

FIGURES | BOSTON METRO LAB | Q3 2021

Lab market stays red hot, as vacancy continues to decrease and rents climb

▼ 1.6%

Lab Vacancy

▲ \$93.75

Lab Lease Rate (NNN)

▲ 10.2 MSF

Under Construction

▲ 1.9 MSF

Quarterly Leasing Activity

Note: Arrows indicate change from previous quarter.

The life science sector in the Boston metro area outshone its office counterparts during the third quarter with more than 1.6 million sq. ft. of positive absorption which was evenly spread across Cambridge, Boston and the suburban markets. Asking rents increased, reaching a weighted average of \$93.75 per sq. ft. (NNN), and vacancy decrease, reaching an all-time low of 1.6%. Availability increased slightly due to new construction and conversions that are currently underway and delivering in the next 18 months. Strong leasing activity persisted throughout the quarter with nearly 1.9 million sq. ft. of signed deals across the metro area.

Doors continue to open between life science submarkets as leasing activity expand beyond the historically dominant clusters. With vacancy ending the quarter at 0.2% in Boston and Cambridge combined, many tenants are required to look outside the urban core for space that would be available in their desired time frame, likely having to plan 12-18 months in advance of targeted relocation and occupancy dates. In the suburban core market of 128 West, vacant space remains limited as well, dropping 40 basis points (bps) to 2.3% since the second quarter.

FIGURE 1: Lab Vacancy vs. Lease Rate



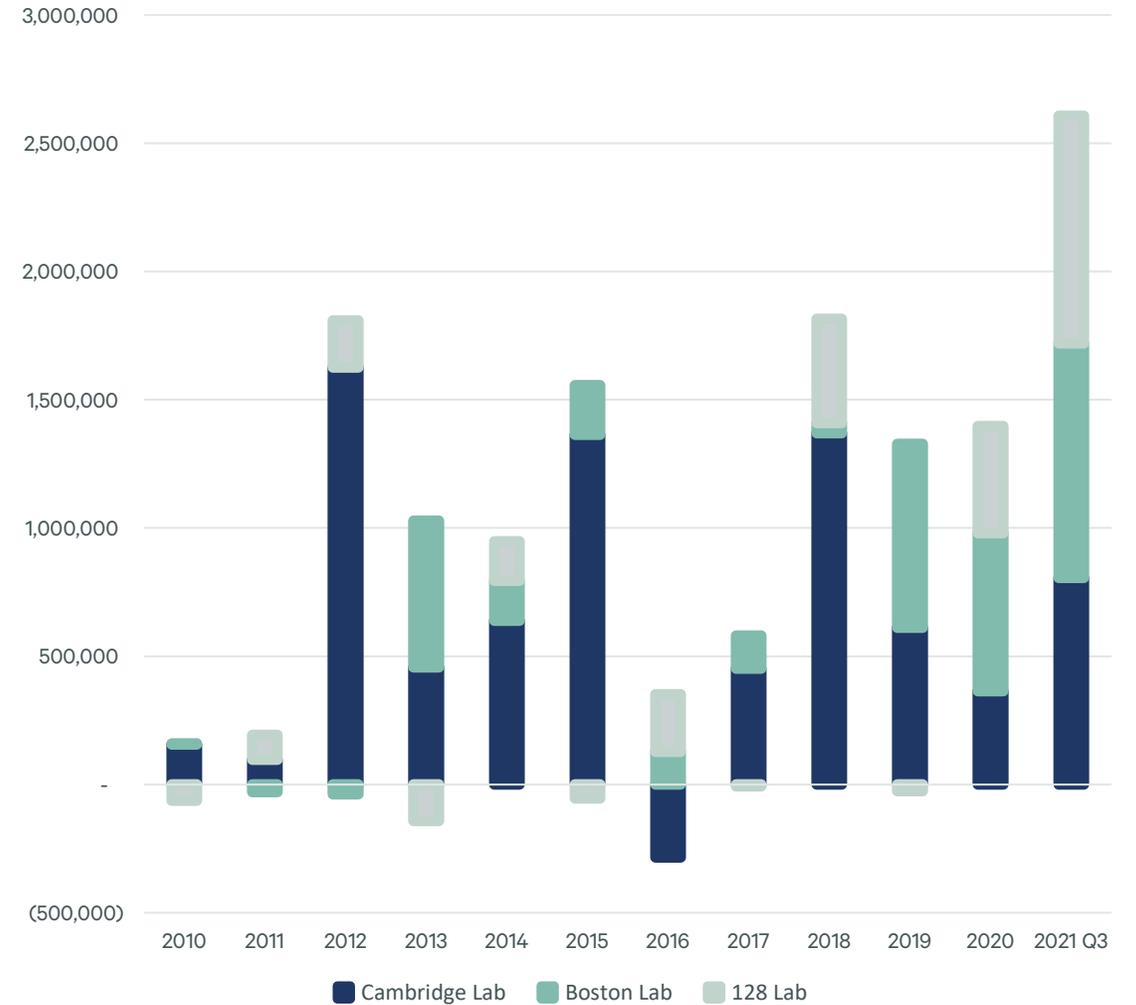
Source: CBRE Research, Q3 2021

Capitalizing on limited available space in the near term, landlords continue to seek and achieve record high rents. The highest price tags in the market are attributed to new, purpose-built lab projects. In East Cambridge, where two ground-up projects are underway with current availability, asking rents have climbed 23.9% in the last 24 months of the marketing campaigns. Asking rents in Boston have also reached triple digits, ending the quarter at \$100.00 per sq. ft. (NNN). In the Seaport submarket of Boston, asking rents surpassed \$103.00 per sq. ft. (NNN), up 23.4% in the last 12 months. In the suburbs, cities like Watertown and Waltham are also seeing asking rent increases. Average asking rents in the 128 West submarket, which includes Watertown, have grown 34.5% in the last 24 months, now averaging nearly \$82.00 per sq. ft. (NNN).

With such limited space in many of the established submarkets, emerging submarkets are looking to take advantage of the red-hot demand the life science sector is seeing. The Fenway submarket of Boston capitalized this quarter by signing more than 350,000 sq. ft. of life science tenants in new developments and conversions. Samuels & Associates and Alexandria Real Estate Equities’ new project at 201 Brookline inked 215,000 sq. ft. in deals and is expected to complete construction in mid-2022. Related Beal’s project at One Kenmore Square signed their first anchor life science tenant and will deliver in mid-2023. Prior to these two new developments, the Fenway submarket had limited life science space, but is now establishing itself as a desirable life science cluster, particularly due to the ample amenities in the surrounding areas, proximity to Cambridge and nearby access to public transportation

After venture capital funding set an annual record in 2020, and a quarterly record in the first quarter of 2021, funding sources have remained plentiful for the life science sector. Venture capital funding is a demand driver in NewCo creation and leads to significant demand, both for companies expanding out of incubator space, into their first graduation space, as well as companies who are looking for pure expansion needs. Demand from companies looking for 10,000 to 50,000 sq. ft. of space make up 67% of the companies active in the market. There has also been an increase in larger companies in the market for new space exceeding 100,000 sq. ft.; the aggregate square footage among these firms made up over 50% of the demand in the market, based off square footage needs.

FIGURE 2: Historical Absorption



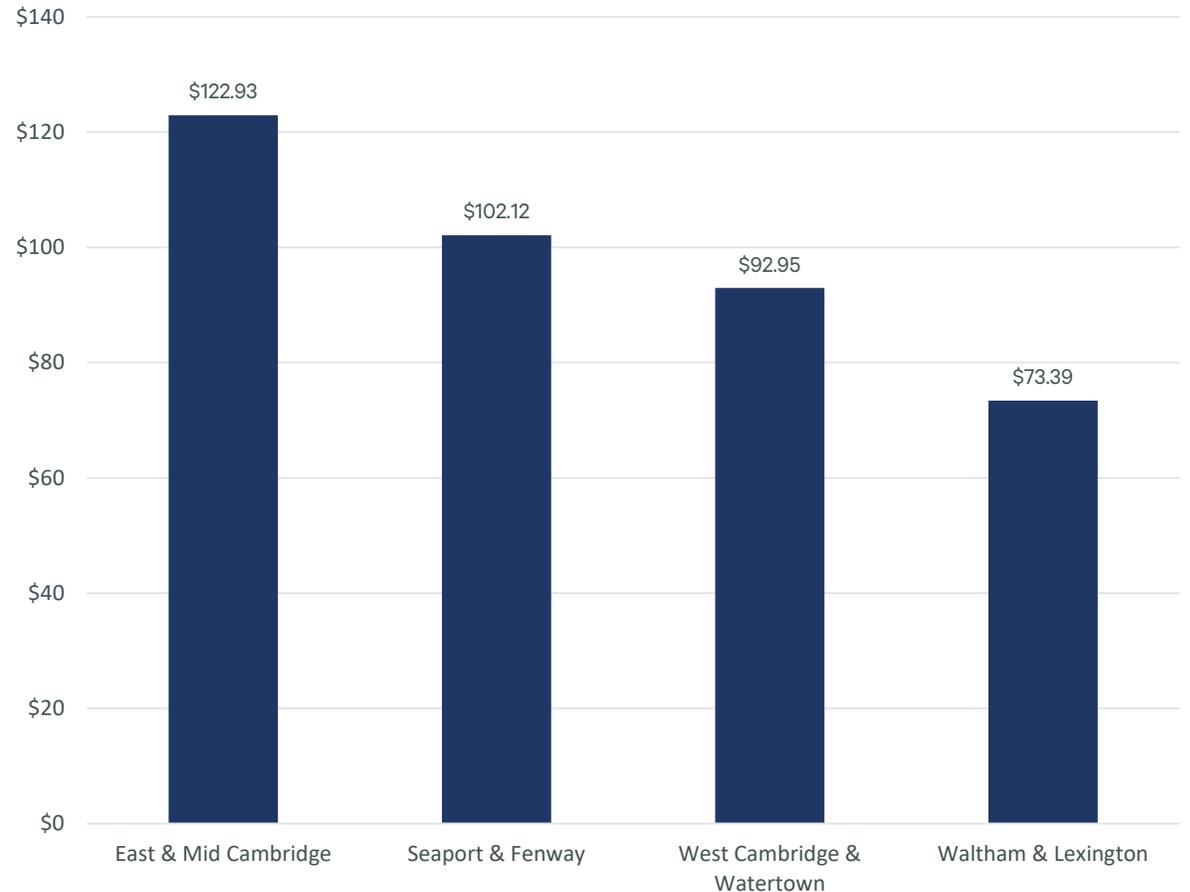
Source: CBRE Research, Q3 2021

Demand for lab space keeps increasing across the metro area, now approaching 6.0 million sq. ft. of active demand, with two million sq. ft. already committed. The demand for lab space is currently outpacing the supply, creating an unprecedented bottleneck for the next 12-18 months. To help alleviate this trend, more than 10 million sq. ft. of new developments or conversions were underway at the end of the quarter in the metro, all of which is targeting to deliver by the end of 2023. With speed to occupancy being a demand driver, it is no surprise that of the 1.4 million sq. ft. that is expected to deliver by year-end 2021, 98% is already pre-leased.

GMP/biomanufacturing

Good Manufacturing Practice (GMP)/biomanufacturing continues to be the next step in the life science real estate cycle with continued demand. With such a large number of R&D facilities established across the Greater Boston market, there are a number of companies who are exploring the idea of having a biomanufacturing facility within driving distance of their research hubs. However, with less sensitivity to being in direct proximity of other GMP users and more sensitivity to key building specifications, biomanufacturing space is being set up across a much broader geography within the Greater Boston market. From down in Norwood at Moderna’s campus, up to Devens, where King Street Properties has broken ground on their first speculative development in what will become a life science GMP/biomanufacturing campus, and even out in Worcester, GMP users have established locations in all directions across the market. As some users evaluate establishing their own GMP operations other users continue to rely on third party operators. However, with continued downward pressure on Contract development and manufacturing organization (CDMO) facilities and increased wait lists, an increasing number of CDMOs- both new and established- are looking to enter the market and open new locations.

FIGURE 3: Asking Rents



Source: CBRE Research, Q3 2021

Cambridge Lab

Cambridge lab average asking rents climbed, reaching \$112.79 per sq. ft. (NNN), up 6.0% from last quarter. The increase is largely due the new lab developments commencing construction in East Cambridge, causing availability to increase 100 (bps) to 10.9%. Vacancy decreased, ending the quarter at 0.3%, down from 2.2% at the point last year. The Cambridge lab market saw 500,000 sq. ft. of positive net absorption, assisted by strong leasing in West Cambridge, and a large deal signed in East Cambridge. East Cambridge recorded 386,500 sq. ft. of positive net absorption. Asking rents in East Cambridge have reached \$123.09 per sq. ft. (NNN) and vacancy dropped 40 basis points (bps) to 0.4%.

East Cambridge remains the epicenter of the life science market in the urban core, despite the limited space, causing many tenants in the market to explore other submarkets for alternative options. The current constrained market conditions have allowed landlords across the market to push rents, as many companies are often vying to take down the same space which creates a competitive environment. With incubators in Cambridge and Boston still operating at full capacity, and many with wait lists, new demand will be generated as these companies outgrow their incubator space and are forced to look for larger long-term homes.

Moderna ended the quarter by signing the largest life science deal in the last two years in the metro area, a lease totaling 462,000 sq. ft. at Alexandria Real Estate Equities under construction project at 325 Binney Street, in the heart of East Cambridge. Moderna plans to take occupancy of their new headquarters in late 2023.

FIGURE 4: Lab Market Statistics

Cambridge Lab	Bldgs	Total SqFt	Available (%)	Vacant (%)	Sublease (%)	Quarter Absorption	YTD Absorption	Avg Asking Rent \$ (NNN)
Cambridge - East	78	13,876,499	8.8%	0.4%	2.0%	386,559	620,422	123.09
Cambridge – Mid	6	506,141	2.3%	0.0%	0.0%	9,203	23,000	110.17
Cambridge – West	22	2,030,191	27.5%	0.1%	3.8%	102,633	162,319	93.40
Overall Cambridge Lab	106	16,412,831	10.9%	0.3%	2.2%	498,395	805,741	112.79

Source: CBRE Research, Q3 2021

FIGURE 5: Lab Leasing Activity



Source: CBRE Research, Q3 2021

Boston Lab

The Boston lab market saw over 720,000 sq. ft. of positive absorption during the third quarter and asking rents reached \$100.00 per sq. ft. (NNN). Vacancy has reached an all-time low, sitting at 0.1%, while availability remains elevated due to the new developments across the city. The Seaport submarket saw more than 240,000 sq. ft. of positive net absorption in the third quarter, and asking rents reached \$103.22 per sq. ft. (NNN). Vacancy ended the quarter at 0.2%.

The Seaport continued to see strong leasing activity, and with properties like 601 Congress, One Design Center and 5 Channel Center under conversion and expected to deliver over the next two years, leasing activity should remain robust. 47% of the 2.7 million sq. ft. under construction or conversion in the Seaport is pre-leased. Fenway has quickly become the next up-and-coming life science cluster in Boston and had a strong quarter of leasing. With its proximity to the Longwood Medical Area, Boston University and MIT, across the river, Fenway is in a prime location to benefit from the constrained urban markets of East Cambridge and Seaport.

FIGURE 6: Lab Market Statistics

Boston Lab	Bldgs	Total SqFt	Available (%)	Vacant (%)	Sublease (%)	Quarter Absorption	YTD Absorption	Avg Asking Rent \$ (NNN)
Back Bay	1	250,000	100.0	0.0	0.0	0	0	105.00
Seaport	16	4,426,139	32.3	0.2	0.0	242,926	436,641	103.22
Fenway/Kenmore Square	4	852,000	30.2	0.0	0.0	348,731	348,731	96.04
North Station/Waterfront	2	579,090	0.0	0.0	0.0	0	0	—
Charlestown/East Boston	5	1,176,775	0.9	0.0	0.0	103,288	103,288	77.00
Dorchester/South Boston	7	1,352,364	39.5	0.0	0.0	0	0	91.14
Allston/Brighton/Longwood	8	2,745,993	0.0	0.0	0.0	0	0	—
Others	3	472,223	11.3	0.0	0.0	25,735	25,735	—
Overall Boston Lab	46	11,854,584	21.4	0.1	0.0	720,680	914,395	100.00

Source: CBRE Research, Q3 2021

128 West Lab:

The 128 West lab market saw decreasing vacancy, ending the quarter at 2.3%, an all-time low. With limited space, asking rents continue to climb, reaching an all-time high of \$81.97 per sq. ft. (NNN). The market captured 285,000 sq. ft. of positive net absorption in the quarter and has 617,000 sq. ft. of positive absorption through the first three quarters of the year. The cities of Watertown, Waltham and Lexington all saw strong leasing.

Established clusters in Waltham, Watertown and Lexington saw solid leasing activity this quarter and are expected to remain strong with 1.6 million sq. ft. of new product to deliver in 2022. The 128 West lab market has witnessed a rapid growth in asking rents, but compared to the urban markets, still offers a cheaper alternative.

Capital Markets

The depth of capital sources seeking access to Greater Boston’s established life science submarkets has broadened over the course of the year, as Greater Boston stands out as one of the few true core investment destinations for life science real estate capital.

A dearth of stabilized investment opportunities has pushed investors into conversion/development projects as means to gain access to the sector. Projects ranging from the 135 Morrissey Boulevard in Dorchester to 3 Van de Graaff have attracted institutional capital to for conversion opportunities. Further, within the Seaport, Phase 3, Nan Fung, and Related Beal among others have found success in the conversion of existing office stock to meet the needs of early-stage life science companies.

FIGURE 7: Lab Market Statistics

Suburban Lab	Bldgs	Total SqFt	Available (%)	Vacant (%)	Sublease (%)	Quarter Absorption	YTD Absorption	Avg Asking Rent \$ (NNN)
Close-In Suburbs North	4	865,602	23.4	1.0	0.4	0	275,315	102.00
Route 128 - North	8	888,880	10.8	8.3	0.0	24,487	32,260	55.00
Route 495 - Northeast	3	603,820	16.1	16.1	0.0	0	88,184	35.00
Route 3 - North	22	2,083,696	7.8	7.8	0.0	97,710	114,710	32.63
Metro North	37	4,441,998	12.6	7.7	0.1	122,197	510,469	64.95
Route 128 - West	72	9,015,868	25.9	2.3	1.2	285,009	617,651	81.97
Framingham - Natick	10	994,768	1.0	1.0	0.0	16,647	16,647	—
Route 495 - Route 2 West	3	560,513	17.8	0.0	0.0	0	174,513	—
Route 495 - Mass Pike West	19	1,910,724	8.1	7.2	0.0	0	(24,663)	19.22
Metro West	104	12,481,873	20.9	2.9	0.9	301,656	784,148	80.96
Metro South	8	1,428,409	12.6	0.0	0.0	0	236,556	—
Overall Suburban Lab	149	18,352,280	18.2	3.8	0.6	423,853	1,531,173	78.18

Source: CBRE Research, Q3 2021

FIGURE 8: Transactions of Note

Tenant/Investor	Address	Sq. Ft.	Submarket	Type
Moderna, Inc.	325 Binney Street	462,000	East Cambridge	New
Verve Therapeutics	201 Brookline Avenue	104,000	Fenway/Kenmore Sq.	New
Gritstone Oncology	One Kenmore Square	75,000	Fenway/Kenmore Sq.	New
Resilience Therapeutics	28 Crosby Drive	74,000	Route 3 North	New
T2 Bio	290 Concord Road	70,000	Route 128 North	New
Ginkgo Bioworks	1 Au Bon Pain Way	69,000	Seaport	Expansion
Strand Therapeutics	20 Overland Street	64,000	Fenway/Kenmore Sq.	New
Finch Therapeutics	100 Hood Park Drive	61,000	Charlestown/E Boston	New

Source: CBRE Research, Q3 2021

FIGURE 9: Boston Metro Life Science Venture Capital Funding



Source: CB Insights

