

Philadelphia Life Sciences

SERVICED LAB OCCUPIERS

MARCH 2025

Better never settles

INTRODUCTION

The life sciences sector has been present in Philadelphia for decades, though the past decade has made the city synonymous with the forefront of medical discovery. The emergence and growth of cell and gene therapy as well as the creation and application of mRNA technologies in vaccines and therapies has fueled National Institutes of Health (NIH) funding into the region's research institutions, notably Drexel University, Temple University, and the University of Pennsylvania (Penn). Within these institutions' academic graduate labs (grad labs), new research discoveries are made, and new companies are created.

In time, these companies matriculate from their academic beginnings to commercial spaces. Co-lab and incubator spaces are often thought of as launching pads; temporary, functional spaces that allow small companies to stretch limited cash reserves as they focus on furthering intellectual property.

What is left undefined is how long is "temporary." Today co-lab and incubator providers have limited vacancies, yet life science leasing activity has considerably slowed over the last 12 months. This suggests companies may be utilizing co-lab and incubator space for long-term growth as well as short- to mid-term resource preservation.

THE EVOLUTION OF SERVICED LAB FACILITIES:

The serviced lab market in Philadelphia changed dramatically approximately five years ago when the for-profit Cambridge Innovation Center (CIC) entered the market offering well-equipped, highly amenitized and serviced facilities. B+Labs and Biolabs followed suit shortly thereafter, bringing the total serviced lab market in Philadelphia to just over 200,000 rentable square feet (sf). Driven by increasing demand for flexible laboratory spaces in the then thriving biotech and life sciences sectors, these facilities played a crucial and evolving role in Philadelphia's life science ecosystem.

Serviced lab facilities provide state-of-the-art laboratory infrastructure and shared spaces, equipment, support services, and amenities that significantly reduce overhead costs for emerging biotech companies.

When CIC, B+Labs, and BioLabs opened their Philadelphia locations between 2019 and 2022, the intent for these facilities was clear: create a place where



By reducing capital and human resource expenditures and providing resources, these serviced labs have enabled many biotech startups to focus their time and effort on raising capital and advancing their intellectual property with an eye on bringing new life-saving therapies to market.

early-stage companies could take a small office and/or lab space and grow seamlessly through their first few years of development before "graduating" into a more permanent location. Some facilities even held term limits for how long companies could stay in the place before graduating out to make room for the next wave of young emerging companies.

Fast forward to the present day, and the current state of serviced lab facilities looks vastly different from their original intent. As the growth of the life science industry has slowed over the last few years, serviced lab facilities are solutions for companies looking to ride out the storm of challenging financial markets, while avoiding the potential pitfalls of scientific disruption that can result from moving facilities. This analysis examines how this transformation happened, what the impact has been for the Philadelphia life science community, and what it means for the future of the industry.

CURRENT SERVICED LAB OCCUPIERS

More than 70 companies have lab operations in serviced lab facilities in Philadelphia and, despite a broad range of longevity, most of these companies have been in the same location since their founding. By business status, less than half (40.0%) of these companies are revenue-generating. However, the revenue-generating companies occupy most of the space in these facilities. Of Philadelphia's 70 serviced lab occupiers, 18.3% are categorized as startups, 15.5% as preclinical, 14.1% have therapies actively in clinical trials and 10% have been acquired or merged and are operating as subsidiaries of larger firms.

These companies also maintain significant ties to the region through both leadership and research. Two-thirds of all occupiers are headquartered in Philadelphia. Collectively, current Philadelphia occupiers account for 345 current patents, 346 pending patents, and 29 active clinical trials. A significant portion of this intellectual property (IP) was created by Philadelphia-based companies, accounting for 70.0% of the current patents, 49.0% of pending patents, and 52.0% of all active clinical trials.

For these occupiers, IP (measured by patents and clinical trials) is a critical step to maturation and access to further capital investment. Of all patents owned by companies in serviced lab facilities, 83.0% belong to firms that are generating revenue or have been acquired by more established companies.

SERVICED LAB OCCUPIER FACTS:



ORGANIC GROWTH:

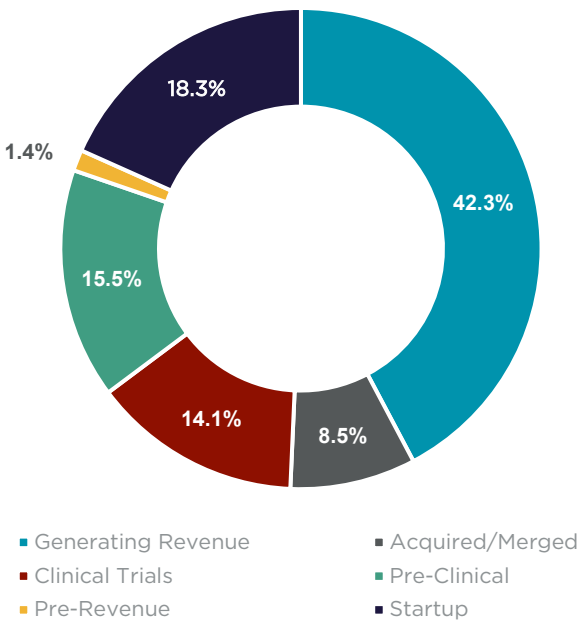
- 40% have a direct relationship with Penn, Drexel or Temple
- 66% of occupiers are headquartered in Philadelphia



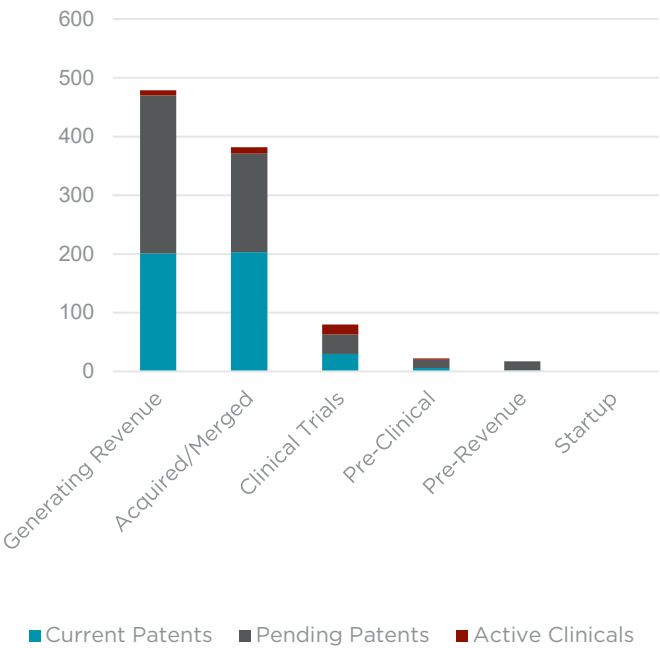
INTELLECTUAL PROPERTY:

- 345 Current Patents
- 346 Pending Patents
- 29 Active Clinical Trials

OCCUPIERS BY BUSINESS STATUS:



IP BY BUSINESS STATUS:



Sources: CW Research, PitchBook

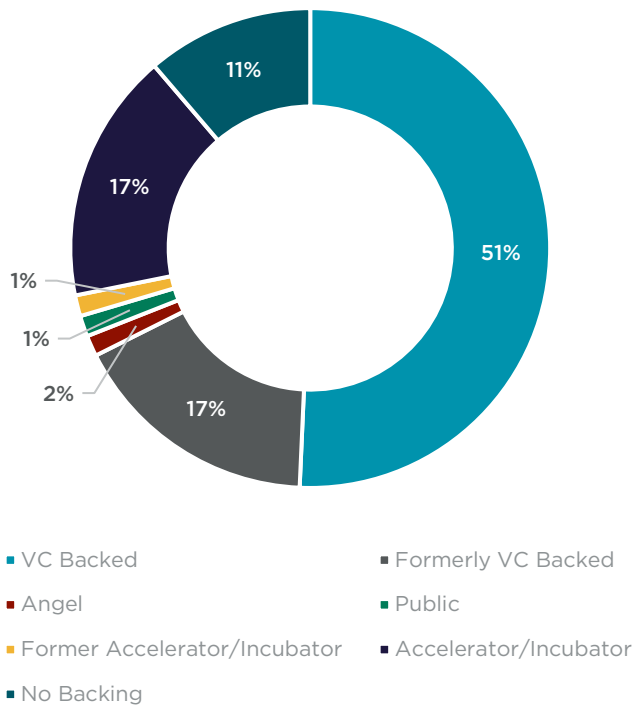
BUSINESS STATUS AND FUNDING SOURCES

Half of all occupiers are backed by venture capital (VC) funding, while another 16.9% are formerly VC-backed. Accelerator and incubator-backed companies represent 16.9% of known occupiers, and 11.3% of occupiers do not have any reported financial backing.

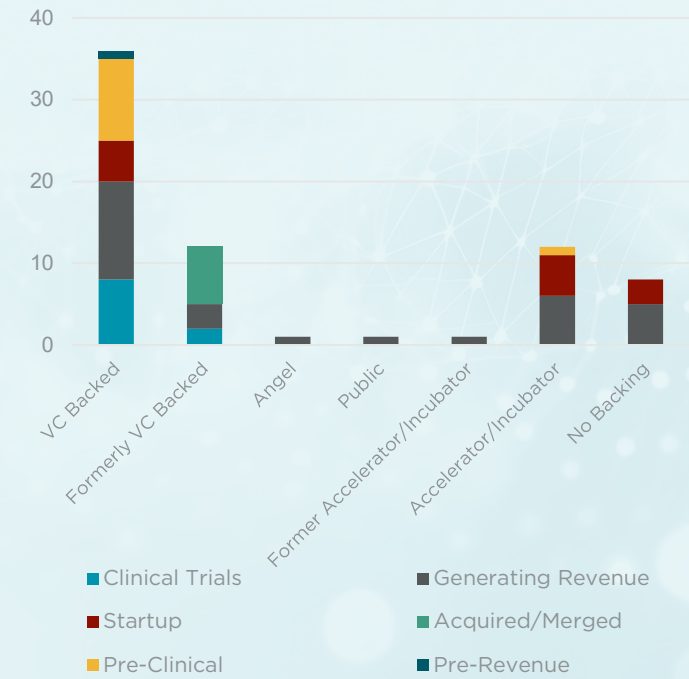
When considering both business status and financial backing together the picture becomes clearer: VC funding drives 90.0% of the pre-clinical companies, 80.0% of the clinical trial companies, 40.0% of revenue generating companies, and 38.0% of the startups. 100.0% of the acquired companies are formerly VC backed. While accelerator and incubator funded companies represent 38.0% of startups, 20.0% of revenue-generating companies, and 9.0% of pre-clinical companies.

Because VC- and accelerator-backed companies represent most serviced lab occupiers regardless of business status, these firms in turn hold most of the IP. On average, VC-backed firms have a headcount of 18 total employees while accelerator-backed companies employ an average of only six. The average age of companies is about eight years, suggesting that the serviced lab facilities are no longer viewed as only short-term real estate solutions for startup or preclinical companies. These facilities, while expensive for larger occupiers, provide both table and flexible real estate solutions that enable companies to prioritize IP creation and bring new therapies closer to market.

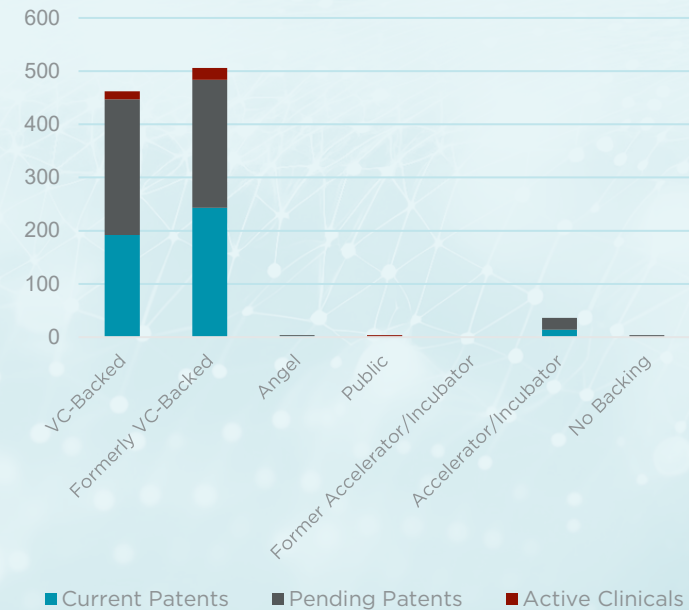
OCCUPIER FUNDING BY SOURCE:



BUSINESS STATUS BY FUNDING SOURCE:

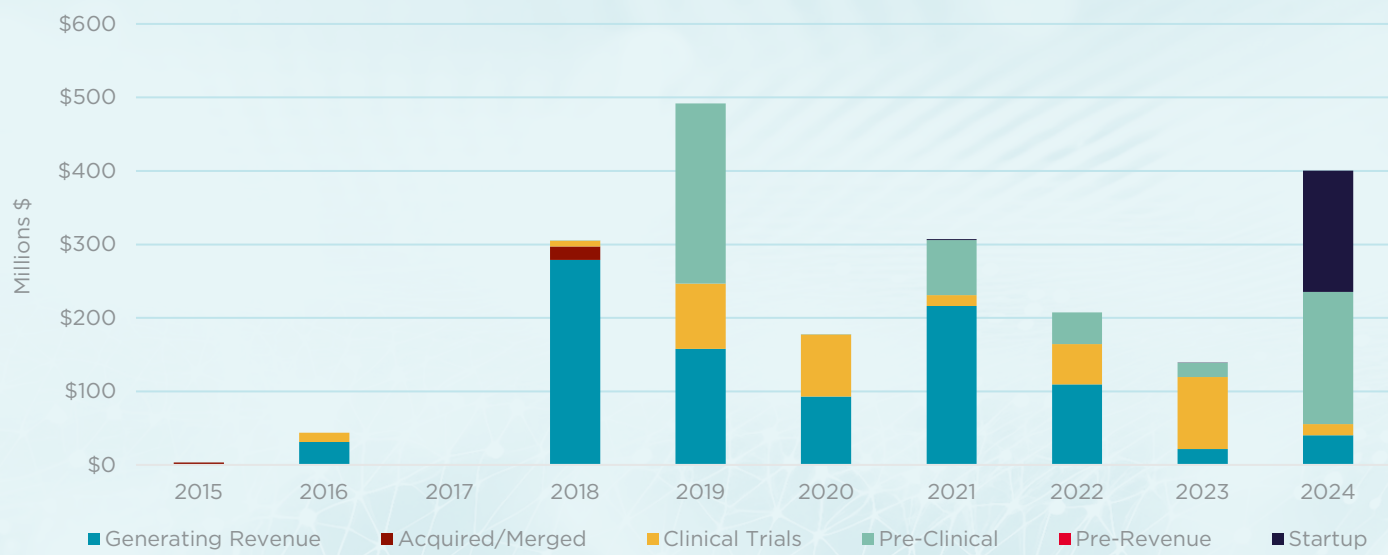


IP BY FUNDING SOURCE:

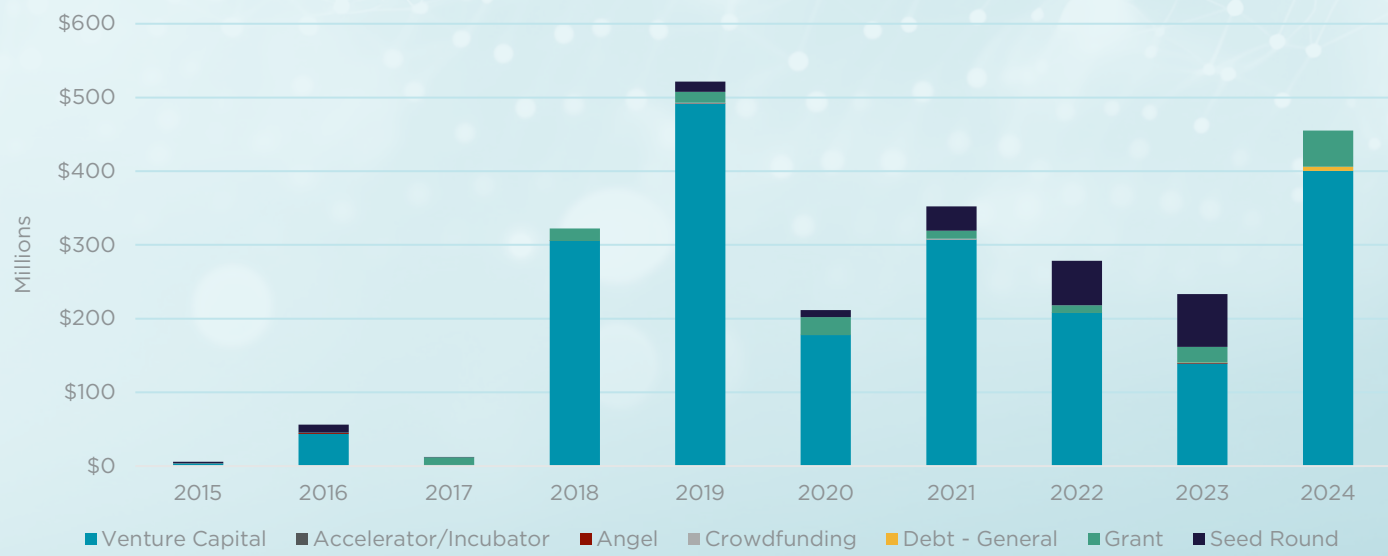


Sources: CW Research, PitchBook

VC FUNDING BY BUSINESS STATUS:



OCCUPIER FUNDING BY YEAR AND FUNDING SOURCE:



FUNDING SOURCES

Clear trends in the focus of VC investment have driven much of the shift in the function and occupier profile of serviced lab facilities. Investors not only prioritize financial flexibility for their portfolio companies, but also focus investment on companies that are further along in IP development and advancement through later stages of clinical trials. Revenue-generating companies now attract the majority (56.0%) of all funding while startup and pre-clinical companies have received only 27.0% of total VC funding.

Biotech companies are also being pressured to narrow their scientific focus and advance less potential therapies through clinical trials. While focused on a smaller number of more mature companies and fewer potential therapies, VC funding received by life science firms in serviced lab facilities reached a post-pandemic high in 2024, totaling just over \$400 million.

Sources: CW Research, PitchBook

REAL ESTATE IMPACT

The original aim of serviced lab facilities was to provide a brief launching pad for fresh university spinouts or a flexible and easy entry point for international biotech companies or large pharma to locate near Philadelphia's major research institutions. While serviced lab facilities still serve this function to many companies in the ecosystem, the typical life science company currently in these facilities no longer necessarily fits this mold. Under the original framework, these spinout companies would have long since transitioned to longer-term, private commercial lab space. The disconnect occurred when VC investors became much more conservative in funding new companies. They slowed funding and forced younger companies to delay the financial and human capital investments that would typically drive a transition to dedicated commercial space. Investors are now waiting until the last stages of FDA approval to make these investments.

On average, phase I clinical trials last four to four and a half years, and later-stage clinical trials (phase II and III) can take closer to five years. Even for academic research, NIH grants have an average period of six years. Therefore, establishing proof of concept and taking a drug from preclinical development to the market can take, anywhere from four to 10 years or more. Any delays in proof of concept often lead to delayed funding, which in turn leads to delayed relocations, resulting in a longer tenure in current lab facilities.

Real estate developers broke ground on new projects speculating that the companies occupying Philadelphia's serviced lab facilities would be ready to transition to commercial space in a much shorter timeframe. This has led to an increase in current vacancy. Over the next 12-18 months an additional 1.7 million square feet (msf) of lab space will be delivered in the city. However, 45.0% of the space under construction is leased.

All else remaining the same, this new inventory would result in an increase in overall lab vacancy to 8.8% in the region and to 14.2% in the city.

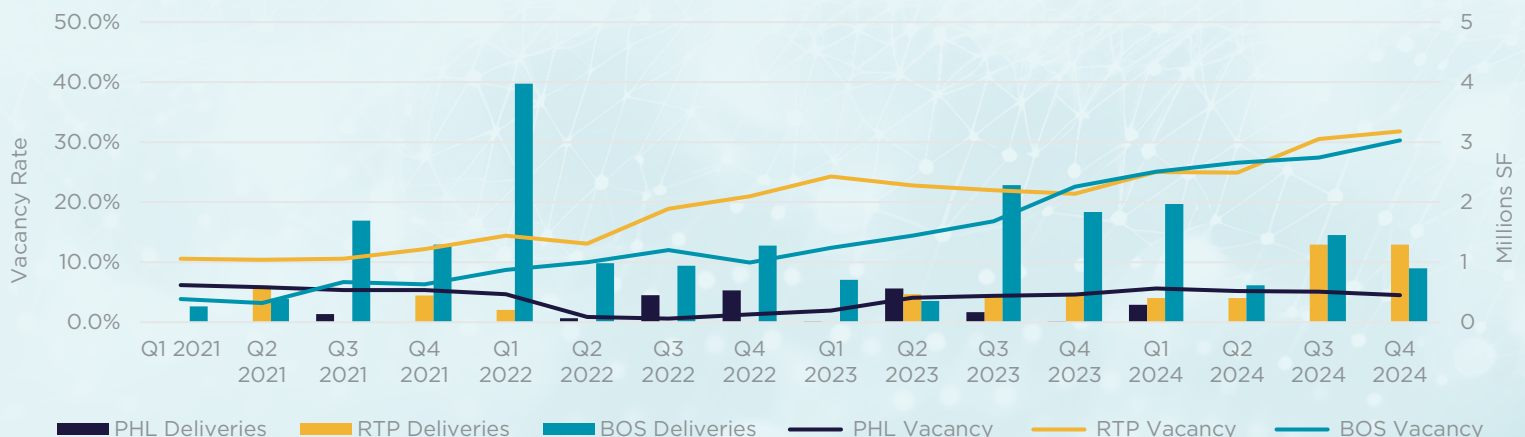
Though high by Philadelphia's historical standards, these vacancy rates are favorable when compared with other major east coast life science centers. Boston and Raleigh-Durham (home to the Research Triangle Park) both have vacancy rates in excess of 30.0% and are expected.

Another emerging dynamic in the lab market is the availability of spec labs, second-generation lab space, and lightly serviced graduate labs, accounting for upwards of 15.2% of the total vacancy in the market. While spec lab suites have been available in the market for several years, cost-effective second-generation lab suites are a relatively new phenomenon as city lab space was long undersupplied. Lightly serviced graduate labs also provide some of the services and shared equipment benefits of serviced lab facilities while providing larger and more private dedicated lab and office facilities. The city's serviced lab facilities have also started offering modified terms and deal structures to make themselves more competitive and cost-effective for larger occupiers. Collectively, these lab facilities offer young companies the opportunity to procure commercial space without the significant capital commitment of building new labs.

Caution delayed investor capital commitments and caused companies to remain in serviced lab facilities for longer periods.

TOTAL DELIVERIES AND VACANCY BY MARKET

Sources: CW Research, PitchBook



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CONCLUSION

The life sciences industry, particularly the biotech sector in Philadelphia and nationwide, is undergoing a paradigm shift. Biotech companies today are navigating regulatory challenges, political and economic instability, and access to capital. As these market factors evolve, so shall the profile and strategic vision of Philadelphia's biotech companies. As companies chart the course through this ever-changing landscape, one thing remains clear – Philadelphia has established a vibrant life science ecosystem driven by world-renowned academic research, promising biotech companies, third party scientific support services and facilities, established large pharma, and a highly-skilled and deep scientific talent pool.

In response, Philadelphia has seen a speculative yet thoughtful approach to providing a range of real estate solutions, from serviced lab facilities and lightly serviced graduate labs to second-generation lab space and purpose-built new construction lab buildings. As the life science industry continues to evolve, Philadelphia is well-equipped to accommodate the changing needs of these companies at every stage of development.

GLOSSARY OF TERMS:

BUSINESS STATUS:

Generating Revenue: A company with a product or service that is generating cash flow but is not yet known to be profitable.

Pre-Revenue: a company has not yet generated any sales or made money from its products or services.

Pre-Clinical Trials: A company in the product development phase prior to clinical trials.

Clinical Trials: A company in an unspecified phase of clinical trials, which is the study of tests and treatments and their effects on human health outcomes.

Startup: A company in its formative stage/very early stage, with very few employees (such as lacking a full management team) and typically venture capital-backed.

Acquired/Merged: A private company that is currently doing business as an operating subsidiary, after being acquired by or merged with another company. Public companies that are operating subsidiaries are not included in this category.

FUNDING STATUS:

VC-Backed: When the company has completed at least one Seed, or for public companies, where VC investor(s) still hold 50.0%+ of the company

Formerly VC-Backed: The company is no longer financed by venture capital investors.

Accelerator/Incubator: The company is financed by or enrolled in an incubator or accelerator.

Formerly Accelerator/Incubator: The company is no longer financed by or enrolled in an incubator or accelerator.

Angel-Backed: The company is financed by an individual or non-PE/VC financial investors (or undisclosed if no PE/VC investors already invested in the company).

No Backing: A private company that currently has no financial backing

Public: A company that is currently publicly listed. This category includes companies that have gone through a merger or acquisition but are still publicly listed.

Sources: CW Research, PitchBook