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Cambridge Steady In National Malaise

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While there continues to be concerns about the national economy, Greater Boston and Cambridge in particular are faring quite a bit better in this downturn than the rest of the country. Bolstered by the steadily growing life sciences sector, the Cambridge market continues to demonstrate strong market fundamentals despite an otherwise unstable economic landscape.

As we approach the end of Q2 2008, it's clear that Cambridge isn't enjoying the brisk pace of activity that it saw over the last few years. Last year was notable for large leases, the entry of global giants such as Microsoft and Google, as well as the expansion of established Cambridge-based companies like Akamai and Novartis. Volatility in the national economy has led to a slowdown in transaction volume as tenants are taking a much more cautious approach to their staffing and real estate needs.

While growth has slowed slightly, we aren't seeing the glut of sublease space returned to the market by downsizing tenants that was rampant during the 2001 downturn. This has kept the vacancy rate in check at a stable 9.4%, and has even allowed for some rent growth in the first part of the year. Office rents grew by nearly 7% during the first quarter to \$46.34 psf gross, while lab rents increased by approximately 3% to \$53.62 NNN.

Most of the current activity in the market is coming from Cambridge's bread and butter. That is, small to mid-sized companies leasing 5,000 to 15,000 square feet. MIT and Harvard remain the true drivers of this marketplace with graduates, faculty and associates that generate a dynamic entrepreneurial spirit combined with unparalleled intellect. These companies will lead the market to its next peak, and fuel the need for new development.

Two of today's most active developers are betting on the life sciences sector. Biomed Realty is presently constructing a 280,000- square-foot building at 650 East Kendall Street. Alexandria Real Estate has announced plans to start a 1.5 million-square-foot development along Binney Street between First and Third Streets.

Much has been made recently of the flight to the suburbs by Cambridge firms. However, a handful of early and mid-stage venture backed firms bucked suburban migration trends and committed to leases here. The few companies that leave the market are choosing a campus environment in which they can grow, and lower fixed real estate cost, something that comes at a higher price in Cambridge.

What is difficult to replicate is the proximity to the universities and medical centers that Cambridge offers. What is compromised is the ability to appeal to a young highly educated work force that can live and work in the same area.

Overall, the outlook for Cambridge remains very good. In the near term, growth rates will be conservative as the national economy regains its footing. As the economic picture clears, Cambridge, with its wealth of intellectual capital, will continue to be the place where technology companies locate and grow their business.

Jones Lang LaSalle's Research team contributed to this story.

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