

# Cambridge Office/Lab MarketView

Q3 2014

CBRE Global Research and Consulting



\*Arrows indicate change from previous quarter.

## EAST CAMBRIDGE OFFICE RENTS SOAR TO NEW HEIGHTS AS GROWTH CONTINUES IN BOTH THE LIFE SCIENCE AND TECHNOLOGY SECTORS

### Quick Stats (Office)

Q3 2014	Current	Y-o-Y	Q-o-Q
Office			
Vacancy	7.7%	↑	↑
Lease Rate (Gross)	\$56.18	↑	↑
Net Absorption	(388,431) sq. ft.	↓	↓

### Hot Topics (Office)

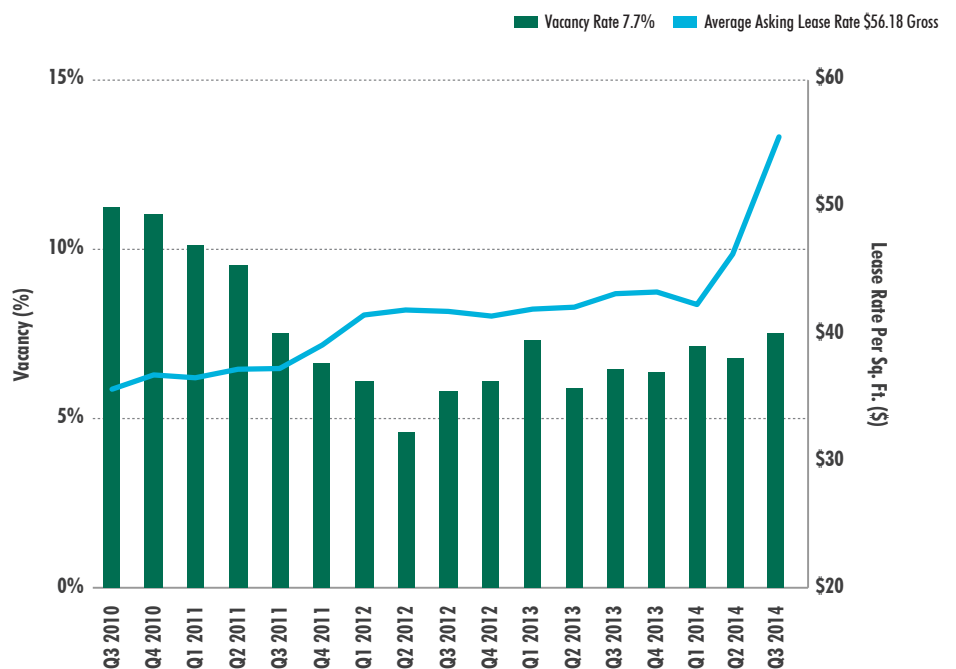
- Rents continue to rise in accordance with the unflinching demand for office space in the East and Mid Cambridge submarkets
- Big users dominate the demand landscape with eight requirements in excess of 100,000 sq. ft.
- The trend of traditional lab users growing on the office side continues; landlords will continue to evaluate the conversion of lab space to office space

### Office Market

The Cambridge Office market continues to be one of the tightest submarkets in the country, despite what the overall 3Q 2014 statistics might say. With several large givebacks of space from tenants relocating to downtown Boston, the 388,000 sq. ft. of negative absorption recorded this quarter will serve as a needed relief valve to the office market. These quality blocks of returned space will provide a handful of sizable options for the unwavering demand from bigger users, and will set the stage for a robust fourth quarter. In addition, with the observed negative absorption adding to availability, the Cambridge Office market saw vacancy rates creep up 90 basis points quarter-over-quarter to 7.7%. Despite this increase in vacancy, average asking rents in the third quarter continued to soar, up \$8.30 quarter-over-quarter to \$56.18 per sq. ft., a historical high in the overall Cambridge market. Leading the way, the East Cambridge submarket saw average asking rents surpass the \$60 mark this quarter, up \$4.83 to \$60.94 per sq. ft.

The market was paced in the third quarter by the widely followed story of "Project Tiger." Ultimately unveiled as Baxter, the international pharmaceutical company signed a 206,000 sq. ft. deal for office space at 650 East Kendall Street, a building that had initially been developed for lab space. Otherwise, activity in the Cambridge Office market remained stable in the third quarter with renewals by Sanofi-Aventis, a multinational pharmaceutical company, for 71,000 sq. ft. at

Figure 1: Office Vacancy Rate vs. Lease Rate



Source: CBRE Research, Q3 2014.

## Quick Stats (Lab)

Q3 2014	Current	Y-o-Y	Q-o-Q
Lab			
Vacancy	12.2%	↑	↓
Lease Rate (NNN)	\$50.65	↓	↑
Net Absorption	48,804 sq. ft.	↓	↓

## Hot Topics (Lab)

- Very few options available for small and mid-sized users
- Rent increases showing no signs of slowing down as landlords take an aggressive stance with remaining vacancy
- IPO market for local life sciences companies continues its torrid pace, fueling real estate expansion

675 West Kendall Street, and IBM Corporation for 67,000 sq. ft. at 1 Rogers Street. Biogen Idec, yet another homegrown biotech, continued to grow its office footprint in East Cambridge, inking a sublease at 301 Binney Street for 93,000 sq. ft.

Larger tenants will continue to fuel the demand for office space in the Cambridge market as there are eight active requirements each in excess of 100,000 sq. ft., with four of those greater than 250,000 sq. ft. This persistent demand from credit-worthy tenants will drive landlords to push rents as the office market further tightens.

## Lab Market

The Cambridge Lab market saw its third consecutive quarter of positive absorption, posting 49,000 sq. ft. of positive growth driven by a handful of newly public biotech companies. The vacancy rate fell 60 basis points quarter-over-quarter to 6.5%, the lowest point since the third quarter 2013, with a quickly shrinking number of options of small and mid-sized users. Average asking rents continued to rise as well, increasing \$1.88 quarter-over-quarter to \$50.65 NNN per sq. ft. in the third quarter.

The Cambridge Lab market saw several new tenants enter the Cambridge market this quarter. Dicerca Pharmaceuticals relocated from Watertown and inked a new lease for 40,000 sq. ft. at 87 CambridgePark Drive, while Shell Oil Company took 24,000 sq. ft. at 281 Albany Street. Agios Pharmaceuticals increased their footprint by 36,000 sq. ft. by inking a deal to remain at University Park. The 75,000 sq. ft. deal at 88 Sidney Street in East Cambridge was an important deal for Forest City as they prepare for ARIAD's departure in mid-2015.

Through midsummer, a record number of Massachusetts biotech companies completed their initial public offerings, surpassing the 2013 total of nine and adding further proof that the institutional investment world is enthusiastic about many of the up-and-coming early-stage drug developers that have spun out of Massachusetts' world-class institutions. As we look ahead to the fourth quarter and the first half of 2015, a combination of big pharma's desire to target our world-class talent pool and the continued success of our homegrown companies will continue to drive the lab real estate market in Cambridge.

Figure 2: Market Statistics

Market	Rentable Area (sq. ft.)	Availability Rate %	Vacancy Rate %	Sublease Rate %	Quarterly Net Absorption (sq. ft.)	Avg. Asking Rent (\$/sq. ft./yr)
Cambridge – East	7,196,204	13.8%	7.2%	2.0%	(362,131)	\$60.94
Cambridge – Mid	1,870,936	6.5%	6.1%	0.1%	(7,120)	\$45.52
Cambridge – West	1,927,834	14.9%	11.0%	7.8%	(19,180)	\$38.11
<b>Cambridge Office</b>	<b>10,994,974</b>	<b>12.8%</b>	<b>7.7%</b>	<b>2.7%</b>	<b>(388,431)</b>	<b>\$56.18</b>
Cambridge – East	9,644,208	13.5%	11.1%	7.8%	(83,056)	\$55.30
Cambridge – Mid	1,143,817	3.6%	3.3%	0.0%	56,012	\$47.00
Cambridge – West	812,480	37.0%	37.0%	0.4%	75,848	\$41.33
<b>Cambridge Lab</b>	<b>11,600,505</b>	<b>14.2%</b>	<b>12.2%</b>	<b>6.5%</b>	<b>48,804</b>	<b>\$50.65</b>

Source: CBRE Research, Q3 2014.

# SPOTLIGHT CAPITAL MARKETS

The Greater Boston area has experienced a flurry of investment sales activity year-to-date in 2014. Activity peaked in the third quarter with \$4 billion in transaction volume, half of which was generated by EOP/Blackstone's five-building portfolio sale. Sales volume is in excess of \$7 billion, totaling over 20 million sq. ft., and stabilized cap rates range between 4.5-6.5% for Class A office product and 5.75-7.75% for Class B office product. The increase in overall transactions can be attributed to the insatiable demand from various capital sources to invest in Greater Boston, coupled with the attractive cost of debt in today's marketplace as interest rates continue to remain historically low.

An emerging theme throughout 2014 has been the shifting sources of market capital that are now eyeing the Greater Boston market, especially downtown. Boston has evolved into a transformative gateway city, competing more prominently with New York and San Francisco as a haven for international and institutional capital. As a result, foreign and institutional investors are investing in our Class A market, which had previously been dominated by a few major local and regional owners. Active foreign investors entering the Greater Boston market in 2014 include Norges Bank, Norway's central bank, and Toronto-based Oxford Properties Group. In comparison to other gateway cities, Greater Boston has maintained extremely attractive fundamentals and still provides upside for foreign capital as the urbanized city continues to transform into a 24/7 neighborhood.

## Cambridge Themes

**BOSTON  
1H 2014  
STABILIZED  
CAP RATES:**

**CLASS A:  
4.5-5%**



**CLASS B:  
5.75-6.25%**

### YEAR-TO-DATE SALES VOLUME:

**\$340M  
2013**



**\$1.0B  
2014**

- With no sign of demand yielding, East Cambridge continues to have a shortage of available space as primarily larger companies, who can afford \$55.00+ per sq. ft., remain in the area
- West Cambridge has seen strong investment sales activity in 2014, with its convenient access to the MBTA Red Line and numerous residential and mixed-use developments delivering over the next two years

## CASE STUDIES



### ONE CANAL PARK

- **Sale Date** April 2014
- **Size** 103,649 sq. ft.
- **Sale Price** \$44.3M (\$427 per sq. ft.)
- **Seller** Blackstone/EOP
- **Buyer** Beacon Capital Partners



### ONE MEMORIAL DRIVE

(Part of a three-building portfolio sale; additional buildings downtown)

- **Sale Date** September 2014
- **Size** 369,436 sq. ft.
- **Sale Price** \$40.5M (\$1,096 per sq. ft.)
- **Seller** Blackstone/EOP
- **Buyer** Oxford Properties/JP Morgan

**Figure 3: Transactions of Note**

Tenant	Address	Sq. Ft.	Submarket	Type
<b>Office</b>				
Biogen Idec	301 Binney Street	93,000	East Cambridge	New
Sanofi-Aventis	675 West Kendall Street	71,000	East Cambridge	Renewal
IBM Corporation	1 Rogers Street	61,000	East Cambridge	Renewal
Retrophin	301 Binney Street	14,000	East Cambridge	Sublease
Sarepta Therapeutics	215 First Street	11,000	East Cambridge	New
<b>Lab</b>				
Momenta Pharmaceuticals	675 West Kendall Street	78,000	East Cambridge	Sublease
Agios Pharmaceuticals	88 Sidney Street	75,000	East Cambridge	Relocation
Dicerna Pharmaceuticals	87 CambridgePark Drive	40,000	West Cambridge	New
Shell Oil Company	281 Albany Street	24,000	East Cambridge	New
Nano Terra	735 Concord Avenue	13,000	West Cambridge	New

**Figure 4: Massachusetts Innovation IPO Parade**

Massachusetts IPOs are reaching new heights in 2014...and the year isn't over yet. Nineteen tech and biotech IPOs have been introduced through early October. Cumulatively, they have raised more than \$1.6 billion in funding and will hopefully continue to be a strong driver of the local economy for years to come. Wayfair, Boston's biggest internet retailer employing more than 1,000 people, recently completed the largest tech offering of the year raising \$319 million. Care.com, an online marketplace for nannies and other care providers, went public earlier this year raising \$105 million. Care.com was the first software company to go public since June 2012.

Local biotech startups are leading the way in 2014 with 13 public offerings announced through August, raising more than \$875 million in funding and surpassing 2013's total of nine. Cambridge-based Akebia Therapeutics, developing a daily dose for anemia, raised \$100 million earlier this year, the largest of the biotechs year-to-date. As many of these drug makers are in the early stages of therapeutic development, this strong backing from Wall Street will only help to propel the local biotech sector forward and sustain long-term growth.

COMPANY	AMOUNT RAISED	TYPE
WAYFAIR	\$350 MILLION	TECH
HUBSPOT	\$120 MILLION	TECH
CARE.COM	\$105 MILLION	TECH
AKEBIA THERAPEUTICS	\$100 MILLION	BIOTECH
ZAFGEN	\$96 MILLION	BIOTECH
DICERNA PHARMACEUTICALS	\$90 MILLION	BIOTECH
SAGE THERAPEUTICS	\$90 MILLION	BIOTECH
CONCERT PHARMACEUTICALS	\$84 MILLION	BIOTECH
ASPEN AEROGELS	\$83 MILLION	OTHER
GENOCEA BIOSCIENCES	\$66 MILLION	BIOTECH

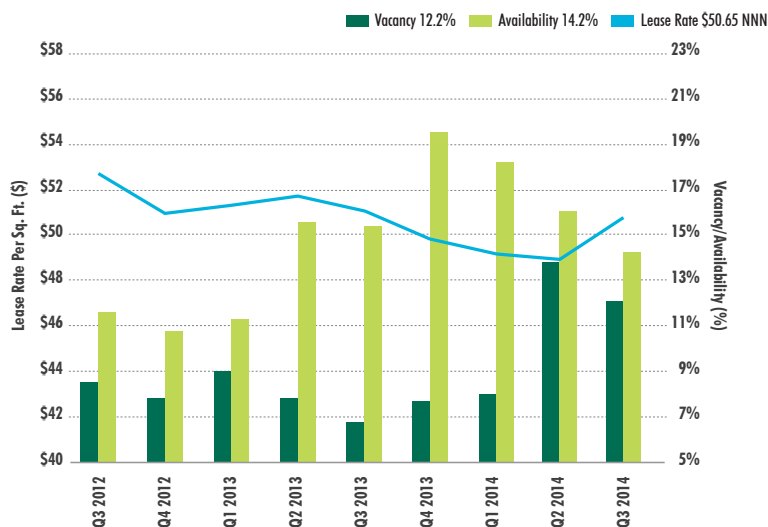
COMPANY	AMOUNT RAISED	TYPE
IMPRIVATA	\$66 MILLION	TECH
FLEXION THERAPEUTICS	\$65 MILLION	BIOTECH
OCULAR THERAPEUTIX	\$65 MILLION	BIOTECH
CERULEAN PHARMA	\$60 MILLION	BIOTECH
T2 BIOSYSTEMS	\$57 MILLION	OTHER
RADIUS HEALTH	\$52 MILLION	BIOTECH
ELEVEN BIOTHERAPEUTICS	\$50 MILLION	BIOTECH
MINERVA NEUROSCIENCES	\$33 MILLION	BIOTECH
ALDEYRA THERAPEUTICS	\$25 MILLION	BIOTECH

Source: CBRE Research, Q3 2014.

### Lab Vacancy/Availability & Rent

Availability in the Cambridge Lab market was up 30 basis points quarter-over-quarter, finishing at 12.2% in the third quarter. Conversely, the vacancy rate in the Cambridge Lab market fell 60 basis points quarter-over-quarter to 6.5%. The Mid Cambridge Lab market saw the greatest decrease in availability and vacancy, each falling 490 basis points quarter-over-quarter to 3.6% and 3.3%, respectively. Average asking rents in the third quarter were up \$1.88 quarter-over-quarter to \$50.65 NNN per sq. ft.

Figure 5: Lab Vacancy/Availability & Rent

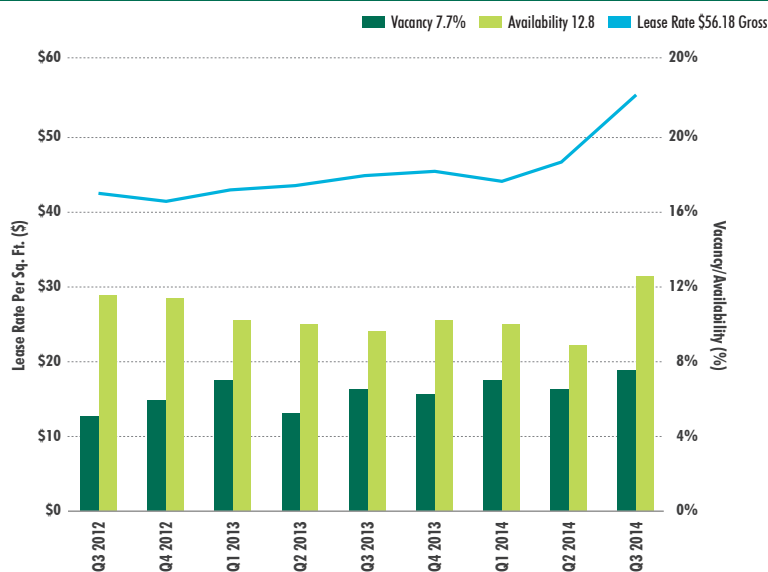


Source: CBRE Research, Q3 2014.

### Office Vacancy/Availability & Rent

With large occupiers including Sonos and CDM Smith making commitments downtown, the Cambridge Office market saw both availability and vacancy rise 390 and 90 basis points quarter-over-quarter to 12.8% and 7.7%, respectively. Despite these spaces coming back on the market, average asking rents increased \$8.31 quarter-over-quarter to \$56.18 per sq. ft. East Cambridge led the way in average asking rents, achieving \$60.94 per sq. ft., up \$4.83 quarter-over-quarter.

Figure 6: Office Vacancy/Availability & Rent



Source: CBRE Research, Q3 2014.

# 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 sq. ft. from one period to the next, as measured by available sq. ft..

## Net Rentable Area

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

## Occupied Area (Sq. Ft.)

Building area not considered vacant.

## Under Construction

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

## Available Area (Sq. Ft.)

Available building area that is either physically vacant or occupied.

## Availability Rate

Available sq. ft. divided by the net rentable area.

## Vacant Area (Sq. Ft.)

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, Massachusetts  
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# CAMBRIDGE SUBMARKETS



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