

# Q4 2016

M E T R O B O S T O N

# BIOTECH BEAT



## LAB VACANCIES HOVER NEAR RECORD LOWS

INSIDE STATISTICS...



BOSTON /  
SUBURBAN LAB



CAMBRIDGE LAB

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## BIOTECH OVERVIEW



DIRECT VACANCY



SUBLEASE VACANCY



12-MONTH ABSORPTION



LEASING ACTIVITY



ASKING RENT

# Cambridge Lab Market Remains Frothy

The Greater Boston lab market is as hot as ever. Net absorption totaled 340,159 square feet metrowide in the fourth quarter. The completion of the Pfizer-anchored North Building at 610 Main Street accounted for a bulk of this activity. Metrowide vacancies are nearing 3% and East Cambridge vacancies are sub-1% as demand for space remains heated. With little new product on the immediate horizon and strong demand for space, look for market conditions to remain tight in the coming quarters.

Sky-high rents and a lack of inventory in Cambridge have led both tenants and landlords to look for lab space and lab-capable buildings outside of Cambridge; moving into some previously uncharted territories. Activity is strong in established suburban nodes such as Waltham, Lexington and Watertown. Lab users are also considering Charlestown and Brighton. For example, 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. This trend is even starting to pop up in Boston's urban core. Conversion projects should continue to increase Greater Boston's lab inventory as well. With its recent purchase of 1 Kendall Square, an office and lab portfolio, Alexandria Real Estate is planning to increase the property's percentage of lab space by converting office space as tenants roll over the next few years. While these projects are providing some respite from the market's outsized supply-demand imbalance, constructing lab space is expensive with TI allowances north of \$100 per square foot.

Drug manufacturing is becoming a boon for the Massachusetts economy and bolstering the life science industry throughout the region. A handful of major pharmaceutical companies, including Sarepta and Moderna Therapeutics, are establishing manufacturing facilities in lower-cost suburban locales as a lack of space and prohibitive lease rates make these types of operations a difficult endeavor in Cambridge. Looking ahead, biomanufacturing in the region should continue to grow. Massachusetts was

recently selected as a partner in the National Institute for Innovation in Manufacturing Biopharmaceuticals. The \$250-million public-private partnership will promote R&D and workforce training in the industry.

M&A activity, joint ventures, incubating and venture capital continue to drive growth in the life science industry. Bedford-based Ocular Therapeutix recently announced a partnership with New York-based Regeneron, which could be worth up to \$315 million. Atlas Ventures and Third Rock Ventures established Magenta Therapeutics in November with \$48.5 million in Series A funding. Currently working out of the Foresight Institute in Kendall Square, Magenta is expected to relocate next year.

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 2.1% on a year-over-year basis with the Cambridge lab market outperforming. Landlords will retain their upper hand in the marketplace for the foreseeable future.

TOTAL VACANCY RATE	DIRECT VACANCY	Q4 NET ABSORPTION (SF)	ASKING RENT NNN (\$/SF)	UNDER CONSTRUCTION (SF)
3.20%	2.90%	340,159	\$53.32	1,209,230

IPO Filings:

9

MA-Based Biotech Companies  
YTD \$640 Million Value

VC Funding:

9

MA-Based Biotech Companies  
\$301 M Funding

Mass Life Science Index:

19.5%

Increase from June 2016

Biopharma Job Postings:

4.7%

Year-Over-Year Growth  
(Sept 2016)

NIH Funding:

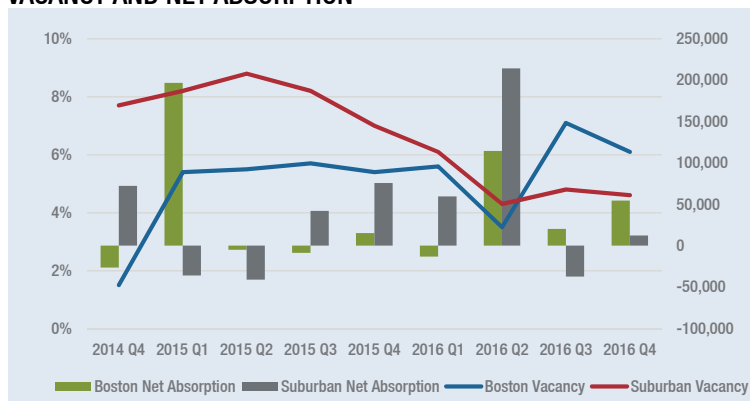
\$500

Per Capita  
FY 2016



	TOTAL INVENTORY (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE	Q4 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT NNN (\$/SF)
Boston	5,579,958	342,771	6.1%	54,580	176,200	\$59.76
Suburban	6,620,448	306,812	4.6%	12,281	248,675	\$29.44
<b>TOTAL</b>	<b>12,200,406</b>	<b>649,583</b>	<b>5.3%</b>	<b>66,861</b>	<b>424,875</b>	<b>\$46.92</b>

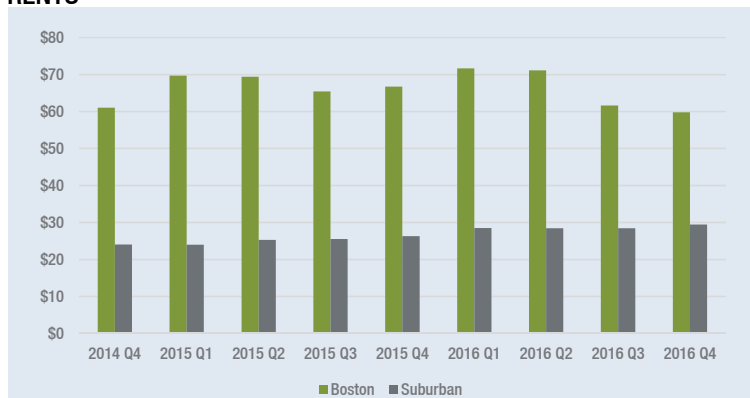
## VACANCY AND NET ABSORPTION



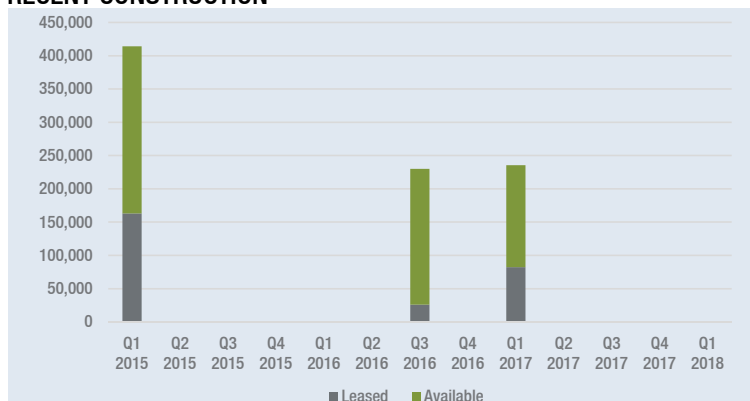
## TRENDS

- Dana-Faber Cancer Institute expanded into roughly 55,000 square feet at Longwood Center, bringing occupancy in the building to 75%.
- Small-to-mid-sized biotechs continue to expand into emerging lab clusters. Sample6 recently relocated its headquarters from 840 Memorial Drive to 12 Gill Street, Woburn. On the heels of its recent agreement with Amgen, Exosome is planning a move to Waltham from the same building; leasing 28,086 square feet at 266 Second Avenue.
- King Street Properties landed an anchor tenant for 115 Hartwell Avenue, Lexington. WAVE Life Sciences leased more than 60% of the soon-to-be-completed property with plans to relocate from West Cambridge.
- Investors remain attracted to lab product. Most recently the Related Companies purchased 27 Drydock Avenue in the Seaport for \$146.5 million or \$522 per square foot. In November, The Carlyle Group acquired two former Cubist buildings on Hayden Avenue in Lexington from Merck & Co. for \$430 per square foot.
- Homology is relocating from Lexington to Bedford — expanding into nearly 32,000 square feet at 45-47 Wiggins Avenue.
- As part of the redevelopment of 1 Patriots Park in Bedford, Longfellow Real Estate is building out 17,000 square feet of lab space on a speculative basis. This project could result in up to 120,000 square feet of lab space upon completion.

## RENTS



## RECENT CONSTRUCTION



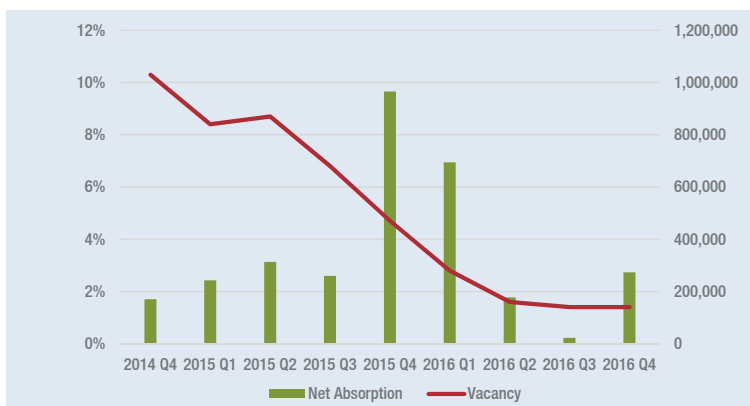
## NOTABLE TRANSACTIONS

TENANT	ADDRESS	SIZE	SUBMARKET	TYPE
WAVE (NAI Hunneman Deal)	115 Hartwell Ave, Lexington	57,561	Route 128 Northwest	Relocation/Expansion
Homology	45-47 Wiggins Ave, Bedford	31,617	Route 128 Northwest	Relocation/Expansion
Exosome Diagnostics	266 Second Ave, Waltham	28,086	Route 128 West	Relocation/Expansion
Acorda Therapeutics	283 Bear Hill Road, Waltham	26,270	Route 128 West	Relocation
Syndax Pharmaceuticals	35 Gatehouse Drive, Waltham	12,207	Route 128 West	Expansion

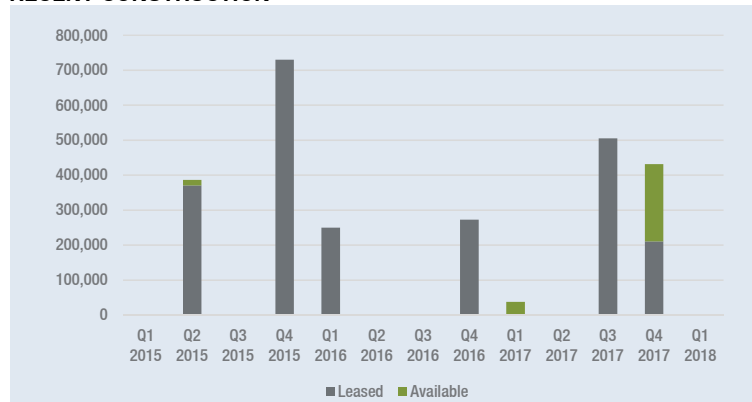


	TOTAL INVENTORY (SF)	TOTAL VACANT (SF)	TOTAL VACANCY RATE	Q4 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT NNN (\$/SF)
East Cambridge	8,863,150	71,547	0.8%	(13,015)	454,963	\$75.83
Mid Cambridge	5,236,147	138,227	2.6%	284,313	622,814	\$72.00
West Cambridge	745,680	-	0.0%	2,000	88,651	\$55.00
<b>TOTAL</b>	<b>14,844,977</b>	<b>209,774</b>	<b>1.4%</b>	<b>273,298</b>	<b>1,166,428</b>	<b>\$73.28</b>

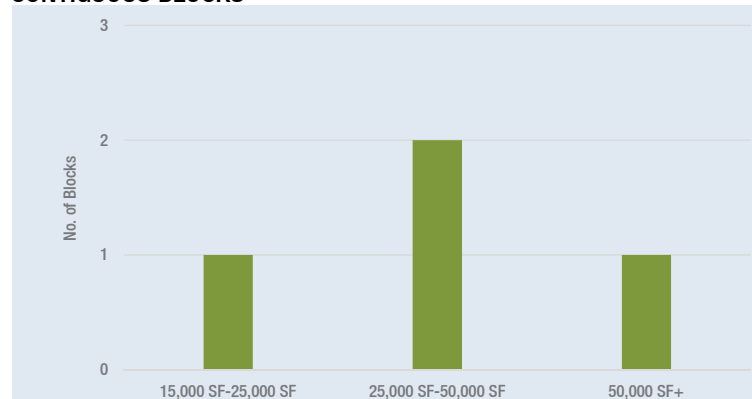
### VACANCY AND NET ABSORPTION



### RECENT CONSTRUCTION



### CONTIGUOUS BLOCKS



### TRENDS

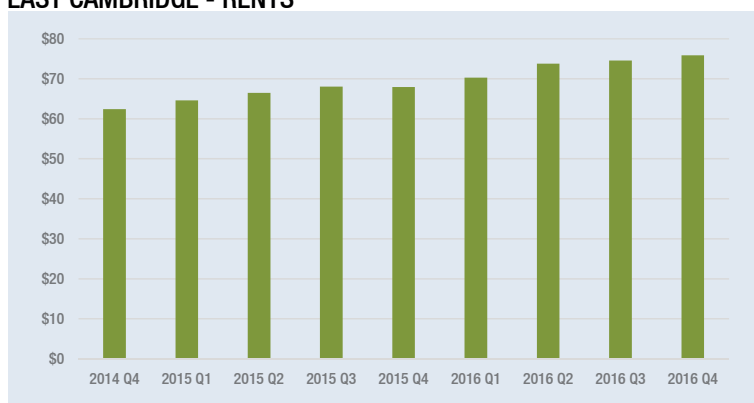
- Demand for lab space is outpacing available supply 9-to-1 in Cambridge, subsequently market conditions are as tight-as-ever.
- Tenants, especially large users, are struggling to expand in the Cambridge market. Eli Lilly, AbbVie, Shire and Johnson & Johnson have all been looking to grow their footprint and are starting to execute forward lease commitments.
- In one of the largest transactions of the year, Shire signed a 12-year lease for 343,000 square feet at 500 Kendall Street now occupied by Sanofi Genzyme. The move is expected to take place in early 2019. Johnson & Johnson is also reportedly committed to the remaining 200,000 square feet at 100 Binney Street, which is slated to deliver in the fall of 2017.
- Available space is being backfilled quickly. Takeda Pharmaceuticals has leased roughly 100,000 square feet of former Ariad space at 26 Landsdowne Street; and Jounce Therapeutics took down 51,000 square feet vacated by Infinity Pharmaceuticals at 780 Memorial Drive.
- Merck & Co. is opening a new 50,000 square foot research facility in the former Idenix Pharmaceuticals facility at 320 Bent Street.
- In another round of musical chairs, Momenta Pharmaceuticals expanded into 81,000 square feet at 301 Binney Street as the firm's lease at 675 W Kendall Street is set to expire in 2018. Alnylam Pharmaceuticals is expected to occupy the entirety of the space at that time.
- Amgen is vacating 84,000 square feet at 200 Cambridgepark Drive at the end of next year, as the firm looks to expand at 1 Kendall Square. Reportedly, a deal is close to being signed for one of the available floors.
- Major pharmaceutical companies continue to drive R&D and innovation via joint ventures and incubating startups. Pfizer has put its hat in the ring with several floors at its newest building available for sublease. This trend could provide some relief for growing early and mid-stage life science companies in need of Cambridge lab space.



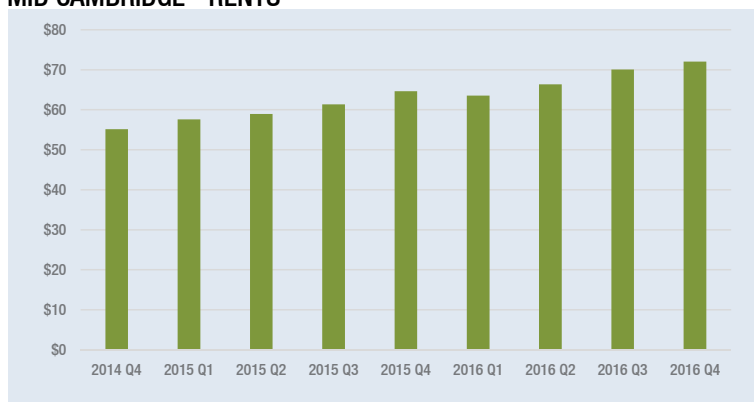
**ASKING RENTS**

CLASS A	ASKING RENT (\$/SF)	CLASS B	ASKING RENT (\$/SF)
East Cambridge	High \$80'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

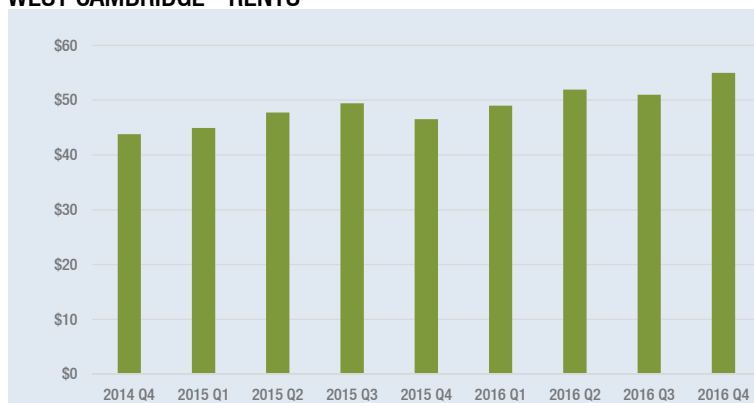
**EAST CAMBRIDGE - RENTS**



**MID CAMBRIDGE - RENTS**



**WEST CAMBRIDGE - RENTS**



**TRENDS**

- Asking rents for Cambridge lab space are averaging more than \$73 per square foot, with East Cambridge rates surpassing \$75 per square foot in the fourth quarter. Rent growth is not expected to abate anytime soon. With little relief in sight, many tenants will likely consider locations outside of Cambridge or have to negotiate creative deals to find space.
- The sale of 1 Kendall Square finally closed in November, with Alexandria Real Estate acquiring the property for \$725 million or \$1,124 per square foot. The property's new ownership could result in another lab building at 399 Binney Street as well, which is permitted for 172,000 square feet. Brickman sold the Blackstone Science Square to Investcorp Group in October for \$718 per square foot. Looking ahead, pricing should remain frothy as record-low vacancies and rising rents continue to attract investors, including foreign buyers and non-traditional landlords, to the life science arena.
- The development pipeline is filling up and more planned projects could potentially come to fruition, but most are years away from completion. MIT's recent appointment of the development rights to the Volpe Transportation Center brings the project one step closer to ground breaking. In addition to the Volpe redevelopment, DivcoWest/HYM's NorthPoint development, MIT's Kendall Square Initiative and Boston Properties' Kendall Square developments could provide relief for large lab users in need of space in East Cambridge.

**NOTABLE TRANSACTIONS**

TENANT	ADDRESS	SIZE	SUBMARKET	TYPE
Shire Human Genetic Therapies	500 Kendall Street	343,000	East Cambridge	Expansion
Takeda Pharmaceuticals	26 Landsdowne Street	100,361	Mid Cambridge	Expansion
Novartis	45 Sidney Street	84,383	Mid Cambridge	Renewal/Expansion
Momenta Pharmaceuticals	301 Binney Street	81,000	East Cambridge	Expansion
Jounce Therapeutics	780 Memorial Drive	51,000	Mid Cambridge	Relocation/Expansion



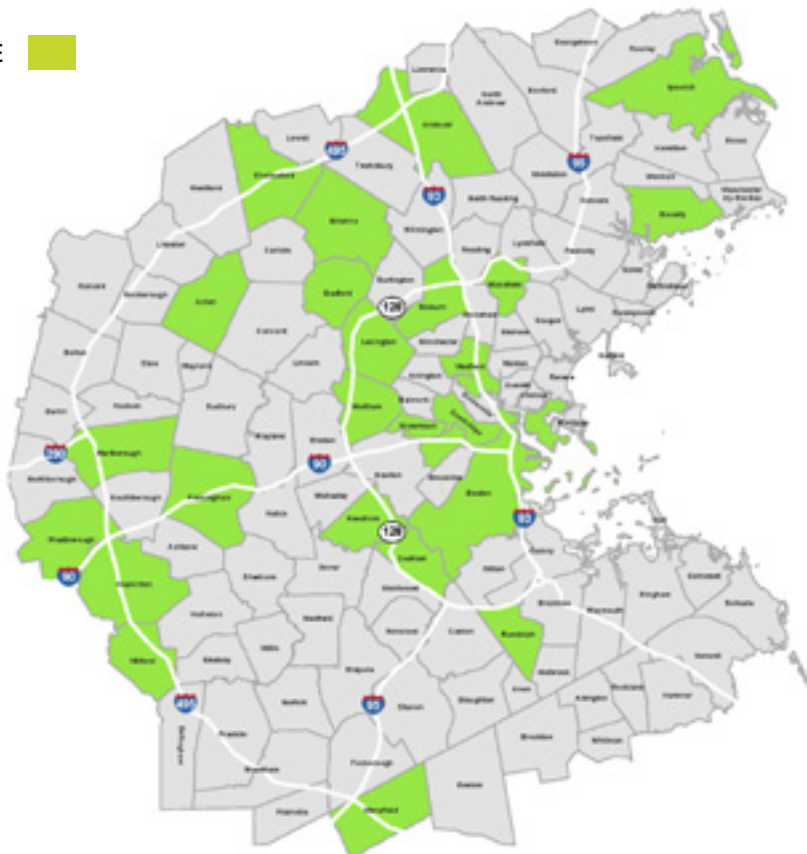
# MARKET RECAP



## BIOTECH / LAB STATISTICS

	TOTAL INVENTORY (SF)	UNDER CONSTRUCTION (SF)	DIRECT VACANT (SF)	SUBLEASE VACANT (SF)	TOTAL VACANCY RATE	Q4 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	ASKING RENT NNN (\$/SF)
<b>BOSTON TOTAL</b>	5,579,958	-	342,771	-	6.1%	54,580	176,200	\$59.76
East Cambridge	8,863,150	936,500	64,086	7,461	0.8%	(13,015)	454,963	\$75.83
Mid Cambridge	5,236,147	-	126,427	11,800	2.6%	284,313	622,814	\$72.00
West Cambridge	745,680	37,500	-	-	0.0%	2,000	88,651	\$55.00
<b>CAMBRIDGE TOTAL</b>	14,844,977	974,000	190,513	19,261	1.4%	273,298	1,166,428	\$73.28
Route 128 North	1,093,897	-	65,375	-	6.0%	(2,813)	118,162	\$30.10
Route 128 Northwest	2,078,163	235,230	56,545	-	2.7%	(2,383)	40,854	\$36.40
Route 128 West	1,817,458	-	64,271	-	3.5%	49,788	113,267	\$33.63
Route 495 North	757,329	-	-	55,000	7.3%	(55,000)	(55,000)	\$20.00
South	278,032	-	-	-	0.0%	6,655	16,183	\$24.00
West	595,569	-	65,621	-	11.0%	16,034	15,209	\$18.70
<b>SUBURBAN TOTAL</b>	6,620,448	235,230	251,812	55,000	4.6%	12,281	248,675	\$29.44
<b>MARKET TOTAL</b>	27,045,383	1,209,230	785,096	74,261	3.2%	340,159	1,591,303	\$53.32

### MARKET COVERAGE



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# Q4

2016

M E T R O B O S T O N

# BIOTECH BEAT



BOSTON /  
SUBURBAN LAB



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## METHODOLOGY

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