

Lab Report

Boston | Cambridge | Suburbs

Q1 2024

Lincoln

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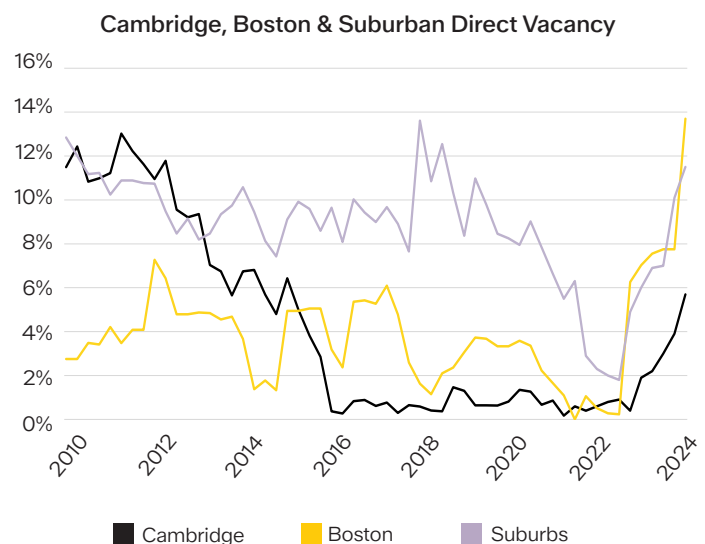
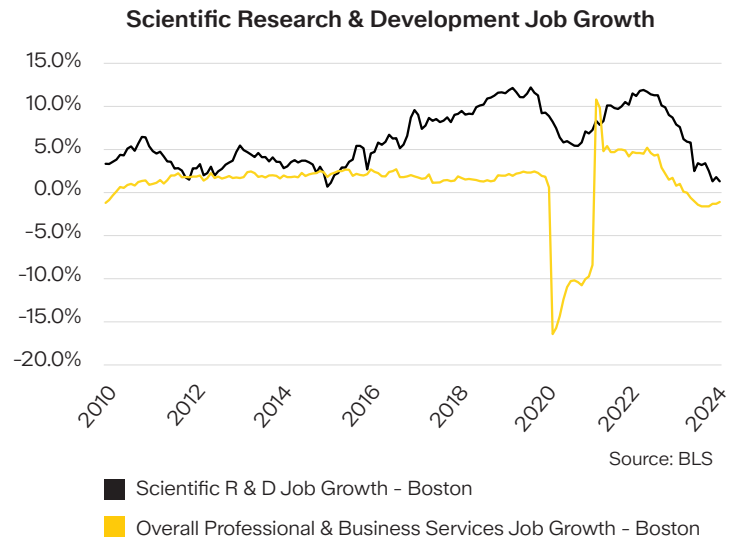
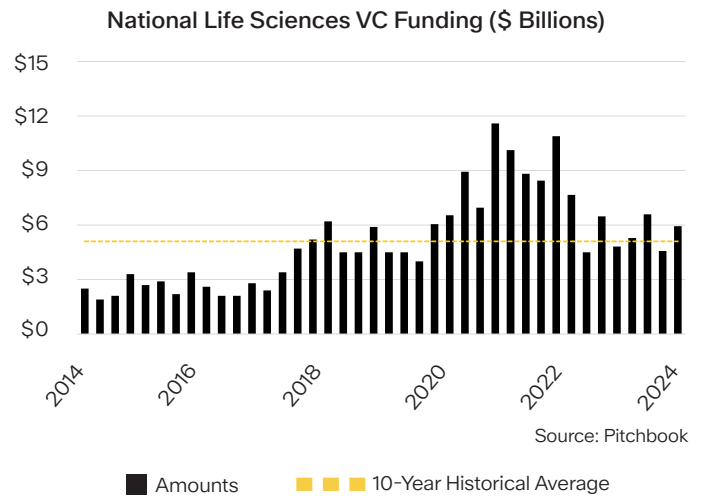
Overview

The Boston Lab Market endured another challenging quarter to start 2024, with vacancies increasing to their highest point in more than a decade. Sublet rates also increased and nearly 18% of the market's total existing inventory was available at the end of Q1 2024. Vacancy rates roughly doubled in both Class A and Class B inventory over the last 12 months, as Class A demand did not keep pace with the sizable supply pipeline and the Class B market struggled to attract meaningful leasing velocity. Boston and the suburbs combined for more than 1 million square feet of net absorption since the end of Q1 2023, which is one of the strongest non-Cambridge totals in the market's history. But in the same time frame these locations also took on about 4 million square feet of new inventory. Cambridge was less exposed to supply shocks, but tenant move-outs increased its Class B vacancy rate from less than 1% to 13.3%.

The supply pipeline remains a critical factor to the market's dynamics. More than 12 million square feet has delivered since the start of 2021, which is roughly a 33% inventory increase. The pipeline is still loaded, with about 17 million square feet under construction and an additional 30 million square feet permitted. The abundance of new space on the market is a major contributing factor to the rise in vacancies, with roughly 50% and 33% of the space delivered last quarter and in the last year remaining unleased, respectively. Increased vacancies and softened demand drivers have tightened the scope of the pipeline. More than half the space delivered since 2021 was in conversion projects, many of which were suburban, but more than three-quarters of the under-construction inventory is purpose-built, with a heavy focus on the urban core.

Looking Forward

The supply pipeline will continue to pressure fundamentals, and the market needs a demand boost to keep pace with recent and upcoming deliveries. Venture capital investment was a critical driver of biotech growth in the early years of the pandemic, but funding declined in each of the last two years as interest rates were lifted. While Boston has not been immune from this macroeconomic problem, the region continues to stand out globally and lead on most per-capita metrics. Massachusetts received about 35% of national biotech VC investment last year, only slightly trailing California, which has a GDP five times greater. The Bay State also ranked first in per capita funding from the NIH, more than doubling every competitor, except for Maryland- where the organization is headquartered. The drug pipeline in Massachusetts is also robust, at about one-third of the total for all of Europe, despite Europe's GDP being 33 times larger. These impressive numbers are a testament to the culture of innovation in Cambridge and Greater Boston and position the market well for future demand, especially once macroeconomic factors tilt back into the favor of biotech.



Cambridge

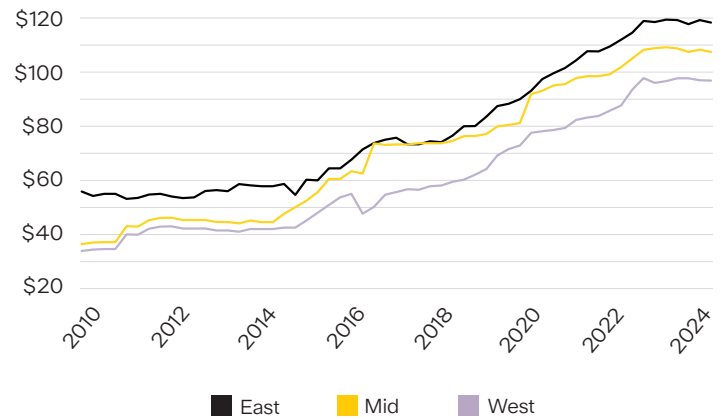
Over the last 12 months vacancies and sublet rates in Cambridge roughly doubled and tripled, respectively. Vacancies have now increased for five consecutive quarters and finished Q1 2024 at 5.7%. Despite these headwinds, the top of the Cambridge market remains in excellent shape. Class A occupancies are considerably stronger than those of Boston and the suburbs, and East Cambridge has the lowest vacancy rate of all large lab submarkets in Greater Boston. Five of the six largest life science leases signed since the start of 2023 were in Cambridge and the city remains the most popular choice for the largest and highest credit tenants. Bristol Myers Squibb and Moderna were among the notable tenants that started leases in new construction last year, each moving into between 450,000–500,000 square feet in East Cambridge. In the current Kendall Square pipeline, Takeda is committed to the 600,000-square foot 585 Third Street, while AstraZeneca leased the 570,000-square foot 290 Binney Street. Takeda also signed the largest lease in Greater Boston of the first quarter, extending its 222,000-square foot space at 75-125 Binney Street for 10 years.

The depth of Cambridge’s life sciences market has been challenged during the recent downturn. The Mid and West Cambridge submarkets have a combined vacancy rate of more than 12%, and the city’s overall Class B vacancy rate is more than 13%, compared to about 4% for Class A. Class B net absorption was negative by about 170,000 square feet last quarter, with most losses occurring in Mid Cambridge. Startup activity and funding is becoming more geographically diversified. Cambridge companies received approximately 42% of total biotech VC funding in Massachusetts last year, the fourth consecutive year this number declined and down from 63% in 2019.

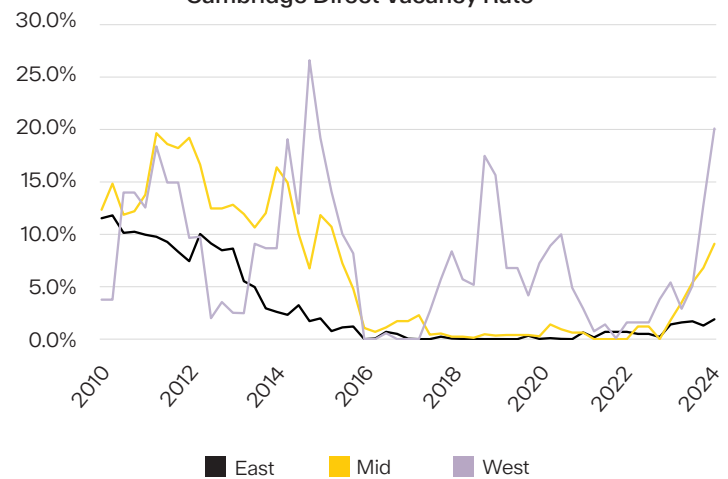
Top Leases

	SF
Takeda 75-125 Binney St, Cambridge East Cambridge	225,025
ADA Forsyth Institute 100 Chestnut Street, Somerville Inner Suburbs North	75,476
BPG Bio 300 Third Ave, Waltham 128 West	70,000
Ande 266 Second Avenue, Waltham 128 West	46,040
BioLabs 134 Coolidge Avenue, Watertown 128 West	21,224

Cambridge Average Asking Rate



Cambridge Direct Vacancy Rate

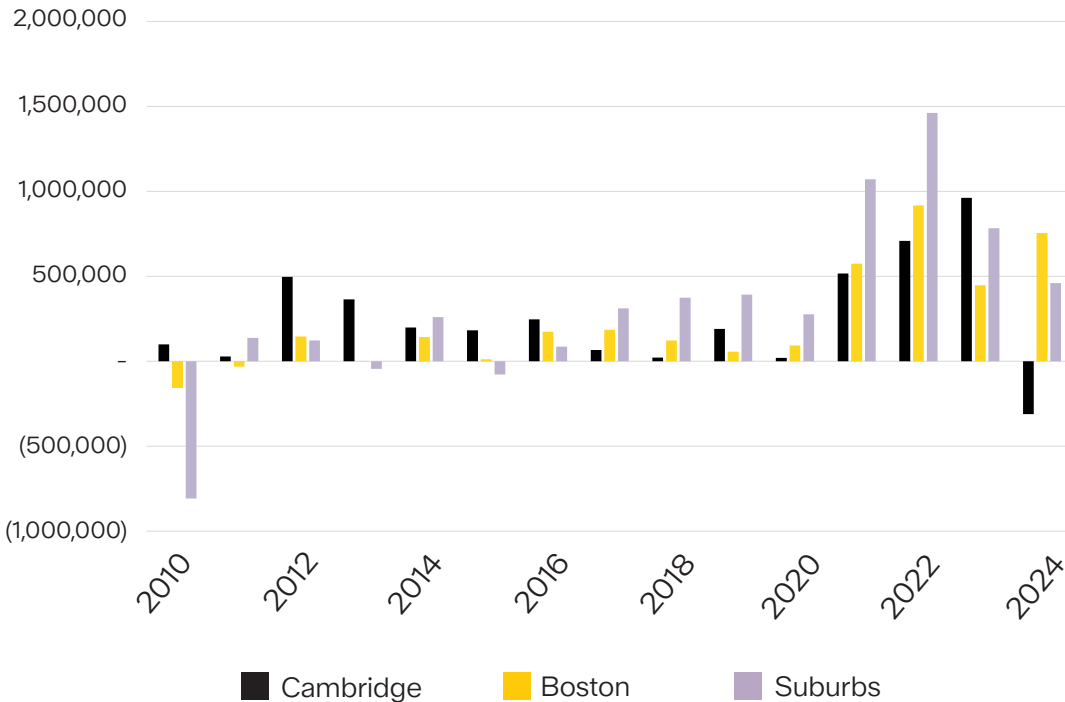


Boston

Lab vacancies increased by about 500 basis points in Boston over the last 12 months, as demand failed to keep pace with the sizable supply pipeline. About 1.7 million square feet delivered in this time, roughly 45% of which is vacant. Altogether more than 3 million square feet has delivered since the second half of 2022, and unleased space in these properties account for about 95% of all vacant lab space in Boston. Supply pressures will continue, with more than 5 million square feet under construction, and another 18 million square feet permitted. More than 80% of the under-construction space is still available for lease.

New supply has stressed occupancy rates, but also provided a boon to demand. Boston net absorption in Q1 2024 exceeded that of Cambridge or the suburbs, reaching about 750,000 square feet. The largest move-in occurred at 400 Summer Street in the Seaport, where Foundation Medicine’s approximately 600,000-square foot headquarters opened. The company listed 125,000 square feet of the property for sublease, however, and demand for new inventory in Boston has slowed in recent quarters. Since the second half of last year no new leases for more than 25,000 square feet were signed. The return of these larger lease deals will be critical to the health of the Boston lab market. The median lab space available in the city is about 27,000 square feet the largest median availability of any section of the metro.

Annual Net Absorption (SF)



Suburbs

Suburban lab vacancies increased from about 10% to 11.5% in Q1 2024 and roughly doubled over the last 12 months. About 560,000 square feet delivered last quarter, nearly half of which is still available for lease, which contributed to increased vacancies. New supply has also driven notable demand to the suburbs in recent quarters. Two of the top three lab leases across Greater Boston last quarter were for first generation suburban lab space. The ADA Forsyth Institute leased 75,476 square feet at 100 Chestnut Street in Somerville, which delivered in Q4 2023. The oral health research organization will relocate from Kendall Square on a 15-year term once the deal commences in early 2025. In Waltham, Lincoln Property Company signed BPG Bio to 70,000 square feet at 300 Third Ave. The AI-powered company will relocate from Framingham when its lease begins in June 2025. Lincoln Property Company has now filled 75% of 300 Third, compared with an average leaseup rate of 65% for all non-Cambridge deliveries since the start of 2023.

Development

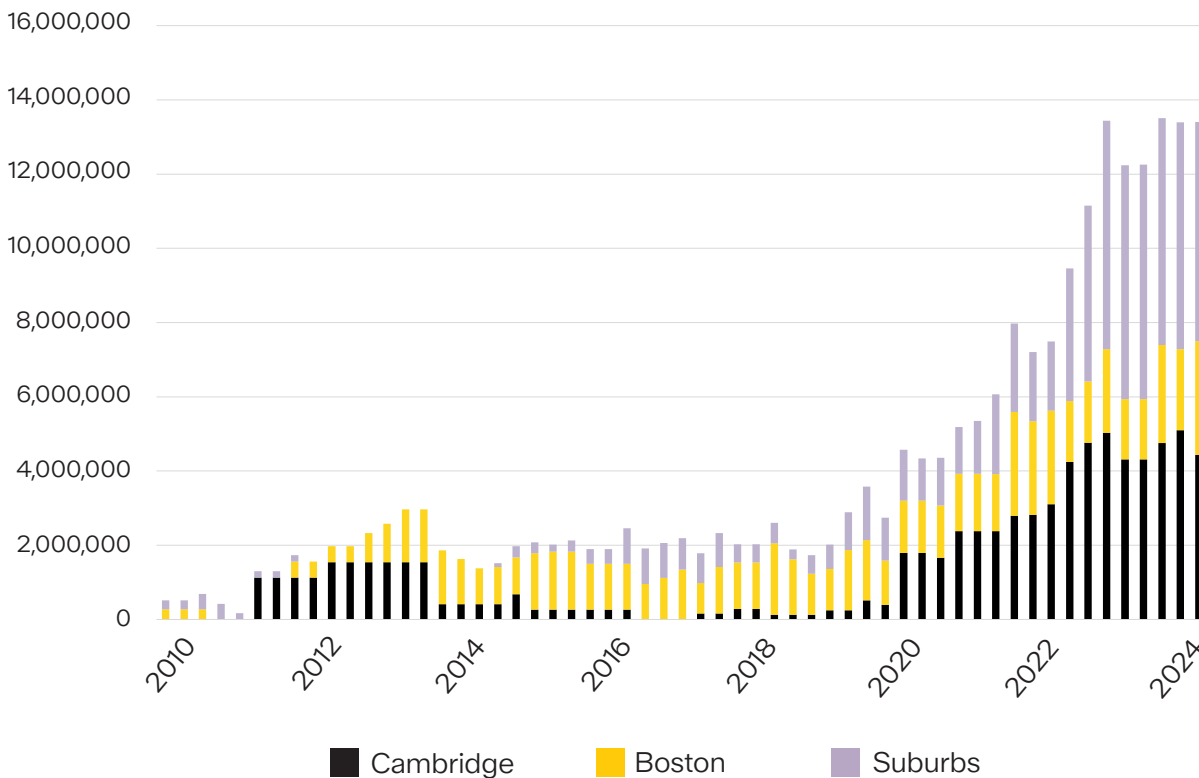
The development pipeline remains near a record high, with roughly 17 million square feet under construction, and another 30 million square feet permitted. The city of Boston has about 5 million square feet under construction, mostly located in the Seaport and Fenway. Several Seaport projects are build-to-suits for Big Pharma tenants, including future homes for Eli Lilly, Vertex Pharmaceuticals, and Ginkgo Bioworks, which will total nearly 900,000 square feet combined. Outside of these buildings, however, almost no preleasing has occurred for the rest of the city's pipeline.

More than 7 million square feet is under construction in the suburbs, where construction costs are lower and space is less constrained. Nearly half of the underway suburban space is in Somerville and Watertown. Both locations border Cambridge, making them natural targets for sprawl from the market's epicenter. Watertown projects have had more leasing success, with about 20% of the total space spoken for, while almost no preleasing has

yet occurred in the Somerville developments. Large projects that are still fully available for lease include the 495,000-square foot first phase of Assembly Innovation Park and the 468,000-square foot 74 Middlesex Avenue in Somerville, and the nearly 500,000-square foot office-to-lab conversion of 705 Mt. Auburn Street in Watertown.

As the market's fundamentals have softened, the pipeline is shifting to the urban core. Roughly one-third of all space delivered since 2020 and under construction is located outside of Cambridge, Boston, and the Inner Suburbs North submarkets. Of all permitted space, however, just 15% is in the 128-belt or outer-ring suburbs. Projects under construction in Cambridge, Boston, and the Inner Suburbs have preleased at about twice the rate of their suburban counterparts. Developers are also increasingly favoring purpose-built projects rather than conversions. Just 60% of converted space opened since 2021 are leased, compared with about 95% of ground-up projects.

Cambridge, Boston & Suburban Lab Under Construction (SF)
(Excluding Conversions)



Investment Sales

No trades of existing life science properties closed in Q1 2024, continuing last year's trend of muted investment activity. Most deals in 2023 were recapitalizations or involved Alexandria Real Estate Equities rightsizing its portfolio. The REIT sold more than \$1 billion of non-core assets nationally, mainly in Massachusetts. So far in 2024, the company has flipped back to the buyer side, acquiring two development sites in Boston. Alexandria purchased F.W. Webb's former store and showroom in South

Boston in January for \$43 million. The property is located on Dorchester Avenue, where several lab and mixed-use projects are in the permitting stages. In early April the Southern California-based firm also purchased the WBZ-TV studio site in Allston from The Mount Vernon Co. for \$7 million. The site was permitted for lab development in January 2023.

Top Sales

	Price	PSF	Buyer	Seller
307 Dorchester Ave Boston: South Boston	\$43 Million	\$879	Alexandria Real Estate Equities	F.W. Webb Company

Lab Stats Q1 2024

Submarket	RSF	Direct Vacant	% Vacant	% Sublease	% Avail	Net Absorption - Direct Space	12 Month Absorption	(NNN) Asking Rate
Fenway	3,294,503	152,183	4.6%	4.4%	9.0%	(40,000)	(31,653)	-
Seaport	4,251,954	618,272	14.5%	8.6%	23.5%	593,174	918,144	-
Boston Total	10,094,314	1,385,631	13.7%	6.7%	20.6%	754,841	1,088,158	\$105.88
East Cambridge	11,225,721	214,741	1.9%	8.2%	12.2%	(73,212)	595,925	\$118.29
Mid-Cambridge	4,348,738	395,704	9.1%	9.9%	21.7%	(100,613)	(319,306)	\$107.47
West Cambridge	1,869,358	376,186	20.1%	10.1%	30.2%	(137,738)	(10,498)	\$96.87
Cambridge Total	17,443,817	986,631	5.7%	8.8%	16.5%	(311,563)	266,121	113.30
128 West	10,114,991	1,135,310	11.2%	8.0%	18.9%	156,459	746,006	\$75.91
495 Mass Pike	2,899,250	50,110	1.7%	0.0%	8.5%	-	(19,511)	\$45.10
128 North	1,810,191	125,036	6.9%	9.0%	17.7%	124,089	135,296	\$50.29
495 Northeast	568,275	165,331	29.1%	7.9%	41.3%	56,653	(49,624)	\$36.50
Inner Suburbs North	3,227,562	698,977	21.7%	1.8%	22.5%	119,429	(141,780)	\$54.00
Route 3 North	2,017,132	232,252	11.5%	4.3%	15.8%	3,580	324,210	\$48.34
Northern Suburbs	7,623,160	1,221,596	16.0%	4.6%	21.0%	303,751	268,102	\$50.32
128 South	309,082	-	0.0%	0.0%	0.0%	-	-	\$36.00
495 South	30,882	9,354	30.3%	0.0%	30.3%	-	-	-
Southern Suburbs	339,964	9,354	2.8%	0.0%	2.8%	-	-	\$32.73
Suburban Total	20,977,365	2,416,370	11.5%	5.6%	18.0%	460,210	994,597	\$61.65
All Lab	48,515,496	4,788,632	9.9%	7.0%	18.0%	903,488	2,418,690	\$89.42

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