

Cambridge Office/Lab, Q4 2015

Surging Rents in Cambridge as Office and Lab Markets Boom

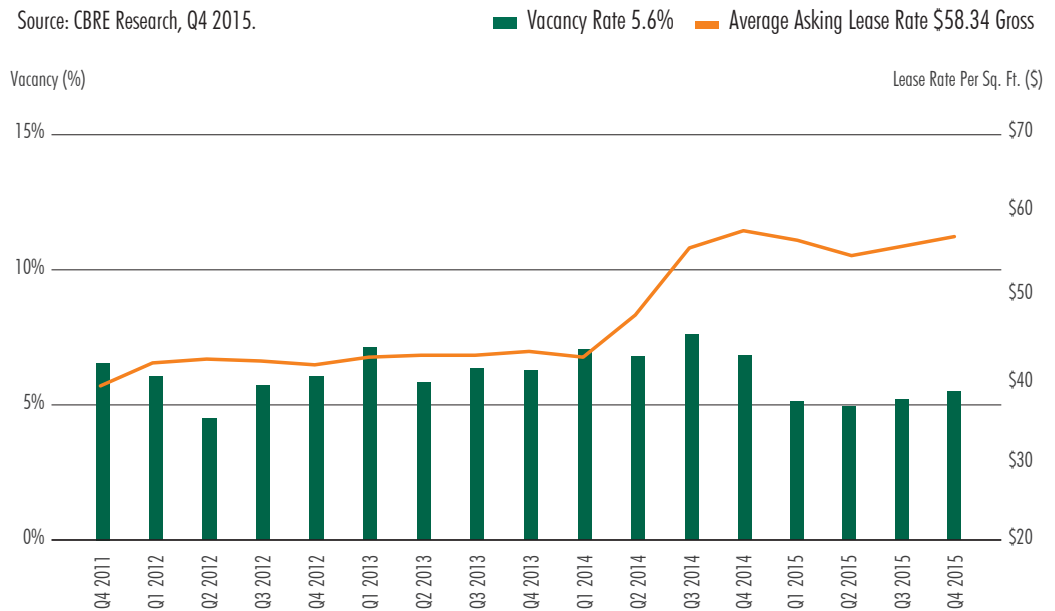
Office Availability
7.3%

Lab Availability
5.2%

Occupied Sq. Ft.
22.8 MSF

Under Construction
1.7 MSF

Figure 1: Office Vacancy vs. Lease Rate



OFFICE MARKET

The Cambridge Office market remained statistically modest for the second quarter in a row, recording only 8,400 sq. ft. of net absorption due to the severe lack of inventory. Due in part to the heavy demand

and limited supply, Cambridge continues to surpass expectations with overall average asking rents rising to \$58.34 per sq. ft. at the close of 2015. Overall, Cambridge vacancy ended the year at 5.6%,

down from the 6.8% rate seen at the close of 2014; availability fell to 7.3%, down from 12% in 2014.

Strong market drivers included the renewal and expansion of existing tenants and the current boom in the life science industry. New tenants trying to enter the Cambridge market continued to face incredible competition for space.

After HubSpot leased almost 60,000 sq. ft. at 2 Canal Park earlier this year, they capped out 2015 by renewing their existing footprint of 118,000 sq. ft. and then expanding into another 67,000 sq. ft. at 25 First Street in the fourth quarter. Thinking Phone Networks continued to grow, taking an additional 33,000 sq. ft. at 10 Fawcett Street. The “laboffice” movement also saw several expansions by traditional lab users seeking office space in 4Q 2015; Akebia Therapeutics expanded by 24,000 sq. ft. at 245 First Street and Sage Therapeutics took an additional 6,800 sq. ft. at 215 First Street.

Cambridge ranks as one of the top five tightest office markets in the U.S. for 2015. The continued expansion of homegrown companies and arrival of major pharmaceutical companies who feel they must have a Cambridge presence, has caused a demand strong enough to push rates to their highest level in history. These trends, paired with the continuation of the “laboffice” phenomenon where pharma companies ramp up their office space requirements, adds significant office demand and causes any companies that don’t need to be located in the life science and technology cluster to look for real estate outside of Cambridge.

Average asking rents increased just under \$2.00 per sq. ft. quarter-over-quarter to \$58.34. Class A office achieved rents continue to hover around the \$80.00 per sq. ft. mark, particularly in East Cambridge. Although acting as a less expensive alternative to East Cambridge, West Cambridge average asking rents continued their climb, up to \$42.48 per sq. ft. at the end of 2015.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Office				
HubSpot	25 First Street	185,000	East Cambridge	Renewal/Expansion
Thinking Phone Networks	10 Fawcett Street	33,000	East Cambridge	Expansion
Akebia Therapeutics	245 First Street	24,200	East Cambridge	Expansion
MarkForged	10 Fawcett Street	17,400	East Cambridge	New
Lab				
Momenta	320 Bent Street	104,700	East Cambridge	Renewal
ModeRNA	500 Technology Square	58,700	East Cambridge	Expansion
Seres Health	200 Sidney Street	57,200	East Cambridge	Expansion
Allostery Pharma	215 First Street	41,000	East Cambridge	New

Source: CBRE Research, Q4 2015.

LAB MARKET

2015 was an incredibly robust year for the Cambridge market as a whole. 4Q 2015 saw almost 100,000 sq. ft. of net absorption in a market that ended the year with a vacancy rate of 1.6%. As usual, East Cambridge led the way with a modest 85,000 sq. ft. of positive absorption in 4Q 2015, but finished the year with a staggering 1.1 million sq. ft. of net absorption. Availability fell 70 basis points quarter-over-quarter to 5.2%, the lowest point in over 15 years. Likewise, vacancy declined by 110 basis points quarter-over-quarter to 1.6%. The surge in average asking rents continued into 4Q 2015 as Cambridge lab rents rose an addition \$1.58 per sq. ft. to end the year at \$73.38 per sq. ft. NNN, an increase of more than 25% year-over-year.

Despite the perception that out-of-state activity dominated demand in 2015, an equally significant leasing story this year was the appetite of local,

homegrown, mid- and late- stage biotech companies. Momenta Pharmaceuticals executed the largest transaction of the quarter, renewing their lease at 320 Bent Street for 105,000 sq. ft. Seres Health, developers of microbiome-based therapies, will expand by 57,000 sq. ft. to bring their Cambridge footprint to more than 85,000 sq. ft. ModeRNA continued to grow and will lease an additional 59,000 sq. ft. at 500 Technology Square.

Big blocks of existing space are all but non-existent and large tenants will be forced to shift gears as 2016 begins. With eight active life science requirements in excess of 100,000 sq. ft., 2016 will no doubt revert back to a theme of many cranes in the air. However, with space at a severe premium and construction costs escalating at an astonishing rate, it is getting more and more expensive for life science companies to do business in Cambridge.

Figure 3: Market Statistics

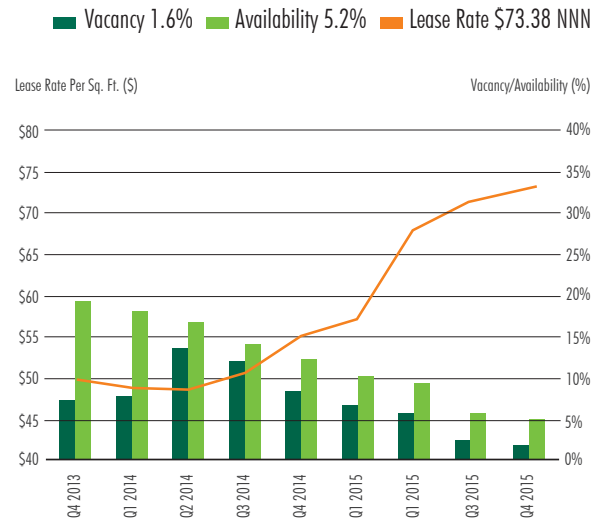
Total Cambridge Office	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg Asking Rent \$ (Gross)
Cambridge - East	53	7,676,866	5.7	4.5	1.2	14,901	741,676	68.56
Cambridge - Mid	33	2,009,015	3.6	3.6	0.5	34,628	13,103	44.34
Cambridge - West	19	1,932,288	17.4	12.1	3.6	(41,112)	(42,234)	42.48
Cambridge Office	105	11,618,169	7.3	5.6	1.5	8,417	712,545	58.34
Total Cambridge Lab	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg Asking Rent \$ (NNN)
Cambridge - East	72	11,044,210	5.3	1.7	2.5	85,034	1,137,181	74.66
Cambridge - Mid	3	289,587	9.0	1.1	0.0	0	15,610	54.76
Cambridge - West	12	656,680	0.8	0.5	0.0	7,902	210,703	33.20
Cambridge Lab	87	11,990,477	5.2	1.6	2.3	92,936	1,363,494	73.38
Total Cambridge Office/Lab	192	23,578,646	6.7	4.0	2.0	689,611	2,028,533	

Source: CBRE Research, Q4 2015.

LAB VACANCY/AVAILABILITY & RENT

The Cambridge Lab market continues to see rents increase sharply, up more than 25% year-over-year to \$73.38 per sq. ft. NNN at the end of 4Q 2015. Availability declined in the fourth quarter, down 70 basis points quarter-over-quarter to 5.2%. Similarly, vacancy also declined 110 basis points quarter-over-quarter to 1.6%. Leading the way was the East Cambridge Lab market, which saw availability and vacancy decrease 80 and 110 basis points quarter-over-quarter, respectively.

Figure 4: Lab Vacancy/Availability & Rent

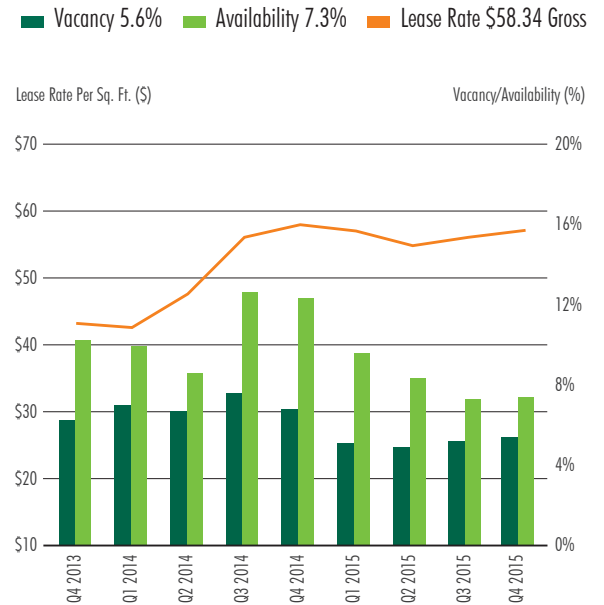


Source: CBRE Research, Q4 2015.

OFFICE VACANCY/AVAILABILITY & RENT

Cambridge office vacancy increased slightly, rising 30 basis points quarter-over-quarter to 5.6%, due to several availabilities becoming vacant. The availability rate declined marginally in the fourth quarter, down 10 basis points quarter-over-quarter to 7.3%. Average asking rents increased by almost \$2.00 per sq. ft. gross in the fourth quarter to \$58.38.

Figure 5: Office Vacancy/Availability & Rent



Source: CBRE Research, Q4 2015.

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.

GROSS 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.



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