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Celgene's \$74 Billion Sale Raises Questions on Future of Its New Jersey Headquarters

Past Drugmaker Deals Like Bristol-Myers' Celgene Purchase Roiled Area Real Estate



Celgene's real estate holdings in New Jersey include the 1.5 million-square-foot former Merck campus on Morris Avenue in Summit. The drug maker's headquarters is nearby, also on Morris Avenue in the city of Summit. Photo: CoStar

Bristol-Myers Squibb's \$74 billion acquisition of rival drugmaker Celgene Corp., and its goal to cut \$2.5 billion in costs from the joint entity, is raising questions about how the consolidation will affect Celgene's headquarters as well as its large research and development campus in Summit, New Jersey.

The plan by New York-based Bristol-Myers to buy Celgene, another leading maker of cancer drugs, in a cash-and-stock merger in the third quarter is designed to link two oncology treatment

specialists. That field is expected to gain demand with Americans living longer because some diseases are more likely in later stages of life.

The flurry of health care and pharmaceutical consolidations in the past decade has taken a toll on the state and rocked area real estate. Biopharmaceutical companies left or shrank their footprints in New Jersey, closing facilities because of layoffs and other cost-cutting as they took advantage of synergies. In addition, past corporate acquisitions involving all types of New Jersey businesses have resulted in the local headquarters of the purchased firms being closed or reduced as part of the subsequent merging of operations.

Both Bristol-Myers and Celgene have significant real estate holdings in the Garden State beyond Summit that could be affected by their merger. In light of the latest deal, one industry expert suggests New Jersey leaders urge the firms to create a new, build-to-suit, state-of-the-art headquarters for the merged entity so it doesn't leave the state.

Most recently, the Parsippany, New Jersey-headquarters of Pinnacle Foods Inc. was shut by its new owner, Conagra Brands Inc. of Chicago. After Express Scripts bought Medco Health Solutions, which was based in Franklin Lakes, New Jersey, in 2011 it moved the headquarters functions of the Garden State site to St. Louis. And roughly three years after global pharma firm Hoffmann-La Roche bought Genentech Inc. in California, the Swiss firm said it was exiting its U.S. headquarters and 116-acre campus, which straddled Nutley and Clifton, New Jersey.

Celgene's corporate headquarters includes a 400,000-square-foot and a 550,000-square-foot building on a 36-acre site at 86 Morris Ave. in Summit. Celgene also owns a 1.5 million-square-foot campus with several buildings on 266 acres at 556 Morris Ave. , not far from its headquarters, according to CoStar. The site includes research & development facilities, laboratory and support buildings, manufacturing capabilities, as well as storage, warehouse and administrative office space.

Bristol-Myers and Celgene, which has about 3,000 employees in New Jersey, declined to comment on the future of the Summit properties or how the merger will affect them.

However, in its announcement of the deal Bristol-Myers said, "The combined company will continue to have a strong presence throughout New Jersey."



Celgene's campus off of Morris Avenue. Photo: CoStar

Summit Mayor Nora Radest in an email said she spoke to Richard Bagger, Celgene's executive vice president of corporate affairs and market access.

"We discussed the opportunities which will be available to both companies after they merge, possibly in the third quarter of this year," Radest said. "Celgene has been a strong corporate partner with Summit and I personally look forward to many more years in partnership with the new entity."

Summit city officials were taken by surprise in October 2013 when prescription drug manufacturer Merck & Co. abruptly announced that it was abandoning plans to relocate its global headquarters from the Whitehouse Station area of Readington Township, New Jersey, to the large campus at 556 Morris Ave. Merck changed course and instead chose to move to Kenilworth, New Jersey.

Celgene, which was already based in Summit, bought the then-vacant campus, and its portfolio of three large buildings, for \$90 million in October 2015, from Merck, according to CoStar. The

property had been occupied by a variety of drug makers during the past few decades, including Schering-Plough, Ciba and Novartis.

John Boyd, a principal at the consultant firm Boyd Co. in Princeton, New Jersey, predicted that there will be a discussion about creating a new "third-party" headquarters for Bristol-Myers/Celgene. That's what car rental giant Hertz Corp. essentially did, relocating to a new headquarters in Florida from Park Ridge, New Jersey, following its purchase of Dollar Thrifty, which was based in Oklahoma, according to Boyd.

"That model provides perhaps some momentum here for the idea of a third-party site – not moving this (the Celgene headquarters) into Manhattan perhaps, but maybe doing something at a new site," he said.

Boyd suggested that perhaps the state Economic Development Authority could craft a tax-incentive package to convince Bristol-Myers to open a build-to-suit modern headquarters in a city like Newark, New Jersey, which is a much less expensive option than Manhattan.

Such a new facility would be better for Bristol-Myers in terms of its "goals and staffing and, just from a real estate perspective, something in sync with how head offices are designed today as opposed to the more suburban dinosaur architecture in Summit," Boyd said.

New Jersey Gov. Phil Murphy took office a year ago, and plans an overhaul of the old tax-incentive program, which he vocally criticized. He wants the emphasis to be on helping "new economy" companies, including science and tech firms. In line with that, Murphy supported the offering of \$7 billion in tax incentives from the state and the city of Newark to lure Amazon to build its HQ2 in New Jersey's largest city. While Newark was one of 20 finalists, it did not win HQ2.

"We know that New Jersey, despite the contentiousness of incentives today, has not been shy from major trophy projects like this, particularly in the biotech sector, to really do a comprehensive, dynamic package," Boyd said.

The EDA declined to comment.



Bristol-Myers Squibbs' New Jersey real estate holdings include a campus with a 550,000-square-foot glass-walled building in Lawrenceville. Photo: CoStar

Boyd and James Hughes, former dean of the Edward J. Bloustein School of Planning and Public Policy at Rutgers University, both said that Bristol-Myers has a large real estate footprint in New Jersey. For example, Bristol-Myers has a 650,000-square-foot industrial manufacturing facility at 3551 Lawrenceville-Princeton Road , Lawrenceville, New Jersey, and a 135-acre campus with a 550,000-square-foot building at 3401 Princeton Pike , in Lawrenceville, according to CoStar.

Hughes said he doesn't expect Bristol-Myers to close either Celgene's headquarters or its separate campus in Summit because, in part, it would be too difficult to move entrenched research operations to another location. Bristol-Myers will probably move some of Celgene's executives out of Summit, and trim staff in departments such as human resources where there might be redundancies, according to Hughes.

"I don't think it's a disaster where they would shut down the whole operation," he said.

In its announcement, Bristol-Myers said it expects run-rate cost synergies of about \$2.5 billion by 2022 as a result of the merger.

"Bristol-Myers Squibb is confident it will achieve efficiencies across the organization while maintaining a strong, core commitment to innovation and delivering the value of the portfolio," according to its announcement.