

Cambridge Office/Lab, Q2 2020

# Life Science remains bright spot, even during pandemic

 Office Availability **10.8%**

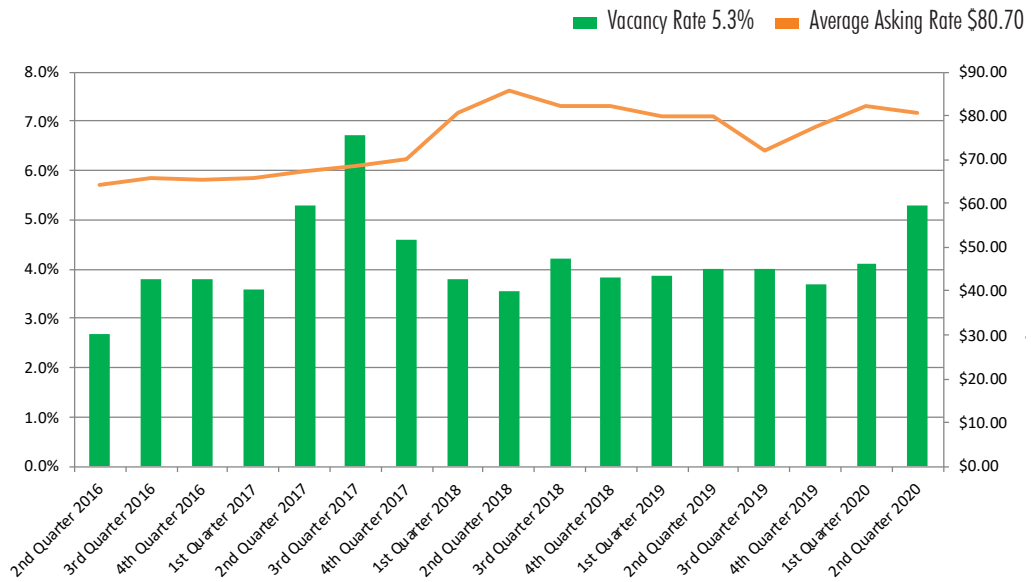
 Lab Availability **6.6%**

 Occupied Sq. Ft. **27.0 MSF**

 Under Construction **2.7 MSF**

Figure 1: Office Vacancy vs. Lease Rate

\* Arrows indicate change from previous quarter



Source: CBRE Research, Q2 2020.

**OFFICE MARKET**

With all non-essential office space across the state of Massachusetts closed for most of the second quarter, it was no surprise that the Cambridge office market had a slow quarter in terms of leasing activity. Availability saw a 3.0% increase, ending the quarter at 10.8% due to several large spaces that hit the sublease market late in the quarter. Vacancy saw a slight increase as well, jumping to 5.4%. Absorption was negative, at nearly 430,000 sq. ft., which was mostly due to the large subleases that hit the market in East Cambridge, which increased the availability in the prime submarket

up to 10.4%. Asking rents in Cambridge declined 1.3%, down from last quarter to \$80.70 per sq. ft (gross), but are still up 1.5% from this same time last year.

Several large subleases came onto the market throughout the quarter, including over 400,000 sq. ft of office subleases from life science companies. Even though sublease availability doubled since last quarter, much of the space is not available until early 2022. Sanofi put on two floors at their future home in Cambridge Crossing, but the

tenant had plans to add office space to the sublease market when the deal was originally signed. After disappointing results in a clinical trial, Sage Therapeutics also put a large block of space onto the sublease market. Prior to this quarter, large blocks of office space such as these were sparse across Cambridge.

During the second quarter, there were not enough transactions to observe a true shift in the direction of office rents or a downward trend moving forward. It remains to be seen whether office users will downsize due to work from home success, or if they will expand their footprint in order to create more distancing between employees' workstations. As of the end of the second quarter, there are no examples of Cambridge office tenants relocating part of their workforce to the suburbs, although this may be a potential COVID outcome. Since Cambridge has not been penetrated by office coworking operators to the same extent as Boston, there's a much more limited number of large coworking blocks that could become vacant space hitting the market.

#### LAB MARKET

As the economy slowed in urban markets across the country, life science continued its run as a leader in the Cambridge market. Demand for lab space in Cambridge has not softened during the COVID-19 pandemic. The life science market saw the least number of requirements paused as a result of COVID-19, compared to any other sector. At the beginning of 2020 there were 1.4M sq. ft. of requirements for urban lab space, and by the end of the second quarter that number had increased to over 1.9M sq. ft. Vacancy stayed flat compared to last quarter at 2.6%. Availability decreased by 30 basis points (bps) to 6.6%. East Cambridge vacancy held steady at 1.8%, while availability decreased to 5.8%. The life science market in Cambridge has shown incredible resiliency over the last three months. While lab users may be reevaluating how much office space is needed within their premises, lab space continues to be a necessity for all these companies, as lab work cannot take place at home.

Venture capital funding has not shown any sign of slowing during the pandemic. Since March 1st, four prominent Venture Capital firms focused on the life sciences and biotech innovation have raised significant capital, a sign that the life science market is still viewed as an extremely strong sector. Arch Venture Partners, along with Deerfield Management, Flagship Pioneering and Atlas Ventures announced new funds, totaling nearly \$4B. Multiple life science companies across Cambridge have closed rounds this quarter in the realm of \$50M each. Strategic partnerships have continued to develop as well, with an example being private equity giant Blackstone's Q2 announcement of a \$2B financing collaboration with Cambridge-based Alnylam.

As office space in Cambridge saw an increase in sublease space, common during downturns in the economy, life science has only seen a single sublease space hit the market. Life science subleases have been limited across all of Metro Boston and are yet another indication that the lab market is resilient in the face of a market and economic disruption.

Leasing activity this quarter was stunted by the stay-at-home order issued by the governor in mid-March, but also by the limited vacancy in East Cambridge. The quarter got off to a slow start with tours and overall leasing activity, but during the second half of the quarter tour activity had picked up. The new deals that closed were mostly driven by groups that either have lease expirations or needs for expansion. As incubator space across Cambridge and Boston remain at capacity, new companies emerging from these spaces drove new requirements in Cambridge throughout the quarter.

**CAMBRIDGE MARKET OVERVIEW**

Virology, not the business cycle, has dictated the course of the world’s economy this year. COVID-19 forced a nationwide shutdown of most economic activity in March, with the largest economic centers, especially the Northeast and Pacific coast, facing the strictest lockdowns. The economic fallout proved severe, pushing US unemployment to over 15% and likely causing the economy to contract by more than 30% per annum in the second quarter.

These morbid economic conditions inspired many governors to ease lockdowns, especially in Sunbelt states where the case count was less severe than in more densely populated regions. These re-openings have energized activity. Several high-frequency indicators, such as hotel occupancies, restaurant traffic and hours worked, suggest the US economy bottomed in April and has been trending slightly upward since. This has renewed demand

for labor as many hard-hit sectors, such as hospitality and healthcare, began to bring back furloughed workers in May.

Because of the life science penetration in Cambridge, in both office and lab, Cambridge has been sheltered from the overall decline in the economy. Life science continues to be a driver throughout all of Cambridge and has showed its resiliency during the second quarter. Construction across Boston and Cambridge was paused during the shutdown, but in Cambridge all projects have reopened and are moving forward as planned. There is 1.3M sq. ft. of office currently under construction, all concentrated in East Cambridge, and it is 89% pre-leased. There is currently 1.4M sq. ft. of lab space under construction in Cambridge, which 57% is pre-leased.

**Figure 2: Transactions of Note**

| Tenant                     | Address                 | Sq. Ft. | Submarket      | Type     |
|----------------------------|-------------------------|---------|----------------|----------|
| <b>Office</b>              |                         |         |                |          |
| Bessemer Ventures          | 196 Broadway            | 5,000   | East Cambridge | Renewal  |
| Cambridge Retirement Board | 125 CambridgePark Drive | 4,500   | West Cambridge | New      |
| <b>Lab</b>                 |                         |         |                |          |
| Apic Bio                   | 35 CambridgePark Drive  | 22,000  | West Cambridge | Sublease |
| Ring Therapeutics          | 620 Memorial Drive      | 21,000  | East Cambridge | Sublease |
| Verve Therapeutics         | 500 Technology Square   | 17,000  | East Cambridge | Sublease |

Source: CBRE Research, Q2 2020.

Figure 3: Market Statistics

| Cambridge Office                | Bldgs      | Total Sq. Ft.     | Available (%) | Vacant (%) | Sublease (%) | Quarter Net Absorption | YTD Net Absorption | Avg Asking Rent \$ (Gross) |
|---------------------------------|------------|-------------------|---------------|------------|--------------|------------------------|--------------------|----------------------------|
| Cambridge - East                | 59         | 9,523,663         | 10.4          | 3.2        | 6.7          | (435,735)              | (434,209)          | 92.59                      |
| Cambridge - Mid                 | 37         | 2,176,577         | 10.9          | 10.1       | 3.2          | 2,137                  | (18,923)           | 68.79                      |
| Cambridge - West                | 16         | 1,588,906         | 12.5          | 11.1       | 8.6          | (6,100)                | (23,941)           | 51.31                      |
| <b>Overall Cambridge Office</b> | <b>112</b> | <b>13,289,146</b> | <b>10.8</b>   | <b>5.3</b> | <b>6.4</b>   | <b>(439,698)</b>       | <b>(477,073)</b>   | <b>80.70</b>               |

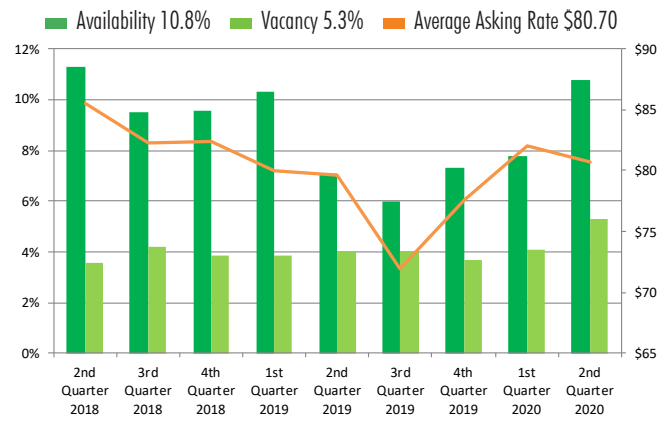
| Cambridge Lab                | Bldgs     | Total Sq. Ft.     | Available (%) | Vacant (%) | Sublease (%) | Quarter Net Absorption | YTD Net Absorption | Avg Asking Rent \$ (NNN) |
|------------------------------|-----------|-------------------|---------------|------------|--------------|------------------------|--------------------|--------------------------|
| Cambridge - East             | 75        | 12,960,461        | 5.8           | 1.8        | 1.1          | 41,156                 | 108,652            | 102.06                   |
| Cambridge - Mid              | 5         | 458,267           | 7.2           | 1.7        | 0.0          | (13,658)               | 3,707              | 87.46                    |
| Cambridge - West             | 17        | 1,407,752         | 14.2          | 10.4       | 3.5          | 36,513                 | (15,230)           | 75.53                    |
| <b>Overall Cambridge Lab</b> | <b>97</b> | <b>14,826,480</b> | <b>6.6</b>    | <b>2.6</b> | <b>1.3</b>   | <b>64,011</b>          | <b>97,129</b>      | <b>97.21</b>             |

Source: CBRE Research, Q2 2020.

OFFICE VACANCY/AVAILABILITY & RENT

Cambridge office rents saw a slight decrease during Q2, finishing at \$80.70 per sq. ft. (gross). The decrease was the result of an increase in availability in Class B & C properties in East Cambridge. Vacancy increased by just over 2%, up to 5.3%, and availability increased to 10.8%. Vacancy in East Cambridge remains the lowest across the market at 3.2%, with availability at 10.4%.

Figure 4: Office Vacancy/Availability & Rent

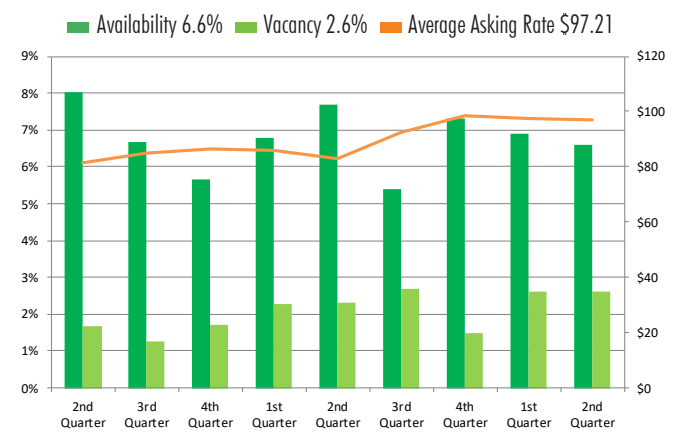


Source: CBRE Research, Q2 2020.

LAB VACANCY/AVAILABILITY & RENT

Cambridge lab rents saw a slight decrease this quarter, finishing at \$97.21 per sq. ft. NNN. East Cambridge lab asking rents have surpassed \$102 per sq. ft. NNN. Asking rents in Mid Cambridge saw a slight decrease, down to \$87.46 per sq. ft. NNN due an increase in availability in Class B properties. Availability throughout Cambridge dropped from 6.9% to 6.6%, while vacancy remained flat, at 2.6%. Availability and vacancy in East Cambridge were 5.8% and 1.8%, respectively.

Figure 5: Lab Vacancy/Availability & Rent



Source: CBRE Research, Q2 2020.

**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.



**CONTACTS**

**Suzanne Duca**  
*Director of Research, New England*  
 +1 617 912 7041  
 suzanne.duca@cbre.com

**CBRE OFFICES**

**CBRE**  
 99 High Street, 30th Floor  
 Boston, MA 02110

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