GenomeWeb BioRegion News Tracking Biotech Cluster Development

Silicon Valley Bio Incubator to Double Its Footprint as Demand From Startups Swells

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By Alex Philippidis

SAN ANTONIO — A young life-sciences incubator in California's Silicon Valley this fall plans to begin an expansion project that will double its space and help it meet what it calls a growing demand for space by startups.

Created in 2004, the San Jose BioCenter will add a 33,750-square-foot space on the first floor of the Edenvale Technology Park, whose second floor is home to the BioCenter's existing 36,594-square-foot footprint.

The additional space is intended to help the BioCenter retain early-stage companies that require more room as they outgrow the incubator yet seek to remain connected to the BioCenter's concentration of business-nurturing services.

Companies in the new space, expected to be completed next year, will occupy average floor plan of between 5,000 and 10,000 square feet, which is larger than the lab suites in the BioCenter's present space, which range from 300 to 5,000 square feet.

"The goal is to get construction under way in September or October," BioCenter CEO Melinda Richter told *BioRegion News* last week.

She said the cost of the project, to be managed by Prescience International, has yet to be finalized.

"We've got the design all set. We're getting down to more detailed drawings, and we're doing a beautiful space downstairs," said Richter, who made her remarks during a session at the National Business Incubation Association's 22nd International Conference on Business Incubation, held here last week. "The problem that we have right now is [that] we have these companies that are growing and expanding, and we don't have a space to put them in. We've had to turn so many companies away. It breaks my heart."

Among them, she said, was a startup being developed by Jay Shepard, who previously served as CEO of Ilypsa. Acquired last year by Amgen for $420 million, Ilypsa develops drugs for kidney disorders.

"He called and [said], 'I've heard about you guys, and you have the infrastructure that I want to be a part of. I want a space right now. Can we get on the waiting list?'" Richter recalled. "Space doesn't open up very much, so we have to get the downstairs lab open now."

In the meantime, BioCenter is working with its landlord to locate two of its growing companies into vacant space at an adjacent twin building.

The expansion will also mark the BioCenter's first effort to address the demand by tenant businesses for manufacturing space. A small pilot facility will be included within the expansion space, Richter said — but only short-term. Long-term, she said, the incubator wants to build a larger manufacturing space at another building within the Edenvale Technology Park capable of supporting full-scale production.

"What we're talking about is taking a short-term strategy because a big manufacturing facility would take at least three years to develop" and would need to be managed by professionals who specialize in that field, Richter said.

She said BioCenter hopes to satisfy the region's short supply of lab space. For instance, at the California Institute for Quantitative Biosciences or Q3, a partnership of the University of California's Berkeley, Santa Cruz, and San Francisco campuses, startups must share space within a 600-square-foot lab and are not granted access to other equipment within the campuses.

At the conference, Richter detailed the growing demand for space that prompted the BioCenter to pursue its expansion. Since it opened in August 2004, BioCenter has brought onboard 30 resident and affiliated companies and 10 shops that use the incubator's equipment for a fee. In total, the tenants and customers employ more than 250 people.

Companies occupying the smallest spaces pay a base monthly rent of about $2,800, though figures vary depending on the size of their spaces, and on what amenities and services they use.

Over the past two years, BioCenter businesses have raised about $500 million from various public and private financing sources. Of that sum, about one-third was generated by a single company, Tacere Therapeutics, an RNA-interference-based drug developer, which in January entered into a $145 million collaboration and license agreement with Pfizer to develop and commercialize its hepatitis C virus compound, TT-033.

Another BioCenter company, BrighTex Bio-Photonics, develops imaging technology for the early detection of skin conditions. The technology appeared promising enough to *Business 2.0* in 2006 that the magazine named the company one of its "Five Startups Out to Change the World."

Stanford Stand-In

A key factor in the BioCenter's growth, Richter said, has been an increasing number of spinout companies that use technologies developed at Stanford University, located around 28 miles to the northwest in Palo Alto.

Many of those companies, Richter said, do not want to be based at Stanford because they do not wish to cede in the requisite capital and control over intellectual property as a price for using technologies developed there.

"That's why we actually have a lot of companies coming from Stanford. And they're trying to get out of Stanford so they can protect their IP," Richter said. "We actually get a lot of companies, in particular from Stanford, because Stanford takes a big chunk and they like to really manage what the companies are doing, and they're very risk-averse.

"They used to be much more entrepreneurial than they are today," she added. "But as they've grown bigger, their asset base has grown bigger, they see a higher risk of losing those assets, so they've actually become more conservative."

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If those concerns have impeded startup activity at Stanford, it is not obvious from recent tech-commercialization surveys. According to an Association of University Technology Managers report released last year, Stanford finished the year ending June 30, 2006, with 109 executed licenses and options, 1,293 cumulative active licenses for technologies, seven startups, 518 invention disclosures, 118 US patents issued for technologies developed within the university, 541 new patent applications, and a total $61.3 million in license income.

By comparison, AUTM's top university system for commercialization, University of California, finished FY 2006 with 226 executed licenses and options, 1,750 cumulative active licenses for technologies, 39 startups, 1,308 invention disclosures, 270 US patents issued for technologies developed within the university, 1,075 new patent applications, and a total $193.5 million in license income.

UC finished second to the Massachusetts Institute of Technology but ahead of No. 3 California Institute of Technology and No. 4 Stanford in the Technology Transfer and Commercialization Index compiled for 2000-04 by the Milken Institute of Santa Monica, Calif., and released in 2006 along with a broader report entitled "Mind to Market: A Global Analysis of University Biotechnology Transfer and Commercialization."

Milken cited Stanford's role in developing a variety of technologies, including recombinant DNA, DSL phone service, and Google. "Stanford's business school has played a key role in developing a culture that encourages and rewards researchers who actively engage in commercialization efforts," Milken concluded.

But Stanford's relatively high score came despite ranking ninth in startup activity when compared to Canadian and US universities. MIT placed No. 1, Vancouver, BC-based Simon Fraser University ranked No. 2, and Cal Tech was No. 3.

Also topping Stanford were the Georgia Institute of Technology, UC, Brigham Young, the University of British Columbia in Vancouver, and the University of Waterloo in Ontario.

Stanford's ranking notwithstanding, demand for space by startups from the university and other research centers helped the nonprofit BioCenter grow its revenues by 38 percent, or about $300,000, last year on a budget of about $2 million, Richter said.

Richter's comments reconfirm expansion plans she discussed last summer [*BRN*, July 23, 2007].

The Way to San Jose

At that time, Richter and the BioCenter were awaiting the outcome of sales talks between her landlord, Mission West Properties, a Cupertino, Calif., real estate investment trust, and an undisclosed prospective buyer. Those talks collapsed by the end of last summer following the onset of the sub-prime mortgage meltdown and the resulting credit freeze, and a downturn in the commercial real estate market.

Mission West and its chairman, Carl Berg, were key players in the development of BioCenter in 2003, as were the San Jose city government and the San Jose State University Foundation. The foundation manages and operates the center for the agency, while the San Jose Redevelopment Agency in 2004 signed a nine-year lease for its space with Mission West. The redevelopment agency spent $5.5 million to build the facility, which opened in 2004; then last year approved $1.2 million for equipment and another $1 million for facility improvements.

San Jose opted to subsidize BioCenter in hopes of growing another high-tech cluster after the local software industry shriveled with the dot-com bust of 2000. In the five years that followed, San Jose saw its employment base shrink 21 percent.

San Jose also sought to capitalize on the powerhouse life-science cluster taking shape an hour's drive north in the San Francisco Bay Area, which by the summer of 2007 amassed more than 900 biotech companies.

Another inducement was San Jose's proximity to several universities and research institutes, all 60- to 90-minute drives away. In addition to Stanford, those research meccas include Lawrence Livermore National Laboratory, Lawrence Berkeley National Laboratory, the University of California's San Francisco and Berkeley campuses, and the National Aeronautics and Space Administration's Ames Research Center in Moffett.

"The Bay Area had a good infrastructure to grow a life-science sector, and the life-science sector had a projection of growth that was beyond any other industry," Richter recalled.

For the life sciences, as with other tech sectors, building on existing resources offers a better chance of success for an incubator than the 'Field of Dreams' approach of some communities that 'If you build it, they will come,' said Carol Lauffler, a partner for business cluster development for the city of Palo Alto.

"You can't build a sector from nothing," said Lauffler, who spoke with Richter during one session at the conference. "If you don't have any life science companies, you can't start to create them. It just doesn't work.

"So you have to think about what already exists: Is there a university in your community doing research in a particular sector where you can leverage the activity that comes out of that?" she said. "Is there a corporation that does research in the area? Are there large and small firms that might actually spin out companies?

"You have to look at what assets already exist in the community before you get started: How many startups can be created in this industry over time, and is it enough to fill my incubator?" Lauffler added.