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## PROPERTY COST SAVING OPPORTUNITIES IN THE PIPELINE FOR PHARMA SECTOR

Sydney, NSW (10 December 2009)

A significant proportion of the world's top pharmaceutical companies are undertaking sale-and-leaseback or vacant sale transactions in a drive to consolidate property assets and save costs, according to recent research issued by CB Richard Ellis. The new report, *The Pharmaceutical Sector: Real Estate Implications of Industry-Wide Change*, reveals the findings of CBRE's analysis of the property challenges facing the sector, backed by a benchmarking survey CBRE completed with some of the sector's top global companies.

Eighty per cent of survey respondents confirmed that they are taking part in monetisation\* activities to help offset merger costs and pay down debt, initially concentrating on generic assets such as offices and warehouses. Conversely, only 20% of respondents thought that specialised assets, such as laboratories and production plants, would be considered for monetisation.

Nick Compton, Head of Life Sciences in CBRE's Global Corporate Services team in EMEA, said: "A considerable opportunity has emerged for the pharmaceutical sector to release value locked in its property assets. Offices and warehouses are likely to be targeted for sale, but few survey respondents thought that specialised assets would be considered for monetisation, perhaps confirming that the associated benefits of specialised asset ownership are still often worth more than the cash that could be released. This also points to a lack of demand for specialised assets from the mainstream industrial market, which may change as the number of landlords that understand the dynamics of specialist assets increases."

Over the next five years, the top 10 pharma companies are reported to face losing high levels of annual revenues from patent expiries. Despite efficiency improvements to the drug discovery process, the cost of maintaining a new product pipeline has continued to increase, prompting a drive to cut costs.

Compton said: "We found that the top 10 pharmaceutical companies occupy at least 430 million sq ft of office, manufacturing and specialist research space around the world, of which around 75% is owned.

That's one of the highest ownership ratios of any corporate sector and reveals a huge amount of potential to cut costs through consolidation, space efficiency strategies, disposal and relocation. "

Notably, the research also found that 60% of pharmaceutical companies surveyed don't currently have a structured property component to the merger and acquisition (M&A) process. "As high levels of M&A activity are anticipated, to contain costs in a highly competitive market, extensive consolidation of property portfolios via a fully mandated property team has become a necessity in both mature and emerging markets across the globe", said Compton.

The assessment and potential sale of office accommodation will be seen during the first wave of activity, as post-merged entities drive cost saving agendas. Global workplace standards and alternative working strategies may also be employed to drive space efficiencies. Manufacturing site disposals will also take place following M&A activity in mature markets. CBRE's survey found that, in order to further cut costs, an increasing proportion of pharmaceutical products will be manufactured in lower cost economies, such as Eastern Europe, India and China, where demand for space will increase.

Whether this will lead to much sales activity in Australia remains to be seen. CBRE Director, Office and Industrial Parks, Simon van Grootel, said pharmaceutical companies in Australia tended to lease rather than own their property

"What we are seeing, however, is some consolidation occurring as a result of recent M&A activity, including the mega merger of Merck Sharpe & Dohme with Schering-Plough," said van Grootel.

"These mergers tend to act as a catalyst for companies to rethink their property requirements."

In addition to stepping up M&A activity levels, pharmaceutical companies are attempting to fill the gaps in the product pipeline by forging partnerships with newer, entrepreneurial companies, agreeing licensing deals with the owners of Intellectual Property (IP). This will lead to a more agile operating and product development model and a different approach to property.

For example, established companies which have occupied sites for decades are now under pressure to examine the most effective location for various company functions, maximising cost and operational efficiencies. The remodelling of existing closed, single occupier campuses containing laboratory buildings is set to rise. "The creation of open, multi-occupied science parks will encourage open innovation and provide access for smaller enterprises in the sector," said Compton.

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