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Cambridge Office and Lab Market Overview

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Despite the lagging national economy, the Cambridge office and lab markets have displayed resiliency and the local economy continues to exhibit positive signs. Although leasing velocity isn't as robust as 2006 and 2007, vacancy rates for lab and office space remain low at 12.1% and 7.1% respectively, while sublease space continues to be scarce at 3.2% for lab space and 1.4% for office space.

Since 2005, the Cambridge office market has experienced an average of 117,000 square feet of positive absorption per quarter. Demand in 2006 was driven primarily by Cambridge based companies expanding, while 2007 was the year numerous Blue Chip Technology companies established beachheads in East Cambridge. Google, Microsoft, Juniper Networks, Nokia, and Intel all decided that it was essential to establish operations in Cambridge to recruit the best and brightest employees in the world, many of which are graduates of the illustrious institutions of Harvard University and the Massachusetts Institute of Technology. Demand for office space from high profile tenants continues in 2008, as EMC, Cisco, Novell, Monster Worldwide, and Microsoft either look to expand or open a divisional office in Cambridge. What was once a market filled with start-ups and Cambridge based headquarters is now filled with credit worthy tenants all vying for a limited amount of Class A space in the heart of Kendall Square.

The Cambridge lab market has witnessed positive absorption in 14 of the last 15 quarters and continues to experience growth as mid-stage companies such as Alnylam Pharmaceuticals, Acceleron Pharma and Infinity Pharmaceuticals expand their footprints and start-ups including but not limited to EpiZyme, Selecta Biosciences and Aileron Therapeutics continue to attract venture capital. In an attempt to bolster their pipelines in advance of key patents expiring, big pharmaceutical companies have set their eyes on the acquisition of Cambridge based companies with promising clinical trials including Millennium Pharmaceuticals, Sirtris Pharmaceuticals, ViaCell, and Alantol Pharmaceuticals. Luckily these acquisitions have not resulted in job losses but rather are expected to generate new jobs as some of the acquiring companies, like Takeda Pharmaceutical and GlaxoSmithKline, evaluate the possibility of expanding and increasing their foothold in the market.

Not everything in Cambridge is encouraging as some tenants have reluctantly decided to relocate to the suburbs or lesser quality buildings within Cambridge. This movement is due primarily to spiking rents and a lack of large contiguous blocks of space. Pressured by 18 quarters of consistent absorption growth in the office market and a new wave of Class A landlords eager to meet aggressive pro-formas, Class A office rents in East Cambridge have increased 116% since 2005 to

\$54.95 per square foot, as of Q1 2008.

The quoted deal structure for lab-ready shell space in East Cambridge ranges from the low \$60's to the low \$70's NNN with \$125/SF in Tenant Improvements, while West Cambridge is more aggressively priced in the upper \$30's to mid \$40's NNN with \$125/SF in Tenant Improvements. Early-mid stage biotech companies have traditionally focused their leasing efforts on second generation space due to their need for space in a short time frame and their desire to not make a lengthy lease term commitment. Unfortunately good quality second generation lab space continues to be in short supply forcing many companies to make compromises with respect to their preferred locations and the way they conduct their research. An example of such space constraints are that a 25,000 square foot lab tenant and a 5,000 square foot lab tenant only have three and four options respectively to choose from.

Unlike the lab market which has grown in size from 3.3 million square feet in Q1 1999 to 7.9 million square feet in Q1 2008, the size of the office market has only grown 23 percent in this time. This has been driven by a combination of tenant demand and the attractive return on investment landlords realize by investing heavily in lab properties and achieving higher rents. There are no speculative office buildings under construction at this time that could provide immediate relief to a space constrained market. NorthPoint, which is permitted for 2.2 million square feet of commercial space in East Cambridge, is marketing build-to-suit opportunities while The Bulfinch Companies and Archon Group are doing the same for Cambridge Discovery Park and 180 CambridgePark Drive in West Cambridge.

Cambridge will continue to be well positioned in the global economy, even during a potentially uncertain economic climate. The city boasts a highly educated, skilled workforce, which is able to attract the operations of major companies in a wide range of industries.

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