US Food and Drug Administration than any other country in the world, aside from the United States itself.

The country has several well-established and growing global life sciences hubs, Mumbai, Hyderabad and Bangalore being the prominent ones. Each of these boasts of an existing and thriving ecosystem of diverse life sciences corporations engaged in activities across the value chain, including R&D, product support and analytics, as well as pilot and commercial manufacturing. In addition to a large number of fast-growing homegrown life sciences corporations, global pharma and biotech majors, such as Johnson & Johnson, Pfizer, Novartis and BMS, have significant presence in these hubs. These hubs provide a large talent pool, excellent connectivity, and the necessary infrastructure and policy support which make these attractive destinations for all kinds of players, from startups to multinationals alike.

The sector's continued rise needs to be met with a corresponding increase in life sciences real estate infrastructure solutions, often bespoke, and this creates a compelling investment opportunity for investors. The sector's continued rapid growth partly depends on a strong flow of specialised solutions and infrastructure.

Specialised solutions

Due to the specialised and customised real estate solutions that life sciences companies require to support their research, manufacturing and operational needs, the industry represents a strong investment opportunity for real estate investors with the correct expertise. Take some examples of why the life sciences sector needs buildings tailored to its tenants' requirements: biotech firms need wet-lab space outfitted with complex ventilation,

plumbing, air filtration and hazardous material handling systems; pharma companies require clean rooms, pilot manufacturing plants, and research facilities; while contract research organisations need offices and labs to support clinical trials.

Each of these categories of firms requires real estate that is purpose-built to strict specifications, and demand for these facilities is only going to increase as India's population allocates a larger wallet share to healthcare spend, and investments into healthcare and life sciences continue to rise. Life sciences tenants also tend to sign longer leases – frequently 10 years or more – to justify the significant capital they invest in their real estate, which provides long-lasting and stable returns for investors. Additionally, life sciences tend to cluster together in specialised campuses, creating ecosystems where knowledge, talent and ideas can be shared. This clustering effect produces more opportunities for developers to build out customised life sciences infrastructure.

A winning sector...for those who understand the market

While the opportunities are attractive, it is important to note that not just anyone can develop such real estate. Investors who move into this area clearly need access to a deep technical know-how, and an understanding of the tenant's businesses. Investors also need the reassurance that their partners have in-country experience and are at ease with the precise requirements for these specific buildings. For those that do understand the highly specialised real estate needs across life science subsectors – pharma, biotech, medical devices, contract research and agribusiness research – the Indian life sciences real estate market fills a critical need, while promising attractive returns.

Another area investors must understand is the landscape of the market. The life sciences real estate opportunity in India presents distinct characteristics when compared with that of the United States and Europe, so one size does not fit all. Firstly, instead of focusing primarily on discovery research similar to their counterparts in the United States and Europe, Indian customers typically engage in secondary research, which involves transitioning established innovations into commercial products at scale. Secondly, while many tenants in the United States and Europe are venture capital-backed startups, Indian tenants are predominantly established, profitable and stable companies. Thirdly, as opposed to Western markets where landlords provide fitted-out labs, Indian tenants tend to heavily invest in their equipment and facilities, which, along with a stringent licensing regime, discourages relocation.

Consequently, leases in India are stickier and generally more resilient when compared with those of Western counterparts, who often engage in contracts with break clauses, bringing a bit less stability to landlord's income. It is therefore extremely important to have local knowledge before engaging in these projects.

Huge opportunity but lack of premises

The life sciences sector in India is likely to see a decade of rapid growth, but its real estate needs are already chronically

undersupplied, presenting both a challenge and an opportunity. One of the reasons for this is that there are no mainstream property developers tackling this undersupply head-on, which has led most companies to attempt to build their own premises. This causes several issues.

The first is that to build these large-scale infrastructure projects, these companies have to divert much needed capital away from their core activities, such as research and clinical trials, to property development. As such, it is an inefficient allocation of capital, taking away from areas these businesses would rather invest in. The second issue is that, as these organisations are not real estate experts, they may end up operating in inappropriate buildings for what they are trying to do. This is where real estate investors can step in, with both the capital and the expertise to provide real estate infrastructure solutions of the highest standards.

Actis' investment in Rx Propellant: A case study for success

As a leading global investor in sustainable infrastructure, Actis invests heavily in the real estate infrastructure that enables the "new economy", which includes investing in life sciences infrastructure. Our core investment into the sector in India is Rx Propellant, in which Actis invested in May 2022, pursuing a buy-and-build strategy targeting both greenfield and brownfield assets, with an emphasis on sustainability.

The team behind Rx Propellant brings more than a decade of rich experience in developing and promoting life sciences clusters in India and has been successfully delivering real estate solutions to tenants in the sector through deep design, development, customisation and marketing expertise. The aim is to have a presence across India, with a key focus on three main locations, targeting different strategic segments of the life sciences market across Mumbai, Bengaluru and Hyderabad, managing approximately 7 million square feet [650,321 square metres] under development across nine projects in those areas.

Rx Propellant is developing the Navi Mumbai Research District, which is spread over 16.0 acres [6.5 hectares], targeting tenant needs with regard to research, light manufacturing and corporate offices. Given the city's status as a global pharma hub, hosting the headquarters of many major pharma companies, Mumbai is the platform's flagship location.

In Hyderabad, the platform is constructing five projects within Hyderabad's Genome Valley, India's largest (and first) designated hub for life sciences research and development. It is a world-class facility with top-tier infrastructure, which currently hosts more than 200 companies working to provide innovative medical breakthroughs. Rx Propellant's projects will lead to another 2 million square feet [185,806 square metres] developed, with state-of-the-art lab spaces for tenants.

The third Rx Propellant location is Bengaluru, another major life sciences hub, where a number of prominent and fast-growing Indian contract research organisations have presence. Rx Propellant is helping develop the first phase of BLR District, a life sciences-focused research and innovation district with a potential scale of 2.5 million square feet [232,257 square metres] of built space to be built across a 50-acre footprint, to help provide a destination for innovation and R&D-focused companies, from fast-growing startups to established multinationals.

An opportunity that must be met

India's remarkable economic growth, coupled with its flourishing life sciences sector, presents a compelling opportunity for investors to benefit from the ever-increasing demand for customised real estate solutions.

The world's reliance on India to continue to produce vaccines and medicine is only likely to continue and grow in the long term, and those who are able to harness this opportunity will be strong winners. The current lack of specialised real estate infrastructure, however, poses challenges to this growth trajectory, but also presents a blank canvas for specialised investors and developers to meet the sector's needs.

Through strategic investments such as Rx Propellant, Actis is addressing the life sciences real estate gap – capitalising on this exciting opportunity for investors, while helping create the infrastructure underpinning the sector's continued innovation, collaboration and growth in key hubs such as Mumbai, Hyderabad and Bengaluru. By providing first-class, purpose-built facilities and leveraging local expertise, Actis is positioned to drive sustainable growth and unlock the full potential of India's vibrant life sciences ecosystem, helping provide critical support to an indispensable global industry while providing strong returns to investors.

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CORPORATE OVERVIEW

Actis is a leading global investor in sustainable infrastructure. We deliver competitive returns and measurable positive impact for the countries, cities and communities in which we operate. Our global experience, operational know-how and strong culture allow us to create global sustainability leaders. We do it at scale, and we have been doing so for decades. Since inception, we have raised US\$25 billion to invest in a better tomorrow.

Actis' Asia real estate business invests across greater China, India, South Korea and Southeast Asia, investing with, and providing strategic value to, high-quality operating teams and partners, across diverse property types. Actis' build-to-core strategy continues to capitalise on the mismatch between the demand and the quality and affordability of existing supply. Our local teams identify where this demand is not being met and deliver the desired product at an affordable price and, thereby, create an attractive core asset.

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