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## US Credit Crisis Will Hamstring Life-Sci Shops, Burrill, Economic Developers Say

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By Alex Philippidis

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*This article has been updated from a previous version, which incorrectly stated that Fluidigm's financing fell through after the terrorist attacks of Sept. 11, 2001. The 2001 financing round was delayed, not pulled.*

**SOUTH SAN FRANCISCO, Calif.** — The growth of life sciences companies in the San Francisco Bay Area and elsewhere will be hamstrung over the next several months by the recent credit market turmoil, biotechnology investor-analyst G. Steven Burrill and leaders of the region's real-estate and economic-development sectors agreed here during a recent conference.

Burrill, the CEO of Burrill & Co. in San Francisco, said the credit crunch will impede the ability of life-sci businesses to obtain financing from venture capital firms — let alone the traditional financing route of selling stock in the public markets.

Just how shaky the stock market has become for would-be public companies was reinforced Sept. 26, when a firm based here withdrew its registration for an initial public offering it initially scheduled to take place four days earlier.

Fluidigm had planned to raise up to \$84.8 million by selling 5.3 million shares of stock at a price ranging from \$14 to \$16, until one investor, Lehman Brothers, declared bankruptcy and another, Morgan Stanley, a few days later sold a 21-percent chunk of itself to Japan's largest lender, Mitsubishi UFJ Financial Group.

Fluidigm would have been only the seventh company, and the second in the life sciences, to go public this year compared with 22 life-sci IPOs among 86 US companies that went public last year. It's not the first time Fluidigm's financing has been affected by external events; a 2001 financing round was delayed by the Sept. 11, 2001, terrorist attacks in the US.

"Guys like me are not going to get the capital that we used to get. The VCs aren't going to be able to put money in and get out, because they're not all going to sell to Merck. The public markets are, by and large, closed. And so we've got a violently ugly world ahead of us, and it's not a short-term blip," Burrill declared during his keynote address at the day-long GeneAcres 16.

The conference was presented by BayBio, the life-sci industry group for the Bay Area and northern California. "This isn't something where, if you hang on for six months, this too shall pass. We have changed forever the nature of the financing equation.

“The industry has been blessed — for 40 years, we’ve had relatively cheap, relatively constant, and relatively easy access to capital. That world is over,” Burrill said. “Here comes the bad news: We are in deep yogurt as an industry dependent on capital, and capital now will be almost impossible to get.

“What’s happened on Wall Street the last several weeks is not insignificant,” he said. “It’s massive. And it’s pervasive. And it’s long-term. And it’s ugly.”

Burrill suggested that state and local governments could fill part of the financial void left by VCs and investors by stepping up funding for seed- and other early-stage life-sci companies.

Speaking with *BioRegion News* minutes after his talk, Burrill acknowledged that would be a tough task, but added: “On a relative basis, if you said, ‘Where might you put your effort?’ I still think biotech is one of those places that is going to get a lot of investment.”

Burrill cited a recent visit with China’s minister of science and technology, noting that the environmental, agricultural, and healthcare concerns they discussed all can be addressed through technologies being developed by life-sciences concerns.

“Governments, I think, in the end, will recognize that we’re an industry that by and large needs to grow and prosper, and is the future of the economy of the world. So they’ll find a way. It’s not going to be easy,” Burrill told *BRN*. “There are going to be some areas that are more aggressive. If the state of Maryland does a whole bunch, the state of California will say, ‘We’ve got to do something,’ so there will be competition around the world. That’s probably good for everybody.”

On the eve of this year’s Biotechnology Industry Organization International Convention in San Diego this summer, Maryland Gov. Martin O’Malley presented his state’s plan to spend \$1.1 billion by 2020 on a series of initiatives to grow his state’s life-sci industry.

O’Malley announced his plan June 16, the day Massachusetts Gov. Deval Patrick signed into law a \$1 billion, 10-year Life Sciences Initiative to boost his state’s bio industry [[BRN, June 23, June 16](#)] — and about a year into the credit crunch that has rocked US and overseas financial institutions

Michael Ammann, president of the Solano Economic Development Corp. and a GeneAcres attendee, cautioned in an interview that California and most of its municipalities could hurt rather than help efforts to attract investors to life-sci efforts because their own finances have been left vulnerable by the credit crunch, reflected in declining sales and property taxes.

Ammann told *BRN* the public-private group’s effort to draw life-sciences companies to a redevelopment site in Fairfield, Calif., has been wiped out by the new \$143 billion California budget [signed into law](#) last week by Gov. Arnold Schwarzenegger, following an 81-day stalemate with legislative leaders over how to plug a \$15.2 billion shortfall.

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The new spending plan for the fiscal year that began July 1 included a \$300 million cut in a program that had the state paying for infrastructure improvements for “shovel-ready” suites capable of being redeveloped quickly.

Among those sites, Ammann said, is the Fairfield site, a 50-acre parcel adjacent to an Anheuser-Busch brewery that has seen \$125 million in investment over the past five years.

"It could be either a major corporate campus or a bio campus, and there's not a lot of 50-acre sites that have the ability to fully provide all the services," such as water, sewer, and other utilities, said Ammann, whose group oversees economic development for Solano County.

Another selling point: The site sits four miles from the Suisun/Fairfield station of the Capital Corridor commuter railroad in Suisun City, part of a service linking San Francisco and Sacramento where ridership in August grew 21 percent over the same month a year ago to 158,309 — just shy of the record high 161,731 passengers recorded only a month earlier.

Solano County's best-known life-sci employer is Genentech, which operates a manufacturing site in Vacaville that, according to the company's web site, employs approximately 940 people. Late last year, the biotech pioneer completed a \$600 million expansion of the facility, namely a second 380,000-square-foot cell culture plant that will help it double to 344,000 liters its production capacity for bulk liquid drugs such as Avastin, Herceptin, and Rituxan [[BRN, Dec. 31, 2007](#)].

Genentech is headquartered in South San Francisco, where the biotech giant is more than one year into a 10-year second campus master plan designed for its gradual expansion from its current 2.8 million square feet and 8,000 employees, to about 6 million square feet and 14,000 employees.

The more than 3 million new square feet will include 1.6 million square feet of offices, 1 million square feet of laboratories, 260,000 square feet of manufacturing space, and 250,000 square feet for amenities, including a 53,000-square-foot daycare center, spread across 16 new buildings [[BRN, April 30, 2007](#)].

Over the past year, Genentech completed three buildings totaling 226,868 square feet within its new South Campus in South San Francisco, formerly called the Britannia East Grand development; as well as a 53,000-square-foot childcare campus on its West Campus.

How quickly, if at all, Genentech grows there going forward will hinge on whether Roche succeeds in acquiring the 44 percent of the company it does not already own. After rejecting a \$43.7 billion, or \$89 per share, offer for the company, a committee of Genentech board members with no ties to Roche said if it ends up buying out Genentech it would entertain a higher offer. Roche has promised to retain the South San Francisco campus of Genentech.

At an investor conference held earlier this month in London by Merrill Lynch — itself a casualty of the Wall Street crisis and soon-to-be unit of Bank of America — Roche CEO Severin Schwan expressed confidence his company could weather the market storm by sticking to its original plan of acquiring the remainder of Genentech through existing funds and debt financing.

Roche's plans also include vacating its 1 million square feet at the Stanford Research Park in Palo Alto and moving out 1,000 employees in two operations based there. Roche would shift its inflammation group to its Nutley, NJ, campus, which would be transformed into the company's East Coast R&D center, while its US pharma commercial operations would be rebranded as Genentech and based in the South San Francisco campus, as would its virology R&D activities.

"There's certainly demand for lab space in Palo Alto and in the Research Park. But I think over the years, more and more of those companies have moved off the research park. It has been converted for use by companies like SAP and VMware" and other software and computer tech companies, Brad Werner, a senior vice president with CB Richard Ellis, said during the GeneAcres conference.

Still, the Palo Alto campus is expected to attract interest from several would-be buyers of life-sci space eager to establish a presence in the East Bay — from biotech and pharma giants to developers. Even more than usual because of the market, the challenge for potential buyers will be coming up with financing, according to a key regional developer weighing whether it will make

a run for the campus, Geoffrey Sears, a partner with the East Bay's largest life-sci developer/owner, Wareham Development.

Based in San Rafael, Calif., Wareham owns some 4 million square feet — half of it laboratory and R&D space: — in the East Bay. So far this year the company has signed new and renewal leases totaling about 500,000 square feet, beating last year's total take.

But Wareham is also watching the market situation closely: "The past two weeks have been dark, but nothing horrible," Sears added.

Sears said the credit crunch has not derailed Wareham's plans to grow its portfolio. The developer is seeking approvals for two new buildings planned for its EmeryStation campus in Emeryville, the East Bay city at the eastern end of the San Francisco-Oakland Bay Bridge.

There, Wareham plans to build a \$50 million, 85,000-square-foot building next to an existing warehouse used by life-sci tenants. The developer also plans to build a new \$150 million, 150,000-square-foot bio building on a parcel now occupied by a parking lot. Both proposals require approval from Emeryville's City Council.

Also pursuing new life-sci development projects is Alexandria Real Estate Equities. Last May, the publicly traded real estate investment trust presented plans to South San Francisco officials for a new nine-story, 290,000-square-foot lab building at 213 East Grand Ave.

"The project will go a long way to revitalize and underscore this high visible corridor of South San Francisco. The 213 development will be a significant statement in redefining the neighborhood while fully complying with the city's area development guidelines," Alexandria said in its planning application for 213 East Grand Ave.

Alexandria's proposal is under review by South San Francisco officials.

Also, Stephen Richardson, a senior vice president with Alexandria and the director of its San Francisco Bay Area regional market, told *BRN* it is too early to tell what effect the credit crunch will have on the Bay Area's life-sci real estate market.

One sign of caution from Alexandria: The REIT will not develop additional buildings at its flagship Bay Area property, the AlexandriaCenter for Science and Technology at Mission Bay in San Francisco, without signed leases with tenants for significant amounts of space. Alexandria broke ground on Mission Bay's third building, a 210,000-square-foot space on Mission Bay Blvd., after Pfizer agreed to lease 100,000 square feet with an option for another 50,000 square feet [[BRN, Aug. 11](#)].

Werner said that while the credit crunch could hurt bio companies' ability to raise capital, "right now, what we're seeing in the real estate industry is that there's a lot of capital for buying or building buildings."

Long-term, he added, "It's really hard to say."

Werner joined with Douglas Davis of AE<sup>3</sup> Partners of Oakland during the conference in presenting results of the *2008 Northern California Life Sciences Real Estate Survey*. Even before the credit crunch, life-sci companies appeared to have pulled back on expansion plans. [Click [here](#) to read more about the real estate survey]

The real estate survey was conducted between April and August, weeks before the credit crunch began taking its toll on a series of Wall Street investment firms and banks. While the number of companies searching for space in the survey was almost flat from last year, reflecting in large part

an increase in companies responding, the number is likely to shrink in the short term, an organizer of the survey effort said after the presentation.

“For companies that need to take on debt to finance capital improvements, I think there’s going to be a little bit of wariness now. Between what we’re seeing in the space and what’s happening now, I think it’s going to have more of a chilling effect,” Douglas Davis, a principal with AE<sup>3</sup> Partners, told *BRN*. “I don’t think it’s going to stop the market dead. I think biotechnology will keep expanding. But I don’t think that expansion will be as robust as it may have been otherwise.

“Landlords are basically trying to sell space, and I think tenants are going to become even more cost-conscious,” Davis added.