From Capacity to Capability

The new metrics shaping contract services real estate

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Executive Summary

The contract manufacturing (CDMO) and research (CRO) sectors are in a period of recalibration as funding constraints and oversupplied capacity converge with new operational and geopolitical pressures. Much of today's market softness stems from delayed early-phase biotech trials among emerging pharma companies due to shortened cash runways or fundraising challenges. Reduced grant support from the National Institutes of Health (NIH) have amplified pressure on early-stage research and development ecosystems (R&D).

Yet, signs of resilience exist, particularly in commercial manufacturing, generics outsourcing, and the rising demand for U.S.-anchored supply chains. Strong contract-manufacturing programs remain in high demand, benefiting from a resilient small molecule pipeline that has been historically dominated by commercial and late-stage companies.

Some contract manufacturers are implementing process improvements, including disposable components often found in single-use technologies (SUTs), and continuous manufacturing, to boost operational efficiency and unlock additional capacity in lieu of acquiring new facilities. The landscape now favors operational flexibility and adaptive reuse of validated space, potentially via consolidation, as Artificial Intelligence and automation streamline production.

Going forward, agility, not just capacity, will define competitive advantage.

Industry Trends

The CDMO and CRO industries are at a strategic inflection point, shaped by uneven demand, funding headwinds, and evolving regulatory and geopolitical dynamics. Much of the market softness today can be traced back to the pullback in biotech funding, particularly affecting early-to-mid stage companies. Where emerging pharma firms once enjoyed cash runways exceeding 36 months, many now operate with approximately 22.3 months[1] of capital, forcing difficult prioritizations around trial progression and CDMO engagement. This has translated into decreased Phase 1 and Phase 2 trial activity and, in turn, weaker demand for early-stage manufacturing services.

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Compounding these financial pressures is a changing federal landscape. NIH budget constraints and threats of suspended grants have cast uncertainty across early-stage R&D, especially for CROs that rely heavily on bookings from companies receiving federal research dollars. Commercial manufacturing has remained relatively resilient, buoyed by a 6% rise in global prescription drug sales in 2024, with biologics surpassing half of all sales for the first time.[2] Overcapacity in cell and gene therapy (CGT) facilities loom large. Between 2019 and 2024, CGT manufacturing capacity grew more than twice as fast as clinical trial demand, resulting in significant underutilization, particularly in Mid-Atlantic markets.

Generics have quietly reclaimed center stage in 2024, driven by rising demand for chronic disease treatments and cost-sensitive drug options. The approaching patent cliff has pushed many large pharma companies to consolidate internal operations and outsource mature product lines, while reallocating resources toward precision medicine and novel therapies. This strategy has renewed interest in compliance-ready, retrofit-friendly CDMO space, allowing firms to scale more efficiently while preserving core capacity for innovation.

Global dynamics is also reshaping contract investment strategies. Recent entrants to the U.S. market, anticipating regulatory shifts and supply chain localization, often lack domestic credit histories and rely on cash due to limited access to traditional capital. Their success is tightly linked to hitting commercialization milestones to retain their client bookings, which adds layers of operational risk.

For example, a pivot away from China-based outsourcing, spurred by cost volatility, geopolitical tensions, and potential legislation, has reinforced the value of “China Plus Two” or “Three.” This reflects a broader realignment toward multi-market diversification, with increased preference for supply chains anchored in countries that offer cost stability and strategic alignment with U.S. trade and regulatory priorities.

While cost premiums exist, the tradeoff is greater supply chain control and resilience. Threats to raw materials, equipment, and packaging inputs could face import duties prompting CDMOs to diversify suppliers and build domestic inventories faster than forecasted. CDMOs that can offer modular space, regulatory readiness, and responsiveness to tariff-driven shocks will be better positioned.

Flexibility is fast becoming a proxy for reliability. Capital and time intensive upgrades, such as adapting infrastructure from dermatological to sterile injectable systems, require significant investment in mechanical, electrical, and plumbing infrastructure, cleanrooms, and validated process flows. As such, CDMOs offering ready-to-go, compliant infrastructure will remain in high demand, especially among tenants who need to move quickly.

Finally, advances in AI, automation, and smart manufacturing are ushering in a new era of efficiency across the biologics and CGT pipeline. These technologies not only reduce development timelines but also make adaptive, modular manufacturing more viable. For landlords, this trend offers a silver lining: well-configured space with embedded flexibility can now appeal to a broader tenant base, provided it aligns with compliance and classification requirements for high-value segments.

[1] KPMG, U.S. Biopharma Services Industry Update - 2024 Year in Review, Emerging Biotech Cash Runway. March 2025.

[2] Pharma Manufacturing, William Blair. CDMO sector looks to recovery in 2025 amid positive macro, industry trends. Slabodkin, Greg, Dec. 19, 2024.