



## What is behind the scenes of the pharmaceuticals industry? - by Ralph Perna Long Island

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Ralph Perna,  
Newmakr Knight Frank

Recently, there have been several articles regarding the ever-growing pharmaceutical industry on Long Island. What the articles neglect to mention, however, is the long, expensive process it takes to develop, expand and create a pharmaceutical manufacturing facility. True, over the past 10 years, the pharmaceutical industry, particularly on Long Island, has exploded. Existing companies have been expanding, new companies have been born. Many of the largest industrial transactions during the past ten years have been in the pharmaceutical industry. New buildings have been built and existing buildings have gone through major renovations. And yes, the articles are dead on when they say the job growth has been explosive, and we probably have not seen this kind of job creation and growth since the Grumman days.

The residual effect from the pharmaceutical industry's growth is directly connected to the construction field and most importantly, the cost of the infrastructure to place a pharmaceutical facility into operation. The pharma industry on Long Island started with, and the initial growth engine has been with nutraceuticals or as they commonly known as, vitamins. The advent of companies such as Nature's Bounty, LNK, Contract Pharmacal and PL Development has seen the expansion of their facilities and job growth taken to new heights. As the patents of big Pharma companies such as Pfizer and Johnson and Johnson have expired, we have seen generic pharmaceutical manufacturing take flight with Long Island serving as ground zero for some of the largest companies we have seen in many years.

With all this being said, there's an enormous cost to prepare the operation of a pharmaceutical facility; whether for generic drugs or nutraceuticals production. Keep in mind, the initial cost of the shell building is no joke, but after that the fun really starts. Not only are there the ubiquitous office and warehouse sections of the building, but also very costly laboratories are required for product development and testing, production areas, clean rooms and sophisticated ventilation systems. Then, it can take up to two years in some cases to place the building into operation, while waiting to obtain the necessary certifications and approvals required by the FDA prior to starting production. Before the first dime is made, the pharmaceutical facility can require an investment ranging from \$20 to 50 million depending on the building size.

The investment in costs, effort and time, however, will hopefully lead to efficient production and revenue generation. Up to that point though, the downtime can be frustrating and very expensive. Next, during the course of maintaining the facility, other issues often start to arise with a new set of problems for the Pharma industry to face. Tarriffs...

Most of the raw materials, particularly for nutraceutical manufacturing, are imported from China. These tariffs can increase costs by 20-30% before the raw materials lands on the manufacturer's loading dock. At the end of the day, the increase in cost will be passed on to us.

State and federal regulation needed to assure quality control is never ending, nor is the associated documentation necessary to stay in the game.

For this article, I met with a generic pharmaceutical executive who enlightened me regarding the New York State taxes which are about to go in effect for opioid pain management pharmaceuticals. With the abuse of opioid-based products on the rise along with the rise in deaths from overdoses, a 150% tax is going to be placed on a per pill basis, effective July 1st, 2019. And guess what? New York State has one of the highest tax rates in the country. In addition, there has been a significant increase in the cost of product liability insurance. Additionally, it is my understanding that competing overseas companies are not subject to the same taxes. The question is, how does taxing the manufacturers help resolve the opioid crisis?

From where I sit, the problem stems from the physicians who issue the prescriptions. I would say the states need better oversight at the prescription level.

So yes, the pharma industry has certainly been a good economic engine for Long Island, but the exorbitant costs including the hefty regulatory costs that manufacturers in this industry must incur, it is not unlikely that we will see a slowdown or at least an adjustment in this otherwise dynamic industry sector's growth.

Stay tuned!

Ralph Perna is an executive managing director at Newmark Knight Frank, Melville, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540