

Canadian buyer picks up 13 life-science buildings in Sorrento Mesa for \$464M

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By Mike Freeman Feb. 24, 2022 6:59 PM PT For subscribers

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Oxford Properties buys 13 buildings from BioMed Realty in Sorrento Mesa

(Courtesy of Oxford Properties)

Oxford Properties enters the San Diego market with the purchase. It sees growth potential in the life-science industry on the West Coast.

Oxford Properties of Toronto has put down roots in San Diego life science real estate market through the acquisition of 13 buildings located mostly in Sorrento Mesa for \$464 million.

The deal announced Thursday adds 650,000 square feet to the Canadian firm's growing West Coast life sciences footprint. It acquired the local properties from BioMed Realty, which is owned by private equity giant Blackstone.

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One of Oxford's top growth strategies this year is "to build a dedicated life science business of scale," said Chad Remis, executive vice president of Oxford North America, in a statement. "Today's acquisition adds high quality, income-producing assets to our growing portfolio and perfectly complements the beginning of our development pipeline in San Diego."

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Oxford isn't alone in targeting San Diego life sciences properties. Longfellow Real Estate Partners, a privately held developer headquartered in Boston, had no assets in the region three years ago. Today, it has 1.26 million square feet of local life science space and 90 acres of land in the region, which it assembled at a cost of \$842 million.

"San Diego is looked at for investor purposes as one of the hottest opportunities in the country, especially in a post-pandemic world where people are gravitating toward places like San Diego to live," said Ted Jacobs, vice chairman of the CBRE Life Sciences National Practice. "It is broadly accepted that we are the third biggest market behind Boston and San Francisco, so you are seeing a lot of new players come into San Diego."

Biotech and other life sciences firms pulled in a record amount of venture capital in 2021, with \$32.5 billion raised nationwide, according to CBRE. Biotech research jobs rose 10.8 percent last year, while lab vacancy rates fell in the top 12 U.S. life sciences markets.

In San Diego, the vacancy rate for lab space ended 2021 at 4.4 percent — compared with local office vacancies in the 13 percent range, according to CBRE. With demand still hot, landlords continue the trend of converting former office and flex/industrial buildings into biotech labs.

The buildings that Oxford acquired from BioMed are mostly second-tier properties, so they seem ripe to follow this redevelopment trend to lab space, said Joshua Ohl, director of market analytics for research firm CoStar in San Diego.

"That is the stuff that has been getting targeted," he said. "Those mid-range buildings are being outfitted as lab space and re-tenanted — pushing rents where they can get maybe \$6 per square foot triple net for a lot of those spaces after the redevelopment is finished."

Oxford Properties, which manages \$63 billion (U.S.) for Ontario's municipal employees pension plan, appears to have redevelopment ambitions in its playbook.

"The acquired portfolio gives us a meaningful presence in a market where we have high conviction," said Tycho Suter, vice president of investments, in a statement. "Furthermore, with over a third of the portfolio's leases set to expire in the next two years, it provides

Oxford the opportunity to utilize our active asset management capabilities to create value via targeted upgrades to lab space, improving the customer experience and offering that these buildings have in the marketplace.”

Oxford already owns lab properties in Seattle and the Bay Area. It has spent \$2 billion in the past 12 months to boost its life sciences holdings.

Oxford’s new San Diego properties, which consists mostly of one-to-two story buildings, are 98 percent leased with a 60/40 ratio of life sciences-to-office tenants.

“The BioMed portfolio was a unique opportunity from Day 1 to have scale in San Diego,” said Jacobs of CBRE. “For the biggest investors, it is not that interesting to come in and buy one or two buildings. So being able to buy that much square footage on Day 1, they have the scale to flex tenants up and down within their portfolio.”

Commercial real estate in Sorrento Mesa has traditionally been dominated by the ebbs and flows in hiring by wireless giant Qualcomm, which is headquartered there.

But the business district has emerged as one of the region’s hottest markets for life science properties now that Torrey Pines Mesa — the industry’s traditional epicenter — has been largely built out.

A BioMed spokesperson said the sale of the 13 properties occurred as a “normal course of business in order to recycle capital towards developing, modernizing and expanding sustainable research facilities in the San Diego market.”

BioMed still owns nearly 20 office and life sciences properties in University Towne Centre, Sorrento Valley and Torrey Pines.

While most of the buildings Oxford acquired are in Sorrento Mesa, the portfolio included one, 105,000 square foot structure at 3030 Bunker Hill Street near Pacific Beach. A former hospital, BioMed had been marketing it as an incubator for small biotech firms — akin to a shared-use space among firms so that they can pool resources.

The other buildings in the portfolio include:

- 4215 Sorrento Valley Boulevard — 56,000 SF | 1 Building
- 6828 Nancy Ridge Drive — 42,000 SF | 1 Building
- 5870 & 5880 Pacific Center Boulevard — 66,000 SF | 2 Buildings
- 11404 & 11408 Sorrento Valley Road — 31,000 SF | 2 Buildings
- 11388 Sorrento Valley Road — 36,000 SF | 1 Building
- 9535 Waples Street — 50,000 SF | 1 Building
- 6114, 6118 & 6154 Nancy Ridge Drive — 197,000 SF | 3 Buildings
- 6122, 6124 & 6126 Nancy Ridge Drive — 68,000 SF | 1 Building