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By Ron Leuty

Decade in the making, massive biotech project set to break ground in South S.F.

A half-million square feet of new biotech lab and space will hit the market next year with BioMed Realty's decision to move forward with a potentially iconic South San Francisco project pondered for the past decade.

BioMed will break ground next month on the 550,000-square-foot first phase of the potential 1.3 million-square-foot Gateway of Pacific at Oyster Point and Gateway boulevards.



The project is part of a biotech building boom in the Bay Area but especially in South San Francisco, the hotspot of the global biotech industry. With work continuing on HCP Inc.'s The Cove at Oyster Point and the start of construction of a new tower at Phase 3 Real Estate Partners' Genesis project, nearly 2 million square feet of new space is being built or recently occupied.

Real estate developers and brokers are tracking 2 million square feet of biotech demand in South San Francisco. Brokers say the vacancy rate, meanwhile, is in the low single digits and lease rates are pushing north of \$60 per square foot.

"The timing right now is really perfect for us," said BioMed Vice President Scott Altick. "There's high demand but a lack of product."



But Gateway of Pacific also is significant because BioMed for years has said that it would not start construction without an anchor tenant. BioMed, which was bought in early 2016 by Blackstone Group LP (NYSE: BX) for \$4.8 billion, said it has no signed leases.

BioMed's speculation, however, could quickly turn into success, given Gateway of Pacific's location just off Highway 101 and deep-pocketed biotech companies' hunger for new space.

"There's a flight to quality," Altick said.

Gateway of Pacific won its initial entitlements from South San Francisco in 2009 as the Great Recession's grip caused investors to flee the biotech industry's long product-development timelines to sectors that provided faster returns.

Now, however, Wall Street and venture capital has returned to biotech in a sustained way. Just in the Bay Area, initial public offerings and follow-on offerings have netted more than \$3 billion in capital since 2013 and privately held companies have raised hundreds of millions more.

The combination of cash and success in the clinic translates into companies growing and real estate deals getting done.



Across Oyster Point from BioMed's project, for example, HCP's (NYSE: HCP) The Cove has nabbed a number of growing biotech companies, including cancer drug developers Five Prime Therapeutics Inc. (NASDAQ: FPRX) and CytomX Therapeutics Inc. (NASDAQ: CTMX) and sickle cell drug company Global Blood Therapeutics Inc. (NASDAQ: GBT), all of which had IPOs within the past four years. It also is home to Denali Therapeutics Inc., which has raised nearly \$350 million.

"There seems to be some decent demand out there, strong and steady," said James Bennett, managing partner at brokerage Kidder Mathews. "The demand has mainly been from local companies that are expanding."

Those expansions are based on progress in the clinic as much as the big money drawn into the companies. Five Prime, CytomX and Global Blood, for example, all have drugs in clinical trials.



Big biotech players have moved in as well. AstraZeneca plc (NYSE: AZN) will consolidate its Bay Area operations at The Cove and Alphabet Inc. (NASDAQ: GOOG)-backed Verily Life Sciences moved last year into the former Onyx Pharmaceuticals building on East Grand Avenue.

Further south along Gateway Boulevard from BioMed's project, Alexandria Real Estate Equities Inc. (NYSE: ARE) last year won Merck & Co. Inc.'s West Coast R&D center as the sole tenant for a 294,000-square-foot building.

Gateway of Pacific was in the running for the Merck (NYSE: MRK) project.

"I don't know how many Mercks and Verilys there are out there, but we've been surprised before," Bennett said.

Demand and lease rates, which have nearly doubled this decade to \$60 per square foot in South San Francisco, still make Gateway of Pacific attractive for BioMed to build. It has cleared most of the single-story, 1980s-style lab and office buildings from the site, which years ago was a Bethlehem Steel facility,

Gateway of Pacific will be a significant upgrade from the older structures. The first phase of the project consists of a gleaming 12-story, 350,000-square-foot building at the southeast corner of Oyster Point and Gateway Boulevards that will be connected via an atrium to a 150,000-square-foot structure.

“it’s the face of South San Francisco on the most prominent corner of South San Francisco,” Altick said.

Like other new biotech developments, the BioMed project also is rich in amenities — a nod to companies looking to attract and retain employees in a competitive hiring environment and to keep them comfortable on-site for longer.



Gateway of Pacific’s 50,000-square-foot amenities building will include a cafeteria, gym and conference center, including a 500-seat auditorium, that sits atop underground parking and borders a landscaped area with nooks for outside meet-ups and space for food trucks.

“We like to call it ‘science in a park,’” Altick said.

The first phase of the project, according to South San Francisco building permits, is expected to cost nearly \$140 million.

When all is done — possibly by 2025 — the development will have 1.3 million square feet over four phases. It is contiguous to two other BioMed developments: a potential 275,000-square-foot building at 475 Eccles Ave. to the back, and next door the Science Center at Oyster Point, built in 2009-10 and occupied by Thermo Fisher Scientific Inc. (NYSE: TMO).

Gateway of Pacific will offer flexible floor plates and designs, Altick said, allowing BioMed to be flexible for large or small space demands.

“This is a unique opportunity in South San Francisco — 500,000 square feet under one roof, and still the flexibility for smaller deals, with a unique presence in a premier building,” Altick said.

“This is an opportunity to grow all these companies over the next 40 years.”