

# Cambridge Office/Lab MarketView

Q4 2013

CBRE Global Research and Consulting



\*Arrows indicate change from previous quarter.

## ORGANIC GROWTH AND OUT-OF-MARKET MIGRATION DRIVE DEMAND IN CAMBRIDGE

### Quick Stats (Office)

Q4 2013	Current	YoY	QoQ
Office			
Vacancy	6.3%	↑	↓
Lease Rate (Gross)	\$43.32	↑	↑
Net Absorption	(46,818) SF	↑	↓

### Hot Topics (Office)

- Institutional tenants, like Massachusetts Institute of Technology, are engaging in the market and scooping up office and lab options.
- Technology titans were quiet after the most recent wave of West Coast tenants transacted earlier in the year.
- Four of the eight largest office transactions involve tenants in the pharmaceutical and biotech industries.

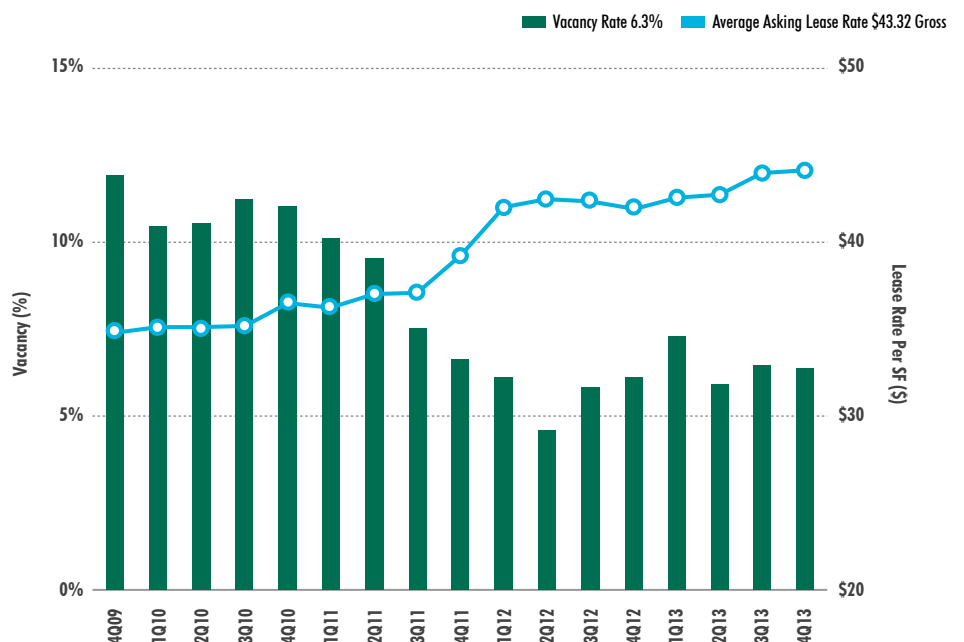
### Office Market

Despite slight negative absorption of 47,000 square feet in the fourth quarter, the Cambridge Office market ended 2013 with 155,000 square feet of positive absorption. The vacancy rate dropped marginally quarter-over-quarter to 6.3% while availability increased modestly to 10.3%, as supply begins to reenter the market heading into 2014. Average asking rents are up 1.2% on the quarter and 3.8% on the year, averaging \$43.32 per square foot. Achieved rents in prime East Cambridge office buildings are eclipsing the \$70 per square foot mark for the first time since 2007. High rents and tightened vacancy reflect the lack of viable options that exist for tenants, with only four big block options greater than 100,000 square feet.

The fourth quarter saw a reduction in active office requirements as many tenants transacted during the first three quarters throughout the Cambridge market. Further indication of a key Cambridge trend, four of the eight biggest office deals involved tenants in the pharmaceutical and biotech industries who either expanded existing operations or opened a business development office. These deals include Sarepta Therapeutics' 15,000 square foot expansion at 215 First Street; Pfizer's relocation of key executives from 200 CambridgePark Drive to a 10,000 square foot sublease at 10 Fawcett Street; and Akebia Therapeutics' new 7,000 square foot lease at 245 First Street.

The Massachusetts Institute of Technology (MIT) the second largest employer in Cambridge (9,000 employees) was particularly active in the market this quarter, completing three deals for

### Office Vacancy Rate vs. Lease Rate



Source: CBRE/New England, Q4 2013

**Quick Stats (Lab)**

Q4 2013	Current	YoY	QoQ
Lab			
Vacancy	7.6%	↓	↑
Lease Rate (NNN)	\$49.95	↓	↓
Net Absorption	(443,301) SF	↓	↓

**Hot Topics (Lab)**

- Millennium won approval for a 233,000 square foot build-to-suit at 300 Massachusetts Avenue, a further commitment to their current footprint in Cambridge.
- Large pharmaceutical and biotechnology company expansion drove tenant demand this quarter, with large “pharmas” transacting over 350,000 square feet, and “biotechs” making up 150,000 square feet of transactions this quarter.
- Activity from early-stage companies was modest this quarter, a trend that is likely to change over the next year as Third Rock Ventures continues to deploy their second venture capital fund.

specific user groups that are located off campus. This highlights the significant shift to institutional players and their growing presence in both the Cambridge office and lab markets. MIT leased close to 60,000 square feet this quarter, of which 24,000 square feet was office space at One Rogers Street. Technology tenants were relatively quiet as small to mid-sized transactions dominated the deal activity, and the outward trend toward Mid and West Cambridge continued. Notably, growth-stage technology tenant iZotope leased 35,000 square feet at 60 Hampshire Street, and technology startup Backupify moved within the Mid Cambridge submarket from 480 Green Street to a sublease at 17 Sellers Street, taking on 9,000 square feet.

**Lab Market**

The Cambridge Lab market fundamentals in the fourth quarter provided relief for tenants limited by the historical lack of supply of lab space. With 700,000 square feet added back to supply from Vertex Pharmaceuticals’ move to the Seaport, along with 2.5 million square feet of fully committed lab space under construction, inventory levels of the local lab market continue to grow. Rents are solid, with an overall asking rate of \$49.95 per square foot NNN, while East Cambridge lab rents reached historical highs, hitting \$52.35 per square foot NNN, up \$1.16 year-over-year. The market will continue to feed off of the strong organic growth and expansion of major pharmaceutical companies and biotech start-ups, as well as a migration from out-of-market tenants. The largest transaction of the quarter was Takeda Oncology/Millennium Pharmaceuticals’, 233,000 square foot build-to-suit lease with developer Forest City Enterprises, adjacent to their existing campus. In other big pharma activity, Novartis quickly and quietly took down 100,000 square feet of growth space at 700 Main Street, a former Shire building owned by MIT. The CambridgePort area of the city scored two sizable transactions, which included 24M’s relocation from One Kendall Square to 36,000 square feet at 130 Brookline Street and Metabolix’s renewal at 21 Erie Street for 28,000 square feet.

Public funding dollars continue to flow into the commercial real estate market, as companies fortify drug development teams locally and subsequently need more laboratory space. Two newly public companies engaged in the lab market this quarter, EpiZyme and BIND Biosciences. EpiZyme went public in May of 2013 and recently expanded by more than 10,000 square feet at 400 Technology Square, while BIND Biosciences also expanded into an additional 18,000 square foot at 325 Vassar after going public in September of 2013. These companies are two of seven Massachusetts-based companies that filed in 2013 and caused an impact in the real estate market over the course of the year. These companies and others are expected to continue their growth in 2014 as the stock market bolsters the life sciences industry in Cambridge.

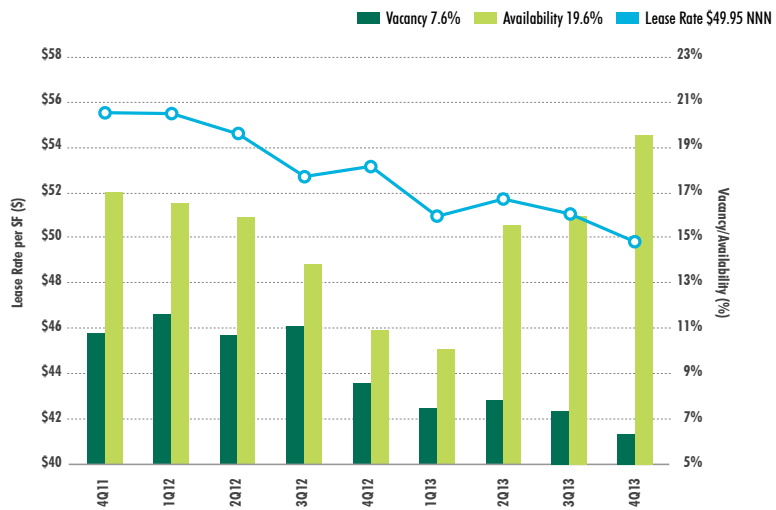
**Market Statistics**

Market	Rentable Area (SF)	Availability Rate %	Vacancy Rate %	Sublease Rate %	Quarterly Net Absorption (SF)	Avg. Asking Rent (\$/SF/YR)
Cambridge – East	7,299,395	9.4%	5.4%	1.3%	(48,550)	\$49.20
Cambridge – Mid	1,870,936	5.8%	2.5%	3.2%	(2,143)	\$37.02
Cambridge – West	1,927,834	18.3%	13.3%	11.1%	3,875	\$32.80
<b>Cambridge Office</b>	<b>11,098,165</b>	<b>10.3%</b>	<b>6.3%</b>	<b>3.3%</b>	<b>(46,818)</b>	<b>(Gross) \$43.32</b>
Cambridge – East	8,620,711	16.5%	7.2%	9.0%	(140,603)	\$52.35
Cambridge – Mid	593,817	27.9%	15.6%	1.7%	7,395	\$47.57
Cambridge – West	812,480	46.3%	6.9%	0.4%	(310,093)	\$41.60
<b>Cambridge Lab</b>	<b>10,027,008</b>	<b>19.6%</b>	<b>7.6%</b>	<b>7.8%</b>	<b>(443,301)</b>	<b>(NNN) \$49.95</b>

### Lab Vacancy/Availability & Rent

Cambridge lab availability rose to 19.6% for the quarter, up 29% quarter-over-quarter, and nearly doubling year-over-year as large blocks of lab space have come back on the market. Vacancy remains at a healthy 7.6%, up slightly, while average asking rents have stabilized around the \$50.00 per square foot mark, close to a dollar lower than the fourth quarter of 2012.

### Lab Vacancy/Availability & Rent

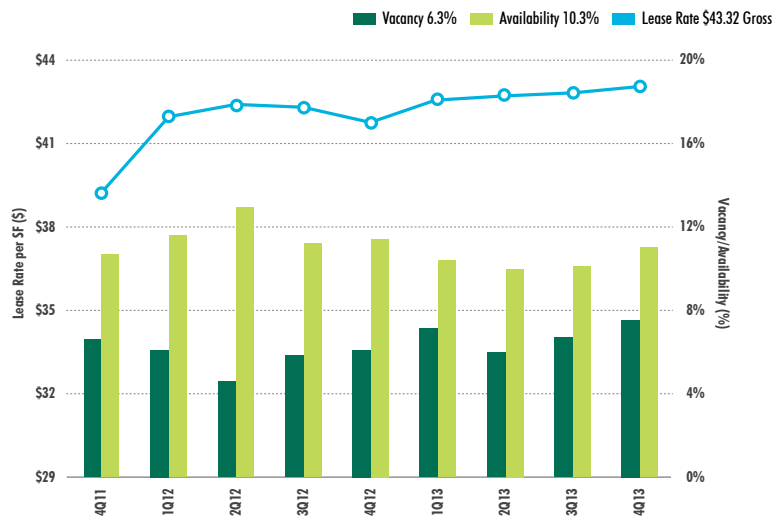


Source: CBRE/New England, Q4 2013

### Office Vacancy/Availability & Rent

The Cambridge Office market still remains one of the tightest markets nationally, as vacancy stayed at a low 6.3% for this quarter, dropping 10 basis points from last quarter and growing 30 basis points from last year. Rent growth continues to grow at a faster pace than the lab sector as office availability shrinks year-over-year by 10% and rents increase year-over-year by 4%, averaging \$43.32 per square foot for the quarter.

### Office Vacancy/Availability & Rent



Source: CBRE/New England, Q4 2013

### Transactions of Note

Tenant	Address	SF	Submarket	Type
<b>Office</b>				
iZotope	60 Hampshire Street	36,000	East Cambridge	New
MIT	One Rogers Street	24,046	East Cambridge	New
Anderson & Kreiger	One Canal Park	15,880	East Cambridge	Renewal
Sarepta Therapeutics	215 First Street	15,077	East Cambridge	Expansion
<b>Lab</b>				
Millennium: The Takeda Oncology Company	300 Massachusetts Avenue	233,000	East Cambridge	Build-to-suit
Novartis	700 Main Street	100,000	East Cambridge	New
24M	130 Brookline Street	36,315	East Cambridge	New
Metabolix	21 Erie Street	28,019	East Cambridge	Renewal

# SPOTLIGHT GREATER CAMBRIDGE

## Greater Cambridge

In 2013, the Greater Cambridge market demand was driven in large part by users Partners Healthcare, athenahealth, Inc. and New Balance. The three companies staked their long-term flags in Greater Cambridge by purchasing and breaking ground on major office developments. Partners is building up to 700,000 square feet of office space at Assembly Row in Somerville, athenahealth purchased the Arsenal on the Charles in Watertown for \$168 million and New Balance broke ground on a new 250,000 square foot corporate headquarters in Brighton.

The 12.8 million square foot market of Greater Cambridge saw the vacancy rate dip below 10% this year for the first time since 2008. The drop in vacancy indicates that tenants are now seeking rent relief from the high costs in the core of Cambridge and finding value in towns located nearby. As a result, modest rent growth in the office market will continue into 2014, and housing construction will further drive demand and new office development in the area.

## Quick Stats

Q4 2013	Current	YoY	QoQ
Vacancy	9.3%	↓	↑
Lease Rate (NNN)	\$27.36	↑	↑
Net Absorption	(241,306) SF	↓	↓



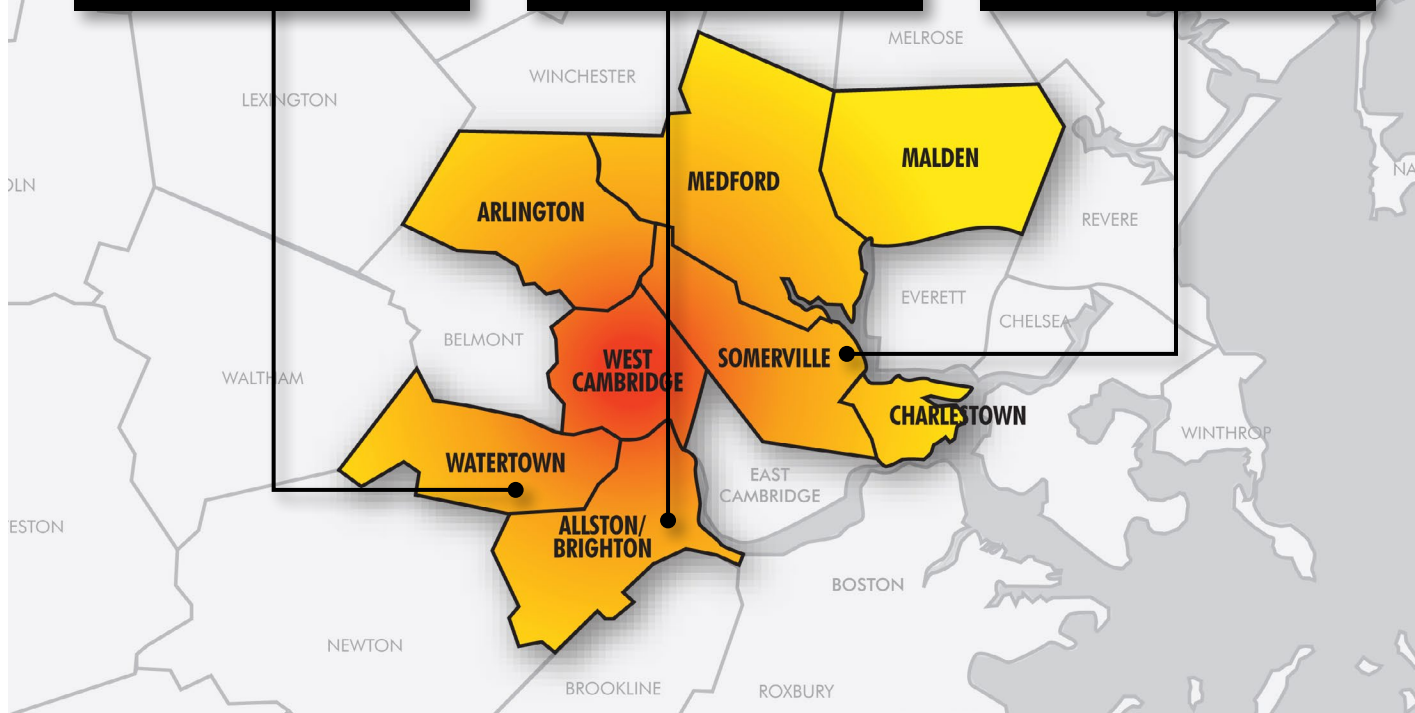
**Arsenal on the Charles**  
Watertown  
Sold for \$168M



**New Balance Headquarters**  
Brighton  
250,000 SF (Office)

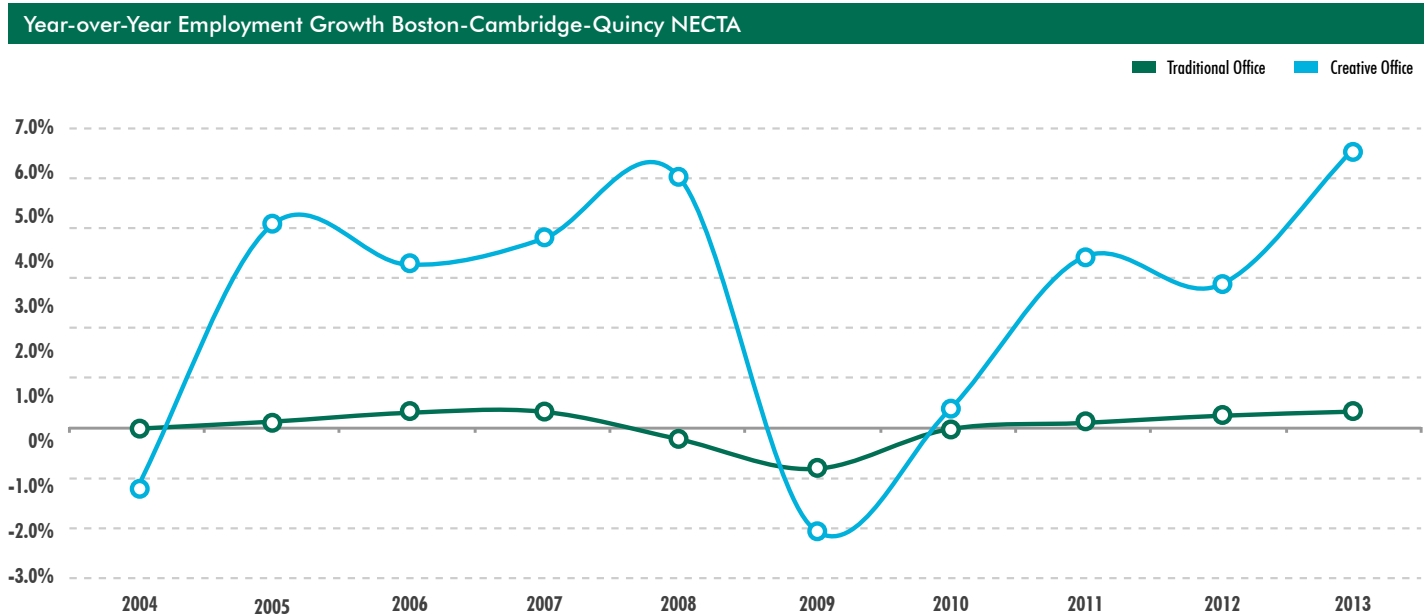


**Assembly Row**  
Somerville  
700,000 SF (Office)



## Employment Trends – Creative Office Outpacing the Market

As of November 2013, total non-farm employment in the Boston area grew to 2.6 million jobs, increasing 2.1% from November 2012. Approximately 204,000 of those jobs occupy creative office space. These jobs are diversified across a range of industries, including software, telecommunications, architecture and publishing. These creative sectors currently account for 8.1% of the total office-using occupations in Greater Boston. Creative office employment grew by 6% year-over-year; this was led by the high-tech industry, growing at a rate of 15.7% year-over-year in the Boston area.



Source: [www.bls.gov](http://www.bls.gov)

## DEFINITIONS

### Average Asking Lease Rate

Rate determined by multiplying the asking gross lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

### Net Leases

Includes all lease types whereby the tenant pays an agreed rent plus estimated average monthly costs of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

### Market Coverage

Includes all competitive buildings in CBRE's survey set.

### Net Absorption

The change in occupied square feet from one period to the next, as measured by available square feet.

### Net Rentable Area

The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas.

### Occupied Area (Square Feet)

Building area not considered vacant.

### Under Construction

Buildings that have begun construction as evidenced by site excavation or foundation work.

### Available Area (Square Feet)

Available building area that is either physically vacant or occupied.

### Availability Rate

Available square feet divided by the net rentable area.

### Vacant Area (Square Feet)

Existing building area that is physically vacant or immediately available.

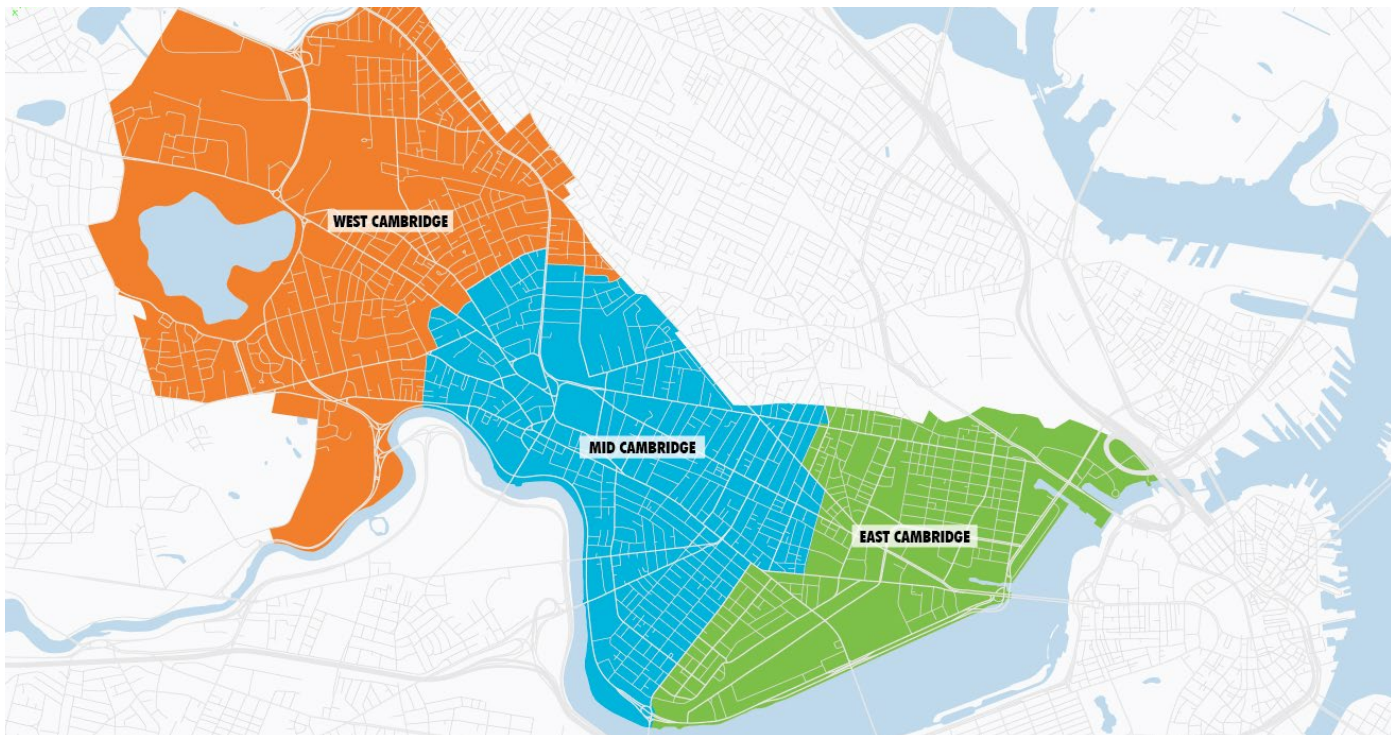
### Vacancy Rate

Vacant building feet divided by the net rentable area.

### Normalization

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and vacancy figures for those buildings have been adjusted in previous quarters.

# CAMBRIDGE SUBMARKETS



## CONTACT

For more information about this Local MarketView, please contact:

### U.S. RESEARCH

**Suzanne Duca**

Director of Research  
New England Research  
CBRE, 33 Arch Street, 28th Floor  
Boston, MA 02110

t: +1 617 912 7041

f: +1 617 912 7001

e: [suzanne.duca@cbre-ne.com](mailto:suzanne.duca@cbre-ne.com)

[WWW.CBRE-NE.COM](http://WWW.CBRE-NE.COM)

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