

Developers Race to Meet Demand as Lab Space Vacancies Evaporate

Suburban Scoop | Craig Knox & David Marino



The life science industry in San Diego is smoking hot, to the point that we are now seeing a near-shortage of available lab space in the region. Huge injections of capital from private investors, along with a wide-open window for life science IPOs, have left biotech, medical device and diagnostics companies flush with cash. These companies are snapping up wet lab / research space at an unprecedented rate, and developers are responding in force with over a million square feet of new space set to come online in the next 1-2 years. Here's a look at the key players and projects that are competing for a piece of the action.

UTC

Not traditionally thought of as a major life science destination, UTC

has become a hot spot in recent years. BioMed Realty (BMR) recently broke ground on a three-building biotech campus known as i3, which will bring 300,000 square feet of space to the market – all speculative development. BMR also acquired Arden Realty's four-building, 280,000 square foot campus on Executive Drive and is converting it to life science space, geared toward companies in the 20,000-100,000 square foot range. Just down the street, Alexandria Real Estate bought the old Amylin building on Town Centre Drive, and is offering to reposition all 150,000 square feet of it as world-class lab and headquarters space for new tenants.

All of this activity is creating many more options for medium to large life science companies seeking to locate their corporate headquarters and research facilities in UTC. Several

companies are already leaving Sorrento Mesa for UTC, including Otonomy, taking 65,000 square feet in a new Alexandria build-to-suit, and Sorrento Therapeutics taking 46,000 square feet with HCP in the former TargeGen building on Judicial Drive.

Torrey Pines / Campus Point

In life science hub Torrey Pines, Alexandria is nearing completion on its 165,000 square foot Spectrum 1 & 2 development, which is already 100% leased to Receptos and The Medicines Company. Once The Medicines Company takes occupancy of the 65,000 square foot Spectrum 2 build-to-suit, there will be a full 37,000 square foot floor built out with spec suites of various



13 is one of several new developments that will be competing for life science tenants in the next 12-24 months.

sizes available to smaller lab tenants. Alexandria is also in active negotiations with larger tenants to convert its two older buildings on Merryfield Drive, adjacent to Spectrum 1 & 2, which are being vacated by Sapphire Energy and The Scripps Research Institute to create a 150,000 square foot Spectrum 3 & 4 build-to-suit project. All of these buildings, as well as Alexandria's entire portfolio, are being served by its new 80,000 square foot Franklin Yard amenities building on Torreyana, where Biocom recently relocated.

Over in Campus Point, Phase 3 Properties recently closed on three office buildings totaling 300,000 square feet, formerly occupied by SAIC, which it's converting into wet lab space on a speculative basis. Alexandria is expanding its Center for Life Science at Campus Pointe, having purchased a building from Qualcomm that will be the site of a 300,000 square foot build-to-suit for Lilly, which will vacate 125,000 square feet in the current building and relocate to support its growing operations in San Diego. On a smaller scale, HCP's new 45,000 square foot project on Science Center Drive, which has been divided into eight modestly-sized spaces, looks to be a

good opportunity for small companies that are having trouble finding lab space elsewhere.

Sorrento Mesa

Up the road in Sorrento Mesa, SteelWave — a relatively new player in the local life sciences market that made a big splash a couple of years ago with the purchase of a three-building project on Science Center Drive from Pfizer, adding 300,000 square feet of for-lease inventory to the market for lab and medical device companies — is making major improvements on the four-building, 100,000 square foot campus it recently acquired on Oberlin Drive, which it has renamed Moda Sorrento. This submarket has seen less new life science development than its neighbors to the west, however, which means we will likely see more tenants trading Sorrento Mesa for shiny new facilities in UTC and Torrey Pines.

The real question in all of this is whether San Diego's burgeoning life science industry can support more than a million square feet of new space — regardless of the location — in such a short amount of time. While the most desirable facilities are likely to be leased

up by big name companies, many landlords could be left struggling to fill vacancies as supply outpaces demand. All of this is good news for tenants of course, who will not only have more options for space in coming years, but who could likely see more concessions and lower lease rates as landlords compete for their business. □

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The Moda Sorrento project in Sorrento Mesa is slated to complete this summer.



HCP's new life science facility on Science Center Drive offers options for smaller tenants.



Alexandria's proposed project on Town Centre Drive will draw additional life science tenants to UTC.