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New study highlights Austin's expanding clout in biopharma



Austin is one of the top life sciences cities in the country, according to a new study, and it's also one of the most affordable. Shaun Acker for ABJ

By Paul Thompson – Assistant managing editor, Austin Business Journal – February 5, 2020

Austin is one of the most affordable major U.S. cities to operate a biomanufacturing facility, according to a new report from The Boyd Company Inc.

The New Jersey-based site selection consultant — which counts among its clients companies such as PepsiCo, Boeing and Round Rock-based Dell — conducted a global study to determine the cost of operating a plant in 25 top biopharma cities. A hypothetical 300,000-square-foot biologics production plant that employs 300 workers would cost \$39.4 million per year to operate in Austin, according to the study.

The most expensive U.S. city was New York at \$55.4 million in annual operating costs. Copenhagen, Denmark was the most expensive overall, at \$88.7 million, while Bangalore, India, was the most cost-effective at \$13.9 million.

Operating costs "have never been more important" to the biopharma industry than right now, said John Boyd, CEO of the The Boyd Company. A movement to control drug prices is one of the rare bipartisan issues in Washington, Boyd noted, in a trend that has drawn the attention of the industry.

Biopharma companies "hear the Feds coming with potential new regulations," Boyd said, and are increasingly viewing the site selection process as a key way to "reduce operating costs and to be more cost competitive."

The Boyd Report touted Austin as among the top 10 life sciences centers in the U.S., "housing over 200 biopharma companies in the region and a workforce of some 15,000." Factors considered included employment growth in the life sciences sector, inventory of lab space, National Institutes of Health funding, the presence of major academic institutions and the depth of the IT talent pool.

Notable examples of life sciences companies already operating in the Austin area include Allergan, Grifols, Experian Healthcare, Zimmer Biomet and XBiotech, which just sold a new drug candidate for \$750 million to Janssen Pharmaceutical Cos., a subsidiary of Johnson & Johnson.

Austin's primary biopharma competition

Among the 14 U.S. metros studied by Boyd, only Raleigh-Durham was cheaper than Austin, at \$37.2 million. A key takeaway from the report is the ongoing competition between those two cities, Boyd said, especially considering that most analysts expected Austin to top the list.

"It points to a lot of the inflationary real estate and labor cost pressures here in Austin, given your extraordinary growth here in the past decade," Boyd said.

While the results are still good for Austin, he said, there is some cause for local lawmakers to "be cognizant that markets become victims of their own success."

"Local economic development officials need to realize that and focus on keeping taxes low, keeping regulations in check and promoting the region as being open for business," Boyd said.

One example of Raleigh-Durham's attractiveness: global drug giant Eli Lilly and Co. (NYSE: LLY) recently announced plans to invest \$474 million in a new Durham County manufacturing facility that will bring 462 high-paying jobs to the region.

"These projects are out there; life sciences projects are under enormous pressure to reduce operating costs," Boyd added. "They're leaving San Francisco, they're leaving San Diego, they're

leaving Boston, they're leaving Chicago, they're leaving New Jersey ... lower-cost, lower-tax, tech-friendly markets like Raleigh-Durham and Austin are on their shortlist like never before."

That flow of business from the coasts to states like Texas mirrors general population trends.

What it costs to operate a biomanufacturing facility

This comparative operating cost analysis from site selection consultant The Boyd Company offers a glimpse of Austin's relative costs.

City	Total Annual Labor Costs	Electric Power Costs	Amortization Costs	Property and Sales Tax Costs	Corporate Travel Costs
Bangalore, India	\$3,003,804	\$828,000	\$7,645,431	\$2,374,669	\$133,3
Raleigh/Durham, North Carolina	\$22,636,674	\$784,800	\$11,070,948	\$2,574,932	\$223,7
Austin, Texas	\$23,204,196	\$584,400	\$11,373,872	\$3,981,384	\$285,5
Bethesda, Maryland	\$26,111,547	\$1,032,000	\$13,814,279	\$2,583,378	\$335,2
Boston, Massachusetts	\$26,630,730	\$2,328,000	\$14,641,730	\$5,042,160	\$381,5
San Francisco, California	\$29,563,173	\$1,213,200	\$14,764,583	\$3,154,114	\$416,6
New York, New York	\$28,549,161	\$2,006,400	\$15,438,023	\$8,988,422	\$503,3
Copenhagen, Denmark	\$32,365,620	\$3,240,000	\$16,160,653	\$6,624,037	\$309,7

- Table includes all major geographically-variable operating costs for a 300,000-square-foot biomanufacturing facility employing 300 people.

- Source: The Boyd Company, Inc.

The allure of an innovation district



A rendering of the 17-story office building UT plans to develop directly east of Waterloo Park, the first piece of the redevelopment of the old Brackenridge Hospital campus. The hospital tower itself will be redeveloped at a later date. Gensler

The Texas Association of Realtors recently released its 2020 Texas Relocation Report, which shows that 563,945 people moved to Texas in 2018, up from 524,511 in 2017. The net gain of out-of-state residents jumped from 57,173 to 101,805 between 2017 and 2018, representing a 78% increase. Of those transplants, 86,164 people moved to Texas from California, a 36% uptick from 2017 and more than double any other state, according to the report.

Perhaps the most significant draw for life sciences companies considering Austin is the fledgling innovation district that's sprouting up around the University of Texas at Austin's Dell Medical School, which opened in 2016 and will be celebrating its first graduating class this spring. The epicenter of the innovation district is slated to be the old Brackenridge hospital campus, where UT is developing a 17-story office building.

The district has been envisioned as a mixed-use hub that combined space for health care innovators with residences, offices and stores. A recent study found that if the innovation district is successful it could generate \$800

million in economic output and create 2,800 new, permanent jobs within 10 years.

Boyd said the promise of the district is intriguing for life sciences companies considering investments in Austin, even while news of concrete leases remains elusive. He expects the innovation district to eventually become a "magnet for talent."

"There is a national buzz associated with the project," Boyd said. "We expect that to be a catalyst for a lot of exciting developments."

Ruben Rathnasingham is assistant dean of health product innovation at Dell Medical School, which brings him in close contact with companies eyeing Austin. Rathnasingham has spoken with companies in pharma, med tech and IT, all of whom are hoping to take advantage of the wealth of opportunities in the health care industry.

He agreed that companies are increasingly coming from the coasts in search value. But he's hoping Austin becomes known for something beyond its relatively low cost of doing business as companies are introduced to Austin's deep talent pool and the potential of the innovation district.

"For me, I feel like it's on schedule and it's accelerating," Rathnasingham said of the district. "Every company that I talk to, they're very eager to figure out how they fit into this innovation corridor."

These companies want to improve outcomes and lower costs in the health care sector while developing in the biomanufacturing space, Rathnasingham said. Though he declined to speak specifically about companies interested in the innovation district, Rathnasingham expressed optimism about its direction.

"Suffice to say that we're having some really interesting conversations with some significant players in the market," Rathnasingham said. "Even in the biomanufacturing space, it's more than just 'We need real estate to make stuff.' The conversations have evolved into, 'How can we make things better?'"

"Almost every week, I'm being pinged by a pharmaceutical company," Rathnasingham added. "I want to be sure we are ready to deliver on the potential of Austin. And I believe that we are."

More life sciences activity is likely on the way to the metro. For instance, Boyd cited Georgetown and Hutto as suburban areas with interesting life sciences markets.