

## BIOTECH: THE NEXT WAVE

### MONTREAL: AN ACCOMMODATING CITY FOR CANADA'S BIOTECH INDUSTRY

A "virtual" tour of our nation's major urban centres shows the unmistakable footprint of a new breed of bio-medical, bio-agrifood and bio-environment firms which, with help of technology advances, are pursuing initiatives that have the potential to provide Canada's greying population, and their families, with aging-related health products, a bio-engineered food supply, a healthier environment and a more sustainable means of harvesting the world's natural resources. This combined with the mapping of the human genome has vaulted the Biotech industry into North America's hottest sectors.

Though many provinces have been successful in attracting this new breed of bio-related firms, Quebec, in little more than a decade has emerged as one of North America's preferred locations. According to industry statistics, for example, more than 40% of Canada's biotech and pharmaceutical industries are located in Quebec. The province ranks first in Canada in terms of income generated from its bio-medical, bio-agrifood and bio-environmental sectors and is considered by industry analysts to be among North America's 10 most influential biotech environments.

Despite some obvious growing pains, KPMG reports that Quebec's biotech community is poised for greater expansion, largely because of its efforts to create "the most attractive provincial economic development program in the country." This mandate was communicated strongly to American business leaders when the then Québec Premier, Lucien Bouchard, headed a trade mission to the U.S. north-eastern states in May, 1998. At that time, he guaranteed that investors of new major investment projects would not see their tax burden grow for a full 10 years. As well, he said, the fiscal advantages associated with expenses in research and development could be 100% greater in Quebec than in competing locations such as Ontario, New Brunswick, Massachusetts, Michigan, New York or Pennsylvania.

Not surprisingly, such incentives have not gone unnoticed by members of the biotech community in Europe and the Pacific Rim. For them, however, Quebec's role as a pivotal partner in the North American Free Trade Agreement holds added allure. It means they can benefit from Quebec's favourable tax climate while simultaneously gaining access to lucrative U.S. and Mexican markets.

Nowhere is evidence of this investment in the future more pronounced than in Montreal, where more than two-thirds of the province's bio-related firms are located.

While most of these firms are small, measuring no more than 50 employees, all have access to one of the most advanced research infrastructures in North America. One of the leaders of this tightly knit biotech community is the Biotechnology Research Institute (BRI), a National Research Council of Canada initiative employing one of the largest bio-scientific workforces in the world. Its presence is one of the reasons that Montreal has attracted the sixth highest concentration of bio and pharmaceutical jobs in North America.

To complement these advantages, Montreal offers tenants, property owners and investors one of Canada's most favourable environment with respect to real estate investment opportunities and occupancy costs.

While Greater Montreal has one of the highest concentrations of business accommodation in Canada, offering users more than 79 million sq. ft. of office space and in excess of 253 million sq. ft. of industrial space, it should be remembered that the Region, like most of North America's leading edge biotech centres, has a critical shortage of built-out laboratory space suitable for immediate occupancy. Multinational firms such as Novartis and Genzyme Corporation have recently begun to market redundant laboratory and manufacturing buildings which the market should absorb quickly.

The move toward more balanced office and industrial markets in 2001 implies that expansion and relocation by the biotech community will occur within a sales and leasing environment that offers less negotiating room for tenants and purchasers. This will be particularly true for start-up ventures with limited access to capital. First-generation firms may discover their accommodation options are best met through leased "incubator space" in Laval Technopole, an R&D industrial park owned by the City of Laval or in the new incubator recently announced by St-Laurent's CITEC Technoparc. Occupancy costs within this kind of space ranges between \$35 and \$50 per square foot, according to unit size and configuration, but offers tenants suitable, fully-equipped accommodation with some degree of lease flexibility. This is an important issue given that many first-generation bio-related companies have shown the capacity to triple or quadruple their space requirements within the span of the lease.

For more mature members of the biotech community, especially those with established financing, accommodation options are more plentiful. Biotech growth is taking most of the place in Montreal's western suburbs, specifically in R&D business parks such as the Laval Technopole and St-Laurent's CITEC Technoparc. The CITEC Technoparc, for example, will finance close to 100% of a firm's laboratory installation and amortize these costs over the life of the lease in the rental rate. This source of off-balance sheet financing, coupled with a five-year real estate tax holiday has proved to be a successful formula in attracting new Biotech companies into the technoparc as well as the recent expansion of existing tenants such as Methylgene and Neurochem.

Caption Pharmaceuticals Inc. has recently begun construction of a 54,000 square foot build-to-suit laboratory and office facility in the Saint-Laurent Technoparc with Liberty Sites Ltd. to take advantage of the campus-like setting and the ability to expand its building as the company grows.

A number of Biotech firms insist on locating downtown close to the scientific community located at McGill University, UQAM and the Montreal Neurological Institute. Phagetech, Exogen and Geminx have located in the basement of the La Cité complex.



which has been transformed into state-of-the-art laboratory facilities close to McGill University.

Phenogene, on the other hand, has chosen to relocate to a loft building on de Maisonneuve Blvd. and had targeted the top floor in order to provide easier access to the building's roof to exhaust the laboratories' hoods and air handling equipment. Conjuchem, has also chosen to locate its head office and laboratories within UQAM's new turnkey laboratory facility on President Kennedy. There is now a tremendous opportunity for landlords of downtown buildings to accommodate these high growth biotech companies hungry for laboratory and office space, however, the challenge remains in the ability of these companies to finance their expensive installations and provide landlords with sufficient guarantees to cover leasehold improvements.

In 2001, the specific accommodation needs of knowledge-based companies, including those with lab-sensitive biotech environments, will be a driving force within Greater Montreal's industrial build-to-suit market. In total, the Region's industrial inventory is forecast to grow by about three million square feet in 2001, similar to 1998's banner year. The recent resurgence in industrial development activity could begin to impact the availability of prime land in high demand areas.

Those who chose to purchase an existing facility in 2001 will find that office and industrial building values, while improving from their recessionary slump, will remain below replacement cost. It should be pointed out, however, that retrofitting costs for industrial buildings might be comparable to building a new facility.

When analysing retrofit opportunities, keep in mind that all properties are not created equal. To determine a building's suitability for retrofit, biotech users should assess the structure carefully, paying particular attention to its HVAC and electrical systems. This is especially important for multi-storey structures where floor clearances and the building envelop may not be conducive to the cost-effective installation of proper venting or technology infrastructure. In the industrial market, self-contained, or stand-alone, properties tend to offer the best potential for conversion. Ceiling heights and dock loading facilities may also take on added importance where warehousing and distribution activities are anticipated. Remember, too, that environmental considerations factor heavily in the municipal approval process. With respect to emissions' controls, waste holding and waste removal issues, it pays to look closely at regulatory precedents that may impact future use criteria.

While the biotech industry is on the leading edge of an unparalleled growth curve, most companies report that as much as 85% of future capital infusions will go toward research and development initiatives. As such, it's critical that money spent on "bricks and mortar" should represent the best value possible. A clear understanding of the factors affecting employee productivity can often help to identify the most efficient floor plate configurations for current, and future, space needs. Don't dismiss this lightly. It's well documented that knowledgeable tenants can shave their space requirements by as much as 3% - 4%, a saving that can then be reallocated to fund other corporate priorities. As well, tenants should have a good understanding of the building's operating environment, specifically the capacity and hours of operation for HVAC systems, security and telecommunications. The efficiency of these systems may have a measurable effect on a tenant's bottom line.

As for lease terms, it may prove wise to balance leasing flexibility against the peace of mind that can accompany a decision to lock-in rates before market demand establishes higher benchmarks.

# Le Technopôle ANGUS

## Le parc technologique de Montréal

Que vous soyez une entreprise de fabrication en **INFORMATIQUE, BIOTECHNOLOGIE, OPTIQUE** ou de tout autre secteur, vous êtes admissible à un **CRÉDIT D'IMPÔT REMBOURSABLE DE 40%** pour chaque emploi créé

- ◆ Crédit R&D aussi disponible
- ◆ À cinq minutes du centre-ville et des grands axes routiers
- ◆ Un réseau de fibre optique à la fine pointe
- ◆ De grands espaces verts et du stationnement
- ◆ Un service complet de métro et autobus

Que vous désiriez être **PROPRIÉTAIRE** ou **LOCATAIRE**, nous vous offrons de nombreuses options pour répondre à vos besoins d'espaces bureaux ou industriels

Contactez-nous  
**(514) 528-5230**  
[www.sda-angus.com](http://www.sda-angus.com)



Société  
de Développement  
Angus

LooseShop Angus  
3000, rue Wilham-Tremblay  
Bureau 200  
Montréal (Québec)  
H1Y 3J2

**IQ** Investissement  
Québec

Canada  
Développement  
Économique  
Canada  
Canada Economic  
Development

Canada