

Lab Report

Boston | Cambridge | Suburbs

Q2 2024

Lincoln

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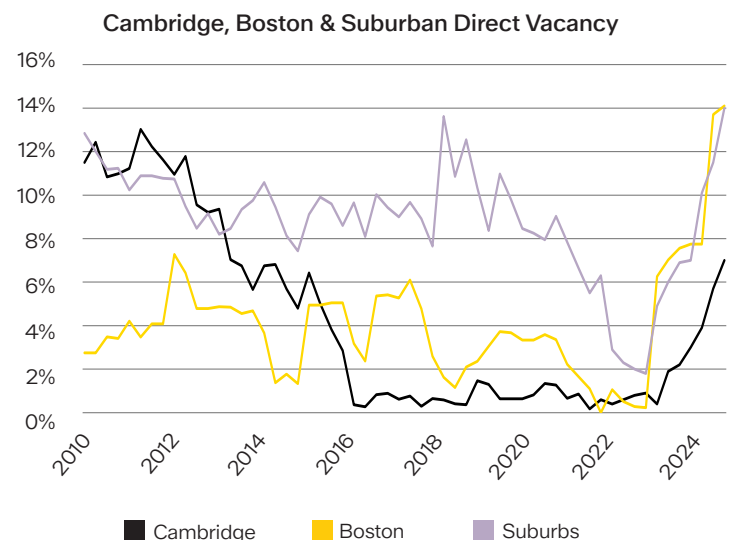
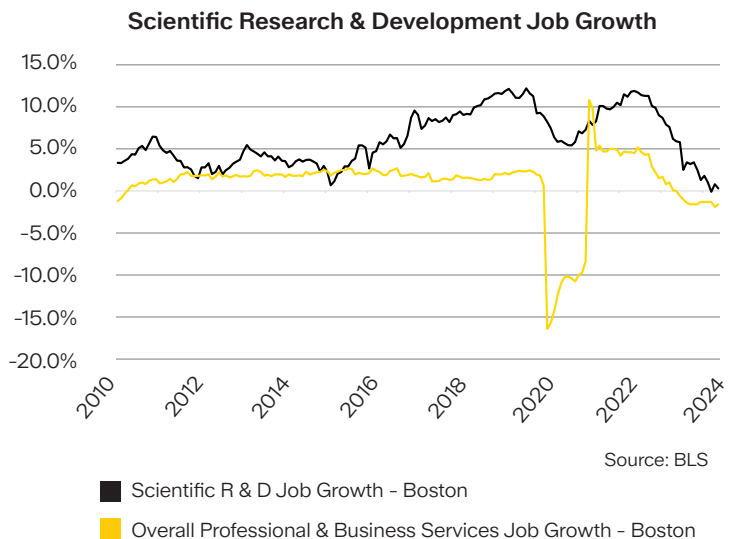
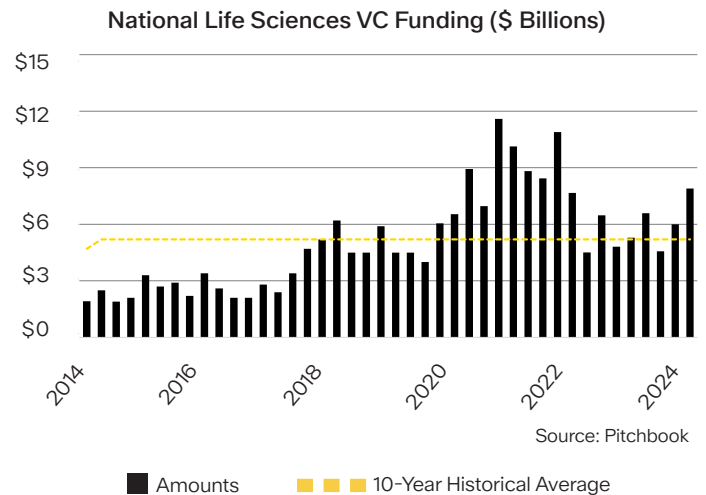
Overview

The Boston Lab Market experienced another tough quarter in Q2 2024, with net absorption negative by roughly 150,000 square feet. Vacancies increased to a new peak of 11.5% and more than doubled in both the Class A and Class B segments over the last 12 months. The sublet rate declined slightly, but total availability rates still increased to nearly 20%. Few notable leases were signed and net absorption in the Class A segment was negative for just the second quarter since 2020. Class A net absorption over the last 12 months was much stronger, however, nearly reaching 2 million square feet, while Class B demand shrunk by more than 300,000 square feet. Investors have cooled on lab space given the rise in vacancies and high borrowing costs, and no trades closed in the first half of 2024.

Leasing at new construction is slowing, while the supply pipeline remains loaded. More than 13 million square feet has delivered since the start of 2021, which represents a roughly 33% inventory increase. More than 70% of the space delivered in Q2 2024 was vacant at opening, compared with just 25% of space delivered in Q2 2023. About 15 million square feet is under construction, roughly 80% of which is still available for lease, and another 30 million square feet is permitted. The scope of the pipeline has tightened to ground-up projects in core submarkets in response to slowing leasing activity. Conversion projects accounted for close to 60% of space delivered from 2021-23, but just 30% of new space in the first half of 2024. Nearly 60% of space under construction is in Cambridge or Boston, compared with less than half of space delivered from 2021-23.

Looking Forward

As the last few years have demonstrated, the health of the lab market is highly dependent on interest rates and the funding ecosystem. Venture capital investment was a critical driver of biotech growth in the early years of the decade, but funding declined in each of the last two years as interest rates were hiked. With startups strapped for cash, more than 25 local biotech companies cut over 2,000 jobs combined in the first half of 2024. On the bright side, VC funding is picking back up, with Q2 2024 reaching its highest quarterly total since Q1 2022. About \$14 billion was raised nationally in the first half of 2024, placing it on pace to roughly match its totals from 2022 and 2020. NIH funding is also on pace to increase from last year's total. This increased cashflow should eventually translate to demand growth. Massachusetts leads all states in per capita funding from both the private and public sectors, a testament to the culture of innovation and attractive biotech ecosystem in the Boston area.

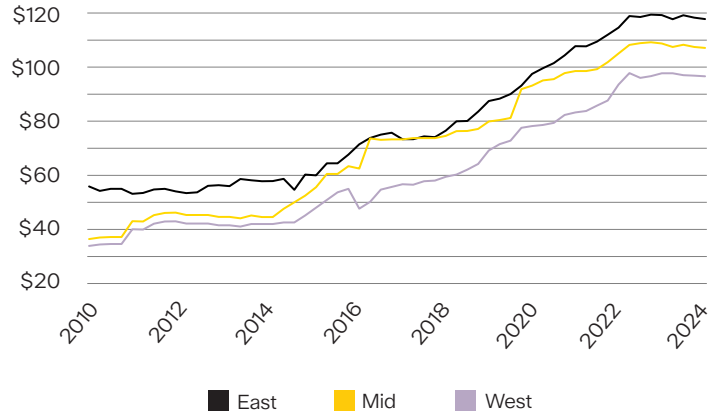


Cambridge

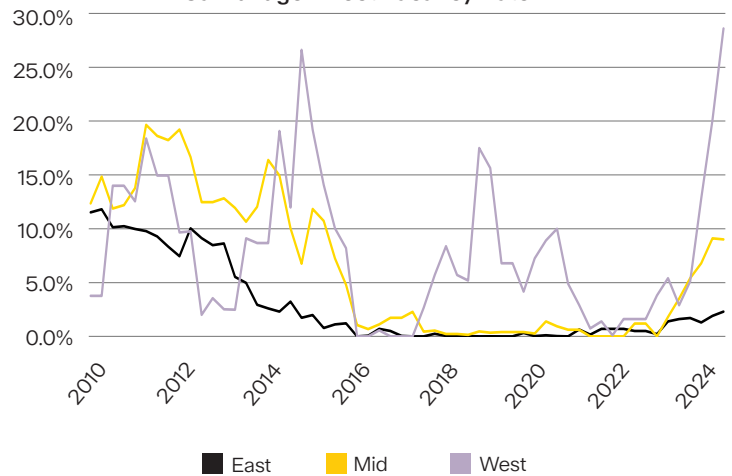
Cambridge vacancies have increased for six consecutive quarters and reached 7% at the halfway point of 2024. Net absorption was negative by about 80,000 square feet last quarter and by about 40,000 square feet cumulatively over the last 12 months. Cambridge still has much tighter vacancies than Boston and the suburbs and occupancies in East Cambridge are near 98%. Most absorption losses over the last year occurred in Mid Cambridge and West Cambridge. The Class A market is also in a much stronger position than Class B, with a vacancy rate of 5.5%, compared with 16.1% for the lower-rated inventory. Cambridge has the highest sublet rate in the metro, at 8.3%.

Cambridge accounted for most of the metro’s leasing activity last quarter, although volume was low by historical standards. There were commonalities among the top deals, each being spec suites in new construction in the 10,000-15,000-square foot range. At One Canal Park, oncology startups Larkspur Biosciences and Incendia Therapeutics leased 12,650 square feet and 11,650 square feet, respectively. Deep Genomics, which seeks novel therapies through AI, also leased 11,650 square feet at One Canal Park, which is now roughly 30% preleased. Samsung SDI signed a 10-year lease for 13,604 square feet at 101 Smith Place in West Cambridge, which delivered last quarter. Roughly 87% of the property is still on the market.

Cambridge Average Asking Rate



Cambridge Direct Vacancy Rate



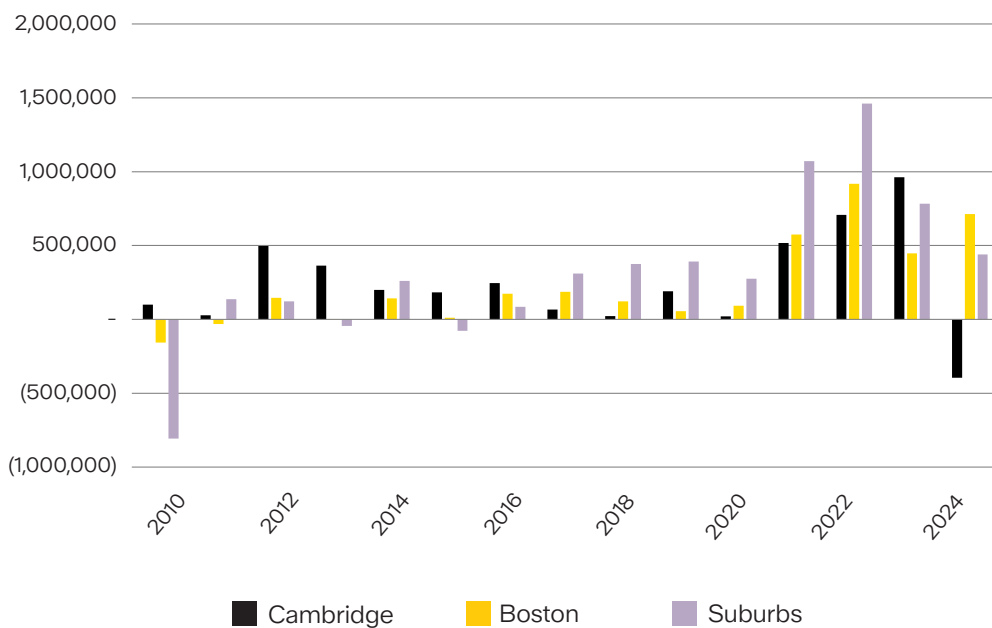
Top Leases

	SF
Samsung SDI 101 Smith Place, Cambridge West Cambridge	13,604
Larkspur Biosciences 1 Canal Park, Cambridge East Cambridge	12,650
Incendia Therapeutics 1 Canal Park, Cambridge East Cambridge	11,650
Deep Genomics 1 Canal Park, Cambridge East Cambridge	11,650

Boston

Vacancies increased to about 14% in Q2 2024, as Boston struggled to generate leasing activity. Vacancies roughly doubled over the last 12 months, despite nearly 800,000 square feet of positive net absorption, due to the sizable supply pipeline. The supply wave has stressed fundamentals over the last couple years, with conversion projects having an especially tough time filling space. Roughly 45% of all inventory opened since the halfway point of 2022 is vacant, but that number jumps to 75% for conversion projects. Unleased space in recently delivered conversion projects accounts for more than 90% of all vacant space in Boston. Supply pressures will continue, with nearly 5 million square feet under construction, more than 80% of the which is still available for lease. 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, which is the largest median availability of any section of the metro.

Annual Net Absorption (SF)



Suburbs

The suburban vacancy rate increased by about 250 basis points to 14% last quarter. Net absorption was negative despite the opening of roughly 700,000 square feet of new space. More than 80% of the recently delivered inventory is vacant. The sublet rate also increased last quarter in the suburbs, unlike in Cambridge and Boston, and the suburban market has now overtaken Boston for the highest total availability rate. The Class B segment was a positive aspect, with net absorption exceeding 100,000 square feet and vacancies compressing by more than 100 basis points. Class A, on the other hand, saw absorption drop by more than 100,000 square feet and vacancies increase.

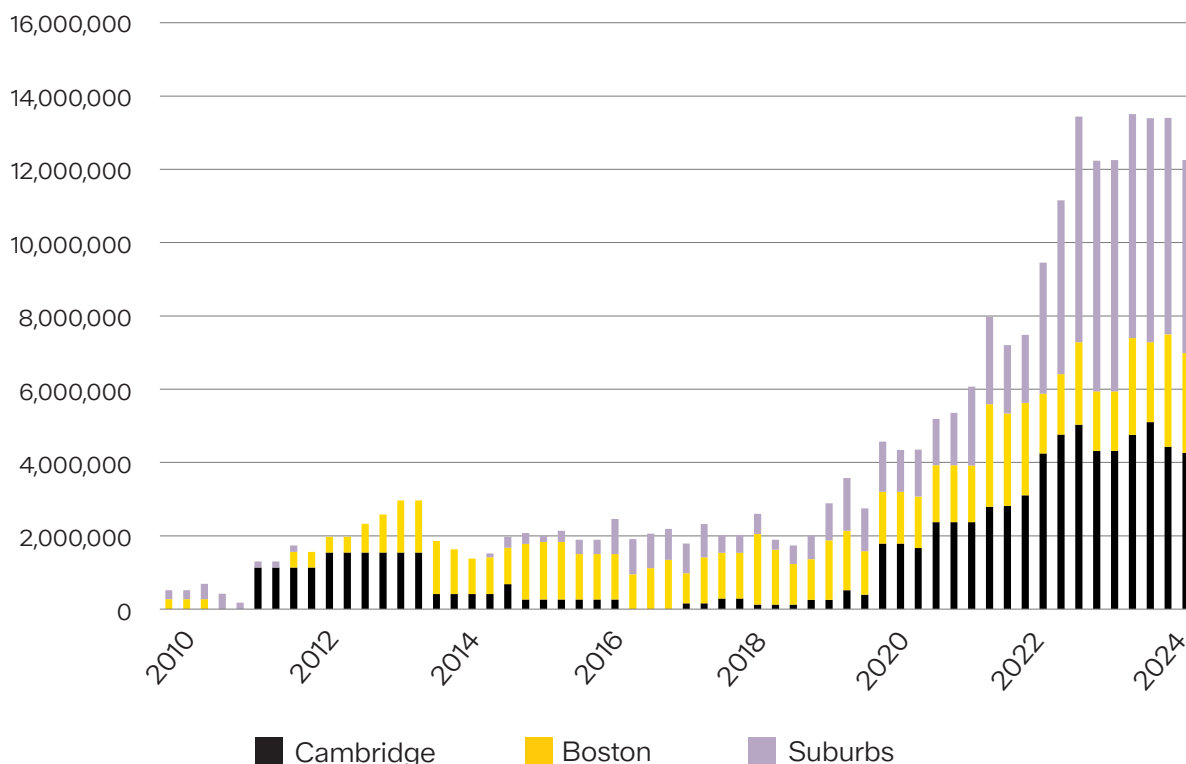
Few notable deals were inked last quarter, but two of Greater Boston's largest deals in Q1 2024 were for first generation suburban lab space. The ADA Forsyth Institute leased 75,476 square feet at 100 Chestnut Street in Somerville, which delivered in Q4 2023. The oral health research organization will 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 58% for all non-Cambridge deliveries since the start of 2023.

Development

The development pipeline remains near a record level, with roughly 15 million square feet under construction, although this number declined from the previous quarter. With fundamentals struggling, projects are moving slower in the pipeline and ground-breakings didn't keep up with the more than 1 million square feet delivered last quarter. 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, almost no preleasing has occurred for the rest of the city's pipeline.

More than 6 million square feet is under construction in the suburbs, where construction costs are lower and space is less constrained. More than one-third 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 taken, 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.

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



Investment Sales

No trades of existing life science properties closed in the first half of 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.

Lab Stats Q2 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%	2.0%	9.7%	-	(40,000)	-
Seaport	4,251,954	659,829	15.5%	8.3%	23.9%	(41,557)	534,474	-
Boston Total	10,094,314	1,427,188	14.1%	5.7%	20.9%	(41,557)	765,955	\$104.13
East Cambridge	11,225,721	259,020	2.3%	5.0%	9.3%	(44,279)	570,492	\$117.75
Mid-Cambridge	4,348,738	392,542	9.0%	10.8%	22.9%	3,162	(243,112)	\$107.09
West Cambridge	2,030,974	580,572	28.6%	8.6%	37.2%	(42,770)	(365,607)	\$96.60
Cambridge Total	17,605,433	1,232,134	7.0%	6.9%	15.9%	(83,887)	(38,227)	\$112.68
128 West	10,809,991	1,819,619	16.9%	9.4%	26.1%	(98,309)	360,824	\$74.58
495 Mass Pike	2,899,250	51,784	1.8%	0.0%	8.3%	(1,674)	(21,185)	\$44.75
128 North	1,810,191	48,934	2.7%	8.3%	13.7%	76,102	167,950	\$50.29
495 Northeast	568,275	165,331	29.1%	2.6%	36.0%	-	(49,624)	\$35.00
Inner Suburbs North	3,227,562	696,346	21.6%	2.0%	24.4%	2,631	549,404	\$53.67
Route 3 North	2,017,132	232,252	11.5%	4.8%	16.3%	-	378,615	\$46.06
Northern Suburbs	7,623,160	1,142,863	15.0%	4.3%	20.6%	78,733	711,575	\$49.46
128 South	309,082	-	0.0%	0.0%	0.0%	-	-	\$36.00
495 South	30,882	9,354	30.3%	0.0%	30.3%	-	(9,354)	-
Southern Suburbs	339,964	9,354	2.8%	0.0%	2.8%	-	(9,354)	\$32.73
Suburban Total	21,672,365	3,023,620	14.0%	6.2%	21.4%	(21,250)	880,448	\$61.10
All Lab	49,372,112	5,682,942	11.5%	6.3%	19.3%	(146,694)	1,608,176	\$88.29

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