



GRC Yokohama Bay Research Park held by EastGate Capital Management and Warburg Pincus in the Tokyo-Yokohama cluster (Photo credit: EastGate Group)

# Reigniting innovation

## *Japan's life sciences and R&D real estate opportunity*

by Samuel Lim

Japan is reigniting its innovation engine. Once a powerhouse in global research and development, Japan saw its share of global innovation slip following the 1990s. Today, the government is making a renewed effort to revitalise its R&D landscape.

In 2023, Japanese corporates invested more than ¥15 trillion (US\$102 billion) in R&D, ranking the country third globally — and first among major economies in R&D spend as a share of GDP, surpassing the United States and China. The government's 6th Science, Technology and Innovation Basic Plan (2021–2025) targets ¥120 trillion (US\$812 billion) in public and private R&D spending over five years and raising R&D spend to 4.0 percent of GDP.

Alongside funding, Japan is pursuing a range of policies to boost R&D. For instance, the government

has formulated its Bioeconomy Strategy, which aims to create a ¥100 trillion (US\$677 billion) market by 2030 across bioeconomy sectors including biopharma, regenerative medicine and related technologies.

R&D is further supported and concentrated in established innovation zones. Notably, the Keihin Coastal Area Life Innovation International Strategic Comprehensive Special Zone, which encompasses parts of Kanagawa Prefecture, Yokohama City and Kawasaki City, promotes and incentivises life sciences innovation in the region.

Demographic realities add urgency. With nearly 30 percent of its population over 65, Japan faces mounting healthcare demands and labour shortages, fuelling demand for life sciences innovation and productivity-enhancing technologies. Healthcare expenditure is expected to increase significantly,

reaching ¥78 trillion (US\$528 billion) by 2040, or 40 percent higher than in 2025. These long-term secular trends set a compelling backdrop for what Japan's innovation economy has to offer institutional investors — particularly through the significantly under-supplied life sciences and R&D real estate sector.

While in the United States and United Kingdom life sciences real estate is primarily focused on the medical and biotech sectors, in Japan, these sectors account for only about 22 percent of corporate R&D spending. Most R&D is conducted across the manufacturing, engineering and related sectors, much of which requires similarly enhanced specifications — such as high floor loading, improved utilities and freight access. The opportunity, therefore, is not a narrow life sciences play, but a broader life sciences and R&D strategy that captures the full scope of Japan's innovation economy.

### **A previously inaccessible property type**

Japan's life sciences and R&D real estate market has remained largely outside the reach of institutional capital. Unlike in the United States and United Kingdom, there are no R&D-focused REITs or listed developers in Japan. This is rooted in how research space has traditionally been developed, owned and operated. For decades, universities, public institutes and large corporates built bespoke facilities for their own use, often on land they already controlled.

Geography has also been a barrier. Many R&D facilities were developed in peripheral locations where real estate is tightly held and rarely transacted. Such locations tend to be outside the traditionally preferred geographical bounds of institutional investors.

This historical inaccessibility has kept Japan's life sciences and R&D real estate sector fragmented and illiquid, leaving a clear gap between the country's research output and the availability of institutionally owned, investment-grade facilities. That gap is now becoming more pronounced as demand patterns evolve.

### **The structural supply gap**

Demand for modern, flexible research space is rising sharply, yet supply remains constrained by historical development and ownership patterns, high barriers to conversion and limited new construction.

**1. Limited stock of modern facilities:** Outside a handful of university- or government-affiliated facilities, Japan has few multitenant R&D spaces available for lease. While the United States and United Kingdom have mature clusters — such as Boston–Cambridge, Massachusetts; San Diego; and the UK's Cambridge Science Park — where private landlords own and operate large volumes of lab space, in Japan, institutional-grade multitenant stock is few and far between in core urban locations.

### **2. Mismatch between demand and location:**

Much of the existing R&D stock is in hard-to-reach science parks. However, demand is increasingly concentrated in urban innovation hubs, as companies prioritise locations that support attracting and retaining top research talent, and that facilitate collaborative R&D with business partners. This mismatch further constrains effective supply.

### **3. Rising demand from large corporates and new market entrants alike:**

While startups and university spinouts are a growing segment, most of the demand today comes from large domestic and multinational companies. Many are becoming less inclined to develop their own bespoke R&D facilities due to the high capital cost and long delivery timelines involved, and the inefficiency of holding such real estate on their balance sheets.

### **4. Conversion complexity and cost:**

Not all conventional offices or warehouses are suitable candidates for R&D conversion due to structural limitations. Even where technically feasible, conversion comes with substantial capital expenditure, regulatory requirements and technical complexity. This discourages generalist real estate investors from entering the sector, perpetuating the shortage.

*As Japan reignites its innovation economy, the life sciences and R&D real estate sector has the potential to evolve from a niche market into a mainstream alternative.*

The result is a deep imbalance: a growing tenant base seeking high-quality, flexible R&D space in central locations, and a dearth of private real estate market options. Data from EastGate Capital Management has shown R&D tenants who do find suitable R&D space are willing to pay a significant rental premium and are “stickier” to the building given the high fit-out costs incurred. For institutional investors able to navigate the technical and operational complexities, this gap represents a tremendous opportunity and a first-mover advantage.

### **Barriers to entry offer opportunity for specialists**

Life sciences and R&D real estate requires specialised knowledge, networks and execution capabilities. These barriers to entry act as a natural moat that enables specialists to build durable competitive advantage and deploy capital at scale.



GRC Shinagawa Innovation Park (Photo credit: EastGate Group)

- 1. Defining the investable universe:** There is currently no widely accepted definition of life sciences and R&D real estate. The market ranges from wet and dry laboratories to manufacturing facilities and mixed-use R&D campuses. While daunting for generalists, this diversity broadens the opportunity set for specialists and allows for portfolio construction across a range of life sciences and R&D asset types.
- 2. Sourcing off-market opportunities:** Marketed life sciences and R&D assets are rare, and often open only to a small pool of specialist buyers. This makes proactive deal sourcing through local networks and relationships a strong differentiator, giving established local specialists an edge in scaling an existing platform.
- 3. Navigating technical complexity:** Evaluating conversion feasibility and navigating ongoing technical requirements is not easy. However, with each project, experienced investors build a proprietary playbook of strategies that can be applied to future similar projects, thus lowering risk over time.

#### **4. Leasing and operational considerations:**

Life sciences and R&D lease-outs may require longer diligence periods, bespoke layouts and sometimes landlord participation in capital expenditures. However, platforms able to effectively secure and manage such tenants reap the rewards of greater tenant “stickiness”.

These barriers explain why the sector remains underinstitutionalised — and why specialists with local presence and a platform-oriented approach are uniquely positioned to unlock a defensible and scalable investment pipeline.

#### **Strategies for investing in life sciences and R&D real estate in Japan**

The unique dynamics in Japan’s life sciences and R&D real estate sector call for a targeted, hands-on investment approach:

- 1. Adaptive reuse of existing assets:** Given the scarcity of suitable development sites and elevated construction costs, one of the most effective entry points is to repurpose well-located commercial or industrial assets into modern R&D facilities.
- 2. Development in established innovation clusters:** Where land can be secured at a reasonable cost, ground-up development in strategic locations can deliver new purpose-built facilities that can command higher rents.
- 3. Partnerships with anchor tenants:** Structuring transactions around an anchor tenant can de-risk the investment and aid in securing favourable financing terms. Early collaboration with the occupier can also inform technical design, providing a built-to-suit solution.
- 4. Building a specialist platform:** Technical and operational complexity makes a dedicated platform essential. Survey data from the United States show life sciences tenants place higher value on landlord reliability than do office tenants. Having a recognised brand in this space also goes towards improving leasing funnels and conversion rates. The success of the United States’ Alexandria Real Estate Equities — now with roughly US\$40 billion in assets — demonstrates that once platforms are established, the sector can institutionalise rapidly and absorb significant investment.

#### **Investment case studies**

EastGate Group is one of the first movers in this space, having managed R&D assets in Japan for more than 15 years. In 2023, we established a joint venture with Warburg Pincus to address the

significant undersupply of life sciences and R&D real estate in Japan.

We have adopted a platform-oriented strategy under our GRC brand, aiming to deliver at scale institutional-grade life sciences and R&D assets across Japan. Today, the venture manages more than 1 million square feet (92,903 square metres) of gross floor space across three assets in the Tokyo-Yokohama cluster — ranked by the World Intellectual Property Organization as the world's leading innovation hub by density of inventors and scientific authors.

Case study examples in the Tokyo-Yokohama cluster include GRC Yokohama Bay Research Park and GRC Shinagawa Innovation Park.

Yokohama Bay Research Park is a more than 50,000-square-metre mixed-use commercial building that includes a dated data centre annex scheduled for vacancy. While no longer competitive as a tier 1 data centre, the annex offers enhanced specifications that make it well suited for conversion to R&D use.

Shinagawa Innovation Park, a more than 38,000-square-metre commercial building in Tokyo's central 23 wards, features superior structural specifications suitable for lab conversion. Its station-front location in one of Tokyo's most connected business districts attracts corporates

seeking to establish visible, centrally located innovation or R&D hubs that can attract and retain top talent.

Yokohama Bay Research Park and Shinagawa Innovation Park illustrate the types of assets that possess the locational and structural attributes that enable the creation of modern R&D facilities as a higher and better use of existing real estate.

### **Looking ahead: From niche to mainstream**

Japan's life sciences and R&D real estate sector today is where logistics and data centres were a decade ago: a specialised sector poised for institutionalisation.

Strong tailwinds are colliding with a chronic undersupply of high-quality, urban R&D space. For institutional investors, this imbalance offers a rare window to capture yield and tenant demand while helping shape an emerging asset class. Barriers to entry remain high but offer specialists an opportunity to build an early and durable advantage.

As Japan reignites its innovation economy, the life sciences and R&D real estate sector has the potential to evolve from a niche market into a mainstream alternative. ❖

---

**Samuel Lim** is executive director at **EastGate Capital Management**. He is based in Singapore.

---