

# UPDATE #1: THE WORK FROM HOME HURRICANE HAS HIT LIFE SCIENCE OFFICES

Following the publication of our white paper [The Work From Home Hurricane Has Hit Life Science Offices](#) on June 16, 2023, and after receiving numerous inquiries, Land & Buildings Investment Management, LLC (“Land & Buildings”), is providing the following update, which further supports our view of deteriorating fundamentals in the lab space sector.

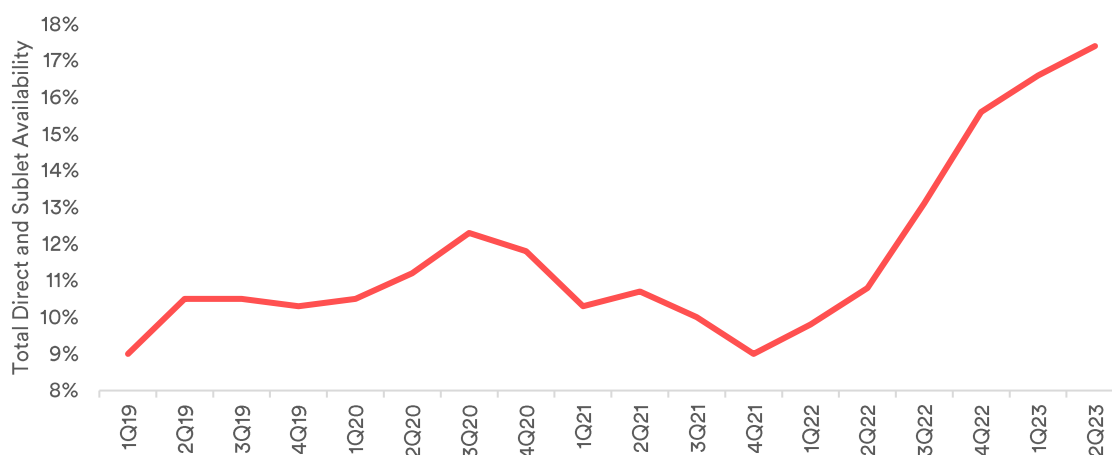
Life science REIT Alexandria Real Estate Equities, Inc. (NYSE: ARE) (“ARE”, “Alexandria” or the “Company”) owns and operates more than 40 million square feet of life science offices. Cell phone geolocation data provided by Placer.ai has revealed, much to our surprise, that attendance at Alexandria’s “same-store” properties (as we define as the ~70% of lab/office operating assets that were developed or redeveloped prior to 2019) is down about 50% as compared to before the pandemic, as we outlined in our prior white paper.

Specifically, investors have asked about the likely impact on occupancy and what’s happening on the ground today. Real-time data on total available space for lease further supports our thesis and concerns about the health of the life science office sector.

Land & Buildings’ analysis of ARE’s same-store properties reveals total available space for lease rose from 9% at the end of 2021 to 18% currently, according to CoStar data:

- Sublease space rose from 3% at the end of 2021 to 9% currently
- Direct space available to lease rose from 6% at the end of 2021 to 9% currently

## Total Availability of Space in Alexandria’s Portfolio Has Surged to Nearly 18%



Note: Based on total direct and sublet availability of space based on CoStar data for Alexandria’s operating lab/office properties that were built or renovated prior to January 2019 to assess a same-store pool based on Company and CoStar disclosure. Total availability percentage (direct and sublet) is defined as all space that is available for lease, regardless whether it is currently vacant, on the last day of each quarter divided by existing inventory which is defined as the total square footage that has received a certificate of occupancy and able to be occupied by tenants; Source: Land & Buildings, Company reports and CoStar.

## KEY POINTS

Total available space for lease in Alexandria's portfolio has risen to 18% currently from 9% at year-end 2021

Secular and cyclical headwinds intensifying for life science real estate as employee attendance halved, substantial new supply and a dearth of capital

Alexandria shares could decline 30 - 40% if valued like peer coastal office REITs, in our view

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Total available space in the same-store portfolio has increased in all of Alexandria's major markets, including Boston, San Francisco, and San Diego – which together account for nearly 75% of Alexandria's revenue:

- Total available space in ARE's same-store portfolio in Boston rose from 13% at the end of 2021 to 21% currently
- Total available space in ARE's same-store portfolio in San Francisco rose from 11% at the end of 2021 to 18% currently
- Total available space in ARE's same-store portfolio in San Diego rose from 3% at the end of 2021 to 9% currently

The rapid rise in space available for lease since the end of 2021 is likely the result of two factors:

- First, the race for a vaccine for COVID-19 had spillover effects to the entire life science sector as money flooded into mature companies and startups alike and these companies scrambled to lease space in 2021 in a tight market. Today that capital is more scarce and substantial new development is delivering into a much weaker market, in our view.
- Second, as we saw when we published our original white paper [\*The New York Office Market is Facing an Existential Hurricane\*](#) on the impact of work from home on traditional office in May 2020, there is a lag in tenant behavior and action as they evaluate the changing landscape, leases expire, and tenants ultimately make real estate space decisions.

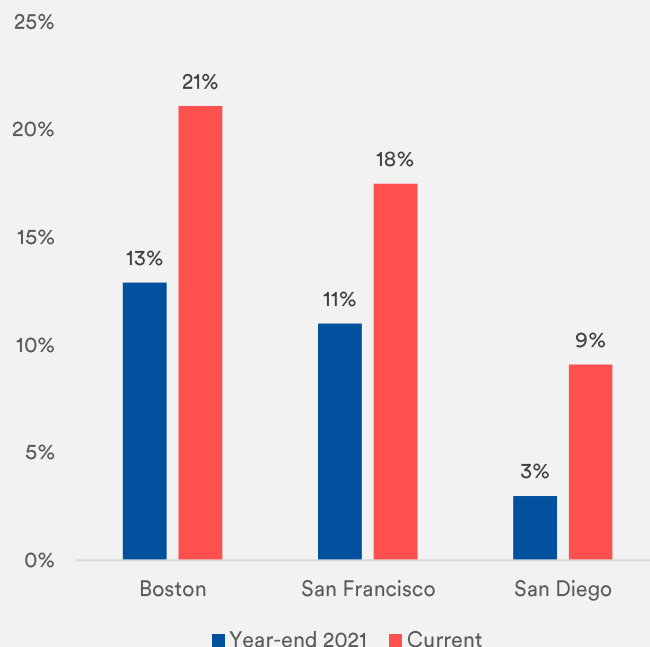
We had postulated earlier this month that if Alexandria was valued similarly to traditional coastal office REITs, which are now facing the full impact of work from home on leasing fundamentals, and more importantly financing, we believe Alexandria could have 30-40% downside from the current share price.<sup>1</sup>

The combination of a 50% decline in attendance as revealed by the cell phone geolocation data we analyzed and the sharp increase in space available to lease according to CoStar to nearly 18% suggests strong cyclical and secular headwinds will persist at Alexandria for some time.

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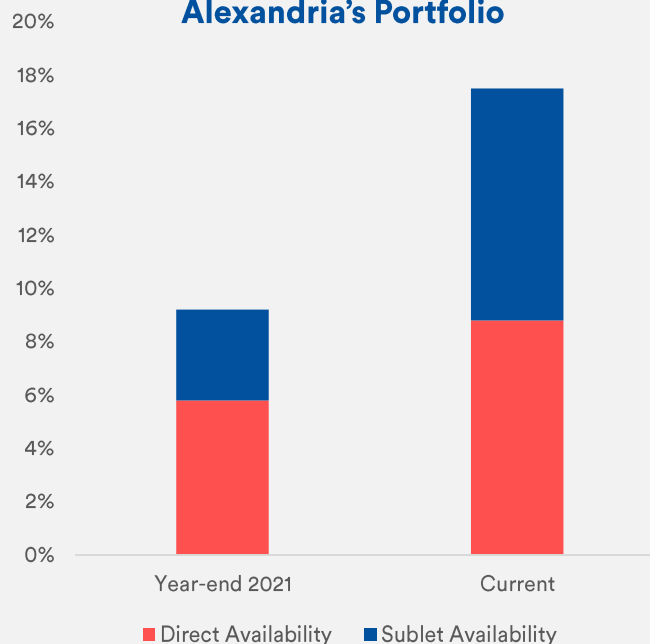
<sup>1</sup>ARE downside based on shares trading at a comparable valuation on implied cap rate and AFFO multiple basis to coastal office REITs BXP, DEI, ESRT, HPP, KRC, PGRE, SLG and VNO. Implied cap rates and AFFO multiples based on Green Street estimates.

## Total Availability of Space in Alexandria's Largest Markets Rising Quickly



Note: Based on total availability of space in Alexandria's same-store properties as defined on prior page in each respective market; Source: Land & Buildings, Company reports and CoStar.

## Direct and Sublet Availability Have Increased Meaningfully Across Alexandria's Portfolio



Note: Based on total availability of space in Alexandria's same-store properties as defined on prior page; Source: Land & Buildings, Company reports and CoStar.

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