

SVB collapse leaves some Bay Area life science tenants without a crucial line of credit

By [Sarah Klearman](#) – Staff Reporter, San Francisco Business Times
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Life sciences developer Alexandria Real Estate Equities joined many of its publicly traded peers Monday in issuing a message to stakeholders: The Pasadena-based company (NYSE: ARE) had no deposits with or loans from the now-failed Silicon Valley Bank. But the company said in regulatory documents it does have a kind of secondary exposure to SVB — in the form of roughly \$110 million worth in SVB-issued letters of credit.

Letters of credit, a form of credit used to protect a contractual obligation in the event that one of the involved parties defaults, are often used by tech and life sciences tenants as security deposits for leased space, according to Tony Natsis, who chairs Southern California-based law firm Allen Matkins' real estate group. Letters of credit act as an important backstop for landlords, and they can be especially meaningful in the life sciences sector, where early-stage companies are seldom profitable or even producing revenue.

"A typical life sciences startup — it really has no assets," Natsis said. "But if you're in the business, you're fine with that. Those are your tenants. So you get a more sizable letter of credit with a longer term."

Though the Federal Deposit Insurance Corp. had reassured SVB's clientele they would have full access to their deposits Monday, the agency as of Monday evening had not mentioned what might happen to the more than \$3.5 billion worth of letters of credit issued by the bank.

That leaves landlords like Alexandria in a kind of limbo: leases commonly require tenants to provide valid letters of credit in order to remain in compliance, and letters of credit issued by SVB, which entered into FDIC receivership Friday, no longer count. The bank's collapse, then, has likely left scores of life sciences and tech startups in the Bay Area and beyond technically out of compliance with their leases. Those tenants will have to post a new letter of credit, Natsis said.

That may be easier said than done: Startups will have to forge new banking relationships and come up with the capital usually required to secure letters of credit, Natsis told me. There had been no word as to whether the FDIC might return the deposits used to secure SVB-issued letters of credit to the bank's clients; federal law would give the agency the right to terminate those contracts, either on its own behalf or on the behalf of a

prospective buyer. If those deposits aren't returned — or until they are — it could be challenging for startups to rustle up the kind of capital needed to secure a new letter of credit.

Alexandria, for its part, said in SEC filings that it would work with tenants to replace the SVB-issued letters of credit with "another acceptable security deposit."

Among the Bay Area-based startups that reported utilizing SVB-issued letters of credit as security deposits for their respective leases: Sonder Holdings (NASDAQ: SONH), a San Francisco proptech that secured \$13 million worth of letters of credit through SVB for its offices in the United States and Australia; and Astra Space Inc., which had used SVB-issued letters for its headquarters in Alameda and another facility in Sunnyvale.

In filings, Astra (NASDAQ: ASTR) which also banked with SVB, said it was not immediately clear to what extent SVB's closure would impact its security deposit obligations, describing itself as "working expeditiously" to establish new banking relationships.

It is possible, Natsis said, that the FDIC could move to honor the \$3.5 billion in outstanding letters of credit issued by SVB; it could be, too, that a prospective buyer will honor them in the hopes of establishing relationships with SVB's startup-heavy clientele. But Natsis thinks definitive answers will remain out of hand for some time, given the FDIC has other priorities to deal with.

"It has a chance of getting incrementally better," Natsis said Monday of the aftermath of SVB's collapse. "It got better last night, and it could continue to get better. But the letters of credit stuff — that isn't coming until the bitter end."

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