

Monday, June 25, 2012

Building Biotech

From Woburn To Worcester, A New Industry Expands Business Leaders, Banks Band Together To Create Lab Space

By Peter Abair

Special To Banker & Tradesman *Part Two Of A Three-Part Series*

In 1981, the same year Boston Properties completed Five Cambridge Center, two companies, MedChem Products and BioTek, landed in space renovated for their purposes by William "Bill" Cummings in Woburn.

"A lot of properties in the suburbs were appropriate for the life sciences - with high ceilings, heavy load floors, and heavy power that had been built for other industries," said Dennis Clarke, president and CEO of Cummings Properties. "We looked at these new laboratory research uses as any other opportunity - how could we accommodate them?"

It was critical for the buildings to be adaptable for laboratory fit-outs. In the 1980s, biotech companies lacked the ability to build their own buildings or substantially finance the build-out of laboratory space within existing buildings.

"It's not that we didn't know how to build these labs, we had done institutional lab space for hospitals and universities and chemical space for other industries," said Steve Carbonneau, who now heads the construction firm, The Richmond Group.

But not all existing buildings were good candidates for lab space.

"The mechanical, electrical, and plumbing considerations - the core systems for these lab spaces, take up a great percentage of build-out costs," he noted.

Having a building in which such systems could more easily be accommodated was crucial. Air handling especially, with biotech lab spaces requiring 100 percent outside air compared with about 15 percent for typical office spaces, requires specialized equipment and installation. Lab space is built at more than twice the cost of office space and biotech manufacturing space can easily be twice again higher than lab space.

Surmounting engineering and build issues was one thing; solving the financial aspects of the build-out was still another. It was up to the property owners to cover a substantial portion of the lab build-out costs -- far exceeding such costs typically born for office build-outs.

To assume such a cost for unproven research companies of a fragile biotech industry was a risk. In essence, landlords like Cummings and Athenaeum were financing their tenant biotech companies with the hope that the company would succeed and grow into more space. Initially, it was a leap of faith. Over time, as the number of biotech start-ups grew and the industry gained its foothold, it became a better bet.

David Clem, a founder and principal of The Athenaeum Group, recalled the renegotiation of a lease with one biotech tenant. "At some point he said, 'you know, moving is disruptive' and I had an 'ah-ha' moment. These companies don't want to move. It's costly and distracting. So our investment in their build-out makes sense because they never really want to move."

With an increasing number of biotechs, that investment made even more sense as, even with one company's failure and closing, another company needed the space.

"At some point, certainly by the late 1980s and early 1990s, we realized it was better to do a lot than a little with the industry," Clarke said. "More space meant more residual value and greater ability to meet needs based on similar tenant uses."

Worcester Weighs In

In 1981, Worcester was a decaying second city when a group of business leaders formed a planning committee for the purpose of reversing the city's economic losses.

They considered the presence of UMass Medical School, the Tufts Cummings School of Veterinary Medicine and Worcester Polytechnic Institute and determined that medical and biological research should be a new focus for Worcester.

In 1984, UMass Medical School and Worcester State Hospital conveyed 100 acres to the Worcester Business Development Corporation (WBDC) so that it could create the Massachusetts Biotechnology Park. Other actors fell in with support, including Governor Michel Dukakis, who designated Worcester as a biotechnology "Center for Excellence."

Then WBDC Chairman John Hunt approached seven Worcester banks and asked them each to take one seventh of the risk in financing construction of the

park's first speculative laboratory building. The banks all agreed.

The park's "Biotech One" building was finished by 1984.

'DNA Is Here To Stay'

"When people ask me how the hell it happened, I still scratch my head," said Kevin O'Sullivan, president of Worcester's Massachusetts Biomedical Initiatives (MBI).

O'Sullivan's MBI, founded initially as the Massachusetts Biotechnology Research Institute, is a lab incubator based in three buildings in Worcester that has launched dozens of life sciences companies over the years.

The industry wouldn't have gone far without having local regulations that allowed rDNA research. At a crucial moment of the City Council debate on the proposed new regulations, O'Sullivan recalled, City Councilor Jordan Levy rose dramatically to announce: "DNA is here to stay!"

Worcester amended its regulations, the banks financed Biotech One and Worcester, yes, Worcester, became the site of the first biotechnology park in the state.

In 1990, German-based BASF (now Abbott Bioscience) chose Worcester for a new, 500,000-square-foot drug research and manufacturing facility, almost adjacent to the Biotech Park.

Worcester, not Cambridge or Boston, had landed the first large global pharmaceuticals company in Massachusetts.

Peter Abair is director of economic development and global affairs at the Massachusetts Biotechnology Council. Email: peter.abair@massbio.org