Securitized Products Special Topics

Life Sciences: Surveil Your Exposure as Distress Percolates

Life Science Cluster, Tenancy, and Property Age to Telegraph Trouble

Stav Gaon
+1 (646) 768-9173
sgaon@academysecurities.com

Headquarters Address:
Academy Securities, Inc.
622 Third Avenue, 12th Fl
New York, NY 10017

We expect to see some distress in life science exposures, before the sector likely turns a corner in 2026. Life science properties are facing both supply and demand headwinds. Oversupply and rising vacant sublease space are driving higher vacancies and softer market rents. Tenant demand has been sluggish. But the construction pipeline is dramatically dropping. Of the 16 million square feet under construction, 87.5% will be delivered this year, leaving only two million square feet deliveries beyond 2025. The under-construction pipeline has already dropped to 7% of total inventory in Q4 2024, down from 17% in Q2 2023. Tenant demand may also improve amid record life science employment, and a robust pipeline of new drug development. But we believe the demand side is a bit trickier to project considering policies of the new administration.

CMBS life science loans have not yet fully reflected the sector's softer fundamentals. We do not see notable delinquencies or specially serviced situations. But some loans clearly have seen their parameters deteriorating. Borrowers may struggle to make debt payments down the road if the specific properties continue slipping. Examples include the $2.87 billion Biomed Pool A (LIFE 2022-BMR2) and the $415 million Genesis Towers (VLS 2020-LAB). The underlying portfolios of both loans had sharp occupancy drops, from the high 90s at issuance, to low 70s as of last reporting (Figure 1). In Biomed Pool A, DSCR is near a breaking point, at 1.0x. The Biomed borrower just exercised a one-year extension option, according to fresh servicer commentary. In turn, Genesis only matures in October 2030.

Figure 1. Life Sciences CMBS Parameters Soften

Deal	Current Balance ($MM)	Payment Status	Most Recent				At Issuance		
			Occupancy	Net Cash Flow ($MM)	DSCR	As-Of Date	Occupancy	Net Cash Flow ($MM)	DSCR
LIFE 2022-BMR2	2,875.0	Performing	70.0%	209.1	1.00	Sep-2024	95.5%	238.4	3.11
CAMB 2019-LIFE	1,170.0	Performing	95.0%	134.1	1.49	Dec-2024	99.0%	94.9	1.76
LIFE 2021-BMR	713.1	Performing	92.0%	103.8	0.76	Sep-2024	97.1%	135.4	4.11
VLS 2020-LAB	415.0	Performing	72.0%	38.8	3.50	Sep-2024	94.3%	43.6	3.96
BX 2023-LIFE	400.0	Performing	67.0%	19.5	0.89	Sep-2024	100.0%	38.0	1.67
DBGS 2018-BIOD	308.9	Performing	65.0%	34.2	0.72	Sep-2024	89.2%	69.1	2.97

Source: Morningstar Credit and Academy Securities

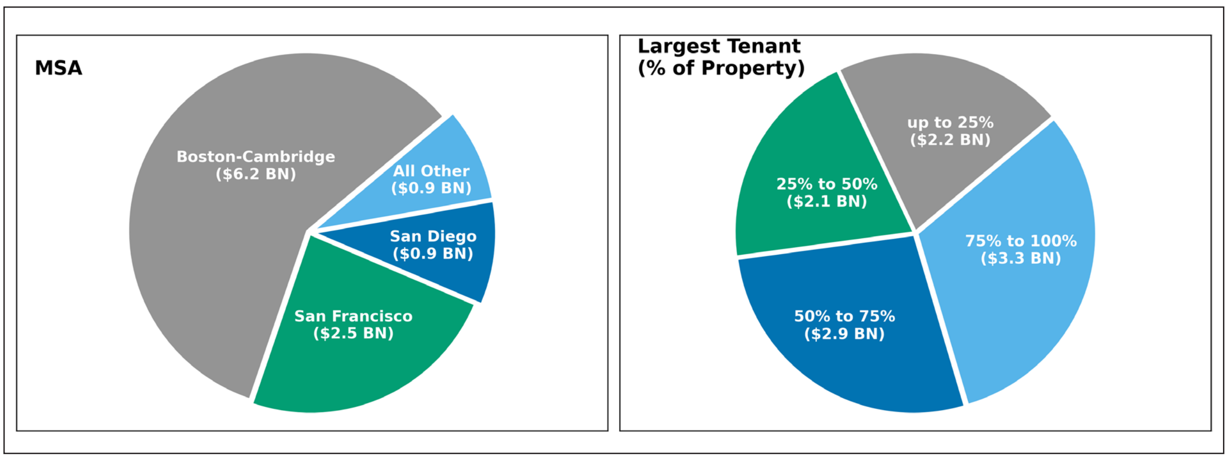
Pros and Cons Across Life Science Properties

We see several aspects currently telegraphing trouble across specific life science exposures, along with potential mitigating factors:

- **Weakness acute at top life science markets...** Some of the key fundamental parameters strikingly differ across the various life science markets. The top-3 clusters – Boston-Cambridge, San Francisco Bay Area, and San Diego – recorded especially weak trends compared to other areas. For example, the top markets had 5.3 million sf negative absorption since 2023, according to CBRE. In contrast, the other 10 major markets had 1.9 million square feet positive net absorption over this period. Vacancy rates and rents have also been significantly weaker in the top markets (top-3 – 22% vacancy in Q3 2024; other primary markets - 12%).

  CMBS loans have elevated exposure to the top-3 markets (Figure 2, left). Recently issued deals, such as the $535 million BX 2025-BIO3, epitomize the exposure. BIO3's underlying eight properties are all located in the top-3 markets. Some of the CMBS concentrated geographic exposure just reflects the dominance of the top markets in the life sciences sector, and the preference across some of the landlords in those markets for CMBS financing. Still, the relative fundamental weakness in the top markets could be pronounced in securitized properties.

  Figure 2. CMBS Life Sciences Exposure by Clusters and Tenants



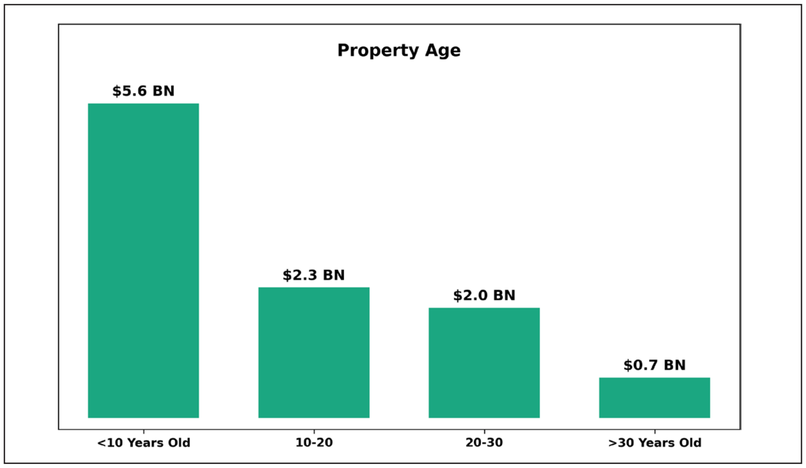
  Source: Morningstar Credit and Academy Securities

- **...But clustering still beneficial in the sector.** Despite the fundamental challenges, the top markets appeal to life science tenants, the "clustering" benefits, could offset some of the weakness. The sector has seen some "de-clustering", where new markets emerge as life science hubs. Examples include Indianapolis, IN, Phoenix, AZ, and major cities in Texas. But the de-clustering momentum in life sciences appears less powerful than in data centers.[1] The proximity to top academic institutions and a pool of specialized life science labor, play a critical role in hub strength. In contrast, aspects such as power availability or zoning regulations, that more easily lend themselves to de-clustering, play a more significant role in the data centers sector.

1 "Power Costs: Data Centers and Recovery Bonds Poised for More Predictability," Securitized Products Special Topics, Academy Securities, March 10, 2025

- **Single tenancy especially concerning…** We see a high percentage of single-tenant properties in recent life science deals (Figure 2, right). For example, in BX 2025-BIO3, 78.3% of the properties in the portfolio are leased to a single tenant. One of the single tenants in the deal even went dark in August 2023 (the tenant is still performing on its lease, which expires in December 2027, according to deal documents). In TPG 2024-WLSC single tenant exposure is 38.3%. Of course, the concern over single-tenant properties is not unique to life sciences collateral. But given softer demand and specialized needs of life science tenants, it appears single-tenancy presents a particular concern for outstanding life science loans.
- **…But specialized spaces may mitigate single-tenancy risk.** Unique regulatory requirements, and the very specialized nature of lab spaces, may make some life science tenants "sticky". The 7 Powder Horn Drive property ($16.5 million, BBCMS 2020-C8) offers an interesting anecdote. The single-tenant property in Warren, NJ, received an FDA license for vein-to-vein biological production of immunotherapy treatments. Such licenses, which require many years to obtain, are not transferable between locations, according to deal documents. As such, this could reduce lease termination risk at the location, as long as the tenant needs the license. Such site-specific attributes echo "mission critical" or so-called "sciffed" buildings. Sensitive Compartmented Information Facility Use (SCIF) buildings face lower termination risks, as we previously discussed.[2]
- **Old properties at risk...** Another familiar risk, property age, may also afflict life science properties. We see relatively old properties in a sector that may be especially prone to space obsolescence (Figure 3). For example, TPG 2024-WLSC features properties originally built in 1960 and 1961. The deal's overall portfolio has an average year built of 1973.
- **…But frequent renovations may reduce obsolescence.** Deal documents emphasize repeated renovations of older properties. The 1960-built property in TPG 2024-WLSC, 225 Second Avenue in Waltham, MA, was renovated in 1999, 2018, and 2023. Still, such relatively frequent renovations underscore some of the challenges for investors who are not specialists in life sciences to assess property obsolescence. It is not clear why such renovations are needed, and what determines their ideal frequency. This again brings up a comparison to data centers, where investors may also grapple with assessing obsolescence in a rapidly changing sector.

Figure 3. CMBS Life Sciences Exposure by Property Age



Source: Morningstar Credit and Academy Securities

2 "Government Tenants: Short Termination Notices and Specialized Properties," CMBS Credit Focus, Academy Securities, March 22, 2022

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