

Perspective

Joel S. Marcus



Real estate and the California biomedical industry: is California resting on its laurels?

Although California has long been the location of choice for companies in the biomedical field, the state shouldn't rest on its laurels, according to Joel S. Marcus, chairman and CEO of Alexandria Real Estate Equities, a Pasadena-based real estate investment trust (REIT). As the head of a REIT that develops and operates offices and laboratories for biomedical companies, with about 170 properties in nine states, and in Canada and China, Marcus offers his views on where the industry is headed.

California has a great deal to offer the industry, including the state's existing base of biomedical companies and its impressive roster of universities and research institutes, particularly in the Bay Area and Orange County. These factors, along with ample venture capital, combine to create fertile ground for recruitment and technology transfer activity. To remain competitive, Marcus recommends that California stay focused on areas of specialization, as it has with stem cell research, and become world-renowned for work in those areas. "The state and its reputation will continue to be the standard against which all others are measured," he said.

Alexandria Real Estate Equities develops and operates offices and laboratories, with about 170 properties in nine U.S. states, Canada and China. Biotechnology and pharmaceutical companies, research institutions, government agencies and similar tenants occupy its properties. The real estate investment trust's asset base is more than 11 million square feet is located in high-tech hotbed areas, including San Diego, San Francisco, North Carolina's Research Triangle, Seattle and Washington, D.C. Joel S. Marcus has been the company's chief executive officer since March 1997 and has served as a director since the company's inception in 1994.

However, significant changes may pose challenges for California's position in the industry. For example, because advancing technology makes it easier for companies to connect internally and with their partners externally, it will no longer be critical that companies locate most or all of their operations proximally to their California bases. "The emerging trend in life sciences is cluster models that provide immediate links between companies, research campuses and other organizations. This way, a company in California conducting stem cell research can be linked instantaneously with companies and researchers across the globe."

Marcus's own tenants offer a range of solutions to meet these needs, including incubator space, lab and scientific support, and facilities operations. This approach is particularly effective in Asia, where companies have ample real estate and capital but fewer skilled scientists and entrepreneurs.

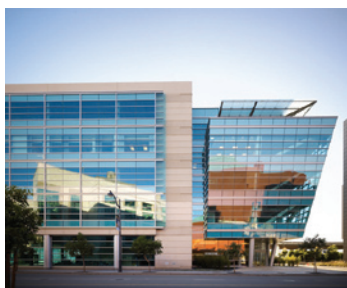
At the same time, other cities, states and countries are aggressively courting biomedical companies with tax breaks and other incentives. For example, North Carolina offers biomedical companies tax breaks on positive cash flow, Maryland offers loan guarantees, and both states provide grants for early-stage companies.

States and countries with low corporate taxes—Florida, Ireland and Scotland, for example—are becoming more attractive given California's high corporate tax rate. Add in the other challenges associated with doing business in the state—the high cost of land and living, government bureaucracy, traffic congestion—and California will soon need to take steps to maintain its status as a premier location for biomedical companies. "For example, the state could help defray the high cost of land by guaranteeing company leases as Maryland has or finding ways to offer lower cost office space," said Marcus.

For their part, city governments within California are seeing the writing on the wall and offering their own incentives. For example, South San Francisco implemented a 10-year hiatus on payroll taxes, and Palo Alto offers a fast track for certain construction projects.

Whether the state will act, however, remains to be seen. “There is a sense that the state government regards California as such a great place for biomedical companies that it doesn’t need to offer incentives to attract new companies or keep the ones it has,” said Marcus.

Bay Area



- Total wet lab size of approximately 23 to 25 million square feet
- Total medical device space of approximately 5 million square feet



Key users of space (in square feet):

- Chiron/Novartis – 1 million
- Bayer – 500,000
- U.C. Berkeley and Lawrence Livermore Laboratory – 2 million
- Genentech – 3 million
- Roche – 2 million
- Stanford – 1 million
- UCSF – 2 to 3 million
- Gilead – 1 million



Southern California

Larger users (in square feet):

- Amylin – 750,000
- Becton Dickinson – 300,000
- Biogen Idec – 500,000
- Johnson & Johnson – 250,000
- Novartis Research Institute – 300,000
- Pfizer – 900,000
- Salk Institute – 250,000
- The Burnham Institute – 300,000
- The Scripps Research Institute – 800,000
- Gen-Probe – 460,000
- Biosite – 350,000



Trends:

- Ratio of lab to office space used to be 70/30, now more like 50/50
- VC funding going to more specialty and virtual companies, which only lease office space
- More biology and less heavy chemistry use
- Most demand is for space less than 20,000 square feet

Features:

- Entrepreneurial
- Companies are located in tight geographic cluster with Torrey Pines being “ground zero”