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The energy crisis

Who will pay?

March 9, 2001

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East Bay Business Times

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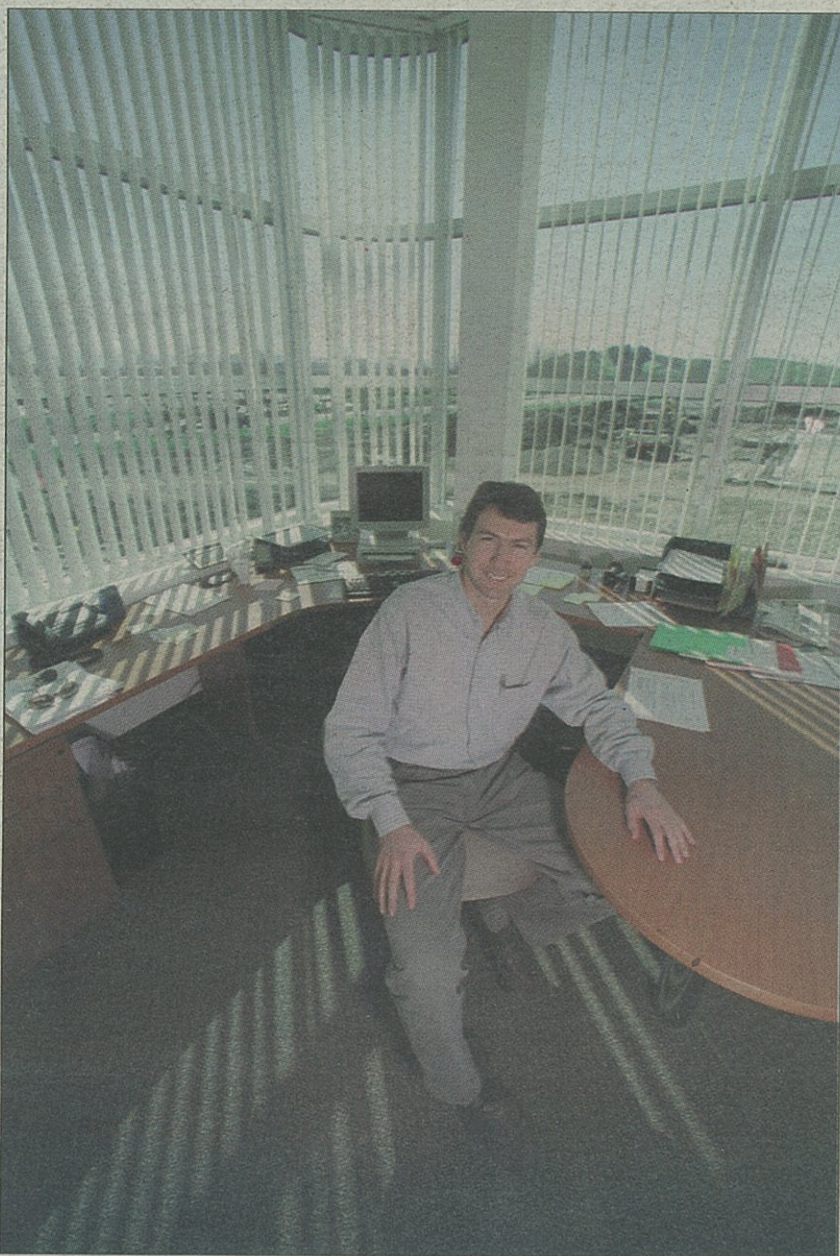
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Power cities poach for business

They smell blood and are flying in for the kill. It seems anyone with their own power supply is trying to woo Bay Area businesses to their neck of the woods, whether it's nearby Alameda, rural Shasta County

Top story

or (gulp) Tennessee. The energy crisis, which threatens to peak this summer, has spurred these cities and states to turn up the juice. "The lights are always on" is now the No. 1 sales pitch. **See Page 25.**



Abgenix's Scott Greer won't build a commercial plant in the Bay Area.



PHOTOS BY STEPHANIE SECREST EAST BAY BUSINESS TIMES

Roche's Shirley Kwok and Elizabeth Dragon stand on Pleasanton land left vacant by a company decision to build elsewhere.

Bay Area's biotech looks, moves east

The Bay Area's biotech industry payroll comes to \$2.1 billion, bringing in billions more to the region's economy. But an unhealthy mix of recruitment troubles, high rents and neglect could hand over world leadership in the promising field to rival Boston. **See Page 12.**

Furniture sales drive retail

Crate&Barrel is the latest retailer to jump into the red-hot home furnishings market. **See Page 3.**

ManageStar scores on Web

The online procurement service has landed a contract with BOMA, whose members spend \$104 billion a year on maintenance. **See Page 5.**

Webvan drives on despite signs

While its competitors ease up, the online grocer is stepping on the gas. **See Page 8.**

East Bay tech

Quintus failed expectations

The software maker's woes appear to have sprung from puffing up revenue for fear of disappointing Wall Street. **See Page 11.**

Outlook: The energy crisis

Power plants won't cool crisis

Valero Corp., among others, will break free from the power grid. But not this summer. **See Page 24.**

Alternatives go mainstream

Solar power used to be an environmental Holy Grail. Now it's an industry darling. **See Page 27.**

Keep down power costs. **See Page 28.**

Blackouts fuel business. **See Page 29.**

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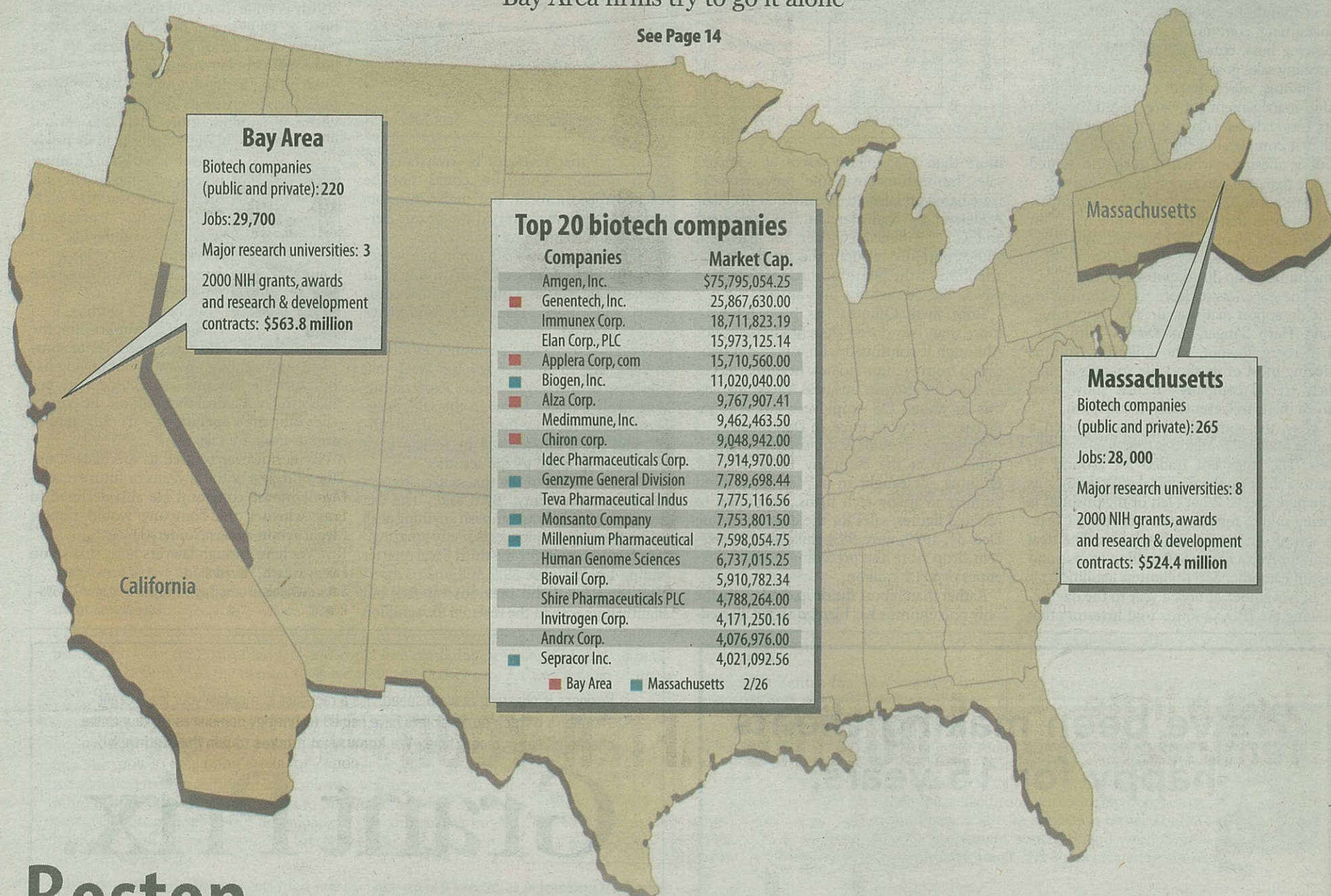
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The Bay Area's biotech slide

Fickle investors threaten region's prospects
Bay Area firms try to go it alone

See Page 14



Boston surges ahead

BY LESLIE MLADINICH

When a Swedish pharmaceutical giant flew in teams of scientists and executives to scout North America for the best place to build a research and development plant, the crews touched down in the Bay Area and Boston, as well as lesser biotech hubs such as San Diego and North

Carolina's Research Triangle.

Ultimately, the green of the Ivy League shined brighter than the blue of the Bay. When AstraZeneca weighed the availability and price of space, access to talent and proximity to top-notch medical research universities, Boston won out.

"It was very tempting to go to California," Vice President Hans Nilsson said in a strong Swedish accent from the company's new plant in Waltham, Mass. "When I say to my kids, 'Do you want to go to the U.S.?' immediately, they say, 'Yes, California.'"

"However, when we looked into it in more detail, we found the Boston area provided a remarkable concentration of research and clinical professionals."

The Bay Area put up some stiff competition but was saddled by some all too familiar problems—traffic not being the least of them.

"But if we had to go to one place and get

it all, we didn't want to be more than a half-hour away from it," said Nilsson.

In 1976, Genentech Inc. had become the first venture to combine bioscience and business, establishing the Bay Area as the world's biotech leader. Biogen Inc., the first biotech company on the East Coast, didn't open up shop in Cambridge, Mass., until two years later.

But in the past few years, prestigious companies with the resources to pursue the most advanced drug innovations have looked at the Bay Area for real estate—and ended up breaking ground in Boston.

What's worse, the Bay Area's lead is slipping away just as venture capitalists and investors are turning their attention to biotech.

While Bay Area business and government leaders wake up to the danger, many biotech industry insiders and followers here sniff that the competition with Boston—formerly biotech's second city—has been long run-

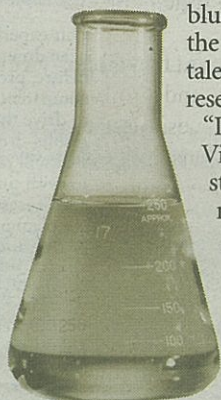
ning. They downplay the rivalry.

The numbers, though disputed, should make naysayers blink. By one measure, the Bay Area already has fallen behind.

By the end of last year, some 240 biotech companies called Massachusetts home, with the bulk of them located within the Boston metropolitan area, according to the Massachusetts Department of Economic Development and the state's Biotech Council. With 25 startups opening shop there since Jan. 1, the state is well on its way to surpassing projections for 300 firms by year's end.

In its annual report on the industry, Ernst & Young counted 170 private and public biotech companies in the San Francisco Bay Area. Fifty more have opened during the past six months, said Ernst & Young analyst Scott Morrison, raising the total to 220.

Furthermore, the Boston area has more than 6.4 million square feet of research, development, manufacturing and office



The biotech marathon

Bay Area Massachusetts

1976: Genentech, the first biotech firm, founded



1978: Researchers at Harvard clone rat insulin, a precursor to producing human insulin



1978: Stanford University scientists successfully transplant a mammal gene, a first step to gene therapy



1980: Cetus' Kary Mullis invents PCR, a way to amplify and read DNA molecules



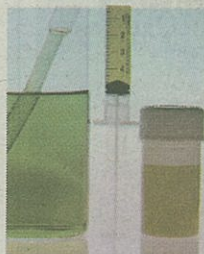
1980: Genetics Institute deploys scientists and business leaders to develop drugs



1982: Eli Lilly gets FDA approval for insulin cloned by Genentech—biotech's first marketable product



1982: Applied Biosystems Inc. introduces first commercial protein sequencer, speeding gene discoveries



Special report



STEPHANIE SECREST/EAST BAY BUSINESS TIMES

Roche's decision to build elsewhere sprung largely from its inability to attract more skilled executives and workers such as Elizabeth Dragon and Shirley Kwok.

space in development for medical centers and established biotech companies. The Bay Area has nothing in the works to compare.

Biotech's Bay Area payroll comes to about \$2.1 billion. Greg Schmid, an economist at the Institute for the Future in Menlo Park, says biotech generates two to four times that amount for the Bay Area's economy.

"Jobs in biotech and research and development are earning all of its money outside the area, bringing in new money and creating new jobs in supplier industries."

Bay Area's firsts fade

To call the Bay Area the cradle of biotech is not mere boosterism. The region lays claim to creating many leading drugs and becoming the industry's first profit center, says biotech consultant and author Cynthia Robbins-Roth.

"The Bay Area biotech companies have, as far as I am concerned, led the way for the entire field of biotech drug development and creation of non-drug biotech technology," she said.

The blockbuster drugs include: Genentech's Herceptin for breast cancer and Activase for heart attacks; Chiron's beta interferon for multiple sclerosis and IL-2 for cancer; Gilead's flu and HIV drugs; COR Therapeutics' cardiovascular drug integrilin; Inhale's lung drug delivery technology; and Abgenix's and Protein Design Lab's monoclonal antibodies for a whole range of diseases.

Along with the Bay Area's reputation, biotech has bolstered the economy

It's an industry Ernst & Young analyst Morrison predicts could grow at 30 to 40 percent in a year, and the Bay Area has its own expansions to brag about, including Genentech, Bayer and Xoma. And it even has its own incubator in Fremont, where Abgenix, SangStat, Incyte Genomics, CIPHERgen, Matrix Pharmaceuticals and Protein Design Labs call home.

These companies contributed to health care technology exports totaling \$1.4 billion in 1998, and the region contributed to research and development investment of \$1.6 billion, an area that has the potential to grow 70 percent if the Bay Area can hang on. In addition, biotech supports accounting firms, regulatory and intellectual property

Roche Molecular Systems, for example, decided this year to forgo—at least for now—construction on 16 acres of land it owns in Pleasanton's Hacienda Business Park.

The new plant was to be filled with 450 new workers, ranging from packers and shippers to Ph.D.s. Roche chose to build that facility next to its existing site in Branchburg, N.J.

Although the timing, operational concerns and FDA rules played into Roche's decision to keep its Pleasanton field fallow and build back East, fear that New Jersey workers would balk at moving to the Bay Area and the difficulty of finding qualified people here weighed in heavily.

Roche's anxiety sprang from experience. When it opened the Pleasanton office three years ago, it was forced to offer mortgage breaks and other incentives to lure people to California.

"The issues being debated three years ago were exactly the same as the issues today," said Clelia Maria Baur, Roche's government affairs director. "In New Jersey, we have many neighbors who would snap up our scientists if they didn't want to move."

Sally DiDomenico, vice president of the Bay Area Economic Forum, fears Roche's decision to build elsewhere is more than a blip on the screen.

"It would be a mistake not to take everything seriously," said DiDomenico. "Not that the industry is going to cave in, but you don't want to lose anything at all. We've got to keep research and development here, but we can't always expect to keep manufacturing."

Bay Area's niche narrows

Manufacturing is already headed out of state.

Abgenix is building a \$100 million pilot plant near the foot of the Dumbarton Bridge in an area brimming with scientists, laboratory mice and genetic engineering technology. But if the Fremont company finds a novel antibody it can take to market by itself, the commercial manufacturing plant will be located "where land and energy costs are inexpensive," said Abgenix CEO Scott Greer. The company's rent has tripled in three years.

For firms that want to stick to their Bay Area roots, Hayward and Pleasanton will serve as expansion hotbeds, says Ernst & Young's Morrison.

"Most companies are trying in every way possible to stay here, but they are finding it more and more challenging," Morrison said. "If we don't find solutions, we are going to be left out in the cold in a high-growth sector of the economy."

Meanwhile, the resources to create revolutionary drugs are rapidly shifting to the East Coast.

Genzyme, Millennium Pharmaceuticals Inc. and Vertex Pharmaceuticals, along with Biogen, Pfizer, Merck & Co. and Amgen, the biggest biotech company in the world, will soon open offices or expand existing ones in Boston.

Asked by the Business Times about Amgen's decision to build a 285,000-square-foot lab for hundreds of researchers, spokesman David Kaye didn't trash the Bay Area. But speaking to readers of the Boston Globe last year, he heralded that city's advantages.

"Not every scientist is going to want to locate to California," he told the Globe. "To be an active player, we believe you need to be in Boston."

And look at the playgrounds the city is building.

Boston's planned \$400 million Kendall Square project includes 700,000 square feet

of laboratories and office space, not including a luxury hotel and condominiums.

The Longwood Medical and Academic Area, with 2 million square feet, will house four new research buildings with a facility for Merck, a \$250 million research building for Harvard University that includes labs for 800 scientists, a new research center for Children's Hospital of Boston and a research facility for the Beth Deaconess Medical Center.

And Boston University and Boston University Medical Center are developing a 2.5 million-square-foot facility for office and lab space.

By comparison, the biggest project going in the Bay Area is Applera Corp.'s 960,000-square-foot expansion in Pleasanton.

East Bay makes play for biotech

What Boston and Massachusetts have that the Bay Area doesn't is government support, says Sue Markland Day, president of the Bay Area Bioscience Center. Massachusetts has aided biotech by giving tax credits for research spending, supporting education and creating funds for cash-poor companies to buy equipment.

"We need more cheerleaders," she said.

Bay Area government is just beginning to realize that it may have to fight to keep an industry that was born here. The loudest rallying cry is coming from the East Bay, particularly Contra Costa and Solano counties.

In February, Contra Costa College in San Pablo agreed to house a bioscience incubator on its campus. Between 15 and 20 biotech startups will be able to fit in the 15,000-square-foot center.

The city of Richmond, the college and the Contra Costa Economic Partnership, a government-business alliance, have applied for a \$1 million federal grant to renovate the space so companies can move in during the fall of this year.

Other efforts to boost biotech are few and far between in the Bay Area. But even enthusiastic support doesn't guarantee continued growth.

When Genentech considered building its manufacturing plant in Vacaville in the early 1990s, the city courted the South

San Francisco company with a host of incentives promised from federal, state, county and city agencies. Even the Solano Irrigation District, PG&E and Solano County Community College threw in some chips. ALZA, headquartered in Mountain View, also built a manufacturing plant in Vacaville, along with Chiron.

But since then, no more biotech companies have come calling, said Mary McCarthy, president of the Solano Economic Development Corp. She hopes nearby UC-Davis, along with lower lease rates and affordable housing, will attract more firms eventually.

Meanwhile, states like North Carolina, Illinois and Oklahoma are stepping up efforts to grab their share of biotech. Officially-sponsored programs in those locales include cash incentives to life sciences graduates who open businesses there.

And threatening both the Bay Area and Boston biotech hubs, more competition is on the way. A corporate-funded commission called the Center for Urban Future in New York City is studying biotech on both coasts to figure out how the Big Apple can get in on the game.

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1984: Chiron announces first cloning and sequencing of the HIV genome

1986: UC-Berkeley's Peter Schultz first combines antibodies and enzymes to create pharmaceuticals

1988: Harvard molecular geneticists Philip Leder and Timothy Stewart obtain first patent for a genetically altered animal

1990: Chiron introduces first blood-screening test for hepatitis C

1996: Genzyme wins approval for Gaucher's Disease test, a \$537 million product

1996: Biogen wins approval for the interferon drug Avonex, a multiple sclerosis treatment worth \$1.3 billion

2000: Joint Genome Institute helps complete mapping of human genome

