CRAIN’S NEW YORK BUSINESS

March 14, 2022 07:30 AM

City’s life science industry threatened after early growth spurt

SHUAN SIM

Illustration by Phil Foster

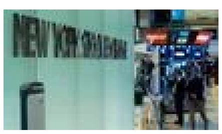
A brewing storm of tax laws and market softness is threatening to stymie its meteoric rise

New York City’s burgeoning life science and biotech sector is flush with millions of dollars in government investment, but a new set of external forces has thrust its seemingly inevitable growth spurt into uncertainty.

The city has invested deeply in life science infrastructure, such as laboratory space and incubator programs, to compete with heavyweights such as Boston and San Francisco. In June then-Mayor Bill de Blasio announced the city would commit an additional $500 million to LifeSci NYC, a joint initiative with the city Economic Development Corp., to bring the total investment to $1 billion.

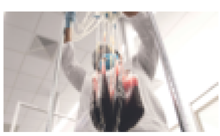
The investment paid off. The city now boasts at least 10 incubator programs including BioLabs@NYULangone, a 50,000-square-foot facility, and Johnson & Johnson’s JLabs, a 30,000-square-foot space, both in Hudson Square. The Alexandria Center for Life Science in Kips Bay, first opened in 2010, has completed two of its three towers. When the development is fully done, it is expected to feature 1.3 million square feet of office and laboratory space.

RELATED ARTICLE



Digital health startups shattered fundraising records last year, backed by bullish venture capital

Life science sector keeps breaking records, but experts see more room for growth



The big business of blood

Despite the windfall of investments from public and private funders alike, though, a brewing storm of tax laws and market softness is threatening to stymie the city’s meteoric rise in the industry this year.

“It’s quite apparent the life science industry and equity markets are going through a new bout of volatility,” said Matthew Price, executive vice president and chief operating officer of Phosplatin, a biotech firm in Midtown focused on oncology therapeutics.

Wrench in the works

Ramification of the 2017 Tax Cuts and Jobs Act, which reduced corporate tax rates, kicked in Jan. 1, proving a thorn in the side of the life science industry.

Part of the law's budget-neutral balances requires companies to now pay off R&D expenses over five years, instead of as a onetime write-off. It could increase companies' cash tax liability in the near term, affecting liquidity on hand for future research and development.

Although the tax change affects all industries, it has an acute impact on life science firms, especially pre-commercial ones, for which R&D expenses can make up more than 90% of their income statements. It also could tarnish the attractiveness of an emerging biopharma firm for a potential buyer. In a market such as New York, where being acquired represents an attractive strategy for development capital for early-stage companies, the stakes are high.

"Previously a buyer might see a firm with expenses that can be deducted, with credits available down the road, as an attractive attribute," said Christine Kachinsky, a life sciences tax industry leader at KPMG. "If these deductions now have to be taken over a longer period of time, firms could be less attractive to an acquirer."

The city and state have provided tax credits through their respective life science initiatives, shielding especially young biotech firms so they can focus on the science, said Glennis Mehra, director of BioLabs. Companies at the incubator are exempt from the payroll tax, for example, as long as employees are on site. The companies also face no sales tax at the city and state levels.

;>

Buck Ennis

Mehra

Uncertainty abounds

The Nasdaq composite exceeded 16,000 points in November, and it has since leveled off, hitting around 13,000 this month. Similarly, the Dow Jones Industrial Average exceeded 36,000 points in November, and it now sits around 33,000. When markets were at an all-time high, investors rushed toward the life sciences.

“That pendulum has swung back,” Price said. “Now investors are seeking safer opportunities

The stock market softness has resulted in investors being more conservative and conducting more due diligence with smaller companies. Mehra said some BioLabs deal conversations, especially around valuation, are taking longer to close.

As access to capital is squeezed, some startups have held off hiring researchers or growing their business development team, Mehra said. Being unable to scale the key roles can slow a company’s progress.

The lackluster market is keeping new startups from joining the incubator, with start dates being delayed, she said, adding, “We only started having these types of conversations this year.”

Navigating stumbling blocks

Despite financial challenges, New York firms have an advantage in being in a city where many institutional investors and incubators are available to provide advice, said Robert Barrow, chief executive of MindMed, a biotech firm at the World Trade Center that focuses on developing psychedelics as therapeutics.

“It’s a matter of raising money when it’s appropriate,” Barrow said. “The rule of thumb in biotech is knowing how and when to raise, and there’s plenty of expertise for the industry here.” He added that fundraisers held last year were helping MindMed focus on generating data.

Raising funds when market conditions are flush helps life science firms maintain expansion plans even during lean times, said Price of Phosplatin, which raised $37 million in a Series A funding round in November.

“Our board members had been conscientious about the volatility that would eventually hit,” he said, adding that the company looks to expand its corporate space by 50% this year. “The current market thus has not affected our development plans.”

Despite this year’s rocky start, local players say New York’s life science scene can weather the storm. The billions of dollars the city and state have invested in nurturing the industry has helped shield New York companies from some of the current hurdles. As a result, although biotech firms might remain a little cautious, most should be able to push forward with their developments without having to tighten their purse strings.

Although supply-chain kinks remain, most of the smaller consumables—including pipettes, which were scarce last year—are available at regular rates, Mehra said, adding that some larger, capital-intensive equipment is still elusive.

For MindMed, access to resources needed for animal-model toxicology studies have resulted in planning lead time increasing to 18 months instead of the usual three.

“We see that ultimately as a good thing,” Barrow said. “It has helped solidify our plans earlier.”

Of $1 billion invested, $450 million had been earmarked to fund research, $430 million to build lab and incubator space, and at least $20 million to foster life science talent locally. In 2018 the state pledged $620 million for its Life Science Initiative, with $320 million for grants and project funding, $100 million for research and development tax credits and $100 million for job-creation tax credits.

The liquidity earmarked from previous administrations remains available, but during these contentious times, Mayor Eric Adams and Gov. Kathy Hochul can help by ensuring the same, if not higher, levels of funding, Mehra said.

Achieving small victories, from enacting favorable zoning to training programs for talent, this year will ultimately guide the city’s life science industry through future challenges, Mehra said.

“A rising tide lifts everyone,” she said, “but a falling tide brings everyone down.”

Inline Play

Source URL: *https://www.crainsnewyork.com/health-care/new-york-citys-life-science-industry-threatened-after-early-growth-spurt*