

A biotech conundrum

Research is key to new sciences, but real estate can't take a back seat. **Interviewed by Usha Viswanathan**

It costs hundreds of millions of dollars and can take more than a decade for a biotech company to develop a new therapeutic drug. Included in the process are numerous lab and field trials necessary for approval by the Food & Drug Administration (FDA).

Financial performance in the development and clinical trial stages is measured not in returns but in burn rate — how long until the company burns through the money in the bank. For most biotechs, a healthy amount of cash would last 24 months.

In light of this, how does a biotech CEO work through the disparity of a long-term facility commitment versus short-term cash constraints?

Basic research institutions like academic institutions, nonprofits and large pharmaceuticals often own their real estate. Venture-capital backed biotech companies take a new idea, refine it, position it, and seek FDA review and approval.

Smart Business spoke with Shaun Burnett of Irving Hughes to learn how to plan for real estate needs while keeping an eagle's eye on burn rate.

Why should the biotech CEO focus on the real estate?

One of the first challenges that a biotech CEO must address after the company is initially funded is facilities. The facility cost burden is the second-most-expensive fixed expense after payroll.

Parts of the puzzle the CEO must quickly put together include where to house the company, how large the supporting facility should be, how long the facility will accommodate the company's needs, and technical and cultural considerations. The CEO must be wise and strategic in how to spend cash so that the bulk of the funding goes toward moving the science forward.

What is unique about biotech facilities?

Biotech facilities usually require a significant build-out of raw space or an



Shaun Burnett
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extensive remodel. They need to configure plumbing to properly dispose of lab waste; to alter power and HVAC systems to allow the unique cooling requirements; and to engineer water, vacuum and gases to accommodate lab work. Some biotech companies do research using laboratory animals, and that requires an entirely different level of discretion, security and infrastructure.

What is the market like for biotech space?

The shift in the biotech business model away from early-stage discovery to outsourcing of R&D, and also to building management teams around promising Phase II clinical products, has ballooned the supply of wet lab space to a historic high. Most biotech companies today just don't need traditional wet lab space.

More than 1 million square feet of wet lab space is available in Torrey Pines, UTC and Sorrento Mesa. Average time on the market for these properties has increased to 19 months, and many buildings have been on the market for more than three years. Rents that used to range from \$3.00 to \$3.50 NNN per foot have crashed by 25 percent to 30 percent.

What about the market for the biotechs you mention that don't need wet lab space?

The office market is similarly attractive for life science companies that require an all-office solution. The availability rate in UTC is 18 percent with an average time on the market of 22 months. While asking rents continue to hover in the \$3.00 to \$3.30 full service gross per-square-foot range, actual negotiated deals are being struck by Irving Hughes at \$2.60 per-square-foot range with parking concessions, and great subleases are even less.

Del Mar Heights, which has been a tight market due to the demand by legal and financial service firms, has availability of 15 percent, and rents are flattening. Sorrento Mesa has an availability rate of 26 percent with an average time on the market of 18 months. This year and next will be a great time for life science companies in San Diego.

Do some brokers specialize in biotech properties?

There is a small community of biotech real estate specialists. However, most of them are dual agents, professing to act as the representative for the biotech tenant but at the same time acting as the landlord's representative — or as the actual landlord or silent investor of a proposed property. The worst case for the biotech CEO is when the same broker purports to act as a fiduciary for the tenant while at the same time representing landlords. CEOs have to remember that the brokerage firms that have the landlords' listings are just outsourced marketing and leasing entities for property owners.

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