

REAL ESTATE

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Life Science Sets New Records in 2020

Experts Say 2021 Could Be Another Record Year

■ By RAY HUARD

The market for life science real estate set all-time records in 2020 and experts who follow the market said there is no sign that it will ease in 2021.

Space is so tight and demand so high that 2021 could be another record year.

Some said that the COVID pandemic is largely responsible, but **Chris High**, a managing director of the commercial real estate brokerage **Newmark** said that life science companies that have direct connection to COVID account for about 10% of the demand for life science space.

What COVID has done is focus attention on the overall health care market, and that's led to a boom in life sciences for San Diego, High said.

"We don't see anything slowing through 2021," said **Steve Bruce**, also a managing director of Newmark in San Diego. "That's not only shown through the 3 million square feet of tenant demand we're tracking right now but all the activity with all the conversions that are happening."

With the overall office market slowed dramatically as people continue to work from home, building owners are converting former office space to life science.

"Everyone is trying to build out space as quickly as possible," Bruce said. He said that in Sorrento Mesa alone, about 1 million square feet of office space has been converted.

Records set

The commercial brokerage **JLL** reported that the life science market generated record leasing activity in 2020, both in the number of transactions and the amount of space that was leased.

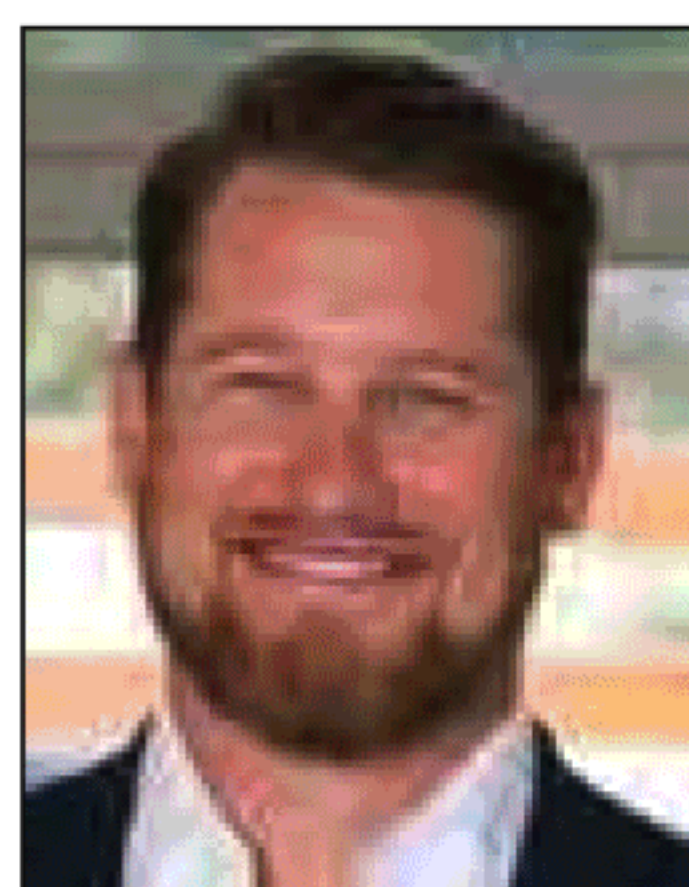
Lease transactions of life science space totaled 2.2 million square feet in 2020, according to JLL, far outpacing the previous record of 1.7 million square feet set in 2015.

"I don't think I've ever seen it this active before," said **Grant Schoneman**, managing director of JLL in San Diego. "I think we're in a run for a while. I have calls with real estate developers, one or two a week it seems like, it's 'Hey, I want to get in the life science market.'"

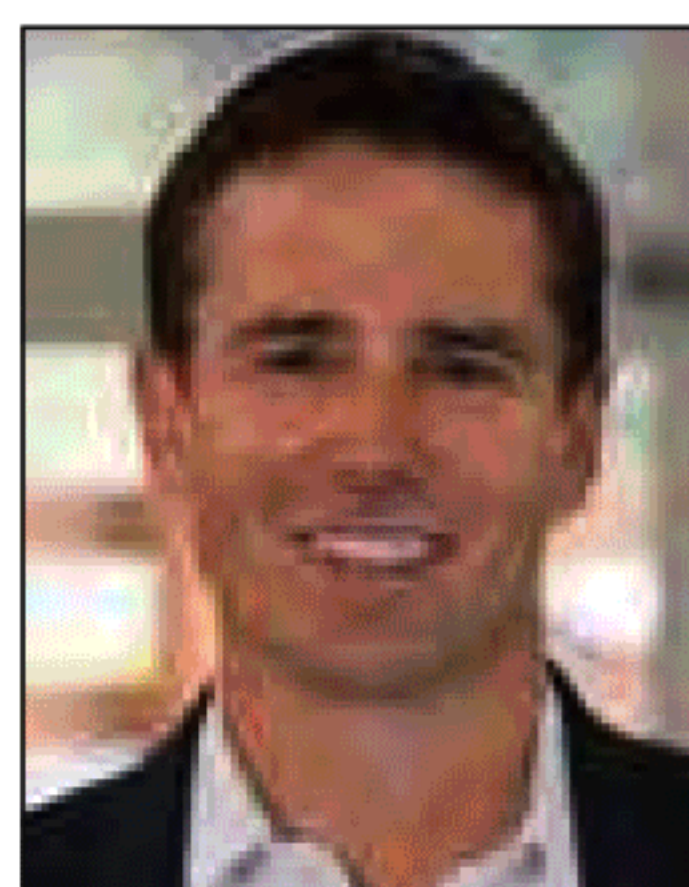
The growth has come from small start-up companies to large pharmaceutical companies, Schoneman said.

Venture capital funding of life science companies also soared in 2020, reaching \$1.9 billion to top the combined total of investments in 2018 and 2019.

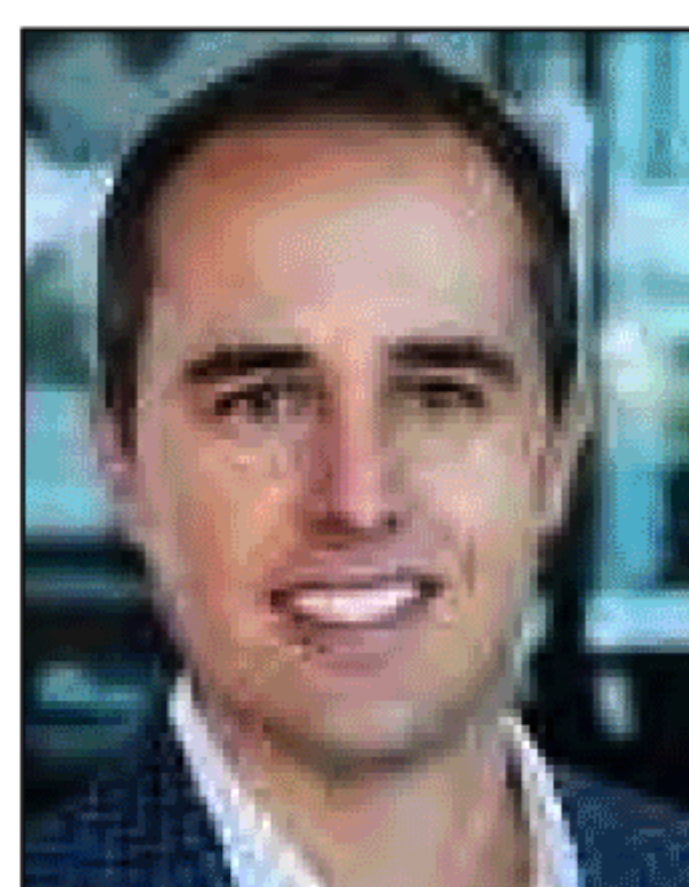
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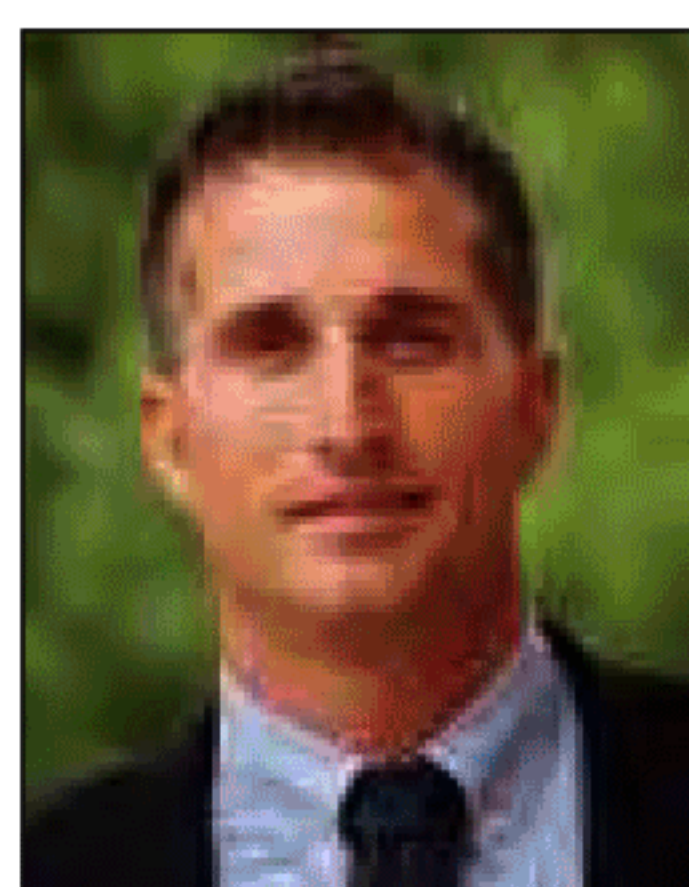
Chris High
Managing director
Newmark



Steve Bruce
Managing director
Newmark



Grant Schoneman
Managing director
JLL



Bret Morris
Stream Realty
Managing director



Photo courtesy of Gafcon

Gafcon has teamed up with economist Alan Nevin on apartment renovation service for projects, including an Encinitas project.

Taking Out the Guess Work

Team to Help Landlords Determine If Renovations Make Sense

■ By RAY HUARD

Gafcon has teamed up with economist **Alan Nevin** to form a new venture to help apartment building owners determine if it makes sense economically to renovate their property.

Nevin and Gafcon's Multifamily Renovations team will give owners an estimated cost on renovations, present options on various levels of renovation and actually do the work if desired.

Their analysis is meant to help property owners determine which upgrades and repairs will produce a return on investment in the form of rent increases, lower tenant turnover, reduced maintenance costs and lower utility bills, according to **Ron Takaki**, vice president of operations for Gafcon.

"This service takes existing C and B-level multifamily properties with about 75 to 250 units and improves them to a class level that achieves an optimal return on investment without substantial modifications or renovations," Takaki said.

By serving as a one-stop shop, the idea is that Gafcon and Nevin will allow landlords to hire a full renovation team under one contract instead of having separate contracts with architects, financial estimators, builders and project managers, Takaki said.

Raising Rents

"My role is when they find a project, to determine if it's appropriate for renovation, to the extent that it may or may not be in a neighborhood that could justify major increases in rent," Nevin said.

With renovations typically costing \$50,000 to \$100,000 per apartment, "You have to be able to raise your rents rather substantially," Nevin said.

"If you put that much money in, are you going to be able to get it back? Then you have to figure out exactly what you're going to do to that project, what level of quality you have to put in and whether you can add things like a washer/dryer or a garage or others that have a very good payback. Then, once I come up with what I think would be an appropriate remodeling, then they go ahead and cost it out. From there, we'll know if the remodeling makes sense."

Location is a key factor.

"What you want to be is in a neighborhood where they've built some new projects and they're getting very high rents," Nevin said. "You want to be coming in right behind them."

Project

Among projects under way is the \$30 million renovation of Mission Ridge Apartments in Encinitas.

The 35-year-old complex with 196 apartments is being upgraded in response to the demand for luxury housing in the area.

Gafcon and Nevin have estimated that the improvements will result in a 30% increase in revenue for the owner of the complex, **Urschel Development Corp.**

"They hadn't done any significant renovations to the property since it was built in 1985," Takaki said. "Basically, they did enough to rent the properties. They upgraded some of the appliances, they did some renovation work with new carpets, nothing significant."

Nevin pegged the apartments as a C-level complex that could be brought up to an A-minus level to lead to the substantial improvement in revenue.

Recommended renovations included adding garages, improving amenities and upgrading bathrooms and kitchens, new roofing, upgrading the sewer system and installing new fire protection systems, adding air conditioning, and reconfiguring floor plans to provide built-in office space, Takaki said.

"We're replacing all the appliances and cabinetry, new doors, new windows," Takaki said.

"Gafcon has been beyond successful in getting our plans started the right way, leading us through a pre-construction phase that has built a solid foundation for our project's success," said **Bill Schott**, vice president of operations for Urschel Development.

With demand for apartments soaring, more and more property owners are looking to renovate, and most of the apartment complexes in San Diego are ripe for renovation, Nevin said.

"The average project in this county is 50-years-old," Nevin said. "There are dozens, maybe hundreds of projects that need renovation." ■



Ron Takaki
Vice president of
operations
Gafcon



Alan Nevin
Economist

Gafcon



YEAR FOUNDED: 1987

CEO AND FOUNDER: Yehudi "Gaf" Gaffen

HEADQUARTERS: Sorrento Valley

BUSINESS: real estate development and management

NUMBER OF EMPLOYEES: 182

WEBSITE: www.Gafcon.com

NOTABLE: A native of South Africa, Gafcon founder and CEO Yehudi "Gaf" Gaffen started his business career selling tropical fish as a teenager with his lifelong friend and business associate, David Schwartz