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By Ron Leuty

Biotech's big buildup: Why lab buildings are heading skyward

Biotech's boom is headed up.

Cash fueling the growth of life sciences startups and maturing companies also is backing construction of speculative campuses — but instead of going horizontal with their buildings, Bay Area biotech real estate developers are increasingly heading vertical.

Wareham Development last week topped its seven-level, 260,000-square-foot EmeryStation West in Emeryville, and BioMed Realty broke ground earlier this month on the 550,000-square-foot first phase of its Gateway of Pacific, including a 12-story structure at Oyster Point and Gateway boulevards in South San Francisco. Meanwhile, Phase 3 Real Estate Partners is building the 21-story north tower of its Genesis project in South San Francisco, highly visible on the west side of Highway 101.



The 21-story north tower of Phase 3's Genesis South San Francisco project along Highway 101.

It wasn't always this way, though big biotech buildings are common in places such as Boston. Until 2008, California building code didn't allow chemical storage above the fourth floor; then the Great Recession hit, draining investors away from biotech's risks and causing open space to go fallow.

Now Big Pharma deals and investor money are flooding the sector — 2014-16 was the best year for private biotech venture capital rounds in more than 20 years, for example, and \$6.5 billion in venture capital was raised in 2015 by Bay Area life sciences companies. That has led companies to grow and fill space, driving vacancy rates to historical lows. And biotech real estate developers in the space-constrained Bay Area are building new, speculative projects higher and higher.

Those developments in biotech clusters such as the Peninsula and Emeryville-Berkeley represent a sea change for a biotech industry accustomed for decades to converting old warehouse space to labs or settling into low- or mid-rise buildings. What's more, developers say, they can build high-rise labs at a cost that isn't prohibitively expensive, allowing them to charge as much as \$70 per square foot.



A rendering of BioMed Realty's Gateway of Pacific project at the southeast corner of Oyster Point Boulevard and Gateway Boulevard in South San Francisco.

"The Bay Area's getting more urban and people are thinking about sustainability and transit," said Geoff Sears, a partner at Wareham, whose EmeryStation West is built atop a platform for public transit and parking. "It's just smart to go up."

The change in building code has largely made that move smarter. So-called "L-occupancy" allows chemicals to be stored on higher floors, sending chemistry and biology labs higher and turning sweeping bay and mountain views over to researchers, not just C-level executives.



A rendering of Merck & Co.'s proposed West Coast R&D center in South San Francisco. The developer is Alexandria Real Estate Equities.

The egalitarianism afforded by the design is what biotech companies and developers are counting on to attract and retain key research employees in a competitive environment.

"Tenants want the best homes for employees. They're looking at glass lines and the image of facilities," said Phase 3 President Mike Gerrity. "That really is a big attraction to these scientists who spend so much time in their labs."



An elevated look at Kilroy's design for The Exchange in San Francisco's Mission Bay, which includes two 12-story structures. The colorful design in the building second from the left will cover up the parking garage that will take up the lower floors.

Phase 3 bought its development in 2015, which already included a 12-story south tower for tech office tenants. The developer converted the building to biotech use by, among other things, reducing shaking and designating the third through eighth floors for labs.

Genesis' new building is expected to be completed in June 2018. It also is building a 53,000-square-foot amenities building with a gym, restaurant and hotel.



Another view of Genesis South San Francisco's two towers along Highway 101.

Local building and fire officials have become more comfortable with the change in code, which puts gases, large equipment, chemicals, mechanical systems, air movement and fire suppression protections beyond the 75-foot reach of a fire department's ladder truck, said Salil Payappilly, vice president of development at BioMed, which is owned by Blackstone Group LP (NYSE: BX).

One of the keys is spreading the costs of those systems to multiple tenants, making highrise labs more cost efficient to build. Labs can cost anywhere from \$200 to \$700 per square foot, Payappilly said.

"One concern that we had when we started the project is we thought it would be cost prohibitive," said Phase 3 CEO Neil Fox. "It is more expensive, but it's not prohibitively expensive."

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