

Report out

County biotech space leasing benefits from local geography

By THOR KAMBAN BIBERMAN
The Daily Transcript

SAN DIEGO — With venture capital funds in short supply, filling biotechnology space in San Diego County continues to be a challenge.

The county has plus or minus 14 million square feet of life science space, depending on the survey.

Jones Lang LaSalle (NYSE: JLL) reported a direct vacancy of about 10 percent in its survey of the central San Diego biotech submarkets.

Grant Schoneman, an associate with JLL's Life Sciences Group, said if sublease space is considered, the overall vacancy climbs to 14 percent.

The JLL survey includes the submarkets of Torrey Pines, UTC/Eastgate/Campus Point, Sorrento Mesa and Sorrento Valley.

"This still an historically high vacancy rate," Schoneman said. Carlsbad, where biotech space is largely leased, wasn't included in the sampling.

Although leasing wasn't as strong in the first quarter as many landlords would like JLL reported **Cytori Therapeutics** (Nasdaq: CYTX) signed a lease renewal to remain in Torrey Pines, but downsized from 90,000 square feet to 50,000 square feet.

In the Carlsbad submarket, **Isis Pharmaceuticals** (Nasdaq: ISIS) has signed a 20-year build-to-suit to occupy 175,000 square feet in a new research campus.

The building will be constructed by Rancho Bernardo company **BioMed Realty Trust** (NYSE: BMR) and will increase Isis' leased space in the region to nearly 205,000 square feet.

There has been a lot of lateral movement. The Torrey Pines submarket, for example, only had a an 11.18 percent

overall vacancy rate but that still translated to 593,850 square feet of vacant space.

The nearby UTC/Eastgate/Campus Point submarket had a 26.57 percent overall vacancy, according to JLL, that translated to 468,863 square feet of empty space.

David Odmark, a **Cassidy Turley BRE Commercial** principal, who put the overall countywide biotech vacancy at about 12 percent, said **Neurocrine Biosciences** (Nasdaq: NBIX) is putting about 145,000 square feet back on the market in Del Mar Heights, **Metabasis** vacated 80,000 square feet in Torrey Pines, **Pfizer** (NYSE: PFE) is emptying 140,000 square feet in Torrey Pines, and while **Eli Lilly** (NYSE: LLY) is doubling space to 120,000 square feet at Campus Point, it is leaving about 60,000 square feet in Sorrento Valley.

"That Eli Lilly lease helps but also puts more specialized lab space on the market," Odmark said.

See **Biotech** on 3B

Biotech

Continued from Page 1B

The vacancy picture looks considerably better for BioMed Realty.

Company spokesman Rick Howe said the real estate investment trust's estimated 1.3 million square feet of space here was only about 8.5 percent vacant as of March 31.

While the real estate investment trust has managed to be profitable, its earnings in the first quarter were but a fraction of what they were in the same quarter a year earlier.

The REIT posted \$8.66 million in net income on \$92.75 million in revenues in the quarter ended March 31 — compared with \$23.97 million in net income on \$93.95 million in revenues for the first quarter of last year.

BioMed's stock has been trading between \$15 and \$18 per share in recent days.

The stock has ranged from a high of \$19.50 to a low of \$9.16 during the past 52 weeks.

BioMed felt strongly enough about the future that it just paid \$53 million for the J. Craig Venter Institute's Rockville, Md., campus, excluding closing costs.

The genomic research center's campus comprises five life science building totaling 218,000 square feet.

The institute has a 10-year renewable lease.

The acquisition increases BioMed's Maryland portfolio to six properties, comprising 15 buildings and 1.4 million rentable square feet, which are 100 percent leased.

The REIT also has millions of square feet of biotech space in and around Cambridge, Mass., that is mostly leased as well.

While BioMed keeps wanting more properties for its portfolio, a new report jointly published by **Deloitte Touche Tohmatsu** and *The Economist* Intelligence Unit paints a less rosy picture.

Entitled "The Future of Life Sciences Industries: Aftermath of the Global Recession," the poll surveyed 281 senior life science industry executives from around the world.

Respondents were led by pharmaceuticals at 30 percent

(R&D, manufacturing, or wholesale distribution), medical devices (16 percent), biotechnology (14 percent) and contract research organizations (6 percent).

The remaining respondents were from health care services, distribution and health insurance.

"With the dearth of new entrepreneurial entries, the talent flight, and the encroachment of large pharma, the future for biotech looks grim," said Reynold W. (Pete) Mooney, Deloitte Touche Tohmatsu global life sciences and health care consulting leader in a statement. "And the big, longer-term impact may be a shifting of the industry's 'balance of innovation,' with a shift that now favors the large, well-capitalized enterprises."

Nearly one-third of the executives surveyed forecast a reduction of R&D spending in the future, and nearly half believe that up to 40 percent

of biotech companies will cease to exist in five years.

The report stated 30 percent of those in the survey said they are developing a robust R&D pipeline, and innovation remains important to their longer-term success.

In the meantime, companies and the landlords who need them have to muddle through.

"While the immediate hit of the recession has been largely absorbed, the life sciences industry may look back at this time as a turning point," said Robert Go, **Deloitte Touche Tohmatsu** global life sciences and health care industry leader in a statement. "Plans driving up costs, expiring patents, evolving generics legislation — all of these trends were in play before the economic downturn, but the downturn is now accelerating their impact."

Source Code: 20100507da