

MAGAZINE High-tech hub in the front line of European innovation

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Brainport Industries Campus (BIC) in the Dutch city of Eindhoven, owned by UK investor Capreon, is pushing the boundaries not only in terms of its high-spec manufacturing facilities but also in the way it operates as an ecosystem.

First-time visitors to the Dutch city of Eindhoven will find it hard to miss: the legacy of electronics giant Philips.

From the football stadium bearing its name to the Philips museum, street names and a statue of the company founder – even a district known as ‘Philips village’ which once housed hundreds of factory workers – the imprint of the company on its hometown is deep.

The legacy also lives on in the ‘brainport’ function of the Eindhoven region, a publicly funded initiative aimed at attracting and nurturing high-tech companies and fostering technological innovation. More than 25 years after Philips moved its headquarters from Eindhoven to Amsterdam, this hotspot role continues to evolve and grow. Many former Philips buildings have been repurposed as centres of learning and innovation, while new hubs are springing up to accommodate the ever-expanding community of life science and tech startups, global corporates and educational institutions.

The newest addition to the landscape is Brainport Industries Campus (BIC), located on the outskirts of Eindhoven near Eindhoven Airport, which opened its doors in 2019. Visible from a distance even on dull days thanks to its bright yellow-and-green façade, this vast rectangular building stretches over a 23-hectare site and houses an eclectic mix of life science and high-tech manufacturing firms, including big-name specialists such as Siemens, KMWE, Meta and Philips offshoot ASML.

High-tech gem

Billed as the latest jewel in the Dutch high-tech crown on its inauguration by King Willem-Alexander four years ago, it caught the eye of UK private real estate investor Capreon, which was already active in the country via office transactions in The Hague and Rotterdam.

‘We like what we call smart workplaces: assets where the location is right, where there’s an ESG story which works, an ecosystem story which works, which is highly amenitised and then the tenant demand comes,’ says Raphael Noé, co-founder and partner at the firm who oversees and leads investment strategy and transactions.

BIC ticked all those boxes – and more. It was, as Noé explains during a tour of the campus, an asset like no other in Capreon’s portfolio, with a unique tenant profile and strategic mission. At the time he first visited the property in mid-2018, it was still in the process of being developed, but the potential even then

was evident.

'We loved the idea of it, and we loved where it was in its journey,' recalls Noé. 'It wasn't fully built or fully income-producing but the trajectory was superb, the tenant demand story was fantastic, the buy-in from the people who had signed leases was terrific, the physical build was great, it ticked every single ESG box and just made a lot of sense.'

More than two years and several meetings and site tours later, Capreon clinched the deal to become the sole owner of BIC via an off-market transaction with the vendors, construction company VolkerWessels and businessman Marc Brouwers. Financial details were never disclosed, and Noé declines to comment on market reports that the asset changed hands for around €125 mln, or a NIY of 6%, saying only it was a financially 'complex' deal, given the challenge of pricing an unfinished, partially leased development during the pandemic.

Capreon purchased BIC in November 2020 at 65% occupancy, a level Noé says was 'pretty courageous' in hindsight. 'It was half of what you're seeing today. Most of the halls, even the leased parts, were still being built.'

Occupancy is now at 97% and is expected to reach 100% by Q1 2024.

Four blood groups

What makes the 106,000 m2 asset so special, according to the UK investor, is its tenant mix, state-of-the-art manufacturing facilities, flexible modular structure, and made-to-measure fitouts. But above all, Noé stresses a number of times during the tour, it is the way it operates as a 'true ecosystem'. At the heart of this is a tenant roster consisting broadly of four main blood groups: large corporates, start-ups and incubators, knowledge institutions and government agencies.

'I don't think there's anything similar - there's nothing this newly built, with the ESG credentials, with the mixture of the academic institutions, the corporates, the startups, the government institutions in one place.' And, he adds, 'it's not multiple different buildings, it's one roof, that makes a big difference.'

Cross-pollination between the four groups is key. By collaborating with one another and sharing facilities, they reinforce each other's business models and support the growth of the campus as a whole. For example, a large portion of graduates from tenants Summa College and Fontys University of Applied Sciences are hired by corporates within BIC, such as KMWE. A patent lawyer is available onsite to help start-ups with application procedures, and an internal logistics company handles all BIC tenants' supply requirements.

Since purchasing BIC in 2020, Capreon has added some 11,700 m2 of space to accommodate new tenants. A recent new arrival is chip machine manufacturer ASML, which took 7,000 m2 of space earlier this year for its new international academy where it hosts up to 400 students every day for training. Another big name set to move in next year is Facebook parent Meta.

The complex now houses around 50 tenants and more than 3,000 employees across modular units which differ strongly in size and fitout. Siemens' space, for example, has more of a traditional office feel, while the Summa College and Fontys areas are more utilitarian and suited to hands-on training. KMWE's open floor manufacturing space in The Factory area is a hive of activity with robots scuttling around, while its adjoining cleanroom is clinical and highly controlled. ASML, meanwhile, combines modern workspaces and meeting rooms in its newly opened academy with sophisticated, high-security lab space and cleanrooms.

Management challenge

Managing the various tenants and their different requirements is one of BIC's biggest challenges, says Noé. 'It's why we have a fully dedicated asset manager who is on site every day. It's just an absolute necessity – campus management is a delicate thing.'

He elaborates: 'You're not dealing with tenants, it's a completely different relationship, you're dealing with people who have bought into the same thing as you, they want the growth, they need the service, the management aspect is completely different. It's beyond hosting events and things like that, it's definitely beyond just charging rent, you're trying to listen and to create the exact ecosystem that everyone wants.'

From an owner perspective, getting the mix right – or 'curating' the offer, as Noé calls it – provides multiple benefits too. For example, the WAULT on the campus is more than 10 years, rents are index-linked annually, while government funding provides an income cushion.

Long leases – of which the most important have first expiries in over eight years – are a key part of the story. ‘The way you do that is not a science, it’s an art,’ explains Noé.

Large, blue-chip tenants invest large amounts of capital to fit out their space, which increases their ‘stickiness’. Similarly, the universities are long-stay residents which benefit from being close to corporates and feeding new talent to onsite businesses. Smaller tenants, meanwhile – mostly startups which have been operational for 6-12 months – want flexibility which they can get as they are often backed by government subsidies.

‘So, from an income perspective, the foundations are those long leases, which gives us great flexibility to make sure the companies are right,’ says Noé. ‘It means we can also bring in startups if they are backed by the government because that gives us the income comfort. You’ve got to play that blend in order to make sure you’ve got all the right people onsite.’

He explains how existing tenants often have a big say in who comes on board as a new resident, especially if it benefits their business. ‘We have a tenant hopefully coming in soon who supplies two companies already on site. It’s absolutely perfect, because it makes manufacturing and other processes a lot easier for them.’ In the same way, tenants also voice their objections if what they perceive as the ‘wrong firms’ seek to take space. ‘You’ve got to be completely awake to that,’ he points out.

For Capreon, BIC’s ‘mission-criticality’ for its tenants was a further factor in its favour when considering buying the asset. Says Noé: ‘During Covid, this place was up and running, the manufacturing was seen as critical. People needed to be here, things needed to be made, and so we felt that this didn’t have that Covid risk, it didn’t have an online risk, it didn’t have a working-from-home risk - you can’t work in cleanrooms and labs in your home, so we felt very protected by that.’

Political sensitivities

Tuning into local politics and engaging with local government officials is another crucial element of owning BIC. Being the – foreign – landlord of a life science campus that is of such strategic importance to the regional and national economy, means coming under scrutiny and operating in accordance with government policy. Noé recounts how Capreon went through a six-month vetting process by the vendor before being given the green light to buy the campus. ‘It’s funny, you don’t often have to do that, but we really had to prove we were a good buyer.’

Landing the deal was ultimately a combination of ‘luck and reputation’, he says. Via a contact linked to BIC’s developer, SDK Real Estate, who also happened to be a broker, Capreon had learned that the vendors – both family-owned businesses – were seeking a buyer that was long term, that understood the importance of BIC to the city of Eindhoven and local community and ‘that wouldn’t go shouting from the rooftops and make a big deal of it’. Moreover, they wanted an owner that could ‘sit in front of local politicians and councillors, operate correctly and had a long-term vision for the asset’.

Capreon’s 40-year track record of investing in the UK, coupled with a venture capital arm investing in proptech and a 13-year data centre business, won through. Says Noé: ‘I think it was being able to demonstrate the combination of everything we do to local government and [SDK parent] VolkerWessels that tipped the scales in our favour. We said: these are the developments in various places in Europe that we’ve owned and built out over a number of years – that’s what we’d like to do here.’

He adds: ‘It was a lot of work, a lot of relationship building, a lot of meeting people, explaining who we were and why we were here.’

‘Political sensitivities do exist, there’s no question about that,’ attests the Capreon director, when asked to comment on another Dutch science park deal which would take place a year later involving the High Tech Campus – also located in Eindhoven - which was acquired by Singaporean wealth fund GIC. That transaction, for €1 bn+, led to questions being raised in the Dutch parliament about strategically important tech knowhow leaking to foreign owners and, ultimately, a new law requiring greater screening of science park deals.

But he suggests such concerns are exaggerated, since the ultimate owners of the real estate, like Capreon in the case of BIC, do not control or have access to the intellectual property of the companies onsite. ‘Like GIC, we’re a long-term owner, I want my tenants to grow and be happy onsite, I want to develop more space for the Eindhoven region, we want to be involved in the growth of

the high-tech manufacturing industry, so we're ultimately completely aligned. I can't just wander into the ASML space and start fiddling with their machines – they won't let me for a start.'

Beyond an initial exploratory phase and a six-month delay due to the pandemic, the deal process for Capreon was smooth, according to Noé. 'It's about making sure everyone understands that you understand what this is and what it's for – and so after 3-6 months of call it "discovery", people doing due diligence on who we were and what we were, we've not had a single issue since.'

Noé now attends football matches with the alderman responsible for developing the Eindhoven Brainport region. 'I'd say we were friends, he understands exactly why we're here.' He also has fortnightly meetings with the BIC board, including developer SDK.

Campus expansion

These relationships will stand Capreon in good stead for when BIC 2, the second phase of the campus which is currently at the planning stage, comes for sale. At 225,000 m², the new complex will be more than twice the size of BIC 1 and developed in three phases, starting in 2025. Like its predecessor, it will focus on high-tech manufacturing, with sectors such as battery development and production, photonics, and additive manufacturing expected to play a big role.

'Everyone - SDK, the municipality, the aldermen - wants a single owner and we want to be that one single owner,' says Noé. 'I think the worst thing for the municipality would be multiple owners of a single campus. It's that simple. There's commercial aspects, political aspects – all sorts of things which make this project so fascinating. As the single owner of the freehold of BIC 1, that puts us in a very strong position.'

Like BIC 1, the new facility will be set in a landscaped park with multiple green spaces. 'It will be the best campus in Europe, and greener than the first,' says Noé. In terms of energy efficiency, BIC 1 has already set the bar high. The campus is gas-free and all on-site energy use comes from renewable sources. Its solar panel roof, one of the largest in the Netherlands and Europe, can generate up to 2.4MW of power and there are plans to expand the 6,000 solar panels further. BIC's modular building structure means that the prefab materials can be reused, while a joint waste management system enables a 'closed loop' for recycling.

BIC's expansion will not stop at the second phase. There are plans for a third, fourth and fifth phase, with rough sketches already in place, to build what will eventually become a huge, 200-hectare innovation zone.

'Once BIC 2 materialises, Eindhoven will become incredibly important – if it isn't already,' says Noé. 'I think people underestimate its power - it's got one of the highest patent filing rates in the world - I think people underestimate the manufacturing that goes on here, they underestimate companies like ASML – it will become more and more important.'

From chip machines and fighter jet parts to 3D gaming figures

BIC is home to a wide array of high-tech manufacturing firms, from big-name specialists such as KMWE, ASML, Fluke and Siemens to start-ups and scale-ups. KMWE, for example, produces high-tech components and modules, such as parts for fighter jets, based on precision engineering and machining. ASML makes machines that mass-produce semiconductor chips for all sorts of electronic devices, while a much smaller firm such as Marketiger specialises in full-colour 3D printing of scale models and figurines used in internet games.

All these firms have space in the 'The Factory' area of the campus, dedicated to production and precision manufacturing. Comprising 55,000 m², it can accommodate three levels which can be fitted as work spaces, offices, meeting and training rooms, cleanrooms and lab space. It can cater to a wide range of tenant specialisations, such as additive manufacturing, agricultural and pharmaceutical R&D, plant-based materials science, 3D printing and semiconductor production.

Rents are at a slight premium versus classic industrial space due to the high technical specification of the spaces. Special features include shock-resistant floors and floors with heavy loading capabilities, as well as raised and anti-vibration floors.

Tenants can let one or more clusters and/or build in units on top of one another as part of the modular concept. As well as being the single-largest component of the BIC ecosystem by physical floor area, the Factory section contributes the biggest chunk of the income, representing around 40% of total

rent.

Five campuses, five different focus areas

With five high-tech campuses in close proximity to one another, Eindhoven is an innovation powerhouse boasting one of the world's highest patent filing rates per 100,000 inhabitants and above-average private R&D expenditure.

Last year, it was ranked the third-best science hub in Europe (after Oxford and Cambridge) and seventh best worldwide by Dealroom.co, a leading provider of data on startups, technology ecosystems and investments.

Each campus has its own specialism: whereas newcomer BIC focuses on high-tech manufacturing, the TU/e Campus serves as the base of Eindhoven University of Technology (TU/e), which is known for its research collaborations with the top 500 innovative companies globally.

High Tech Campus Eindhoven (HTC), owned by GIC, houses over 230 companies and institutes and 12,000 researchers, developers and entrepreneurs, and is focused on R&D and innovation in hardware and software, including AI.

Strijp-S, which occupies a former Philips factory that once made light bulbs, is dedicated to the creative industry and focuses on the crossover between art, design and technology. The Automotive Campus is an international hotspot for new mobility concepts, where researchers, developers and entrepreneurs at more than 75 companies and (educational) institutes work on developing future technologies and products.

By combining their expertise, networks and talent, these five campuses contribute to the innovative strength of the Brainport region.

Says Noé: 'I think people are slowly but surely coming round to the extent of Eindhoven's importance. I've not seen another European city that has built these sorts of campuses to such great success, with different focuses. The point is to work in symbiosis, rather than in competition with one another. There's good government, good local developers and it works, it really works.'



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