# Biotech’s Quest for Real Estate

*By John Pennett*

**The good news:** There has never been a better time to be in the biotech sector. **The bad news:** There is simply not enough workspace to meet the burgeoning demand.

If you examine the real estate market for biotech hubs such as San Francisco, Boston and New York, you will find a combination of extremely limited vacancies, sky high prices per square foot, and design issues for expanding or creating a biotech structure. This makes it challenging for larger firms to secure space and nearly impossible for start-ups to put a roof over their heads.

**No Vacancy**

Biotech real estate availability rates in the aforementioned hubs are currently somewhere between 1% and 3%. Why so low? Start-ups prefer one-year leases in order to determine the viability of phase-one research and financing efforts. However, real estate developers prefer large anchor tenants that will sign long-term leases, such as when Roche committed to an 11-year lease for 420,000 square feet at New York’s Alexandria Center for Life Sciences. Waiting lists and leases that begin several years from now are often the best options for small start-ups.

**Prices Through the Roof**

In Cambridge, biotech rents are in the $70-$80 per-square-foot price range and increasing at a rate of 10%-15% annually. Prices for Kendall Square’s Lab Central incubator—in the heart of Boston’s biotech sector—start at $400 per month for membership, $3,840 per month for a bench spot, and $430-$535 per month for a lab desk. Private lab suites cost $16,000-$18,000 per month, and additional office space is $960-$2,610 per month. The reason why: The 2.5 square miles of Kendall Square contain roughly 130 life sciences companies, along with investors, attorneys and other ancillary service providers, not to mention easy access to Harvard, MIT and a bevy of talent. But those prices are a tall order for early-stage biotechs.

**Construction Zone**

Why not just build more incubators or retrofit empty commercial space? Biotechs have very specific requirements as to water systems, fire suppression systems, HVAC, electrical systems and spatial clearances. In addition, the local permit process can be lengthy and expensive. This is why improvements cost in the $200 per-square-foot range, and new construction can be upwards of $600 per square foot.

**Amenity Space**

While the biotech hubs have more staff than offices in which to put them, new construction is being built with people in mind. Attracting and retaining biotech professionals may come down to which company is housed in a building that has a gym, a bowling alley or a basketball court. And because city dwellers (Millennials in particular) are less likely to have a car, their choice may hinge on which company is closest to public transportation—or even the best places to eat.

**Suburbia to the Rescue?**

So what is a small, early-stage start-up to do? Many are fleeing to the suburbs. Boston: Watertown. San Francisco: the Peninsula, East Bay or Marin County. New York: Westchester; or New Jersey. In these suburbs, commercial real estate is plentiful post-Great Recession and the costs are significantly less. There is also biotech space available at former pharma locations, like Roche in northern New Jersey. Small companies are increasingly using virtual biotech, where they are based in an urban hub but outsource the lab work to research organizations located elsewhere.

**Shovels in the Ground**

With apologies to the suburbs, there’s no substitute for being based in a downtown life sciences community with easy access to funding, collaboration, research institutions, hospitals, universities and a talented workforce. Politicians in these large cities are also gaining a better understanding of the value of becoming a biotech hub.

Officials in New York are interested in putting life sciences facilities on Roosevelt Island and near Bellevue Hospital. One incubator, Harlem Biospace, offers workspace to early-stage companies for only $995 per month. The Alexandria Center is undergoing significant expansion with its LaunchLabs to help...
offer affordable space for seed-stage companies, with rents
at approximately $1,995 per month. LaunchLabs hopes to
open in 2017. BioBAT at the Brooklyn Army Terminal offers
500,000 square feet of space. Thus far, most takers have
been mature and mid-stage companies.

A massive project in San Francisco, the Cove at Oyster Point,
will bring an additional 1 million square feet of biospace to
the city when complete in 2017. Also, Genesis South San
Francisco will add more than 800,000 square feet by early
2018.

Safe at Home
It is certainly better that biotech facilities are bursting at
the seams, rather than being vast wastelands—like some of
commercial real estate is today. But the lack of biotech space
is an issue nonetheless. Hopefully, with continued funding
from developers, cooperation from local governments and
success in the research labs, biotechs—both big and small—
will have a place to call home sooner rather than later.

John Pennett is the Partner-in-Charge of EisnerAmper’s Life Sciences
and Technology groups. He has more than 30 years of public accounting
experience, with an emphasis on life science and technology companies.
John is a frequent writer and speaker on issues impacting businesses in
these sectors. Contact him at john.pennett@eisneramper.com.

**SHOULD BIOTECHS CONSIDER A REVERSE MERGER?**

*By David Plaskow*

What do Turner Broadcasting, Berkshire Hathaway and
Waste Management have in common? They all thrived
after undergoing a reverse merger. But is this a viable path
for companies in the biotech sector? We’ve seen a recent
cooling off with respect to IPOs in biotech. (Most biotech
IPOs since 2013 are below their issue prices.) Current market
conditions may have created an environment for privately
held biotechs to re-examine the reverse merger option to
generate capital.

A reverse merger—also known as a reverse takeover—
is where a private company acquires a public (shell)
company that is typically in distress. The private company’s
shareholders pay for the shell company by transferring their
shares to the new entity. Operational and financial control
then rests with the private company leadership.

While it sounds like a gamble for the private company, the
public company really has little to lose. The incentive for the
private company, however, is that the new entity is publically
traded and has access to the capital markets.

**Benefits**
When performed with the proper care and due diligence,
reverse mergers can offer biotech firms a variety of benefits:

- A reverse merger can usually be performed more
  quickly than an IPO.

- It costs much less to perform a reverse merger versus
  an IPO, perhaps as much as 5 to 10 times less.

- If the shell entity is SEC-registered, the private
  company does not have to go through governmental
  review.

- One bad news headline can kill an IPO. Market
  conditions play much less of a role in reverse mergers.

- There is less ownership dilution than in an IPO.

- There may be higher company valuation in a reverse
  merger.

- There is usually a concurrent financing designed to
give the new public company needed liquidity. Having
a public market to trade in the stock even after a
seasoning period (versus a private, totally illiquid
market) is appealing to investors.

**Biotech Reverse Merger Success Stories**

- Cougar Biotechnology raised $47.5 million and was
  sold to Johnson & Johnson for $1 billion.

- Puma Biotechnology raised $55 million and has a
  market capitalization of $1.6 billion.

- ViewRay raised $26.7 million.

- Synageva merged with Trimeris, which was acquired
  by Alexion for more than $8.4 billion.
Drawbacks
With the good comes the bad. Here are a few possible downsides to going the reverse-merger route:

• The costs to public companies to meet SEC-reporting requirements.
• Leadership may not have a comprehensive understanding of the publicly traded market, and the company may not have the appropriate personnel and controls in place.
• The new entity generally has low trading volumes and investor liquidity issues. Companies plan to uplist to NASDAQ as quickly as possible, but this usually requires a follow-on financing.
• The distressed public company may have a myriad of problems, such as pending legal action. Due diligence—even if mostly inactive—is required on the public shell.
• There’s less opportunity to showcase a company to potential investors in a reverse merger versus an IPO.
• Questionable deals in the 1980s have given reverse mergers a less-than-stellar reputation, which may make investors wary.

“As someone who’s been involved in a fair share of reverse mergers or with companies that had previously completed a reverse merger, my best advice for biotechs considering a reverse merger is (1) consider reversing into a company that has never actually been a shell; (2) if it must be a shell, do your due diligence; try to ensure it has cash and/or is already trading and has a broad shareholder base; and (3) assuming it’s a private company, also consider a Reg A+ as an alternative to a reverse merger,” says Jeff Eliot Margolis, President of Aurora Capital LLC.

SEC
Due to some questionable deals, the SEC has taken a greater role in reverse mergers. In 2011, it issued a bulletin recommending potential investors (1) research the company; (2) review the company’s SEC filings; and (3) beware of non-reporting companies.

Also in 2011, the SEC passed rules prohibiting a reverse merger company from applying to list until it completes a one-year “seasoning period” by trading in the U.S. over-the-counter market or on another regulated U.S. or foreign exchange following the reverse merger, and has filed all required reports with the Commission, including audited financial statements. The rules further state that the company maintains the requisite minimum share price for a sustained period, and for at least 30 of the 60 trading days, immediately prior to its listing application and the exchange’s decision to list.

After completing the reverse merger, the public company must file a Form 8-K describing the new company. Thereafter, it must comply with Securities Exchange Act reporting requirements and meet applicable SOX requirements. The SEC can suspend trading and even revoke the securities registration of reverse merger companies, for example, due to their failure to make required periodic filings.

Considerations
While biotechs enjoyed a bull market the past several years, the current presidential election has created some uncertainties going forward. For the private biotech interested in a reverse merger, the public entity should possess some cash that can be used for research and product development; no major red flags, such as litigation; agreement and clarity on the new leadership structure; and a company structure that can integrate technology and reporting systems. The private company must be honest with itself as to both why it wants to be publicly traded and why acquiring a distressed public company would be a good, long-term strategy.

David Plaskow is a senior manager in EisnerAmper’s marketing department. Contact him at david.plaskow@eisneramper.com.
**Meet the Practitioner**

**Steven Kreit**

Steven Kreit is an audit partner with significant expertise in serving companies across major markets including life sciences, pharmaceuticals, media, technology, manufacturing and distribution. Steven has taken companies through the IPO and reverse merger processes and numerous registration statements, including drafting sessions with investment bankers and attorneys, and ensuring compliance with SEC rules and regulations. Learn more about Steven Kreit.

**App Spotlight**

**Labguru**

This free iPhone or Android app lets researchers photograph, annotate, catalog and share experimental results, whiteboard drawings, conference posters, and/or visual notes for performing a step of an experiment. The app can also find samples, reagents, and supply locations and expiration dates while researchers move about the lab.

EisnerAmper LLP does not endorse this app or warrant that this app is appropriate for any particular business.

**Events Calendar**

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<th>Event</th>
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<tbody>
<tr>
<td>Stony Brook Life Science Summit</td>
<td>Wed., Nov. 2, Thurs., Nov. 3</td>
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<tr>
<td>Pennsylvania Bio CEO Dinner</td>
<td>Thurs., Dec. 1</td>
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<tr>
<td>ELabNYC Program Orientation</td>
<td>Tues., Dec. 13</td>
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