Tim Schoen:

We look at the tailwinds of the industry which is continued capital and investment in the industry, and then you look at the amount of space that's really on the horizon and instill signals that we've got a tremendous amount of demand. We might have to update some facilities over time or put some additional investment in the space, which is why the return is attractive. We're willing to make that investment in the space for the second generation or third generation tenant and really drive the returns for our owners, but also provide the state of the art, state of the market lab buildings as they're doing their research and their needs change.

Matt Slepin:

Hi, this is Matt Slepin and welcome to Leading Voices In Real Estate. Today's episode is a conversation with Tim Schoen, the CEO of BioMed Realty, a Blackstone company, and one of the industry's leaders in life sciences and technology focused real estate. Tim joined the company as CEO when Blackstone took the company private in 2016. We interviewed the former CEO of BioMed, now the executive chairman of IQHQ, Alan Gold, back in November of 2020. One of the pleasures of Leading Voices, and frankly one of the pleasures of my day job and search at CRG is getting to know leaders of companies in disparate corners of the real estate business and drilling down to get to know the drivers and dynamics of those businesses, especially in these fascinating niches, each of which has such a different business model, different customer base, and really different specialty skills within the team to make it a market leader, not just a dabbler in their business.

That's the conversation with Tim and you hear it in the discussion. Yes, he's a deeply experienced real estate and capital markets professional, but now he's also a true business leader within the biotech field, which has its own fascinations. The other thing I heard from Tim, which when I got into doing the podcast and also when I got into doing search was a bit of a surprise, which is that many, although not all of the leaders in our business, lead with humility, joy, and intellectual engagement, much more than bravado and a deal-first orientation. Tim talked about that a lot towards the end of our conversation, where he talked about always learning, the contributions he sees for real estate around carbon, his leadership of his team, and his service on the Salk Institute Board. I feel a lot of these things myself. It's a blast and a privilege to get to engage deeply in these more strategic and impactful parts of the business.

For me, having merged Terra Search into ZRG Partners and seeing our search business on a broader plane, and I will admit at a fairly mature part of my career, it's indeed not about the next transaction. But it's about that delightful stuff where you get to lean in with the wisdom gained over the years into helping interesting clients solve challenging and exciting business transitions. You'll hear that same engagement through most of these Leading Voices interviews, particularly today's conversation with Tim who is such a great leader in the business. I hope that you're enjoying the show. As you hear at the end of every podcast episode, please share this episode with a friend, scroll through our archive and find a few episodes that you've not heard before, rate us on your favorite podcast app, and if you want to get in touch, feel free to email me at mslepin@ZRGpartners.com. I hope that you enjoy this conversation with Tim Schoen.

Tim Schoen, welcome to Leading Voices In Real Estate. This is our second conversation about life sciences on the podcast. I interviewed your predecessor at BioMed and now CEO of IQHQ, Alan Gold, back in November of 2020. Obviously these two years have been incredibly meaningful in your business with continued changes up until today even, with a new major law in America for the Inflation Protection Act, which might have something to do with drug prices too. So, we have a lot to talk about. And maybe the best place to start, because I'm going to just drill down in questions, but if you could introduce yourself and your company briefly and then we'll get rolling into it.

Tim Schoen:

Yeah, well thanks Matt. Thanks for having me. I'll try to do my part as part due here of life science. But we've got a pretty significant franchise. We are the largest owner of life science in the world with a platform that spans two continents, both here in the United States and the UK. And we run about 20 million feet including development. And we operate in all the core markets. The ones that you would expect us to be in life science, Cambridge, San Diego, San Francisco, Seattle, we do have one campus in New York, Cambridge UK, about 45 minutes North of London. And then we added about a million feet in a campus, 22 buildings in Boulder, Colorado.

So collectively we serve about 300 clients in those markets, the names you would recognize, the Pfizers, the Abbvies, the Takedas, the Luminas of the world, along with some of the world's leading research institutions, Harvard, MIT, Stanford Health, and then several tech companies that you would recognize as well. One that has fruit as their logo and some of the technology companies, the new EV vehicles, both Lucid who has the automobile the Air and Rivian the truck company. So, we have a combination of the world's leading biotech and technology companies in the portfolio.

Matt Slepin:

How do biotech and technology fit in? And then also, how do you define biotech, which is not what you used to do at your prior job I think in medical office and nursing homes, but it's all a continuum of space? So talk about what defines your part of the space.

Tim Schoen:

In terms of life science, biotech space, we're really focused on the drug research aspect, medical device. There's also agricultural research in the life sciences arena. And then I think we really have a front row seat to I think one of the most powerful waves in business today, which is the confluence between technology and science. And you see some of the big tech companies coming in with some of their subsidiaries, but data sciences, big data, things like that. There's that confluence between basic research and tech.

Matt Slepin:

And the market's off. So I want to talk about that, but with the comment that it seems to me that this market is only growing. It isn't going anywhere. I read near term science fiction and I'm so excited about everything that at least science fiction says is going to happen and it is. So, talk about maybe a COVID bounce and then if there's now a downturn or a correction. And how do you perceive that?

Tim Schoen:

Yeah. A short, pithy statement would be we haven't cured the human condition yet, but there really was a COVID bounce I think, if you want to call it that. But we were sort of known as the other tech, other than the big technology companies. And obviously with the pandemic front and center the last several years, I think that's flipped. People have asked what's the humanity cost of a pandemic? So, it's put the science front and center. And so there was a lot of investment that came into the space, both into companies and into real estate, because people really, they realize that you can't do science and research in your bedroom or in your kitchen. And you really do need the facilities and the research facilities to continue to advance the science. It's a couple of times that this asset class has been tested through the great financial crisis and then with COVID.

So, we did see a lot of capital come into the industry over the last couple of years, both in VC funding and companies that also chose to go the public route. The public route, as you mentioned, the capital markets have been tougher. So, we haven't seen as much in the IPO front, but we still continue to see a tremendous amount of VC capital get invested and money raised. ARCH Ventures, for example, just in the last month or so has raised $3 billion on the back of another $2 billion fund that they had raised. So examples of how the VC market is still very healthy, very sticky, and still very invested in this sector. The capital markets will shut off from time to time. And I look back in '08 and '09, there were 18 months where there wasn't any biotech IPO and then Ironwood made it public back in 2009. So, we've had periods of time where the capital markets have shut off and this is no different. But the industry is still strong. The science will work through cycles.

There's a tremendous need from not only new therapies, but larger biotechs or larger pharma that's looking to replace drugs that are coming off patents. So, they're continuing to invest in the industry as well. They invest well over $200 billion a year approaching $225 billion a year and they're replacing their pipelines and research in new therapies and drugs. So, they're in the process of investing and continuing to invest in the future. As they face a patent cliff that's probably $200 billion a year in sales between 2025 and 2030. So, there's a tremendous amount of investment in tailwinds. And then with the Biden administration, you've seen a continued investment from the NIH in terms of funding. And then the FDA has been active, keeping up with the new technologies and advancing and improving drugs. Used to be say 30 some drugs a year, they now average close to 50. So, they've been very active and making sure that they obviously maintain the safety as well as the efficacy of new therapies that get advanced.

Matt Slepin:

So, what are the headlines about that says there's a slow down in this market? Again, we'll come back to the long term viability and excitement of it because I know it's there. Did companies grow too fast? I think you used the word in our call earlier about a barbell of kind of small versus large versus medium companies.

Tim Schoen:

Yeah. There's been a little bit of a pause over the summer as the capital markets have gotten more difficult. And really the capital markets have been difficult for say a year or so,. But we still see the larger companies that you mentioned before or you mentioned the barbell that I mentioned. So barbell and demand. We're seeing one side, the big biotechs that are continuing and big pharma that's continuing to take space and then the smaller, newly formed VC companies. In the middle are maybe the companies that were had made it public or went public in a more favorable environment or the longer funded companies that have been VC backed for a long time. Those companies will have a harder period of time. So, the net effect of that is you see a slight pullback in demand, but demand levels that are still above the COVID spike that you just mentioned.

But look at the bigger deals that have been done in Boston, I'll use that market as an example. Recently, AstraZeneca just announced 450,000 feet that they're taking in Cambridge in Kendall Square. We announced Takeda, which is 600,000 feet in Kendall Square. Merck's continued to hire in advance. Sanofi's continued to grow. So you continue to seek growth from the bigger companies. And then the smaller biotech companies that may be taking 25,000 to 35,000 feet out the gate. And then the ones in the middle where the slow down's been, they're waiting for the next day to read out, the next milestone before they commit to additional capital or additional infrastructure.

Matt Slepin:

My company ZRG does a lot of recruiting directly and through our subsidiary, Toft Group, in that space. And I know that volume is somewhat down. One of the comments carefully said is that some of these companies grew ahead of their skis in terms of management capability. So they were growing to just do the science, but they didn't really know how to run a company yet.

Tim Schoen:

Yeah, I think there's obviously a lot of experienced management teams out there, but folks, the layoffs always make the headlines. But that talent will get recycled into those core markets and end up back with companies that are better funded. And I think that's a good thing longer term for the industry because we do still see positive employment growth, but it's not quite on the clip that it was.

Matt Slepin:

Oh, that's interesting. So therefore employment growth continues the need for these professionals. They may lose this job, but they're not going to lose their careers, given the continued growth of this. And then what's the underhang or overhang of space and is space a constraint or is there too much space in some places? Then we'll talk about core markets too.

Tim Schoen:

Yeah, you might accuse me of talking our own book here, but I'll let the statistics speak for themselves. But listen, we're still very, very space constrained in the core markets. I think people are acknowledging the slowdown in some of the demand. But for example, we track across our markets over 12 million square feet of demand that's active in the market today. To give you an idea that's actually higher than we were at the end of 2019 before COVID hit in early 2020. So, we still do see a tremendous amount of demand. And when I say that it's resource constrained, on average the markets I mentioned at the kickoff of our call are about 1% vacant. So, those markets are very, very constrained. There's more supply that will be delivered over time, but that'll deliver over the next two to three years. But when I say that they're constrained, even in this environment, they still are very, very constrained. So, that gives you an idea how far in front of the curve tenants are still getting and businesses and research firms are still getting to take space in the core models.

Matt Slepin:

Talk about key swipes. Talk about work from home. When you say 1% vacant, San Francisco, I don't want to know what the number is in San Francisco for office. But everyone's scared of what office is going to mean post COVID, particularly San Francisco's biggest question mark market. What are key swipes in your properties as compared to traditional office?

Tim Schoen:

There's definitely more flexibility on the business side for the folks that might work in finance or human resources or some other sort of business development function. They probably have some more flexibility, but our labs are as active as they've ever been. And the key swipes that you mentioned, those folks are in and they probably make up 60% of the building. And then there's some more flexibility I'm sure for the support workforce. But our buildings are much higher occupied than say a San Francisco office building that might be 20% or 25% of what it was traditionally.

And look at the backdrop of the industry too. The number of clinical trials that we have today are higher than we had pre-COVID. The number of different therapies that are being advanced was call it 4,000 five years ago. It's now 6,000. So the number of targets that folks are going after, technologies folks are using to address conditions is up tremendously, up 50% over the last five years. So, the clinical trials are back to where they were. The amount of research that's being done is higher than it was and has continued to climb. Obviously the clinical trials were definitely affected over the last couple of years, but they found different ways to advance those trials in the environment we exist today. So, those are the things that are backing up the demand for the research and demand for the space and the infrastructure.

Matt Slepin:

If we think about infrastructure, how much has government grown to deal with the demands on it to approve these things or to support these things? Are they with the growth or are they the constraint even maybe worse than spaces?

Tim Schoen:

Yeah, they've definitely grown. The FDA has definitely increased its capabilities and its ability to approve drugs and the teams that it has in place. The NIH funding has continued to come up, not only in research, but on the clinical side. And you've seen the government obviously stockpile a tremendous amount of vaccines. So, the amount of money that's gone to vaccine research has increased. But by and large, the increase in the demand and the demand that we see from life science is really coming from private companies and really driven by private companies, particularly in our space or the space that's needed. It may be associated with an MIT or a Harvard or a Stanford or a Cal, but it's actually being driven by funding in the private market, much less than the government. Although the government's obviously been very active.

Matt Slepin:

But the FDA still could be the bottleneck of getting things approved. So, therefore they may not make it through that process, which has always been a challenge. Although we proved something during COVID that you can move quickly.

Tim Schoen:

Yeah. Yeah. I actually looked at the glass half full. I think the number used to be say 30, 35 a year have gone up to 50. The FDA has an important job too, to make sure that they protect not only the safety, but the efficacy of what gets approved. And they need to do that in a prudent manner.

Matt Slepin:

And maybe they've learned new muscles because of COVID. So, let's talk about competition isn't the right word, but everyone in their brother two years ago switched their office developments to life science developments. And maybe they're still delivering that portfolio, but they're not in this business every day. So, talk about some of the benefits of being in this business every day, some of the risks of not really understanding this business. And then is there a supply wall coming up that may hurt demand or may hurt vacancies and stuff?

Tim Schoen:

Yeah, there definitely was a lot of headlines about buildings being converted from office to lab. We've said before, and I don't mean to make it overtly simplistic, but all lab buildings can be office, but not all office buildings can be lab. So, let me explain that. So basically the building has to have, and I've used this term a lot and I'll use an anatomy analogy, not to be too cheeky, but you have to start with good bones. You have to start out with the right clear heights and the ability to have the right live loads on the floor. So, you have to start out with a good structure and good bones and not all of the office buildings have that. So once you start with that, then you add in the robust mechanical, electrical, and plumbing systems. And you're putting that in throughout the building. Call that the circulatory system of the building.

And then you're eventually going to put in the tenant improvements the lab benches, the fume hoods, some of the specialty rooms. So as a landlord, you really have to make a serious, serious investment and commitment that buildings qualifies a purpose built lab building. Then on top of that, you may decide to do that, but I think this asset class uniquely belongs in a portfolio. One of my favorite things one of our presidents says is that when you come to into the BioMed facility is that you really get 20 million square feet of options. It's not just the 25,000 square feet you're taking because we have gone deep into those core markets that I mentioned at the top of the discussion. And that I think is really powerful if you're a company.

And then not only that we have 300 professionals that come to work on this asset class every day. Matt, we've made the mistakes. We've learned over the 16 years for most of us have done it before that. So over the last 20 to 25 years, we've learned how to build this stuff the right way and design it the right way. And then not only that, support our clients so that they know that they're in a building that's purpose built and they've got a landlord that's used to helping them run mission critical real estate. So for us, that's very important. And I think if I'm on the other side of the table, I'd want to know those things. So, you can always try to convert a building or make an announcement you're going to convert a building, but we can do it with the fact that we have a portfolio so we can program your space efficiently and help our clients program space efficiently. And then we can back it up with the operations over the 5, 7, 10, 15 years that you're going to have a lease with us.

Matt Slepin:

I'm friends with Bill Stein who runs Digital Realty, so data center company. And he's really fond of talking about his team. They're not a real estate group. They're a technology company and they do real estate. So, most of his team are more tech people talking to their tenants, serving their tenants, understanding those needs. How about your team? How much of it is specialized folks versus generalist real estate investment folks?

Tim Schoen:

Yeah, I'd say they're more specialists over time. For us example, I'll use our facilities team and we've had people that are used to running hospitals, for example. We have one, the head of our facilities actually nationally ran Gillette Stadium for the Patriots and the Kraft family. So, they're used to running mission critical real estate and that's really important. So, we are focused a little bit more in the sticks in the bricks. And I use the word infrastructure. I don't just throw that around, but I think that's an important piece of what these companies need. They need the real estate to be the infrastructure that they need to advance their science. And we've always said this, we can focus on that real estate. We're a little bit different than Digital Realty. We are serving a specific industry, but we do focus on the real estate and the design and the efficiencies and the ability to make sure the buildings are robust enough for our clients.

But then they get to focus on their science. So, a little bit different than a digital company. They're going to decide how to design their trials, how their research is going to work. We don't get into that as much. Although being part of the Blackstone ecosystem, we do have Blackstone Life Sciences. Who's actually invested billions and billions of dollars into the industry. So, we get to work with them or help them and some of their clients, but also share information back and forth. I use the term, I will use a tech term here, I think we've created the killer app here because we are invested with Blackstone in the industry. And then they're also invested in the real estate and the infrastructure and together that's pretty powerful. And we can make sure that we're trying to understand our clients and our science as well, but we can also try to service them or trends that we see in the industry.

Matt Slepin:

So, you're getting ahead of where I wanted to be, but let's just go there. So, I want to talk about Blackstone and how they acquired you. And one thing we talked about the other day is I always viewed Blackstone as buy it, fix it, sell it. And they've really changed that model, I think probably because of different capital sources that allow them to be long term. But talk about when they brought you what their goal was and was their goal always long term and then what their ownership or whatever it is now means?

Tim Schoen:

Yeah. Well, you said buy it, fix it, sell it. That used to be on their website six years ago. So Matt, I don't think you're that far off, but I would modify that a little bit. But I'd say buy it, fix it, build it. Buy it, adjust it, build it. However you wanted define that. But they have gone to platforms. I would say that this was always a conviction industry for them, as soon as they got into the real estate and they realized the opportunity that was here. And this along with logistics, housing, multifamily, those have been conviction investment themes, but obviously we were in a different fund at the time. But now, and I think this is important for our tenants, is that we're in an evergreen fund. BioMed is in its own fund. We do have the ability to service our investors with Blackstone and our LPs that own us so that they can meet their investment mandates.

But the franchise itself is in a long term investment. It is a platform, much like the other platforms that Blackstone's created. That's newer than maybe it was six, seven years ago. But we're really investing in the management teams and the infrastructure, our infrastructure, our systems, and our teams, and making sure that we can grow and support the portfolio. And there's tremendous value in that and experience. So, the philosophy has definitely changed in that regard to building some of the most robust platforms in the world, whether it be Lincoln in industrial, BioMed in life science, LivCor in multifamily. They've really created some pretty powerful franchises.

Matt Slepin:

And talk a little bit more about that because I am curious, but you've been in public companies. So if you think of public company having long term forever ownership in a real estate class, they do build an operating platform that's going to persist. We had Mark Parrell from EQR on the show a couple months ago and that's what EQR has been for a very, very long time. I don't think of a Blackstone portfolio that way. But in the fund that you're in that is perpetual, then you get to do that and you are the leader in your space leased by square footage.

Tim Schoen:

Yeah. We're definitely, on the private side, we're definitely the largest owner. There's been definitely a focus to create that in the management teams. You talk about Mark there, obviously a blue chip REIT, Mark Parrell a blue chip REIT at EQR. I've been in the public markets for 20 years, nearly 23 years I think. I've done 79 earnings calls. I've been involved with 79 earnings calls. So just one short-

Matt Slepin:

You're counting.

Tim Schoen:

Yeah, but who's counting? All the way back to my analyst days. But I think for us, the private wrapper, if you will, there's no difference in how we manage or service our clients. We've got access to capital. We're fortunate enough, I like to say when we talk to our clients that we're an international platform with a world class sponsor and we get to benefit from those different boots on the grounds in the different locations. We get to leverage the real estate professionals around the world at Blackstone. So again, that's pretty powerful. But building these platforms and building the management teams, it's not just the providence of the REITs anymore. And we get the advantage, there's advantages to everything, but we have the advantage of being able to come in and focus on the real estate every day, which is the part that this team really enjoys. The public markets are fine too. But the one advantage we have is we're focused on the real estate and we've got a great set of investors and LPs that are supporting us. So we're not fighting for that capital every day.

Matt Slepin:

Great. And let's talk about the same ecosystem for a minute and talk about being in a niche business versus a mainstream business, like multifamily or industrial. Do you get to premium price for investor returns? And then also, is there a value add in your rent that you can ask because you're the class A player and what you're doing and they have some better comfort having someone who knows how to be such an institutional owner for them?

Tim Schoen:

Yeah, I think, well, there's two things there. I think, listen, we're a great value proposition for our investors because we are going to invest in the real estate. We are going to drive investment in the real estate. What that'll create is the ability to charge the rents that are associated with that. So, that's the return for the investors. But we're also providing the service to our clients so that they can move in and utilize space and do their research. And as their needs change, they can move out at the end of the lease or go onto another facility that we can build for them. And they don't have to have all that capital tied up.

But we are able to drive the rent because we're investing heavily in the space. And we're helping our clients get to research quicker, get to the lab, get to the bench, start doing research, and then know that they don't have to maintain or continue to update the real estate that they can focus on the research. So, we can drive rents and returns because we're investing heavily in the space, but we're also a value proposition for the clients so they don't have to tie up a bunch of money in real estate.

Matt Slepin:

So another thing I think of is if I'm an early stage company, I want to be with the best venture capital firm that I can be because they add value to me, not because of their money, but because of their intelligence and their market knowledge. So, I'm going to weather the storm and weather my cycles and my growth path better with them. And I'm wondering if there is the same for you. And I'm going to mash this up with a second question, which kind of incubator space, WeWork space shared space in your industry. So, talk about how the flexibility of your offerings may get to some of those points.

Tim Schoen:

Yeah. We provide space from the 600,000 square foot single tower to a blue chip all the way down to say 15 or 20,000 feet, maybe even 5,000 feet in some cases, a couple of our properties, more early stage companies. But behind that is, and I'll rip off another term that we talked about through COVID, having stain power. You mentioned it, having the stain power through the cycles, but then also the fire power and the ability to continue to invest in the real estate and expand the portfolio in the markets that continue to need the infrastructure. So, we have both.

And then in terms of smaller incubator space, we do have some of that in our portfolio. We do have a couple of operators actually that do that. One that does it very well, a group called SmartLabs that's based in Boston, but has a presence on both coasts in the United States. And we provide services as well, not on an incubator level, but services to our smaller clients that need it in terms of helping them design their space, working on their programming. We have our facilities, property management, and our development teams that can help out with that. So those are the things that we focus on, but we don't necessarily focus all the way down to a really small bench in a real.. One of the groups in our portfolio uses a term, two people in a molecule. They happen to say two men in a molecule because it rhymes, but two people in a molecule. We don't go down to that level, but we do service clients across the spectrum and then when it gets to the real small incubators.

We've even worked with somewhere like the UCSD, a great example. We built the Center for Novel Therapeutics on the UCSD campus, 140,000 square foot building. It's got two of the permanent cancer researchers, Dr. Kipps and Dr. Carson that work at UCSD. And they're focused and their teams are focused on cancer research, but it also has an incubator component to it. So, we have a group called LabFellows in there that provides some incubator space to some of the smaller startups at the university.

And then I'll jump all the way across the pond to the UK, where we're on the Babraham Research Institute, where there's a lot of small companies and they needed scale up space. So, we helped provide scale up space so those clients could go from 2,000 to 3,000 feet up to say 7,000 to 12,000 feet all the way up to 25,000 square feet. And we provided scale up space on that campus. So, those are examples of where there's true, basic research, both on the West Coast of the United States and in the UK where we provided space for those smaller companies. Hopefully it gives you an idea and a feel for...

Matt Slepin:

Yeah. What does a scale up space mean? And how do you do that? And in your portfolio, does that let you move someone as they quickly grow, hopefully, to the next space? Is that in the lease? Is that just structured, but you are able to be flexible for that? What's the...

Tim Schoen:

Yeah, I'll quote one of our other presidents, "There's not one prescription for all that ails." But let's say I'll use the UK example there where the Babraham Research Institute's been around a long time, been around for decades, advancing biotech research in the UK. They had smaller spaces and smaller tenants. And as they grew and they were successful, they needed space. And they used to have to go try to find space in and around Cambridge. Well, with their foresight, with the Babraham research campus and the gentleman, Derek Jones, who runs that campus, they recognized the need to try to retain people on the campus and needed some capital. So, we partnered with them to build two buildings, about a 100,000 feet that were much bigger on the campus than they had traditionally had. They had say 5,000 square foot buildings, 10,000 square foot buildings.

So, we provided bigger buildings for scale up space so that they could come out of the smaller buildings into a bigger building, more efficient operations. And then you mentioned Matt, now that tenant that goes to that level, now they might need 50 or 75 or a 100,000 feet. Just down the road we have Granta Park, which is another purpose built research campus. And that's home to Illumina and Pfizer and Takeda that some of the more blue chip names. So as people grow... Altos is another one that's come to that campus. So, you think about the offering, you're in Cambridge and you can move through different campuses as your size and needs grow.

Matt Slepin:

Talk about your core markets and the power of those core markets and the markets you got out of and why that was. And do those core markets then persist in this business? Because I bet there's all kinds of reasons they will.

Tim Schoen:

Yeah, listen. We were in 17 markets or so when we went private. And I've used the term, there's nothing wrong with Miami, Florida or Providence, Rhode Island or St. Louis, Missouri. Those are great markets. And I operated in them in the medical office business previously, but we just didn't see a lot of growth there. So, we chose to recycle the capital so that we could put it back into the core markets of San Diego, San Francisco, Boston, Cambridge, and Cambridge, UK. I don't want us to forget about Seattle because that's been a growing market for us, but we chose to recycle the capital back into those markets and grow there because we could be a more effective team in those markets. They had deeper demand and we could really grow our portfolio offering. So, that's the reason we decided to do it.

Also it's the ecosystems that exist. And people say, "Well, what does that mean, an ecosystem?" You mentioned the medical office days, back in the medical office days, I'd like to be in the shadow of a hospital. Now we want to be in the shadow of research institution or researchers that are in the area. So, it starts with the research and the researchers. And then you start with the commercialization of some of the science or maybe taking the science through some type of research and a clinical application and a commercial application. And then you put a business team around it. So, that's the second group you've got. So entrepreneurs that are willing to advance the research outside of one of the institutions. Then you have the venture capitalists that'll help get it funded. And then I would argue, we're the fourth leg on that stool in terms of the real estate we provide or the infrastructure and the labs that we provide. If you have those four things, the researchers, the entrepreneurs, the venture capitalists, and the infrastructure, that's what exists in those ecosystems.

And as that flywheel goes around and around and around, there's more interest and more demand for that space. Look no further than south San Francisco where Genentech started. And then now we've got the next generation of companies and the next generation, again I'll quote one of our presidents, "The children and grandchildren and the great-grandchildren of Genentech that have created south San Francisco today," which was Genentech for a long time. Then Amgen. Now you have Abbvie, Merck, cutting edge companies like Denali. So, you have Global Blood Therapeutics, I think is there too. I could keep going on and on, but there's a lot more representation. Eli Lilly's there. All the bigger companies have gravitated-

Matt Slepin:

Are going to be there.

Tim Schoen:

...towards south San Francisco. Yeah.

Matt Slepin:

They have to be. And you keep quoting presidents. Are these presidents at Blackstone or are these presidents in your company?

Tim Schoen:

No, our presidents. We have a East Coast president John Bergschneider, I'll call them out. Our West Coast president John... Or West Coast president John Bergschneider, East Coast president, Bill Kane. Both have been in the business for 20 years and they have just some go to lines. So, maybe you have to get what them on one of your podcasts because we're lucky. It's almost an embarrassment of riches that we've got a team that's done this for decades. But we've been around in too many meetings together as we talk to prospective clients, but I like to give people credit.

Matt Slepin:

It's interesting, we all have mantras we use that make things make total sense to us.

Tim Schoen:

Yeah. And it helps explain the business.

Matt Slepin:

Right. I'll push back at you a little bit because if you're in those core markets, it's the nature of those core markets that protect them from having to depend totally on you as that landlord because there will be enough of that kind of space in each of those core markets that people have choices. So that when they do grow, they can go somewhere else, not just because you're there, but because the others are going to be there. But it will just keep going.

Tim Schoen:

Right. But again, I get back to where we're at, where 99% occupied and there's a backlog of demand in each of those markets.

Matt Slepin:

Of course.

Tim Schoen:

So even if that moderates a little, which it might, and the COVID spike that we saw, we still have tremendous amount of demand and capital being raised. And that capital being raised translates to additional space and demand that's needed in the market. So you're right, they can move around, but the researchers build their networks as well on each of these locations. And they have their service providers that they depend on. So again, just look at the fundamentals. We look at the tailwinds of the industry, which is continued capital and investment in the industry. And then you look at the amount of space and that's really on the horizon. And it still signals that you've got a tremendous amount of demand. We might have to update some facilities over time or put some additional investment in the space, which is why the return is attractive. We're willing to make that investment in the space for the second generation or third generation tenant and really drive the returns for our owners, but also provide the state of the art, state of the market lab buildings as they're doing their research and their needs change.

Matt Slepin:

And because there's so much tech here, does the space become obsolete quickly? Or talk about that.

Tim Schoen:

Not really. The space, it takes a tremendous amount of investment up front and conviction. When we were talking about redevelopments, I think people really have to have a conviction. But once the investment's in the space, it's very reusable. It depends on how much chemistry or biology use is in a building, what the actual research is being done. But if you set the zones up correctly and you make that high investment initially and you do it the right way, it's reusable for different types of tenants in different areas. You can change the zones and benches around over time, but you have to really make that investment in design up front. And that's the magic of what we do is that we know how to design the buildings and the zones so that if needs change or you got to reconfigure labs, we can do that on each of the floors without too much disruption or too much investment in the capital.

Matt Slepin:

We're going to change subjects in a minute. But the question do I have to ever have to worry about my neighbors in your buildings? And do people demand, "Hey, I don't want to be near someone who does that." Either because it's so top secret that maybe there's some guys in trench coats coming to steal from them or that they're boiling up something that might either fumigate or not be cool or I don't know what, but is there... Or top secret, you don't want adjacent people doing the same stuff.

Tim Schoen:

Yeah. The buildings are extremely safe first of all. Second of all, and they're adjacent to a lot of different uses, but they're designed and they had, think about COVID, everybody was talking about increasing their filtration or their air filters. All that existed in the labs already. Things did not leave the lab. The other thing is that we don't do a lot, there's not a lot of research in our buildings the top BSL labs that are much more deal with, like you said, people in trench coats or cars leaving in the middle of the night. There's types of research that are done on purpose built facilities, either by the government or infectious diseases and things like that. Those are not done in our buildings. This is mainly a biology type research or device type research. It's not the high infection or particles or materials that would cause safety concerns for anybody. That's done somewhere in a very separate location.

Matt Slepin:

Fair deal. Okay. Next subject I want to talk about you. But before we talk about you in the time that we have remaining, you're on the board of the Salk Institute. And so you've been hinting at all these things that are going on in the world and how cool and how interesting they are. Can you blow our minds a little bit with some of the technologies that you see coming? Lifespan may change, maybe we're going to... I'm not going to live to be 200, I hope not. But talk about what's going on.

Tim Schoen:

Yeah, I think there's a couple of cool things. One is plants. All right. You're going to think I'm crazy.

Matt Slepin:

No.

Tim Schoen:

But let me talk about plants, but I'll back up for a little bit. You also mentioned longevity. I think there's a lot of research being done around human health and longevity. And it's not only about longevity, that's the wrong word, but it's really the quality of life. If you look back over the life expectancy and antibiotics came in and we had the jump in life expectancy and lifestyle and diet and things have gotten us up. Although unfortunately with drug use and some of the addictions that people have had, life expectancy's come down the United States. But by and large, we've had life expectancy march up and to the right, if it was a graph. And part of that was antibiotics and drugs and things like that to treat conditions and treat chronic conditions.

But the researchers today would tell you that it's really about making sure that quality of life. Maybe it extends a little bit, but it's really making sure that the time that you're here, that you don't suffer from some other chronic disease. That you don't get cancer at 60-65 and you can live to 80. You may make it to 80, but how do we improve the quality of those 80 years, plus or minus? So that's what they'd say first of all, in longevity.

But I think the one thing to me that has really blown my mind is plants and the ability to use plants as a way to reverse climate change. And I think the Salk is at the cusp, at the cutting edge of research when it comes to using plants to become a mechanism to capture carbon and to put carbon and design plants so that it can put carbon into the ground permanently. So that as it decays, it doesn't release that carbon. And I think there's a lot of research being done around if we can use agriculture that's planted every year, use plants as a carbon capturing device to get carbon out of the air, and by in fact, reduce the temperature of the planet. Those are some things that are really tangible that have the ability to change the world. The Salk always says it's small by design, but that's the type of research that's being done in the Harnessing Plants Initiative. It's got the promise to reverse climate change. And I can't imagine anything that's more powerful than that.

Matt Slepin:

It's interesting, when I think of a plant, I get a little bit less worried than I think about putting little mirrors in the sky. So, some of the technologies are scary and some feel kind of safe. And a plant, if it's sequesters carbon, pretty cool. But the combination of carbon and climate change and then that increasing transmittal of disease and health issues, that's all tied up together. So, different subject. And we only have a few minutes, but Leading Voices used to be about career journeys of our guests and now I have so much to ask about their businesses. But how did you get here? What got you into real estate? What got you... I know you're a finance guy and so many real estate companies are run by people who came up the finance track. Talk a little bit about that.

Tim Schoen:

Yeah. Listen, I've been in real estate. I started in a real estate depression, I came out in the FDIC and the RTC days and people won't even remember what the RTC was.

Matt Slepin:

I worked at the RTC.

Tim Schoen:

The Resolution-

Matt Slepin:

That's how old I am.

Tim Schoen:

The Resolution Trust Corporation resolve the crisis, restore the confidence. And we had very sick financial institutions in this country. It was caused by real estate and overbuilding in real estate was one of the reasons. And so I got involved in working out real estate right out of college, went back to grad school, and then I joined really an emerging sector. The REIT legislation has been around since the '50s or the '60s, but really the modern year of REIT started in the mid '90s, 93, 94 with an up REIT structure.

And when I joined the industry, you could have fit the whole REIT industry into the market cap at Coca-Cola. And you think about how it's grown and the public ownership of real estate has grown, really grew up in an industry, in the REIT industry over the last 25 years. As it brought financial sophistication to real estate, it's become its own classification code, its own industry code in the S&P 500. And really saw a capital intensive business become much more sophisticated and obviously much more segmented. It's not just about, you said it before, Matt, it's not just about multi-family, industrial, retail, and office. It's really branched into a lot of different types of real estate. I was fortunate enough to work in an office environment in the West Coast, a company called Kilroy Realty and John Kilroy's company and worked for some great executives there. And then went on to the healthcare REITs, which were starting-

Matt Slepin:

Hey. When you were at Kilroy, what did you do? What was your discipline?

Tim Schoen:

I was in corporate finance. So, I started out as a finance guy out of grad school, worked on the debt capital markets, worked on our business planning, acquisition development underwriting. And then went over to HCP, now Healthpeak, in an acquisitions role and worked in acquisitions for several years, worked for Paul Gallagher and Jay Flaherty. And there was a franchise run by Jay Flaherty, which healthcare REITs were going from being I'll call them real estate finance companies to real estate operating companies. So, worked in acquisitions. And then we bought a portfolio from a UK REIT called SEGRO. It's SEGRO today. It was called Slough Estates at the time. They had to divest of their US assets so we bought a $3 billion life science portfolio and tacked it onto what we had and started to grow a life science business.

We'd also built buildings at Kilroy back in the late '90s. We built some lab buildings in the San Diego, Southern California area. And anyway, we bought this franchise, ran this business and grew the portfolio, and part of our healthcare continuum. You mentioned Alan, been a friendly competitor with Alan over time and we competed with BioMed. And Alan was ready to go on to do the next thing. And so he reached out and had been partners with Blackstone and in a previous life under different investments, so knew the teams there. And then just love this business.

I love being in life science and growing up in and around the business and the opportunity to step up to a franchise that was on both coasts and in the UK was a really exciting opportunity. And then being able to grow it in these markets and being backed by a sponsor who had the capital and conviction was really the excitement. So at HCP, I skipped over one thing, I did go back to the finance side. I did become a CFO. So, I went back to finance after acquisitions and running businesses. So I think Matt, I was a better operating partner with folks because I wasn't just a finance or accounting person. I could empathize with my operating partners because I'd been there. And then was really in an operations and a CFO role at HCP and Healthpeak and then had the opportunity to be a CEO here. And six and a half years later, I'm still in the industry.

Matt Slepin:

Yeah, you got to do it. And one thing I don't hear as often is acquisitions to CFO to CEO. CFOs usually don't do the acquisition stint. So, you do get into investments more deeply and hands on than someone who's not just looking at the numbers because CFOs look at more than the numbers, but that's a great pathway.

Tim Schoen:

Yeah. The financing discipline is a capital intensive business, so having the finance discipline. And then being able to be really lucky to be able to work in acquisitions and underwriting. And then think about your underwriting, you do your underwriting day one and then you flip the page and it's the budget day two and then having to live with it. So I think that discipline was important, but also really got to do acquisitions and development underwriting. I was fortunate enough to work with a couple of firms that were very, very good at development and learned how to manage that risk and the moving pieces associated with that. And think about what it meant to a balance sheet when you took on that type of risk and how much you should do in each segment.

So the financial discipline in a capital intensive business I think I've been fortunate. And then actually being out and doing deals and transactions and thinking about the strategic benefit, not just how accretive, dilutive, or what the returns were going to be, but what that real estate could mean to the portfolio. You have to have both sides of it. So, I have both sides of my brain that can fight it out when we're looking at something.

Matt Slepin:

Well, looking at the portfolio side of it and not just saying, "Hey, this is an accretive acquisition, let's do it." But, "Wow, this really solidifies our position in wherever it is or changes what our position could look like. Or if someone else gets in there and starts building their portfolio, we're not there anymore." What's the difference between doing this when you were at the prior company and life sciences was a piece of it. You've talked so much about specialization here. I'm going to bet that the specialization's really been accretive itself.

Tim Schoen:

Yeah. This asset class has matured for sure. That was one of the things. But being able to run a vertical within a bigger company and being able to run that P&L, if you will, about what the expectations and growth and the team and I had the responsibility to bring that in for the rest of the company when we were at HCP. But you really got a chance to run a vertical business and be responsible for it. We didn't have to fight for our cost of capital. We were a part of a piece that created a cost of capital, but we could focus on the P&L, the business, and the investment of the business, and driving income growth. So I think that that part was great.

And then being able to do it full time with one asset class and then being able to do it in the best markets. And then being able to have the focus and the ability to go deeper in each of those markets and build a pipeline for a way to grow in each of those markets. Now, it didn't happen overnight. It's taken us years to do that, but we're now starting to see the dividends of that. But being involved in a company before and running a P&L was tremendously helpful before you stepped into a chair like this.

Matt Slepin:

Yeah, I bet. And I'm also thinking that you're dealing with a brain trust that speaks very directly and strategically and you get immediate feedback, not market feedback. And I would think putting your head together with those folks would be a tremendous growth experience and the ability to strategically think about a business in a very different way.

Tim Schoen:

Matt, to sit across the table from people that have a PhD in real estate, it's pretty funny. And challenging. You got to be on your toes, you got to be on your toes. But it also has the good parts, like you say, the connectivity and the connection between asset classes and the ability to think about the highest and best use for an asset. And ultimately the ones that the benefit are the investors and the pension funds and really the beneficiaries of these pension funds that invest with folks like a Blackstone.

Matt Slepin:

Anything we're missing in this conversation that our listeners need to know about the kind of business you're in? What haven't we talked about in terms of life science real estate that people should really hear?

Tim Schoen:

I just think that people think that it's because of the pandemic we've gone through this period of time. And now the best part of the industry has passed. I think the best days are ahead in terms of the research that'll come out, the therapies that will come out. The great news is that of the 6,000 targets I mentioned earlier, that's up from 4,000 in 2016. Of those 6,000, two-thirds of those matter in small entrepreneurial companies. So, I think that's super exciting that there's groups of management teams and researchers that have a vocation around a certain type of research, whether it be oncology or gastroenterology or diabetes. There's folks that are very focused. Alzheimer's, Parkinson's, I can go on and on, but researchers that are very focused in small companies that think they've got a way to treat these ailments. It just takes tremendous comfort in the fact that that pipeline is bigger and that's humanity's pipeline. That's humanity's pipeline.

And hope that we continue to have graduates go into these STEM careers. And really the life science industry and the ecosystem and the larger ecosystem, and I'll put the government in that as well, all the way through in the United States it really is a jewel of the United States economy in a way that's growing to providing jobs. It's primarily doing it with private capital and infrastructure, creating an unbelievable societal benefit. So again, that's what gets me excited about the industry. I get to run real estate day to day, but this is really what gets you excited about coming to work because you've got this pipeline behind you of research that's being done that's going to make a difference. And being able to provide the space in which that research is done is tremendously rewarding for us and our team.

Matt Slepin:

It's got to be. And it's interesting, what you're describing is a very optimistic view and a view where our country's a leader and that really matters.

Tim Schoen:

And a little bit more tongue in cheek. We are getting ready to kick off football season here. So, hopefully some researcher out there can find a way for the Minnesota Vikings to finally be a Super Bowl champion, but that's just selfish on my part.

Matt Slepin:

That's a fair deal. Last question on Leading Voices is your advice for a young person getting into the real estate business.

Tim Schoen:

This is such an exciting business and such a growing asset class. You're right on the next, I've been in it for 30 years, the next 30 years, the refinement of the processes. I think the ability to build buildings more environmentally sound in a better way, we're right at the cusp of that. We're starting to put in renewable energy and hosted solar and more sustainable development practices. Incorporating that into real estate and coming into a capital intensive business, better ways to do it, better financial models, deeper capital markets. It's just an unbelievable place to make a career. And real estate is tangible. You get to go out and see it. You get to go out and see the buildings and the designs and the aspects and the communities. And you get to be involved in the communities in which you operate. Fortunately, we've gone down to six of them. But being able to get involved in the communities in which you're buildings sit or your asset classes sit, the connectivity you have across this country is amazing. It feels like a huge industry. I will tell you that real estate is a club.

Matt Slepin:

Totally true.

Tim Schoen:

So, make sure that how you operate and how you carry yourself in this business, you will run into people over and over and over again. And get in here, get in the club. You've got a growing industry and a need for real estate in a lot of different ways, from homes to sheds and logistics, repurposing malls. And real estate needs are going to change over time too. So, there's a lot of innovation that happens not only in development and development practices, but also the uses of real estate and how we think about real estate. Get involved with some of the practices like I'll use the Fisher Center up at Cal, for example, in Ken Rosen's group. Get involved with the different policies and urban planning and those groups like that because there's a tremendous amount of learn. I am humbled every day about the wide set of skill sets it takes to run a real estate company. And we're fortunate to have a really good group of successful professionals here.

Matt Slepin:

I totally agree. The reason we're doing Leading Voices is we are trying to get people to join the club, whether they come into life sciences, whether they come into apartment business, whether they do residential, whether they do office, whatever that's going to become, whether it's retail, industrial. It's a great business and we're going to change our cities. And one of the, two guests ago was Sara Neff, also a prior Kilroy person who ran sustainability there and now does at Lendlease. And your comments are 100%. If you're going to build a building, you're going to build it right now. We better.

Tim Schoen:

Yeah, we're going to do it in a very sustainable way. And anyway, those are some of the things that make it interesting for the next generation. Like you said, our cities are going to be different. The way we work is different. What happens to the future of office? It's an exciting time in real estate and you can never stop learning. I've been fortunate enough to been in it. And I went from finance, Matt, into real estate because it was tangible. I could go see the buildings. I could see the communities. And real estate affords you that opportunity.

Matt Slepin:

Hey Tim, this was wonderful. Thank you so much.

Tim Schoen:

Yeah. Thanks Matt. Appreciate it.

Matt Slepin:

Thank you for listening into Leading Voices. And I hope that you enjoyed today's episode. I have a request. If you enjoyed the episode and found it to be valuable, please share it with a friend or two. If their podcast wary, take their smartphone in your hand and subscribe for them and teach them to listen. You'll change their life. Seriously, thanks for listening and keep in touch. You know you can reach me at matt@terrasearchpartners.com. See you next time.