

Menlo Business Park poised for growth

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When Tig Tarlton developed a 50-acre business complex in Menlo Park in the early 1980s, the Dumbarton Bridge had just opened down the street. Most tenants were light-electronics assembly companies.

A lot has changed: Manufacturing has largely left Silicon Valley, and today the area is famous for Facebook's headquarters, not assembly lines.

Tarlton's Menlo Business Park also pivoted, transforming the 16-building, 900,000-square-foot campus whose early tenants included Cisco Systems Inc., ETAK and Sony Electronics into a hub for small and midsize life sciences, medical device and green-tech startups.

Now the park aims to grab a bigger piece of those markets with a recent investment from Principal Real Estate Investors, which purchased a 90 percent equity stake in a portion of the property, located off Bayfront Expressway between Willow Road and University Avenue. The parties did not disclose the investment amount, but county tax records valued the deal at just under \$120 million.

The capital infusion will allow the park's owners to renovate space and embark on additional projects, such as a new 80,000-square-foot incubator, said John Tarlton, Tig's son, who now oversees the operation.

"We are looking at investing dollars into the rest of the buildings in the park to enhance them," Tarlton, president and CEO of Tarlton Properties Inc., said. "A lot of our buildings were nice at the time they were built but could use some additional help to position them for the needs of our customers."

Capital is crucial in life sciences-focused real estate because build-outs are very expensive. Typical tenant improvements might run \$100 to \$150 a foot, compared to \$40 to \$75 a foot for high-end office.

And after significant contraction during the recession, life sciences companies

are growing again, said Gregg Domanico, managing partner at Kidder Mathews in Redwood City, who specializes in the industry.

"There was a lot of sublease space, but most has been absorbed and leased," Domanico said. Menlo Business Park is well-positioned to benefit, he said. Space is particularly tight in the 2,500- to 10,000-square-foot market, a sweet spot at Menlo Business Park.

"No one, not even the big guys, are going after that below-10,000-square-foot marketplace," Domanico said. "John's positioned very well."

Rico Cheung, a Kidder Mathews partner who tracks the industry, said the fourth quarter saw 592,000 square feet of positive net absorption in the Bay Area. Recent deals include CardioDX, which leased nearly 70,000 square feet in Redwood City; Pearl Therapeutics, which leased 40,000 square feet in Redwood City; and Asterias Biotherapeutics, which leased 44,000 square feet in Fremont.

The decision years ago to target the life sciences industry wasn't hard: Companies were coming out of Stanford and they didn't have a lot of choices on where to land. Tarlton Properties saw a niche.

"If you draw concentric circles around Stanford, we're one of the closest areas where you can put a quasi-medical use," Tarlton said.

Incubating

In the early 2000s, Tarlton Properties started what would become Menlo Labs, providing space as small as a single 250-square-foot lab on a month-to-month basis in the business park. Today the company operates two roughly 10,000-square-foot incubators and is planning a third, larger property.



John Tarlton, who heads up Menlo Business Park outside of a CER (controlled environment room) at Intersect ENT, a tenant of his which he worked with to build out the existing space from industrial to biotech.

"It's about the life cycle," Tarlton said. "We can allow someone to come in and take 250 square feet, and grow them, have them graduate to a 5,000- to 10,000-square-foot space."

He points to DNA2.0, a gene synthesis and protein engineering company, as a success story: It was an early tenant at Menlo Labs and now occupies about 30,000 square feet in a Tarlton-owned property.

Today, Acclarent, a Johnson & Johnson-owned medical device-maker, is the largest tenant at the park. Other companies that call Menlo Business Park home include Intersect ENT, Circuit Therapeutics, Kateeva, Vela Systems and Auxogyn.

Jim Cogan, the economic development director for Menlo Park, said Menlo Business Park provides crucial business diversity for the city, which is best known for venture capital firms and the social media juggernaut.

"It's critical to the city from the standpoint of having space for tenants on the cutting edge of bioscience and medical device development," he said. "It helps us compete in that arena. And when it comes to the sales tax bottom line for the city, those are great."