Knowledge Exchange:
How to Find the Right Office/Lab Space for Your Startup
Market Dynamics

- Low to no vacancy
- Limited existing lab space, often functional obsolescence
- If your funding is from UC, additional resources and requirements
- UC Davis Venture Catalyst DRIVE™ Program bridges gap in the market with incubation facilities
- Tenants driven to design/build their own spaces
Sacramento Region Market Snapshot

Sacramento Office Charts

VACANCY, AVAILABILITY & LEASE RATE

SALES VOLUME VS. LEASE VOLUME

Submarket Statistics

<table>
<thead>
<tr>
<th></th>
<th>Total Inventory</th>
<th>SF Under Construction</th>
<th>Direct Vacancy Rate</th>
<th>Total Vacancy Rate</th>
<th>Total Available Rate</th>
<th>4Q Overall Net Absorption</th>
<th>2018 Overall Net Absorption</th>
<th>4Q Leasing Activity</th>
<th>2018 Leasing Activity</th>
<th>Avg Rental Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sacramento Total</td>
<td>97,910,232</td>
<td>1,160,037</td>
<td>9.8%</td>
<td>10.0%</td>
<td>12.1%</td>
<td>-61,913</td>
<td>681,467</td>
<td>987,371</td>
<td>3,629,921</td>
<td>$21.96</td>
</tr>
</tbody>
</table>
Lab Types

- Ag biotech (plus greenhouse space)
- Biology, Chemistry, Analytical Chemistry
- Pharmacology
- Engineering / Medical Device, Robotics
- Vivarium
- cGMP Manufacturing
- Biosafety
- Cannabis

In general, labs can occupy industrial or office buildings, depending on lab type and zoning.
Strategic Leasing Approaches

**Direct Lease Existing Lab**
- Quickest path
- Limited inventory

**Sublease Existing Lab**
- Minimize rent
- Quickest path
- Shared services
- Sublease risks/restrictions

**Lease Larger Lab – Sublease Excess**
- Room for growth
- Larger rent commitment
- Manage subtenants

**Lease “Shell” – Build out space**
- Customized for you
- Time and money
- Longer term

Consider the path that is in alignment with your business stage, resource availability, and growth plans.
Operating Expenses = recurring monthly expenses including base rent
Capital Improvements = structural changes to the space
FF&E = Furniture, Fixtures and Equipment
Total Occupancy Cost & Lease Structures

**CAM EXPENSES**
Property taxes, property insurance, common area maintenance

**UTILITIES**
PG&E, water, garbage, security

**BUILDING MAINTENANCE**
HVAC, plumbing, lab utilities

**ENVIRONMENTAL HEALTH & SAFETY (EH&S) / HAZARDOUS MATERIAL DISPOSAL**

**DATA / TELEPHONE SERVICES**

**BASE RENT**

**LEASE STRUCTURES**
- Full Service Gross (FSG) = Rent
- Modified Gross (MG) = Rent + Utilities + janitorial
- Triple Net (NNN) = Rent + Utilities + janitorial + CAM

**EQUIPMENT SERVICE**

**JANITORIAL SERVICE**

**RENTER’S INSURANCE**

---

NAHZ ANVARY, CCIM  916.264.8385  |  nanvary@kiddermathews.com  |  LIC #01466557

JIM GRAY, CCIM, LEED AP  916.947.5142  |  jgray@kiddermathews.com  |  LIC #00775072
Capital Improvements

- Average lab improvements = $100-250/SF
- Average office improvements = $60-$90/SF
- Example 2,000 SF lab space x $250/SF = $500,000
- The Landlord doesn’t want to be your banker
Securing Funds for Improvements

- Your money, friends, and family
- Your investors
- Business loan, non-traditional lender
- Home equity loan
- SBIR/STTR Awards

Funding improvements is a significant hurdle to overcome in a successful lease
## General Timelines

### SHELL BUILDOUT

<table>
<thead>
<tr>
<th>MONTHS</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define Criteria &amp; Tour</td>
<td>1.5 Months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negotiate LOI &amp; Lease</td>
<td>1.5 Months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design Drawings</td>
<td></td>
<td>2 Months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permitting</td>
<td></td>
<td></td>
<td>1-3 Months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td></td>
<td></td>
<td>3-5.5 Months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### EXISTING SPACE

<table>
<thead>
<tr>
<th>MONTHS</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define Criteria &amp; Tour</td>
<td>1.5 Months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negotiate LOI &amp; Lease</td>
<td>1.5 Months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction/Permit</td>
<td></td>
<td>2-4 Months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Start space search at least nine months to a year in advance
Working with a Commercial Real Estate Broker

- Advocate, guide, market expert
- Matches your needs with market availability
- Review of agency rules (listing, procuring, dual agent)
- Separate legal representation
- Choose someone specializing in commercial vs. residential
- Compensated for success, generally by Landlord
Parting Advice

- Budget for total occupancy cost
- Secure funding for initial capital expenses and FF&E
- Explain your science to non-science people
- Create list of lab equipment / cut sheets
- Develop chemical and quantity list
- Surround yourself with an experienced team