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RESEARCH LAB SPACE

Laboratories are pricey, hard to find

Landlords are building farther from biotech core

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The only speculative life science building in the Bay Area coming on line in 2007, Wareham Development's EmeryStation East will open its doors in June.

And while no deals have been announced, tenant interest in the 245,000-square-foot SmithGroup-designed structure has been hot and heavy. About a half dozen tenants are expected to sign leases there, absorbing nearly all the new space.

"We are in space planning for the entire building," said Bill Nork of Cornish & Carey Commercial, who is handling the leasing of the building. "The sector is just on fire."

The Bay Area is running out of biotech research and development space. With about 32 million square feet of biotech space in the Bay Area, sprinkled throughout Emeryville, Fremont, South San Francisco, Alameda, Berkeley, Hayward, Mission Bay, and a few other clusters, vacancy rates for life science space has dropped far into the single digits. San Mateo County, home to the largest clusters totaling 12 million square feet, has a vacancy rate of 6.2 percent, according to NAI BT Commercial. Three years ago, San Mateo County's biotech vacancy rate was 16.6 percent.

Geoffrey Sears, a partner at Wareham, which also built the Emeryville Amtrak station, EmeryStation I and EmeryStation North, said the demand for research space



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Traditional biotech companies are going up against nanotechs and clean energy startups for lab space, says Sears.

is not coming only from traditional biotech companies. With venture capital pouring into clean energy startups and nanotechnology, more and more tenants in the marketplace are doing research focused on fuel and other sustainability areas.

"Biotechnology is the label everyone gives it, but it really is research and not just biology-based," he said.

The space crunch is squeezing rents upward at a rapid rate. A Richard Ellis report found a 15 percent rate increase in the past two quarters and average asking rates in South San Francisco and Mission Bay are about \$48 a square foot for new construction. Asking rates at EmeryStation East are slightly below

South San Francisco — about \$42 — while Fremont and Alameda are closer to \$25 a square foot. The rates are triple net, meaning that taxes and other operating costs are not included.

The biggest chunks of vacant lab space are in Fremont's Ardenwood Park, where PDL BioPharma is preparing to vacate 250,000 square feet when it moves to Redwood City this summer. In addition, Amgen's acquisition of Abgenix left about 52,000 square feet of vacancy in Fremont. Kidder Matthews life science specialist James Bennett, who is leasing out the Abgenix space, said "there is a tremendous amount of interest" from tenants. With construction costs \$200 a square foot to build out lab space, costconscious tenants are looking for lab space that is ready for occupancy.

"A lot of tenants are starting to look across the bay at the stuff that is already built out," said Bennett. "You can get space for half as much by driving across the Dumbarton Bridge."

Gregg Domanico, a life science broker at NAI BT Commercial, said the pressures

on the Peninsula are starting to drive up rates in the East Bay.

“The built out space is going to get absorbed and those rates will start to creep up now that the Peninsula is so tight,” Domanico said. “We’ll definitely see tenants from the Peninsula in that Ardenwood cluster.”

‘The sector is just on fire.’

Bill Nork
Cornish & Carey
Commercial

Meanwhile, not much new construction is likely to come on line before 2008. Alexandria Real Estate Equities is working on two spec build-

ings — one in Mission Bay and one in South San Francisco. For fastgrowing biotech firms, it’s tough to wait that long. Sears said he recently converted 25,000 square feet of space from office to lab to accommodate one Emeryville tenant who couldn’t wait for a new building.

“They needed their space now so we made it happen,” Sears said. “Six months



Wareham Development bet big on biotech with an Emeryville lab building it started without lease contracts in hand.

is a long time to wait for the smaller companies.”

Sears said Wareham has another development site in Emeryville and is already working on plans.

“There is a lot money in the system for

good innovation and ideas,” said Sears. “We see this building filling up very quickly and want to have something on the boards.”

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