

Upstart Life Sciences Firms Need to Find Right Balance

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by John Wiseman



When searching for space, young life science companies face several significant challenges. A new firm must determine the size, location and configuration of its space, typically without being able to completely forecast its future needs. Since lab space is time-consuming to design and build, it usually cannot be expanded quickly. Therefore, selecting the right size space can make a significant difference in the growth of a firm.

When a space is designed to meet only the present day needs of the firm, it may become too small and physically restrict a firm's growth. If too large a space is leased right away, growth can be restricted by the financial drain. Most early stage firms find that their science evolves over time, and space needs change.

With more than 100 life sciences firms occupying more than 1.7 million square feet of space, Cummings Properties has worked with dozens of firms dealing with the challenges of selecting space. What follows are guidelines for selecting the proper size space.

Identify decision-maker

The first step is to identify who will select the space and what criteria he or she will use, or, if a group is involved, create a clear process. Avoid the pitfalls of a loose "committee" lacking direction. Time will slip away while the group attempts to mobilize and act. Accept the fact that everyone may not be "thrilled" by the ultimate decision. Multiple factors must be weighed in every decision. For example, some people will have longer commutes than others, while some may lose corner offices, etc. To grow, the firm must make difficult choices.

Identify decision-making criteria

Once the individual(s) has

(have) been selected, the firm must identify the key decision criteria. For some firms, cost is paramount; for others, it is location. Additional factors may be lease term, available equipment, electrical capacity, expansion capabilities, or space availability. Broadly speaking, when cost is most important, firms look for subleases and/or the suburbs. The risks of subleasing have been well documented, but subleasing may be prudent for some firms. Frequently, life science companies seeking less expensive space look to Woburn, Waltham, Lexington, Watertown, Bedford or Beverly for cost-effective alternatives.

Several factors, including land costs, permitting time, real estate taxes and labor costs are significantly less in the suburbs, allowing landlords to provide space at typically half the cost of Cambridge or Boston. Construction can often be performed more quickly and for less cost in the suburbs as well.

Understanding your firm's needs will greatly accelerate the process. When a firm prepares a list of its needs, such as number and type of hoods, amount and type of bench space, electrical requirements, special air handling needs, clean room or other unique requirements, pH adjustment needs, DI or RO water facilities, etc., the list usually helps narrow the "field" to only the most suitable properties.

Select location - suburban vs. urban

Once the decision criteria are determined, the firm can select a location. For life science firms, the choice is frequently between Cambridge and a suburban location. Cambridge may have advantages for firms looking to capitalize on university affiliations and collaboration with other firms located there. Additionally, some firms are said to benefit from the perceived cache of the address.

Those firms selecting the suburbs often do so because colleagues have, and have been suc-

cessful, costs are less, parking is abundant and free, and commuting is typically easier since the labs are often located closer to staff members' homes.

Cambridge lab leases are traditionally written on a triple net basis, which can mean that rent expenses will actually include an additional \$7-12 per square foot above the quoted rent. Suburban leases are more typically full service or gross, or if triple net, would entail half the additional costs. Suburban space can often be found for half the total cost of similar space in Cambridge or Boston.

Estimate size requirement

After the decision maker(s) is (are) identified, decision criteria is defined and a location selected, the firm faces the challenge of selecting the right size. Part of selecting the size is selecting a landlord.

Performing due diligence on the landlord can be critical. A landlord with little life science experience and a limited portfolio would reduce the growth options for a firm. Too often, deals that seem too good to be true, are. Lab deals are much easier to discuss than deliver. Look for a landlord with a significant history of success and talk to clients who have had space built out. Lab buildouts are extremely complicated and delays in delivery can have a devastating impact on a new firm. Leasing with an experienced landlord with a significant portfolio will allow a life science firm to focus on its science, leaving the real estate to real estate professionals.

Life science companies may require 350-500 square feet per person. This is higher than a typical office requirement of 200-250 square feet per person, since life science professionals often require both lab and office space. They also need the support space for mechanical systems, water treatment systems, HVAC equipment, compressors, gas manifolds, pro-

cess equipment, chemical storage, hazardous waste storage and disposal facilities, is significant. Since firms vary in the way they operate, it is sometimes helpful for a company to benchmark its per square foot needs against other similar companies.

Using the appropriate square footage per person, the firm must then estimate how many employees it will have during the lease term. While difficult to determine with certainty, the figures will provide a forecast. Knowing that forecast, the firm should look for spaces in a range between 20% larger and 20% smaller than the target size.

Since labs vary greatly in layout efficiency, it may be possible for a firm to locate space smaller than the target square footage, that is more efficient for its use. A larger space may be found that has additional equipment that may warrant its selection, if available at an appropriate price. Sometimes landlords are willing to let firms grow into space and have the rent escalate over time to adjust for the larger space. Focusing too closely on only the exact square footage estimate could mean the firm misses an opportunity.

Flexibility is extremely important. If a firm gets a contract and needs more space to create more product, time is critical. If the landlord cannot deliver when the firm needs to grow, all the funds saved by taking a low budget sublease or other seemingly "too good to be true" deal can be lost.

Recognizing that life science firms hope to grow, Cummings Properties will often include a written expansion guarantee in its leases. Rights of first lease on adjacent space can also be helpful.

I sometimes tell clients to think of selecting the size of space they need the way I approach purchasing a pair of pants for my five year old son - get it a little big so he has room to grow but not so big that he trips.