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Cushman & Wakefield: Low vacancy, high leasing activity in Q1

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Boston, MA The East Cambridge lab market vacancy rate is down to a staggering 0.1%, according to Cushman & Wakefield's first quarter market research released.

Approximately 100 days ago, when Sanofi committed to 900,000 s/f at Cambridge Crossing, it didn't appear the Cambridge market could get any hotter. This has proved to be false: The decade-long Cambridge story of rising rents and non-existent vacancy continued into the first quarter of 2019. Office vacancy stands at 2.7% while the lab market started the year off with a 1.8% vacancy rate. In East Cambridge, the vacancy rate is 0.1% - or just a mere 9,700 s/f in a 6.8 million s/f market. Office rents are starting in the mid-\$90s gross, while lab rents are starting in the mid-\$90s NNN. 3% escalations per year are now the norm.

The overall vacancy is 5.9% – the lowest in Cushman & Wakefield's recorded history – with one exception. In 2000, vacancy totaled 4.7%. Tight conditions mean rents continue to rise and large blocks of space are limited. Just five contiguous blocks more than 100,000 s/f are available: 601 Congress St., 200 Berkeley St., One Post Office Sq., 100 Summer St. and 10-20 Channel Center.

It was business as usual in the suburbs where life science activity and new construction are still grabbing headlines. Lab space conversions are also occurring in earnest. 45-55 Hayden Ave. in Lexington is in the process of being repositioned by King Street Properties, in addition to a speculative lab build at 75 Hayden Ave. Boston Properties has commenced the conversion of 200 West St. in Waltham and 33 Hayden Ave. in Lexington to lab space.

Boston: First quarter fundamentals are pointing to another banner year in the city. Absorption totaled just over 800,000 s/f – the strongest first quarter in 13 years. This is predominantly due to the ongoing growth of WeWork and the delivery of new construction.

- 40 Water St. delivered 100% leased to Digitas (220,000 s/f) and WeWork (140,000 s/f).
- EZCater committed to 100% of the WeWork space prior to delivery.
- WeWork also committed to 240,000 s/f of former State St. space at One Lincoln St.
- In Other WeWork news, the co-working company leased 31,000 s/f on the 5th and 6th floors of 711 Atlantic Ave.

- Seaport class A vacancy now stands at a mere 0.7% - conditions as restrictive as in Kendall Sq.
- Migration into Boston is continuing in earnest as Medidata committed to 117,000 s/f at 110 High St. (50 Post Office Sq.). It will relocate from 30,000 s/f in Waltham.
- Haemonetics also leased 62,000 s/f at 125 Summer St. It will relocate its global headquarters from Braintree.
- In other construction news, State Street will relocate its headquarters from One Lincoln St. into 500,000 s/f of new space One Congress St. in 2023.

Cambridge: Overall lab vacancy stands at 1.8%, but in East Cambridge, it's effectively non-existent – at 0.1%. In the Mass. Ave. corridor, vacancy is just 0.2%. Cushman & Wakefield is currently tracking nearly 3 million s/f of pent-up demand, so it seems unlikely that conditions will cool off any time in the near future.

Three significant tenants relocated into the newly constructed 35 Cambridgepark Dr., also known as Alewife Research Center:

- Syros Pharmaceuticals leased 53,000 s/f;
- Eisai took 48,000 s/f; and
- Ribon Therapeutics relocated from Lexington into 27,000 s/f.

On the sales front, The Carlyle Group sold 87 Cambridgepark Dr. to HCP, Inc. for \$1,087 per s/f.

There is speculation that another lab property is in the process of being sold for \$1,800 per s/f.

This would make it the most expensive building (on a square footage basis) to be sold in the U.S. in the past 24 months – just behind Google's purchase of New York's Chelsea Market last year which commanded \$1,998 per s/f.

And speaking of Google, the company committed to 360,000 s/f at the under-redevelopment 325 Main St. in Kendall Sq. That project is anticipated to be completed in 2022. This brings Google's total Cambridge footprint to nearly 1 million s/f.

Suburbs: 2018 was the second consecutive year of noteworthy life science leasing activity in the suburbs – and the streak continued through the first quarter of 2019. As availability in Cambridge grows increasingly prohibitive, many life science tenants continue to seek rent relief in the Inner Suburbs and along Rte. 128.

- Dicerna Pharmaceuticals committed to 80,000 sf at 33 Hayden Ave. in Lexington;

- Tesaro renewed in 210,000 sf at 1000 Winter St. in Waltham;
- 200 Smith St., Waltham, which delivered completely vacant in the third quarter of 2017 is now nearly 50% leased;
- Elevate Bio committed to 146,000 s/f and Deciphera Pharmaceuticals will occupy 45,000 s/f in April of 2019.

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