L&B LANDandBUILDINGS

JUNE 2023

THE WORK FROM HOME HURRICANE HAS HIT LIFE SCIENCE OFFICES

In May 2020, Land & Buildings Investment Management, LLC ("Land & Buildings") published a white paper titled *The New York Office Market is Facing an Existential Hurricane*. We highlighted the severe headwinds and likely steep value declines facing office landlords in the wake of the COVID-19 pandemic, focusing on New York City and traditional office buildings.

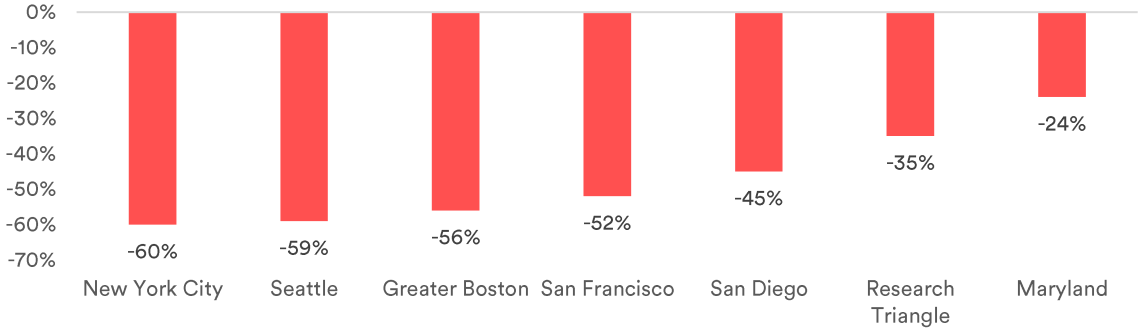
We did not discuss life science assets. With 50% laboratory space and 50% office space, many view this category as a clear pandemic "winner" and a safe haven from the work-from-home phenomenon. Unfortunately, our recent analysis starkly contradicts this view.

Life science has been a burgeoning field for decades, as large pharmaceutical companies like Pfizer and smaller public and private biotech companies seek cures for a of myriad diseases and ailments. New construction of purpose-built buildings, including a combination of laboratory space and office space, has grown dramatically during this time to accommodate this growth with companies like Alexandria Real Estate Equities, Inc. (NYSE: ARE) ("ARE", "Alexandria" or the "Company"), Healthpeak Properties, Inc. (NYSE: PEAK) ("Healthpeak") and Biomed Realty (private) ("Biomed") at the forefront.

Initially, with an intention of conducting diligence for long investments, Land & Buildings undertook an in-depth study of the ~435 buildings owned by one publicly traded life science REIT, Alexandria. Utilizing primarily cell phone geolocation data, we ascertained the change in employee utilization of these assets today versus the pre-pandemic baseline.

- The results are shocking: the numbers show **50% fewer cell phones (people)** in the buildings than prior to the pandemic. Much to our surprise, this is **on par with traditional office buildings**, using the same methodology.

Figure 1: ARE Portfolio's Employee Attendance Down Substantially Relative to Pre-Pandemic Levels Across Markets



Note: Based on number of cell phones estimated by Placer.ai that were on premises for more than 60 minutes per visit during the period prior to the pandemic (March 2019 to February 2020) to the comparable period ending in 2023 (March 2022 to February 2023). Analyzed assets included operating properties that were built or renovated prior to January 2019 to assess a same-store pool based on Company and CoStar disclosure. Alexandria markets in figure represent more than 95% of Company revenues; Source: Land & Buildings, Company reports, CoStar, and Placer.ai.

KEY POINTS

Contrary to conventional wisdom, attendance in Alexandria's office/lab buildings is down 50% as compared to pre-pandemic attendance

Surging new supply likely to compound leasing challenges in face of work from home (WFH) headwinds for life science tenants

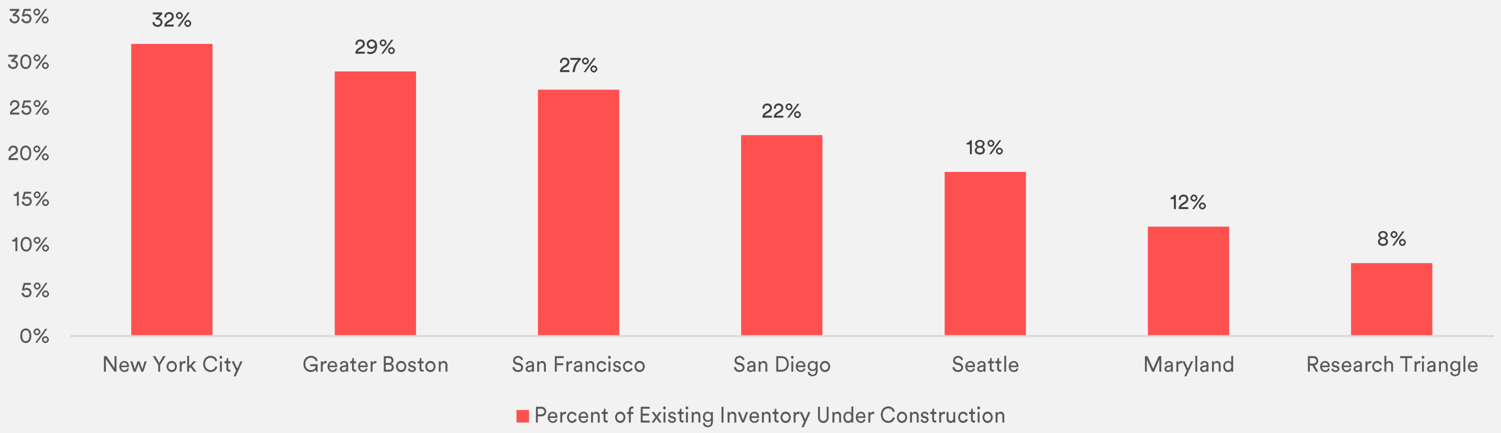
Alexandria shares could decline 30 - 40% if valued like peer coastal office REITs

Our methodology is based on anonymous cell phone data provided by Placer.ai and property-level information disclosed by Alexandria and CoStar. Specifically, we included cell phones that were on premises for at least 60 minutes in order to best eliminate non-employee visits. The study compared the cell phone data during the period prior to the pandemic (March 2019 to February 2020) to the comparable period ending in 2023 (March 2022 to February 2023). Of the roughly 435 properties examined, our study excluded properties that were built or renovated since January 2019 to estimate a comparative same-store pool. Our analysis represents more than 70% of the laboratory/office total square feet owned by Alexandria. Running the same analysis on Healthpeak and BioMed life science portfolios yielded similar, albeit modestly better, results vs. pre-pandemic levels.

The analysis reveals that, on average, cell phone presence in Alexandria's laboratory/office buildings is down 50% as compared to pre-pandemic cell phone presence. As Figure 1 on the previous page illustrates, some of Alexandria's major markets have been more impacted than others, with Greater Boston (the Company's largest market generating more than one-third of revenues) seeing a 56% decline, while Maryland saw the smallest decline of still 24%.

A closer look at the flexible work policies of many of Alexandria's largest tenants, such as Bristol-Myers Squibb, Pfizer and Sanofi, illustrate the point given their generous work from home policies, while few, if any, of ARE's top tenants require all employees to be in five days a week. It is clear to us that the many non-research focused employees at these companies across functions such as accounting, human resources and marketing do not appear to be acting differently than office employees generally. Furthermore, it appears that employees working in the lab are also working from home when feasible given the dramatic decline in employee attendance, as shown in our study.

Figure 2: Substantial New Life Science Supply Across Alexandria's Markets



Source: Land & Buildings, Company reports and CBRE.

WFH Likely to Hit Fundamentals Amid Already Slower Leasing Environment and Coming Supply Glut

Alexandria's leasing volumes declined 50% year-over-year in the first quarter of 2023 according to Company filings. With new life science buildings under construction representing more than 20% of existing inventory in ARE's key markets (Figure 2), we find the WFH headwinds will be hard to hide from and are likely to rear their unpleasant heads sooner rather than later. We would expect declines in rental rates, occupancies and values to be exacerbated by the low levels of development pre-leasing. Pre-leasing ranges from zero to roughly 50% by market according to CBRE.

Life science was a pandemic "winner" as public and private money flowed into the sector, propping up life science building rents, occupancies and values over the past three years, in our view. With a tighter capital markets backdrop and flexible work policies of life science companies, lab space fundamentals appear set to rapidly deteriorate.

The Work From Home Hurricane Has Hit Life Science Buildings

Tenant retention is the primary objective for most landlords when a tenant's lease comes up for renewal. WFH has made it highly competitive for landlords to keep tenants. Conversations with brokers and other market participants have indicated that traditional office tenants are reducing square footage requirements by an average of 20-30%. Alexandria will likely see a substantial increase in the cost to lease to new and renewal tenants as the markets have weakened, in our view. Alexandria recently cited on a call with investors and analysts that tenant improvement costs have increased on new development leases from $200 to $300 per square foot.

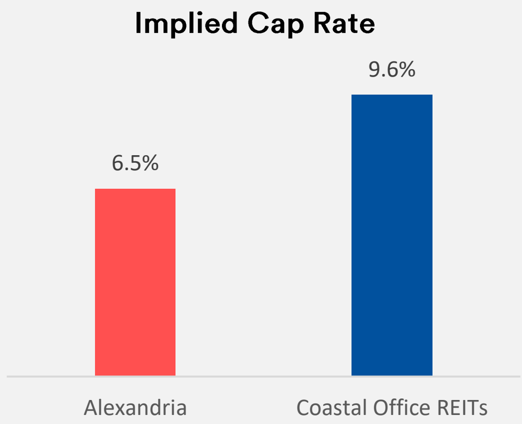
Surprisingly, despite life science assets requiring a high level of investment, Alexandria's average base rents of $52 per square foot are below average when compared to office REIT rents in similar markets. We would have expected ARE's rents to have been materially higher given the more substantial specialized improvements life science tenants require. Alexandria's leases, like many office leases, are net with the tenant paying for real estate taxes, insurance, and common area expenses. Alexandria's leases allow them to recover additional costs, however, it is unclear if the additional passthrough of expenses would materially alter the determination that their rents are not differentiated from traditional institutional quality office rents.

If the path for life science follows traditional office, as it appears to be doing from our study, we believe Alexandria could trade at valuations similar to traditional coastal office REITs, which suggests 30-40% downside from current levels (Figure 3). ARE trades at a 6.5% implied cap rate, well below the 9.6% of traditional coastal office REITs. If Alexandria were to trade at a 9.6% implied cap rate, we estimate that its shares would need to decline by ~30% and potentially significantly more depending on the decline in value of its development and venture investment portfolios. Valuing Alexandria on 2023 AFFO multiples, the Company trades at 19.8x times, well above the average for coastal office REITs of 12.6x. If Alexandria were to trade in line with traditional offices, we estimate its shares would need to decline by ~40%, even before incorporating potential ARE earnings declines.

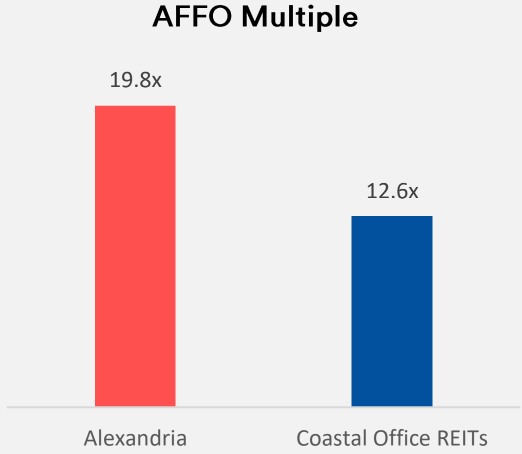
We take no pleasure in sharing the results of our research. We have known the Alexandria management team for over 25 years since their IPO, and they have successfully capitalized on an incredible opportunity in the life science business. The pandemic has had a host of unintended consequences, and our study reveals a shocking impact on life science real estate that we believe is just beginning to show up in fundamentals.

Publication Date: June 2023

Figure 3: ARE's Shares are Likely Materially Overvalued Compared to Coastal Office REITs



Note: Coastal Office REITs include BXP, DEI, ESRT, HPP, KRC, PGRE, SLG and VNO. Implied cap rates based on Green Street estimates. Based on data as of June 12, 2023; Source: Land & Buildings, Company filings and Green Street.



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