

Seattle Life Science

Highlights

The demand for office/laboratory space in Seattle had such an increase in 2014 and the first half of 2015 that there is currently none available and only minimal that will be delivered in 2016.

An alternative to Seattle is the eastside, primarily Bothell, but with no space in Seattle, it will most likely get leased in 2015.

Construction for laboratory facilities is slow due to financing constraints and expensive specialized improvements required. ■

The Seattle area life science company clusters are located in the city of Seattle itself and on the eastside, primarily Bothell.

The office/laboratory market experienced an increase in demand in 2014 and the first half of 2015 which dramatically reduced space availability. The vacancy rate for unoccupied lab space in Seattle is virtually zero and there is less than 50,000 square feet of unencumbered lab-ready shell that will be delivered in 2016.

Bothell does have a minimal amount of lab space available at rental rates substantially less than what would be found in Seattle, but with no space available in Seattle these eastside options will most likely get leased in 2015.

Seattle Overview

After numerous years in the financial doldrums, several Seattle life science companies have issued IPO's or have secured significant financing(s). Additionally, several well-heeled public companies have moved into or expanded in the area, which significantly increased the demand for office/laboratory space.

This resurgence of real estate activity has resulted in the leasing of the remaining space(s) that could be economically and structurally converted to

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Area Review

SEATTLE OFFICE/LABORATORY SPACE SIZE, AVAILABILITY AND VACANCY

Total 5,764,857 RSF

2,848,760 RSF Owned (49%), 2,916,097 RSF Leased (51%)

Shell Space Availability

0 RSF

Second Generation Space Availability

0 RSF

Second Generation Vacancy Rate

0%

MUP approved, infrastructure-enhanced projects able to accommodate office/laboratory tenancy

One totaling 110,000 RSF

Under Construction

BioMed Realty Research Center Phase 2 (122,000 RSF) and Alexandria Real Estate Equities' 400 Dexter Avenue North (288,000 RSF)

laboratory space and also triggered a limited amount of new development:

- Alexandria Real Estate Equities (ARE) has no uncommitted space for lease in its 1616 and 1551 Eastlake Avenue buildings and is presently under construction of its 288,000 square foot 400 Dexter Avenue North project in which Juno Therapeutics leased a significant amount of space.
- BioMed Realty Trust (BMR) is completing construction of the 122,000 square foot Phase 2 of its BioMed Realty Research Center at 500 Fairview North.
- Novo Nordisk and Nanostring will be moving into their expansion spaces in April 2016. Phase 1 of this project is 100% leased.

With no pre-occupied space available and a limited amount of unencumbered new space coming to the market in 2016, there will be a shortage of office/lab space for the next several years.

ARE has a Master Use Permit for its planned 110,000 square foot 1165 Eastlake Avenue East project and other developers have office/laboratory developments in the design or permitting stage, but speculative development of these costly facilities is unlikely.

Due to financing constraints and the specialized improvements these buildings require, landlords need a 50-60% pre-lease commitment from financially sound tenants to begin construction. Once construction has commenced, it will take 16 to 18 months before occupancy can be accommodated.

THE SEATTLE LAB MARKET

- The Allen Brain Institute will begin moving into its new 270,000 square foot building in October 2015.
- Now that Amgen's Helix Campus has been acquired by Expedia, the possibility of this site being converted to a multi-tenant research campus is zero.
- Formerly known as the Seattle Life Science Center and previously occupied by many of Seattle's premier life science companies, the 1124 Columbia Building on Capitol Hill has been renamed the First Hill Medical Pavilion and is being repositioned to meet the medical office and ambulatory surgery needs of the health care industry.
- The large supply of bright, entrepreneurial scientists and business people in Seattle, combined with our area's outstanding technology and IP has led to the formation of several exciting new companies. We believe this trend will continue but finding space to set up shop will prove problematical until new office/lab projects are constructed.
- Small lab users will have the most difficulty finding space. Landlords find demising larger spaces to be expensive and would just as soon wait for a bigger tenant to come along. Startups will have to rely on co-habiting or subleasing to handle their facility needs.

Eastside Overview

Most of the eastside's inventory of laboratory space is in Canyon Park. This area had little leasing activity over the last several years but this has changed due to the fact there are no readily available options in Seattle. Juno Therapeutics recently leased the 68,000 RSF 217th Place Research Center and many of the smaller spaces that have been available in the past are being leased or are experiencing increased prospective tenant activity.

A number of well-known life science companies call Bothell home, including Seattle Genetics, Cepheid, Halosource, Acucela (laboratory/R&D operations), CMC Biologics and Alder Biopharmaceuticals. It is expected these firms will remain in Bothell for economic and employee retention reasons.

Amgen will be closing its manufacturing operations in Bothell by year-end 2015. As with its Helix Campus in Seattle, this 3-building facility, and adjacent expansion land, will be sold.

New development of office/lab facilities anywhere on the eastside isn't likely to occur for the foreseeable future. The desired-location pendulum has swung to Seattle for company-to-company collaboration and employee recruiting reasons, even with the higher rental rates commanded by Seattle alternatives.

Laboratory Rental Rates and Operating Expenses - Seattle & Eastside

Base rental rates for previously occupied space in Seattle, were it to become available, would be \$37.50 to \$50.00 per square foot, NNN per year depending on condition, quality and location. Operating expenses are running \$12.00 to \$15.00 per square foot per year. These expenses include taxes, utilities, insurance, common area and MEP maintenance, hazmat disposal, management fees, etc., and must be added to the rental rate to get the true occupancy cost.

Eastside rental rates and operating expenses are less expensive. Base rent will run from \$22.00 to \$26.00 per square foot, NNN per year depending on the age and condition of the improvements. Operating expenses are an additional \$8.00 to \$10.00 per square foot per year.

EASTSIDE OFFICE/LABORATORY SPACE SIZE, AVAILABILITY AND VACANCY

Total 1,307,000 RSF

151,000 RSF Owned (11.55%), 1,156,000 RSF Leased (88.45%)

Shell Space Availability

0 RSF

Second Generation Space Availability

53,000 RSF

Second Generation Vacancy Rate

5%

MUP approved, infrastructure-enhanced projects designed for office/laboratory

None

When demand-driven new construction occurs in Seattle, base rent will command between \$47.50 and \$55.00 per square foot, NNN per year depending on term, location, tenant credit worthiness, and landlord-funded tenant improvement packages.

Concessions offered by landlords (including abated rent, rent phase-ins, improvement allowances, moving allowances, and signing bonuses) may lower the rate paid over the term from the rent schedule contained in the lease.

In both Seattle and on the eastside there is no differentiation between office lab rates, the rent is a blended number.

Seattle Geographic Trends

While Elliott Bay and First Hill have been long-established homes for many of Seattle's life science companies, in recent years the Eastlake Corridor, Lake Union, Denny Triangle, and Seattle Center areas have become Seattle's super-centers for life science, technology, and research organizations.

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Transportation, retail, housing, entertainment amenities, convenient access to the Seattle CBD, Fred Hutch, UW, and the opportunity to boat/bike/walk around Lake Union make this area appealing to organizations looking to recruit and retain skilled employees.

Once modifications to the “Mercer Mess” have been completed in 2016, access to this area from I-5 will be improved, but due to the sheer number of employees/inhabitants in the area, car traffic will continue to be a problem.

A critical mass including Amazon, Center for Infectious Disease Research, Allen Institute for Brain Science, PATH, Microsoft, Juno, Novo Nordisk, Fred Hutchinson Cancer Research Center, Seattle Cancer Care Alliance, Bristol-Myers Squibb, the Institute for Systems Biology, Seattle Children’s Hospital R&D, Nanostring, and the Bill & Melinda Gates Foundation call this area home. Many other firms are presently evaluating this area for their corporate headquarters and research needs.

Summary

The demand for office/laboratory space in the greater Seattle market heated up late 2014 and will continue throughout the balance of 2015 and into 2016. The minimal amount of shell space currently under construction will lease up and rental rates will increase.

Speculative development is unlikely to occur. Tenants requiring space in 2016/2017 will have to plan well ahead to lease unencumbered shell space currently under construction or backfill previously occupied space vacated by expanding companies or firms moving out of the area.