

FIGURES | BOSTON METRO LAB | Q2 2023

# Leasing slows as economic uncertainty persists

▲ 5.4%  
Lab Vacancy

▲ \$97.80  
Lab Lease Rate (NNN)

▲ 17.0 MSF  
R&D Space Under Construction

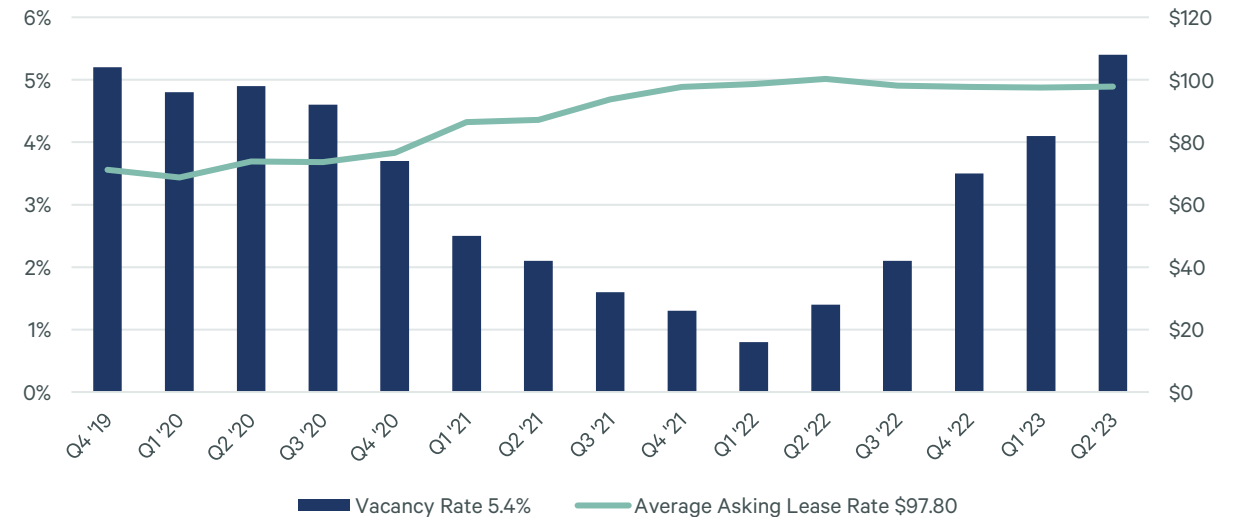
▼ 520,000 SF  
Quarterly Leasing Activity

Note: Arrows indicate change from previous quarter.

The life science industry has faced uncertainty throughout the first half of the year. After a record-setting 2021 in terms of absorption, achieved rents, and funding, the sector is in ways returning to the norm before the Covid-19 pandemic.

One aspect of the life science industry that is far exceeding the pre-pandemic levels is the development pipeline. After record-setting leasing velocity in 2021, developers across the Boston metro began planning to meet future demand. Presently, more than 17 million sq. ft. is actively under construction and demand has slowed to 2019 norms, which is likely to lead to an oversupply of space. Where 18 months ago many private companies anticipated real estate needs to align with the date of a VC round closing, today the mindset of the majority of early-stage companies is a conservative approach to real estate decisions. For many, this means remaining in an incubator space after VC funding has been raised with a focus on generating data and achieving early scientific milestones which when successful validates a company's need to grow. Behavior amongst many larger private companies is not dissimilar as they look to stay in their current space a little longer and push off expansion to conserve cash and stretch financial runways.

FIGURE 1: Lab Vacancy vs. Lease Rate



Source: CBRE Research, Q2 2023

With the broader economic downturn and higher interest rates pushing private company valuations down, big pharma has started to show more of an appetite for acquisitions. With billions of dollars in the coffers, a patent cliff looming at the end of the decade and attractive lower company valuations, acquisitions are expected to increase through the rest of the year as players with deep pockets attempt to take advantage of a down market. What these mergers and acquisitions will do to big pharma’s footprint remains to be seen.

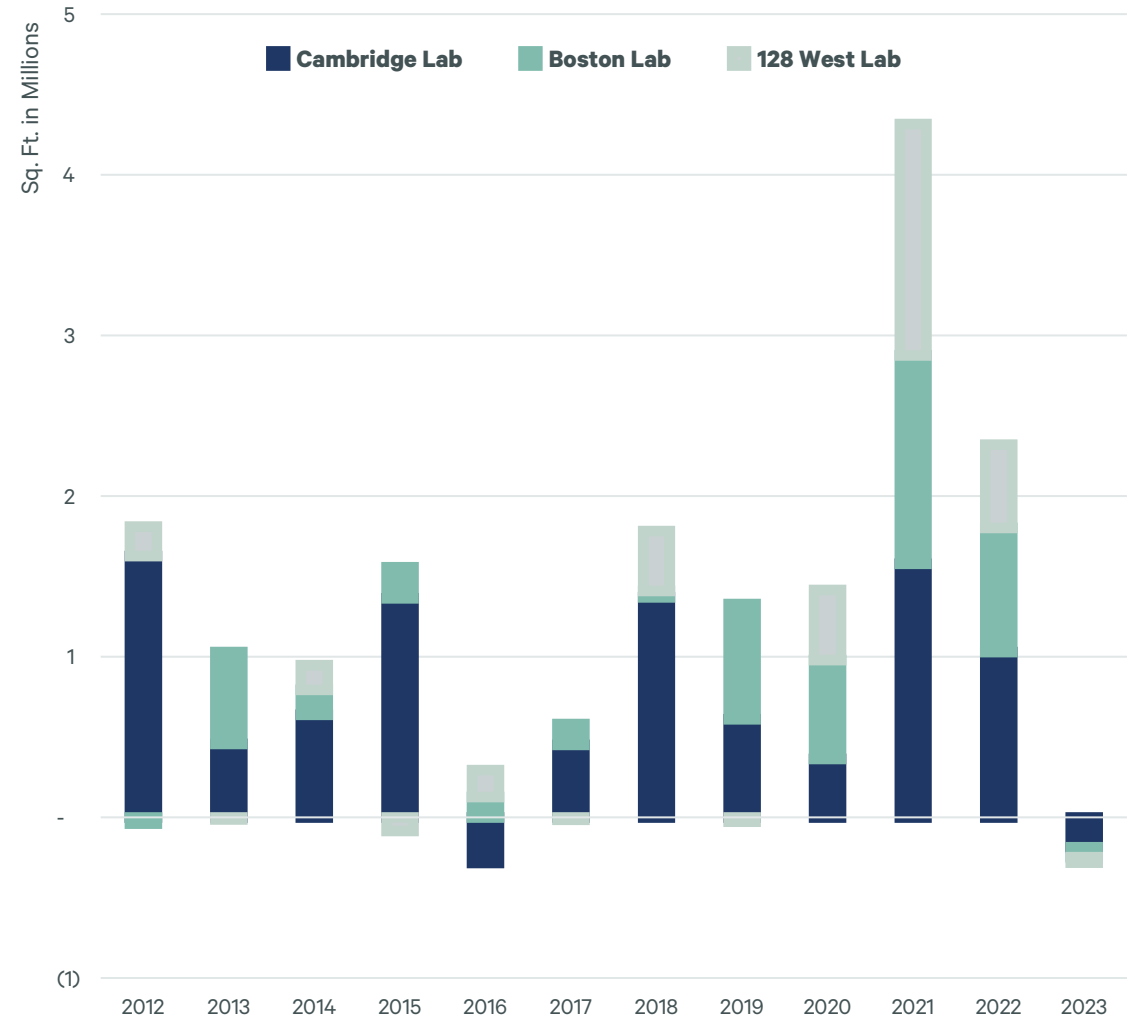
In the second quarter, Boston area life science companies raised just over \$2 billion, which is 48% of the national venture capital funding going to private life science companies. On a quarterly basis, overall VC funding is down 27.2% when compared to the last six quarters to the 2020 and 2021 quarterly average, but Series A funding is down only 3.3%. The new formation of the earlier stage companies could represent the next wave of larger tenants to expand in greater Boston over the next several years as the market rebounds.

There was 520,000 sq. ft of leasing activity during the second quarter, down from last quarter which recorded 850,000 sq. ft. of leasing. The largest deal of the quarter was Orbital Therapeutics signing for 166,000 sq. ft. at the Bristol-Myers Squibb sublease at 100 Binney Street in Cambridge. Once the deal was finalized Orbital Therapeutics then proceeded to put 71% of the space back onto the sublease market for the short term with the goal of growing into the full space over time. This deal highlights the continued desire for tenants of all sizes to be in the heart of the Boston Metro life science ecosystem, Kendall Square.

Available sublease space increased, with 1.9 million sq. ft. actively available at the end of the quarter. The 1.9 million sq. ft. of sublease is a new high, surpassing the 1.6 million sq. ft. of sublease space available last quarter. Fifty-nine percent of the current sublease availability is held by companies that are downsizing due to the economic environment or unfavorable outcomes in clinical trials. Another 33% of the sublease inventory is made up of companies that are looking to sublease space for a short term, with the expectation of retaining the space and growing into it themselves in two to three years as growth needs arise. Of the 1.9 million sq. ft., 66% is located within the Boston and Cambridge markets with the remaining 34% in suburban Boston.

The Boston Metro recorded 193,000 sq. ft. of negative absorption, only the second quarter of negative absorption in the last four years. Availability increased 210 basis points (bps) to 26.8%

FIGURE 2: Historical Absorption



Source: CBRE Research, Q2 2023

which was driven by both the negative absorption and an increasing development pipeline as developers choose to put shovels in the ground on both new and conversion projects. Vacancy increased 130 bps to 5.4% due to the delivery of new product across urban and suburban Boston.

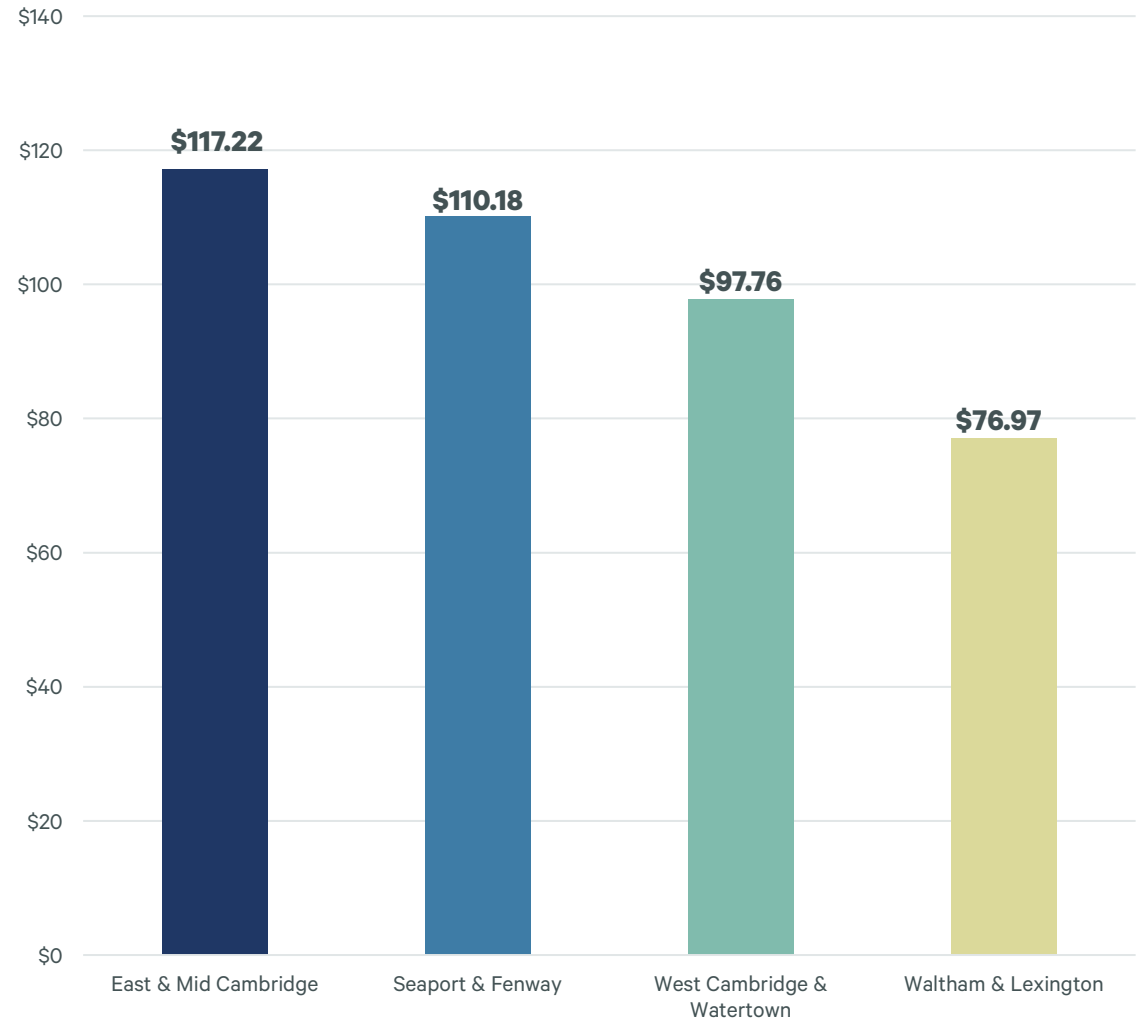
Asking rents stayed flat at the metro level, ending the quarter at \$97.80 per sq. ft. NNN. East Cambridge recorded 46,500. ft. of positive absorption and saw rents decrease by 110 bps to \$118.30 per sq. ft. NNN which still accounts for the highest rents across Greater Boston. Seaport recorded more than 100,000 sq. ft. of negative absorption almost entirely due to new sublease space hitting the market, but surprisingly Seaport’s rents remained flat quarter over quarter due to a lack of new transactions. As demand picks up in the months ahead in the Seaport, rents are expected to drop. The 495-Mass Pike West submarket recorded the most positive absorption in the quarter, 140,000 sq. ft. due to the acquisition by Moderna of a future biomanufacturing facility at 149 Hayes Memorial Drive in Marlborough.

The second quarter saw over 1.3 million sq. ft. of new and converted lab space deliver to the market, of which 57% was preleased. The active development pipeline now sits at 17 million sq. ft. after an additional 1.9 million sq. ft. broke ground during the quarter. Of the 17 million sq. ft., 15.7 million sq. ft. is located in Boston, Cambridge, Somerville, and the core 128 West submarkets of Watertown, Waltham and Lexington. These clusters are currently at a preleased rate of 30.8%. The most noteworthy project that broke ground during the quarter was Breakthrough Properties’ first phase at the Harvard Enterprise Research Center. Breakthrough Properties, a joint venture between Tishman Speyer and Bellco Capital, secured a \$750 million financing loan which helped kick off the development. The project is expected to open for tenant occupancy in late 2025.

**Capital Markets**

The arrival of the second quarter of 2023 did little to alleviate the downward pressure on the equity and debt capital markets. Continued rate hikes coupled with tightened lending standards meaningfully diluted proceeds with borrowing costs 2x-3x higher than late 2021, which weighed down overall transaction volume. These headwinds have produced mismatched return expectations for investors with neither buyers nor sellers fully ready to acquiesce to new market terms. However, underlying fundamentals remain strong from a demographic, scientific,

FIGURE 3: Direct Average Asking Rents by Submarket



Source: CBRE Research, Q2 2023

and drug pipeline standpoint, which will drive future demand when the capital markets normalize. With the bulk of the equity capital largely remaining on the sidelines (\$400 billion across strategies), stockpiled dry powder continues to pressure the life science sector particularly with office investors remaining ‘risk off.’

The transaction volume seen in Q2 did not deviate from prior quarters with levels far below the banner year of 2021. Two marquee transactions headlined Q2; The Waltham/Memorial Drive Portfolio and 15 Necco Street. Both are class A, stabilized assets and were sold on behalf of ARE. The appetite for generational placemaking in the case of Necco as well as strategic portfolio accumulation within Greater Boston’s life science market is pushing certain sectors of deal activity. We look for this trend to continue into the latter half of 2023 or until accretive leverage compresses the bid-ask spread suppressing the deal volume for value-add opportunities.

### Cambridge

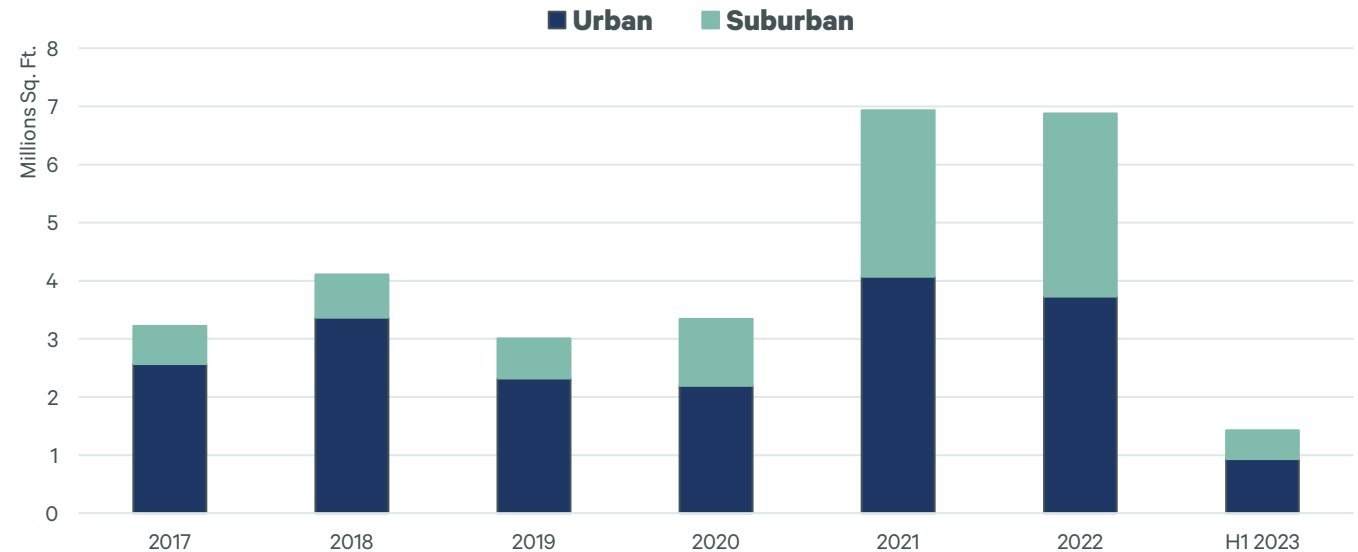
The Cambridge lab market recorded its first quarter of negative absorption since the first quarter of 2022. The second quarter ended with 192,500 sq. ft. of negative absorption with Mid and West Cambridge being the primary drivers of this negative absorption. Mid and West Cambridge recorded 126,000 and 112,800 sq. ft. of negative absorption, respectively. Asking rents across Cambridge decreased 2.6% from \$113.42 per sq. ft. NNN last quarter to \$110.50 per sq. ft. NNN in the second quarter. Availability increased 3.3% to 17.6%, largely due to new construction and conversion projects delivering with vacant space available in Mid and West Cambridge. On top of that, new sublease opportunities and direct space continues to flood the market in addition to new construction breaking ground at IQHQ’s Alewife Park campus. Vacancy grew from 2.5% last quarter to 4.1%, again due to the addition of sublease space offering immediate occupancy.

FIGURE 4: Cambridge Lab Market Statistics

Cambridge Lab	Bldgs	Total SqFt	Available (%)	Vacant (%)	Sublease (%)	Quarter Absorption	YTD Absorption	Avg Asking Rent (\$ NNN)
Cambridge - East	87	16,751,126	11.4%	2.4%	3.4%	46,548	111,489	118.30
Cambridge – Mid	7	412,639	41.1%	17.8%	0.8%	(126,266)	(119,344)	107.81
Cambridge – West	29	2,930,567	49.7%	11.7%	9.4%	(112,823)	(177,755)	102.41
<b>Overall Cambridge Lab</b>	<b>123</b>	<b>20,094,332</b>	<b>17.6%</b>	<b>4.1%</b>	<b>4.2%</b>	<b>(192,541)</b>	<b>(185,610)</b>	<b>110.50</b>

Source: CBRE Research, Q2 2023

FIGURE 5: Lab Leasing Activity



Source: CBRE Research, Q2 2023

As expected, East Cambridge was the most active submarket in Greater Boston when it comes to leasing activity, inking the three largest deals of the quarter as Kendall Square appeals to many users. Orbital Therapeutics subleased 166,000 sq. ft. at the Bristol-Squibb sublease and Novartis renewed for 100,000 sq. ft. at 700 Main Street. At the tail end of the quarter, Astellas signed a lease at DivcoWest’s Cambridge Crossing project, 441 Morgan Avenue, for 63,000 sq. ft. These leases drove absorption positive to 46,500 sq. ft. for the quarter. East Cambridge remains the tightest established cluster in Greater Boston at 2.4% vacancy which is up 50 bps from the first quarter. Availability decreased 30 bps to 11.4%.

**Boston**

The Boston life science market recorded negative absorption for the first time in the last five years. The second quarter recorded 118,700 sq. ft. of negative absorption, bringing year-to-date absorption for the first half of 2023 to 61,000 sq. ft. of net negative absorption. The negative growth was primarily driven by new subleases coming to the market in Seaport. Availability across Boston increased from 30.7% last quarter to 34.1%, driven by the sublease space as well as new construction breaking ground. Vacancy increased from 1.8% last quarter to 3.7%, and sublease rose 70 basis points (bps) to 2.4%. In Boston, 6.1 million sq. ft. actively is under construction or conversion with close to one million sq. ft. expected to deliver for occupancy by the end of 2023.

Boston’s Seaport submarket recorded its fourth straight quarter of negative absorption, with the second quarter seeing nearly 110,000 of negative absorption. Asking rents in the Seaport remained flat at \$108.49 per sq. ft. NNN while vacancy increased from 2.2% last quarter to 5.6% in the second quarter. Going forward and as new datapoints and lease comps emerge, rents in the Seaport and

FIGURE 6: Boston Lab Market Statistics

<b>Boston Lab</b>	<b>Bldgs</b>	<b>Total SqFt</b>	<b>Available (%)</b>	<b>Vacant (%)</b>	<b>Sublease (%)</b>	<b>Quarter Absorption</b>	<b>YTD Absorption</b>	<b>Avg Asking Rent (\$ NNN)</b>
Back Bay	1	250,000	100.0%	0.0%	0.0%	0	0	110.00
Seaport	21	5,449,056	33.4%	5.6%	4.9%	(109,566)	(121,315)	108.49
Fenway/Kenmore Square	6	1,767,000	56.5%	8.7%	2.9%	3,512	(2,488)	112.95
North Station/Waterfront	2	579,090	0.0%	0.0%	0.0%	0	0	—
Charlestown/East Boston	7	1,481,894	20.8%	0.7%	0.7%	0	0	85.00
Dorchester/South Boston	7	1,552,364	28.9%	7.2%	2.0%	0	75,063	92.99
Allston/Brighton/Longwood	12	4,136,993	33.9%	0.1%	0.3%	(12,636)	(12,636)	100.00
Others	4	644,688	28.6%	1.8%	0.0%	0	0	—
<b>Overall Boston Lab</b>	<b>60</b>	<b>15,861,085</b>	<b>34.1%</b>	<b>3.7%</b>	<b>2.4%</b>	<b>(118,690)</b>	<b>(61,376)</b>	<b>104.60</b>

Source: CBRE Research, Q2 2023

Boston are expected to fall slightly from the record highs previously seen. The sublease rate jumped from 3.0% to 4.9%, which directly correlated with the negative absorption.

### Suburban

The overall Suburban Boston market had 117,300 sq. ft. of positive absorption, bringing the year-to-date absorption to 142,400 sq. ft. of net positive absorption. The positive absorption was largely driven by the purchase of 149 Hayes Memorial Drive in Marlborough by Moderna. Moderna plans to expand the property by 60,000 sq. ft. and open it by the end of 2024. Despite the positive absorption, availability did increase by 30 basis points to 29.5% and vacancy increased 70 bps to 7.5%. The increase in sublease has slowed in suburban Boston and only saw a 10 bps increase since last quarter, to 2.8%.

The Route 128 West submarket recorded nominally negative absorption this quarter of 2,300 sq. ft., bringing year-to-date absorption to 33,800 sq. ft. of negative absorption. Availability saw a slight uptick from 31.8% to 32.0%, and vacancy increased from 6.4% to 8.3%. The vacancy increase was predominantly due to four projects finishing construction and delivering 150,000 sq. ft. of vacant space. Asking rents remained flat in the second quarter, ending at \$84.52 per sq. ft. NNN.

While not a life science use, this quarter's lease by Electric Hydrogen for 187,000 sq. ft. at King Street Properties' Pathway development in Devens marks the leasing momentum from advanced manufacturing users. While this activity builds, many historically focused life science facilities will likely compete for this tenancy given the adjacencies with building-specific requirements.

FIGURE 7: Suburban Lab Market Statistics

Suburban Lab	Bldgs	Total SqFt	Available (%)	Vacant (%)	Sublease (%)	Quarter Absorption	YTD Absorption	Avg Asking Rent (\$ NNN)
Close-In Suburbs North	12	3,127,702	77.8%	7.6%	1.1%	0	15,000	98.46
Route 128 - North	14	1,746,082	23.8%	4.8%	5.1%	(21,095)	57,905	69.41
Route 495 - Northeast	5	852,358	30.7%	14.8%	0.7%	0	7,472	55.00
Route 3 - North	25	2,688,860	21.9%	13.6%	2.9%	0	(39,902)	64.94
Metro North	56	8,415,002	43.9%	9.7%	2.5%	(21,095)	40,475	92.72
Route 128 - West	91	11,807,361	32.0%	8.3%	4.4%	(2,360)	(33,851)	84.52
Framingham - Natick	13	1,085,092	1.6%	0.0%	0.0%	0	0	60.00
Route 495 - Route 2 West	5	896,513	11.2%	11.2%	0.0%	0	0	52.00
Route 495 - Mass Pike West	21	2,193,163	2.3%	1.6%	0.0%	140,786	135,786	22.72
Metro West	130	15,982,129	24.7%	7.0%	3.2%	138,426	101,935	82.96
Route 128 - South	5	919,369	0.0%	0.0%	0.0%	0	0	—
Route 495 - South	4	610,278	0.0%	0.0%	0.0%	0	0	—
Metro South	9	1,529,647	0.0%	0.0%	0.0%	0	0	—
<b>Overall Suburban Lab</b>	<b>195</b>	<b>25,926,778</b>	<b>29.5%</b>	<b>7.5%</b>	<b>2.8%</b>	<b>117,331</b>	<b>142,410</b>	<b>87.39</b>

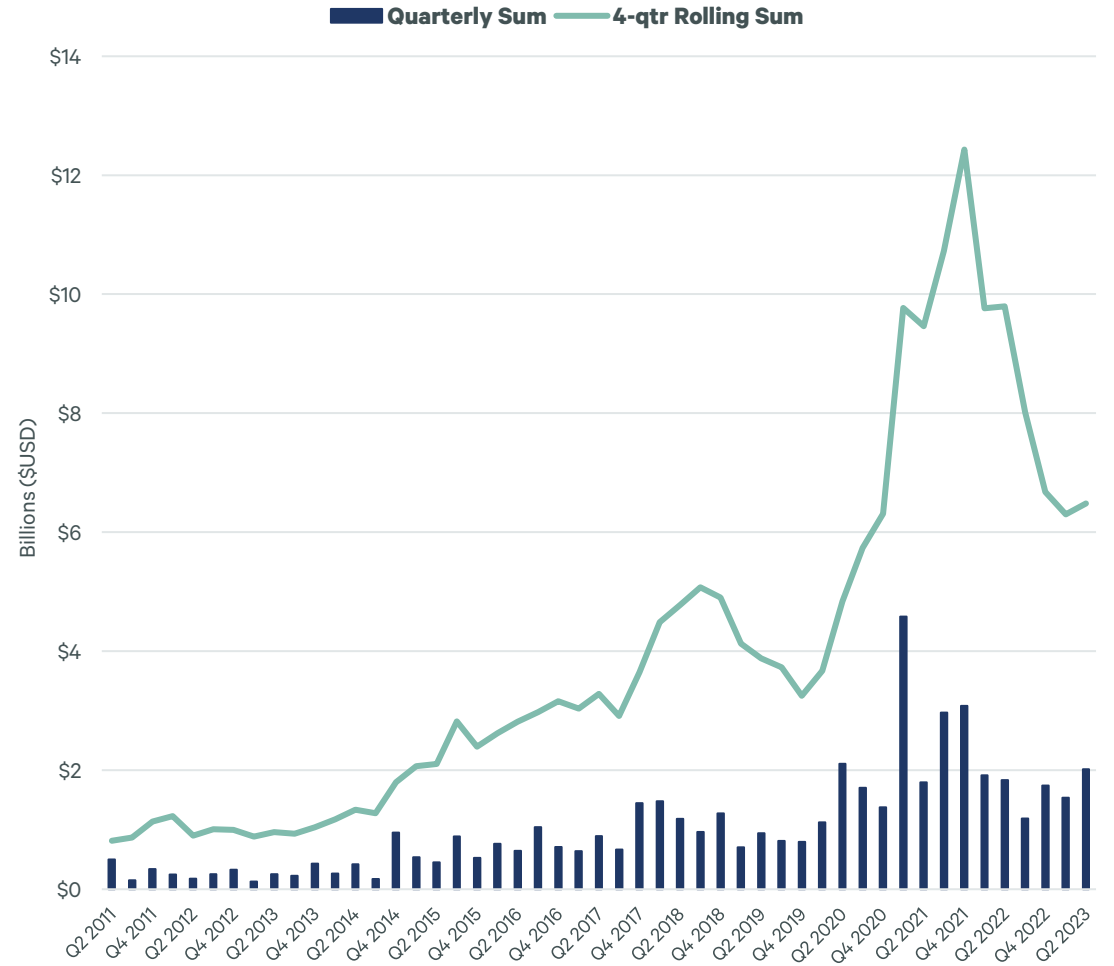
Source: CBRE Research, Q2 2023

FIGURE 8: Transactions of Note

Tenant/Investor	Address	Sq. Ft.	Submarket	Type
Orbital Therapeutics	100 Binney Street	166,000	East Cambridge	Sublease
Moderna Therapeutics	149 Hayes Memorial Drive	140,000	Rt. 495 – Mass Pike West	Sale – Owner Occupier
Novartis	700 Main Street (South)	100,000	East Cambridge	Renewal
Astellas Pharmaceuticals	441 Morgan Avenue	63,000	East Cambridge	New
Cytiva	150-170 Locke Drive	61,000	Rt. 495 – Mass Pike West	Renewal

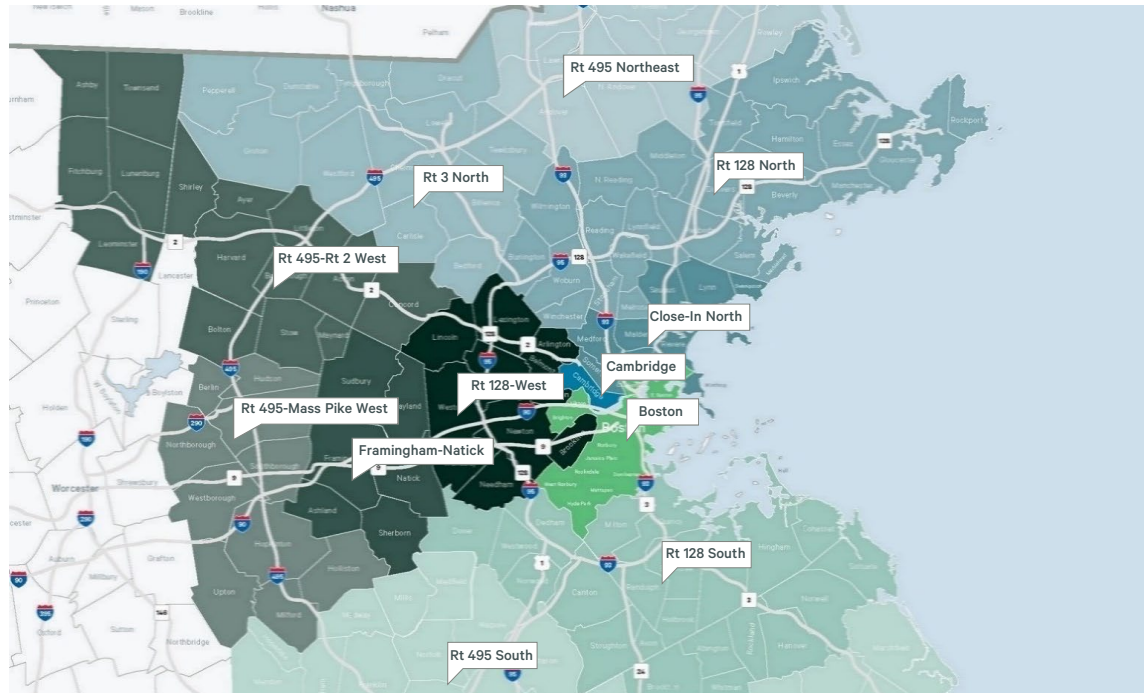
Source: CBRE Research, Q2 2023

FIGURE 9: Boston Metro Life Science Venture Capital Funding



Source: CB Insights

## Market Area Overview



## 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. **NET ABSORPTION:** The change in available 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.

## Survey Criteria

Includes all competitive buildings in CBRE's survey set for the Boston Lab Markets.

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