

# BETTING ON BIOTECH

BY SHARON DISQUE, BUSINESS SERVICES MANAGER



THERE IS A MOVEMENT IN THE GREATER WASHINGTON AREA TO TRANSFORM THE REGION INTO ONE OF THE TOP THREE BIOTECH BUSINESS CLUSTERS BY 2023. WHAT'S THAT PORTEND FOR GAITHERSBURG?

**W**ithin the greater Washington, DC metro area, more than 1,000 life sciences companies and 70+ Federal labs and research institutions combine to form a unique business environment. The area's highly skilled workforce means biotech employers can hire the talent necessary to develop new products. A specialized group of commercial property owners has the experience and resources to accommodate the industry. Financing sources, from Federal research grants to venture capital, serve as the life-blood of start-up companies. It's no wonder that Gaithersburg's 10 square miles are home to 50+ biotech.

AstraZeneca, Gaithersburg's largest private sector employer, hosted the first Maryland Regional Biotech Forum in 2015. More than 400 industry thought leaders joined in a discussion of the hurdles affecting the greater community's ability to attract and retain more life sciences companies. From that event came a new identity, the BioHealth Capital Region, and a commitment to raise the region's standing among biotech hubs.

In 2018, Genetic Engineering & Biotechnology News ranked Bos-

ton/Cambridge, MA as the top location. The San Francisco Bay area ranked second, and New York/New Jersey came in third. Our region was up one place, now ranking fourth. The trade publication uses five criteria: NIH funding, venture capital investment, patents, lab space (the amount of commercial real estate unique to the industry), and jobs.

## Connecting the Industry with the Community

Gaithersburg's Economic Development activities focus on growing both the local tax base and opportunities for employment. Taxes paid by employers support the basic functions of local government: Providing services that protect the health, safety and quality of life for our residents. Two of the City's top three sources of real property tax revenue are AstraZeneca's research and development hub (until recently known as MedImmune), and Alexandria Real Estate Equities (ARE), the largest owner of biotech space in Gaithersburg. Combined, their assets exceed \$468 million.

Commercial landlords take risks when updating buildings for

biotech tenants, especially when those tenants are start-up companies, sustained by research grants and private investment dollars. In the City, most of these companies have located along Firstfield Road, Clopper Road/West Watkins Mill Road, Professional Drive, and Perry Parkway. Buildings are typically low rise, with loading docks, heavy duty HVAC systems, and zoning that allows a mix of office and light manufacturing. Research and development activities require specialized plumbing and air handling. Many facilities have back-up power generators.

These added building features increase real estate costs. Combine higher facility costs with tenants that might (or might not) be wildly successful at some future date, and the result is a unique set of market characteristics. More than half of Montgomery County's biotech companies have located in Gaithersburg.

## Signs of Biotech Investment

Innovation in the life sciences industry sector moves slowly and often invisibly to those not involved in the process. One way to see progress is via construction activity.

Converting an office building to lab space has challenges, but as the demand has increased, real estate companies that focus on the industry are doing just that. 704 Quince Orchard Road, an aging office building with a high vacancy rate, sold in 2018. The new owner's renovation includes the addition of shared conference rooms, a lounge, kitchen, lab spaces, an on-site supply store, fitness center, and supportive partnerships with existing life sciences service providers.

Company acquisitions and spin-offs generated a wave through the local biotech cluster last year. Miltenyi Biotec, headquartered in Germany, acquired Gaithersburg's Lentigen. Before the year's end, Miltenyi had purchased 1201 Clopper Road, planning for a major expansion. AstraZeneca created a new independent company, Viela Bio – a deal that attracted investment capital of \$282.3 million. By January 2019, trade publication BioSpace ranked Viela Bio in the top three of "Life Science Startups to Watch."

Foreign investment also spurred demand for space in 2018. Last

October, Forbes Magazine reported that Chinese investors accounted for nearly 30% of total biotech funding in the US. Locally, that activity translated into new tenants on West Watkins Mill and Clopper Roads.

## Growing Gaithersburg's Economy

Why and how does the City focus on certain industries in its economic development strategy? Let's examine the relationships between industries, jobs and community.

Economic development theory espouses three primary ways to maintain and grow a local economy:

- Business retention – Keep existing companies
- Business attraction – Bring employers from outside the community here
- Business creation – Support the formation of new companies (entrepreneurship)

Theory also distinguishes between two primary categories of businesses: (a) those that generate more wealth within a local economy, and (b) those that re-circulate money within the community. An example of the former would be a manufacturing or service business whose customers or clients are from outside the local economy, thus bringing money into the area. An example of the latter would be a restaurant. Customers come from nearby and they choose one restaurant over another. Competition is often fierce, and the addition of a new player can be detrimental to existing restaurants.

Biotech companies fall into the former category, contributing to growth of the local economy, and Gaithersburg's proximity to Federal regulatory and research institutions offers a supportive business environment. The area's high concentration of workers with science and tech related skills means new and expanding biotechs can find the essential talent to succeed. While many communities across

the nation have targeted the life sciences industry, few locations have the right mix of necessary assets.

The City has a few ways to influence business location decisions, and for this particular industry our Economic Development program focuses on addressing the real estate needs of the typical biotech. Gaithersburg's Economic Development Toolbox provides a matching grant to companies that make improvements to the properties they occupy. Think interior demolition work, HVAC improvements and utility upgrades – costs that run high for lab space. Staff also maintains relationships with the real estate brokers and property owners who work these projects.

Our marketing activities include participation in relevant trade shows and conferences. Our Planning and Code Enforcement personnel have a basic understanding of the unique facility requirements and can respond in a timely manner to commercial renovation projects. We coordinate efforts with Maryland's Department of Commerce and with the Montgomery County Economic Development Corporation. However, fundamentally, our skilled workforce, the cluster of existing life sciences companies,

## DEFINING BIOTECHNOLOGY

"Biotechnology" covers a wide array of activities, ranging from biofuel production to medical device manufacturing. The categories listed here generally describe the breadth of the industry, with the last three having a large presence in our area:

- Agricultural feedstock and chemicals
- Bio-science related distribution
- Drugs and pharmaceuticals
- Medical devices and equipment
- Research, testing and medical laboratories

and other supportive infrastructure perpetuate growth of this sector.

### Biotech and Gaithersburg's Future

Whether Gaithersburg and the Washington metropolitan area can become one of the top three biotech business clusters by 2023 remains unknown. Challenges include competition from other communities and growth of the industry itself. The ability of local companies to draw venture capital investment and the continued availability of skilled labor also play significant roles. Boston/Cambridge, at the top of the list,

exploits its research assets of Harvard and MIT. Can companies in our area forge closer relationships with Federal institutions, expediting the give-and-take of intellectual property?

The answers to these questions will shape the outcome. For now, Gaithersburg's residents benefit from the tax revenue, employment opportunities, and local spending associated with biotech.

NOTE: In February 2019, AstraZeneca announced "retirement" of the MedImmune name. AZ acquired MedImmune in 2007 for \$15.6 billion. 

