

Q2 2016

M E T R O B O S T O N

BIOTECH BEAT



LAB MARKET IS TIGHTER- THAN-EVER

INSIDE STATISTICS...



BOSTON /
SUBURBAN LAB





CAMBRIDGE LAB

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BIOTECH OVERVIEW



DIRECT VACANCY



SUBLEASE VACANCY



12-MONTH ABSORPTION



LEASING ACTIVITY



ASKING RENT

Lab Demand Leads to Conversions

The Greater Boston lab market posted another positive quarter with net absorption surpassing 465,000 square feet and vacancies reaching record lows at just 2%. Cambridge is still the epicenter of activity as demand for space continues to outstrip supply by a wide margin and vacancies declined to just 0.9%. This scarcity of space is driving tenants to execute forward lease commitments, consider build-to-suit construction and seek out quality space outside of Cambridge in the Longwood Medical Area and along the Route 128 belt. Fundamentals are expected to remain positive in the coming quarters, but the remainder of 2016 will be pivotal as macro headwinds may be on the horizon.

With several biotech/life science firms in need of 100,000 square feet or more, available space is being backfilled quickly — particularly in Cambridge. Akamai (600,000 SF), Merrimack Pharmaceuticals (200,000 SF), Alkermes (200,000 SF), ModeRNA Therapeutics (177,000 SF) and Ironwood Pharmaceuticals (150,000 SF) represent

some of the largest tenants touring the Greater Boston market. The race for space has incited some larger tenants to choose new construction. Look for more developments, potentially on a speculative basis, to break ground in the near future.

Property owners throughout the metro area are considering lab conversion projects to meet the aforementioned demand for space. These projects are providing some respite from the market's outsized supply-demand imbalance; from the redevelopment of functionally obsolete industrial space to the build-out of suites in Class A office buildings. That said, constructing lab space is expensive with TI allowances north of \$150 per square foot.

National IPO markets remained depressed compared to recent history. The number of US filings for the second quarter stands at just 33, a 63% decline from the previous year. Locally however, life science and biotech continues to drive activity. Three-quarters of the 13 Massachusetts-based companies that

have had filings in 2016 were life sciences. Four of these filings occurred in the second quarter with a total value of nearly \$300 million. Uncertainty in the marketplace, particularly surrounding recent events in the EU and Brexit, could weigh further on IPO activity.

M&A activity remains a boon for the local market as many of these transactions will result in growth for the metro. In addition to the Shire/Baxalta deal, Charles River Labs recently purchased Blue Stream Labs, Heartware agreed to a \$1.1 billion takeover from Medtronic and Aegerion Pharmaceuticals is merging with QLT to form Novellon Therapeutics.

Greater Boston landlords continue to push rents in the face of strong fundamentals and a lack of available premier lab space. Average asking rents have increased 4.2% on a year-over-year basis. Rates should continue trending up in the near term; however, growth may be more measured than in recent history.

TOTAL VACANCY RATE	DIRECT VACANCY	Q2 NET ABSORPTION (SF)	ASKING RENT NNN (\$/SF)	UNDER CONSTRUCTION (SF)
2.0%	1.9%	465,557	\$55.09	1,337,801

IPO Filings:

9

MA-Based Biotech Companies
YTD \$664 Million Value

VC Funding:

10

MA-Based Biotech Companies
\$414 M Funding

Mass Life Science Index:

6.1%

Decrease from December 2015

Biopharma Job Postings:

37.8%

Year-Over-Year Growth
(March 2016)

NIH Funding:

\$500

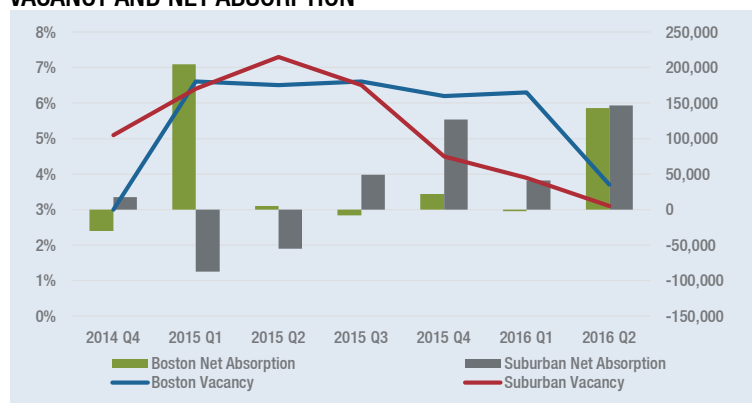
Per Capita
FY 2015



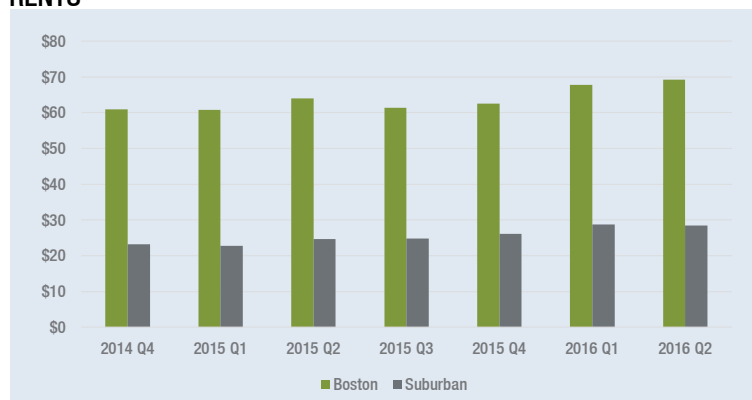
BOSTON / SUBURBAN LAB

	TOTAL INVENTORY (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE	Q2 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT NNN (\$/SF)
Boston	5,467,356	199,896	3.7%	142,995	140,685	\$69.22
Suburban	6,457,213	199,611	3.1%	145,339	186,435	\$28.50
TOTAL	11,924,569	399,507	3.4%	288,334	327,120	\$49.65

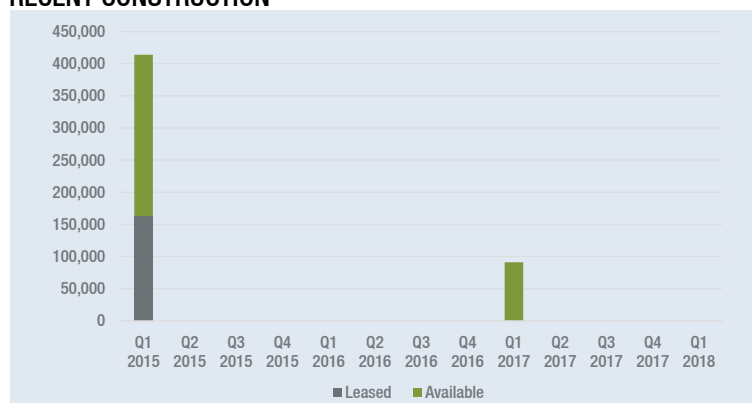
VACANCY AND NET ABSORPTION



RENTS



RECENT CONSTRUCTION



TRENDS

- Shire's \$32 billion takeover of drugmaker Baxalta represents one of the largest life sciences deals of 2016. The Lexington-based pharmaceutical giant is now the second-largest biotech employer in the state with more than 3,000 Massachusetts employees. Reportedly, the firm plans to expand Baxalta's drug research facility in Kendall Square.
- In March Brammer Bio merged with Florida-based Biologix and plans to bring its gene and cell therapy production operation to Massachusetts by mid-2017. The newly-formed company leased more than 50,000 square feet at 45 Hartwell Avenue in Lexington.
- With several projects in the development pipeline, Harvard University is bolstering Allston's life science cluster. This fall the university is opening the Harvard Life Lab adjacent to the innovation lab on Western Avenue. The facility will provide wet-lab and office space for 25-30 life science startups from the Harvard community. The institution also recently received approval for its planned science and engineering complex in Allston, which is slated to open in 2020.
- Recent leasing activity in the Route 128 Belt highlights the trend of converting office space to lab uses. In May, Lexington-based ImmuneXcite inked a deal for 10,323 square feet in recently converted lab space at 266 Second Ave in Waltham. The owner and property manager are also building out an additional 11,000-square-foot speculative lab suite. Juno Therapeutics leased 20,000 square feet of space at 950 Winter Street in Waltham in the first quarter, a Class A office building, for lab use.

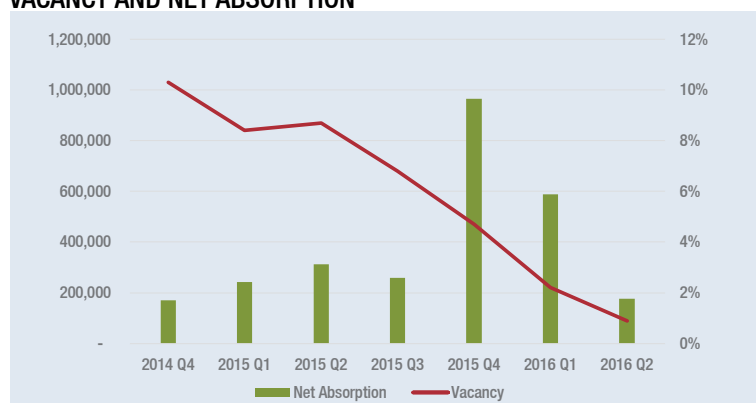
NOTABLE TRANSACTIONS

TENANT	ADDRESS	SIZE	SUBMARKET	TYPE
Ginkgo Bioworks	21-25 Drydock Ave, Boston	69,439	Seaport	Expansion
Brammer Bio	45 Hartwell Ave, Lexington	50,855	Route 128 Northwest	Relocation/Expansion
ImmuneXcite	266 Second Ave, Waltham	10,323	Route 128 West	Relocation/Expansion
121Bio	128 Spring Street, Lexington	8,007	Route 128 Northwest	Relocation/Expansion



	TOTAL INVENTORY (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE	Q2 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT NNN (\$/SF)
East Cambridge	8,612,150	39,377	0.5%	170,912	286,133	\$70.30
Mid Cambridge	5,024,346	96,577	1.9%	6,311	391,663	\$66.33
West Cambridge	745,680	-	0.0%	-	88,651	\$51.94
TOTAL	14,382,176	135,954	0.9%	177,223	766,447	\$67.56

VACANCY AND NET ABSORPTION



RECENT CONSTRUCTION



CONTIGUOUS BLOCKS



TRENDS

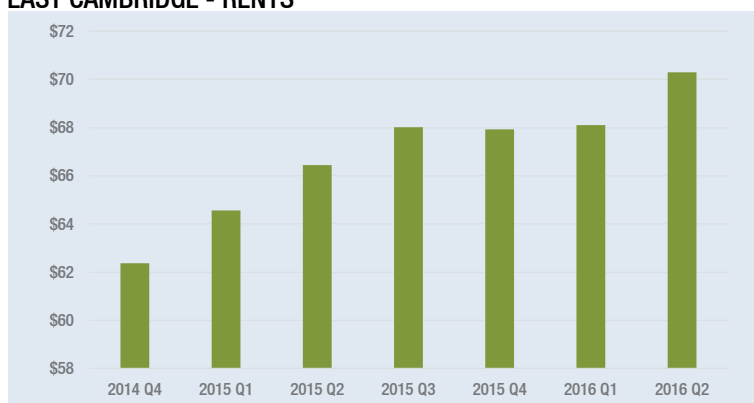
- With demand for lab space outpacing available supply 6-to-1 in Cambridge, transaction activity remains suppressed. That being said, second-quarter net absorption surpassed 175,000 square feet and pushed vacancies below 1%.
- Mass Innovation Labs, an incubator for early-stage biotechs in Kendall Square, is adding six innovation suites to its 675 West Kendall Street location this summer. Biotech heavyweights Editas Medicine, CRISPR Therapeutics, and Radius Health are just some of the companies running research programs out of the shared lab space. Mass Innovation Labs is also looking to expand in the local marketplace, with another site planned in Cambridge, as well as on the West Coast.
- Pfizer has easily backfilled its subleases at 610 Main Street North, which is currently under construction in Mid Cambridge. Most recently CRISPR leased 65,500 square feet of this space on the top two floors.
- IBM bolstered quarterly net absorption by occupying the recently-built 75-125 Binney Street. Last year, the computer giant subleased 163,186 square feet (41%) of the building from Ariad Pharmaceuticals for 10 years, with an option to extend the terms of the lease.
- Close to 90,000 square feet of lab space recently became available on the sublease market at 45 Sidney Street. GlaxoSmithKline acquired Novartis' vaccines business early last year, and is relocating employees from vaccines research and development sites in Cambridge, including 45 Sidney Street, to operations in Maryland.
- Similar to the Suburbs, landlords are executing conversion projects to meet Cambridge's outsized lab demand. In West Cambridge, The Davis Companies is building out 37,500 square feet of lab space at 75 Moulton Street with construction wrapping up this fall. The Davis Companies also purchased 35 Cambridgepark Drive in March with plans to redevelop the 136,500-square-foot office building into 220,000 square feet of lab space. The proposed delivery date is in the first quarter of 2018. Finally, Biomed is converting floors 4, 8 and 9 of 50 Hampshire Street into lab space, with Surface Oncology signing a lease for about 32,000 square feet of this space.



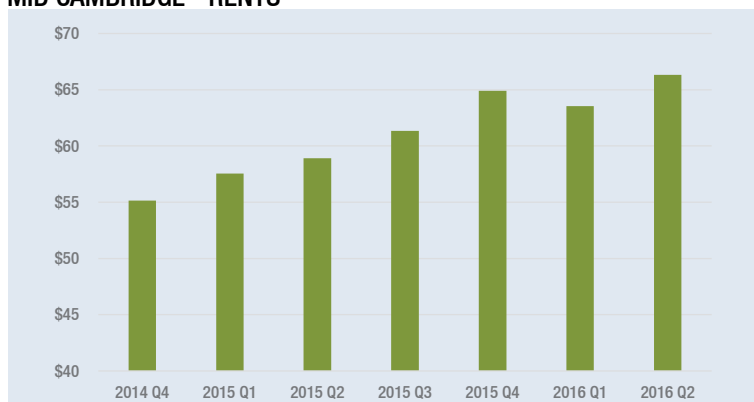
ASKING RENTS

CLASS A	ASKING RENT (\$/SF)	CLASS B	ASKING RENT (\$/SF)
East Cambridge	High \$70's NNN	East Cambridge	Mid \$60's NNN
Mid Cambridge	Low \$70's NNN	Mid Cambridge	Mid \$60's NNN
West Cambridge	High \$50's NNN	West Cambridge	Low \$50's NNN

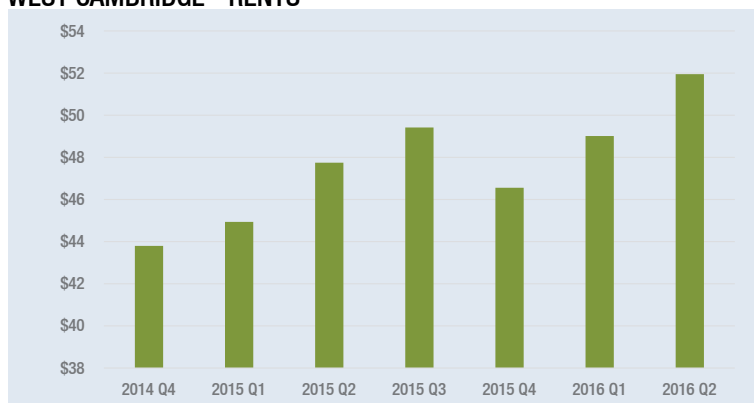
EAST CAMBRIDGE - RENTS



MID CAMBRIDGE - RENTS



WEST CAMBRIDGE - RENTS



TRENDS

- Biogen is consolidating its global drug manufacturing operations and will halt production in Cambridge by the end of this year. The firm plans to sublease the 66,000-square-foot site and has already garnered interest from several companies.
- One Kendall Square is on the market again. Two years after buying the buildings, Divco-West is looking to divest the 9-property, 667,000-square-foot, mixed-use portfolio. Industry experts believe the property could fetch more than \$700 M, doubling the 2014 price.
- Lab lease rates in the Cambridge market continue to expand at a double-digit pace. On a year-over-year basis, asking rents increased by 11.7%. Look for more rent gains in the near term, but with rates climbing toward cyclical peaks the pace of growth could wane.
- Of the 1.2 million-square-feet of lab space underway in Cambridge, 80% is preleased. A handful of large projects could add square footage to the lab market. Boston Properties is planning another 940,000-square-foot development along Binney Street, MIT is planning to move forward with several new buildings and the GSA recently released a formal RFP for the redevelopment of the Volpe Transportation Center. However, it could be several years before these projects break ground. More immediately, developers of the 425,000-square-foot Post @ 200 Smith in Waltham and the 186,000-square-foot LINX project in Watertown are actively marketing to lab users.

NOTABLE TRANSACTIONS

TENANT	ADDRESS	SIZE	SUBMARKET	TYPE
CRISPR Therapeutics	610 Main Street - North	65,500	Mid Cambridge	Additional Location/Expansion
Vericel	64 Sidney Street	57,159	Mid Cambridge	Renewal
Surface Oncology	50 Hampshire Street	32,018	East Cambridge	Relocation/Expansion
Sartorius Stedim	245 First Street	9,053	East Cambridge	Additional Location/Expansion

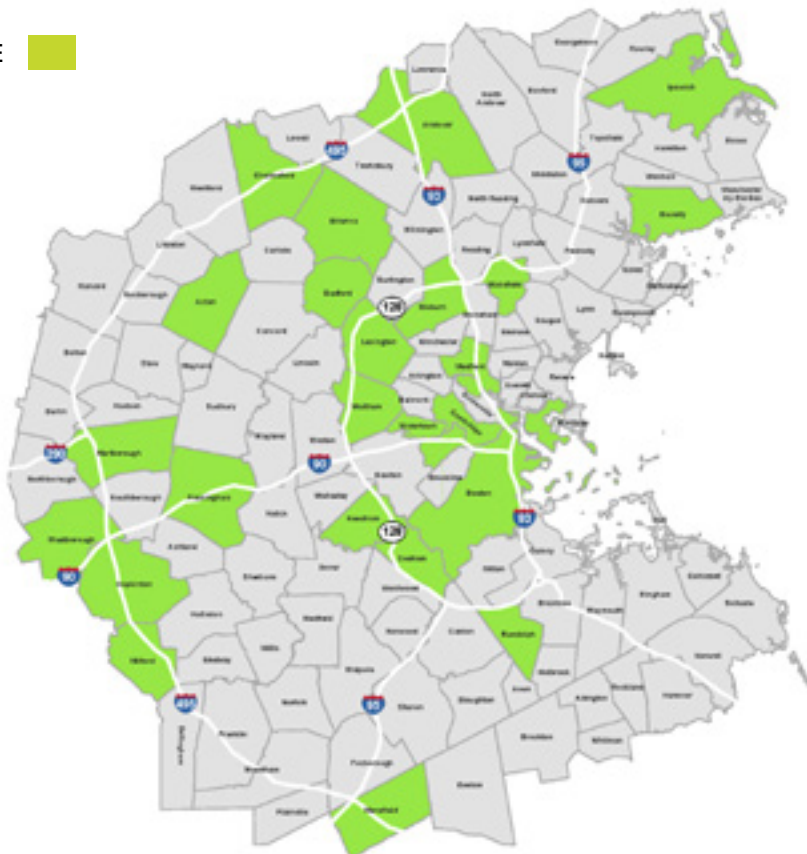
MARKET RECAP



BIOTECH / LAB STATISTICS

	TOTAL INVENTORY (SF)	UNDER CONSTRUCTION (SF)	DIRECT VACANT (SF)	SUBLEASE VACANT (SF)	TOTAL VACANCY RATE	Q2 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT NNN (\$/SF)
BOSTON TOTAL	5,467,356	-	199,896	-	3.7%	142,995	140,685	\$69.22
East Cambridge	8,612,150	936,500	34,698	4,679	0.5%	170,912	286,133	\$70.30
Mid Cambridge	5,024,346	272,801	77,822	18,755	1.9%	6,311	391,663	\$66.33
West Cambridge	745,680	37,500	-	-	0.0%	-	88,651	\$51.94
CAMBRIDGE TOTAL	14,382,176	1,246,801	112,520	23,434	0.9%	177,223	766,447	\$67.56
Route 128 North	1,070,019	-	-	-	0.0%	30,723	26,056	\$26.36
Route 128 Northwest	1,931,306	91,000	57,035	-	3.0%	46,416	28,404	\$33.79
Route 128 West	1,704,958	-	73,171	-	4.3%	68,200	104,367	\$33.36
Route 495 North	827,329	-	-	-	0.0%	-	-	\$20.00
South	328,032	-	6,655	-	2.0%	-	9,528	\$24.00
West	595,569	-	62,750	-	10.5%	-	18,080	\$19.81
SUBURBAN TOTAL	6,457,213	91,000	199,611	-	3.1%	145,339	186,435	\$28.50
MARKET TOTAL	26,306,745	1,337,801	512,027	23,434	2.0%	465,557	1,093,567	\$55.09

MARKET COVERAGE



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Q2

2016

M E T R O B O S T O N

BIOTECH BEAT



BOSTON /
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METHODOLOGY

SOURCE: Co-Star, NAI Hunneman Commercial Company. **PREPARED:** June, 2016.

DISCLAIMER: The above data is from sources deemed to be generally reliable, but no warranty is made as to the accuracy of the data nor its usefulness for any particular purpose.

Average Rental Rates are asking rents on direct space.

Vacant space includes both direct and sublease space.

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