
2Q23

Boston Life Science Market Overview



NEWMARK

Market Observations

Economy

- While the region’s labor market remains on relatively solid footing, with Boston unemployment sitting well below the national average, the technology and life science sectors are experiencing sustained layoffs.
- Over the last 10 years, the Greater Boston region has added more than 60,000 life science jobs to local payrolls. This represents 76.1% of cumulative growth, which far outpaced job growth in office-using employment. Since 2013, office-related jobs have only expanded by 17.0%.
- Venture capital funding has slowed from the heady days surrounding the pandemic, with \$3.3 billion raised throughout Greater Boston during the first half of 2023. That said, long-term historical averages point to annual venture funding averaging \$3.8 billion.

Major Transactions

- Most of the leases executed during the second quarter of 2023 were below 30,000 square feet, except for Novartis’s extension at 700 Main St. in Cambridge.
- The pharmaceutical giant executed a five-year extension on roughly 100,000 square feet in the heart of Kendall Square for its Institutes for BioMedical Research.
- PROMETRIKA also signed a five-year extension on its 15,927-square-foot space at 100 CambridgePark Dr. in West Cambridge. Fapon Biotech leased a 13,328-square-foot “spec suite” at a recent laboratory conversion in Lexington.

Leasing Market Fundamentals

- Leasing velocity slowed considerably during the second quarter of 2023, totaling less than 1/3 of activity recorded in the previous quarter. Tenant requirements have also fallen below 2.0 million square feet as the market continues to stabilize from pandemic-era hyper-growth.
- Roughly 2.0 million square feet of converted and purpose-built laboratory product came on line during the second quarter of 2023, representing one of the largest quarterly inventory increases in recent history.
- New supply, coupled with softer demand, resulted in a 340-basis-point increase in metrowide laboratory vacancies during the second quarter of 2023. Asking rents have fallen in concert with rising vacancy, declining by 6.3% from the 2022 peak.

Outlook

- Both tenants and investors are going to be more risk averse, to the benefit of established operators and life science nodes. Continued interest in assets located in core submarkets will drive the narrative over the next several quarters.
- With record levels of new supply expected to deliver in the next 24 to 36 months, Greater Boston’s laboratory fundamentals will remain challenged in the near term.
- The long-term outlook for Greater Boston’s life science sector remains bullish given the region’s preeminence as a global technology and biotechnology hub.

1. Economy
2. Leasing Market Fundamentals

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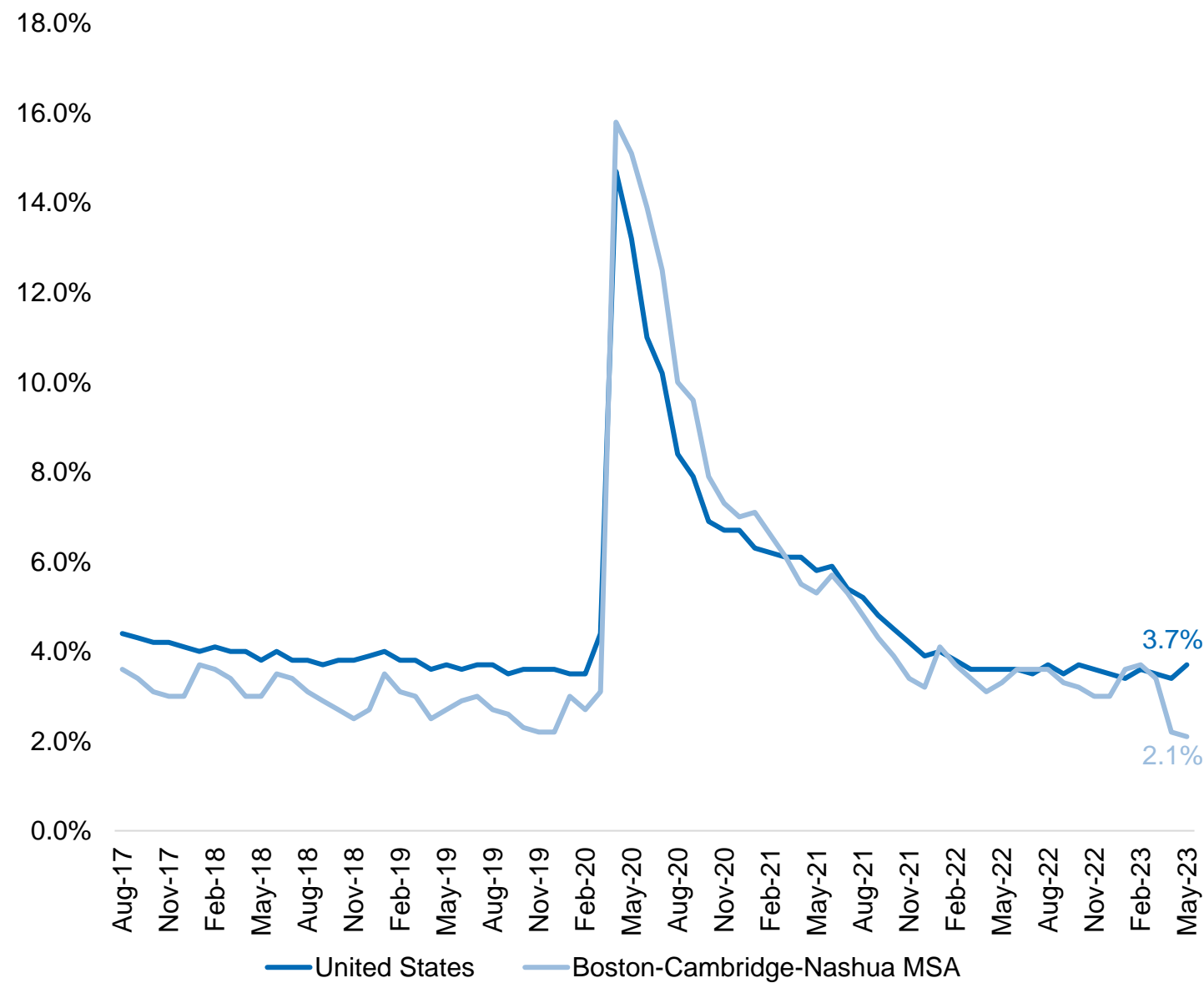
Economy



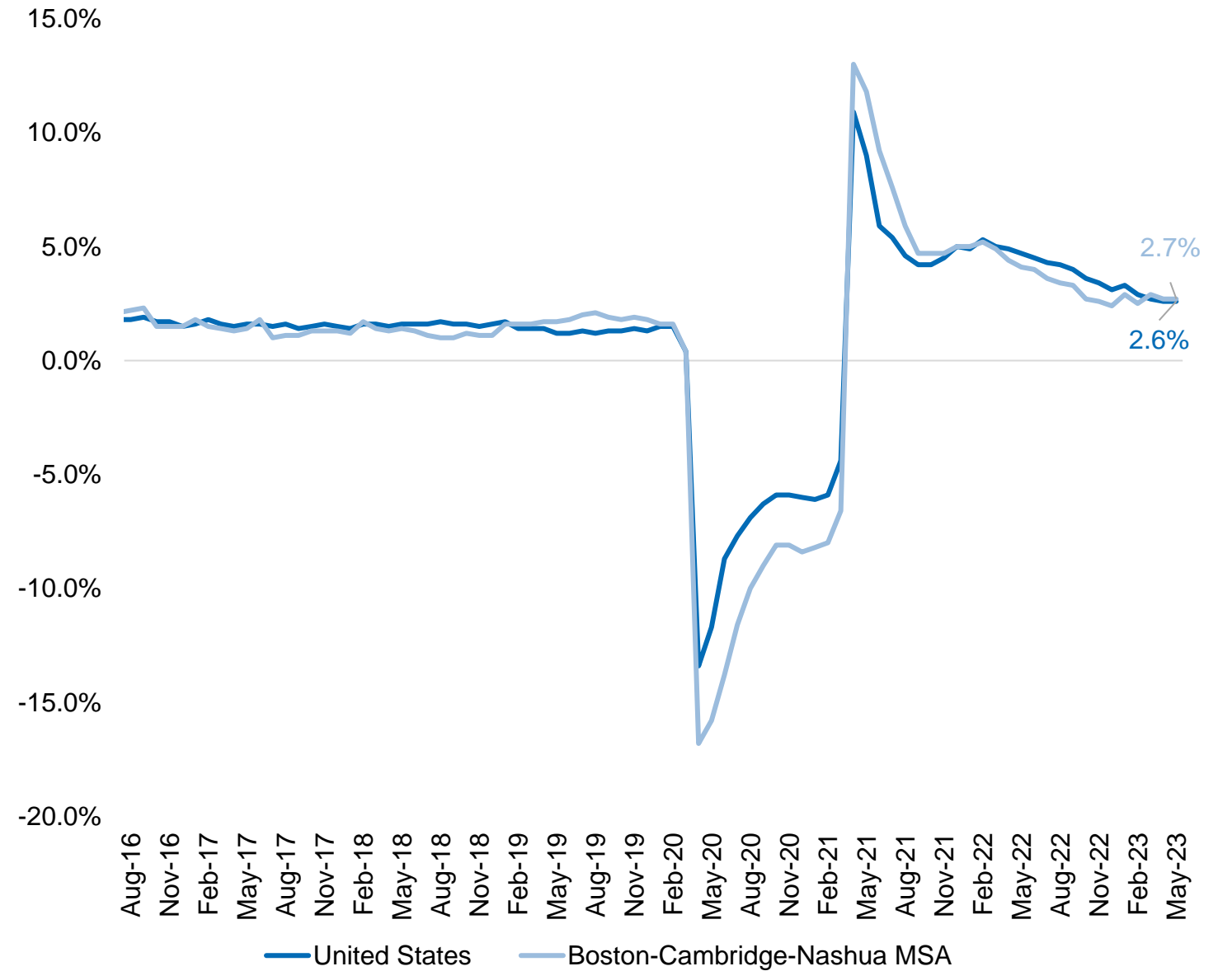
Metro Employment Trends Signal a Slowing Economy

While the region's labor market remains on relatively solid footing and the annual job growth rate has exceeded the national average, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment in Boston remains below the national average, but the tech and biotech sectors are experiencing sustained layoffs.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

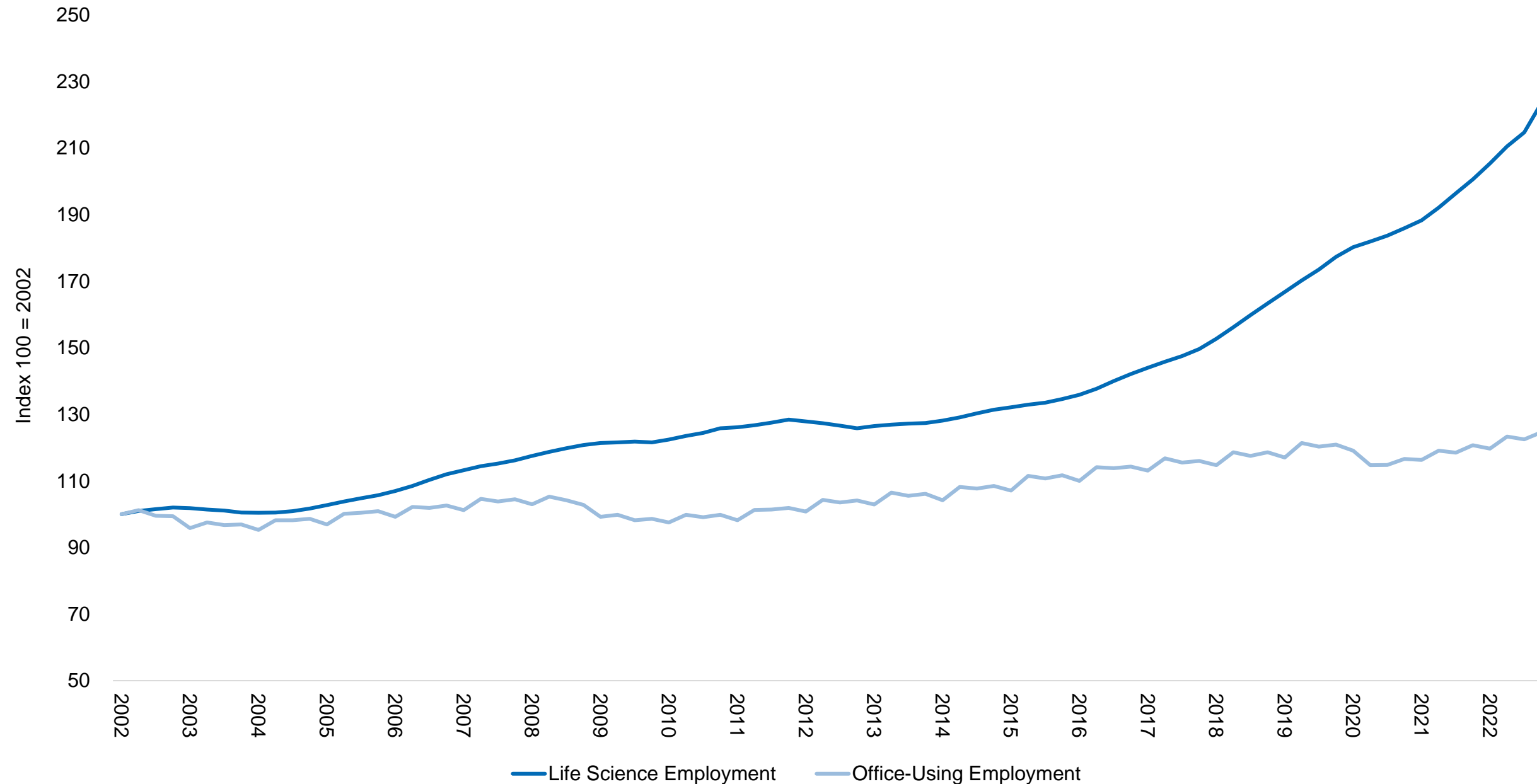


Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

Life Science Employment Growth Outpaces Office-Related Gains

Despite recent layoffs within this sector, life science employment has expanded exponentially through year-end 2022 within Greater Boston. Comparatively, gains in office-using jobs have been rather mild during the same time period.

Life Science Employment and Office-Using Employment*



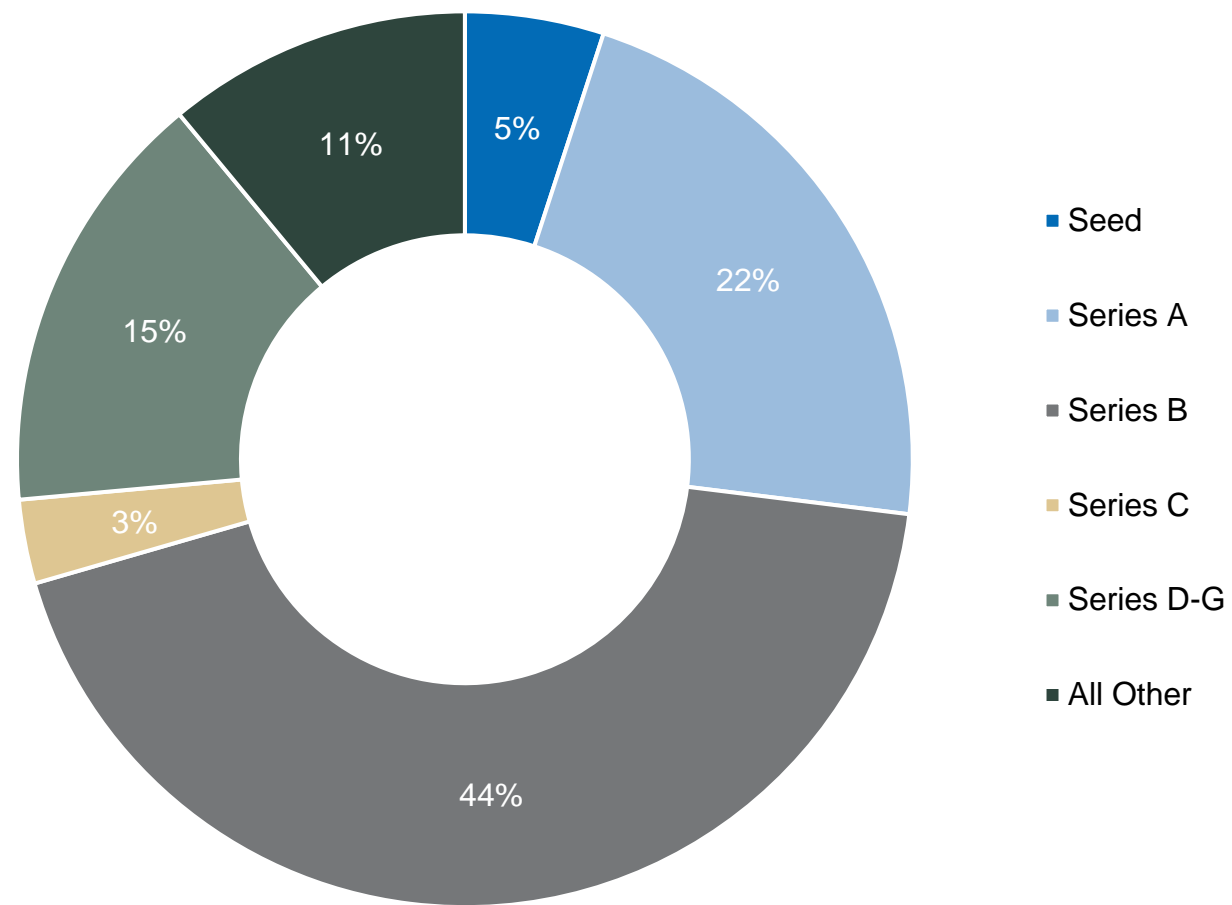
Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

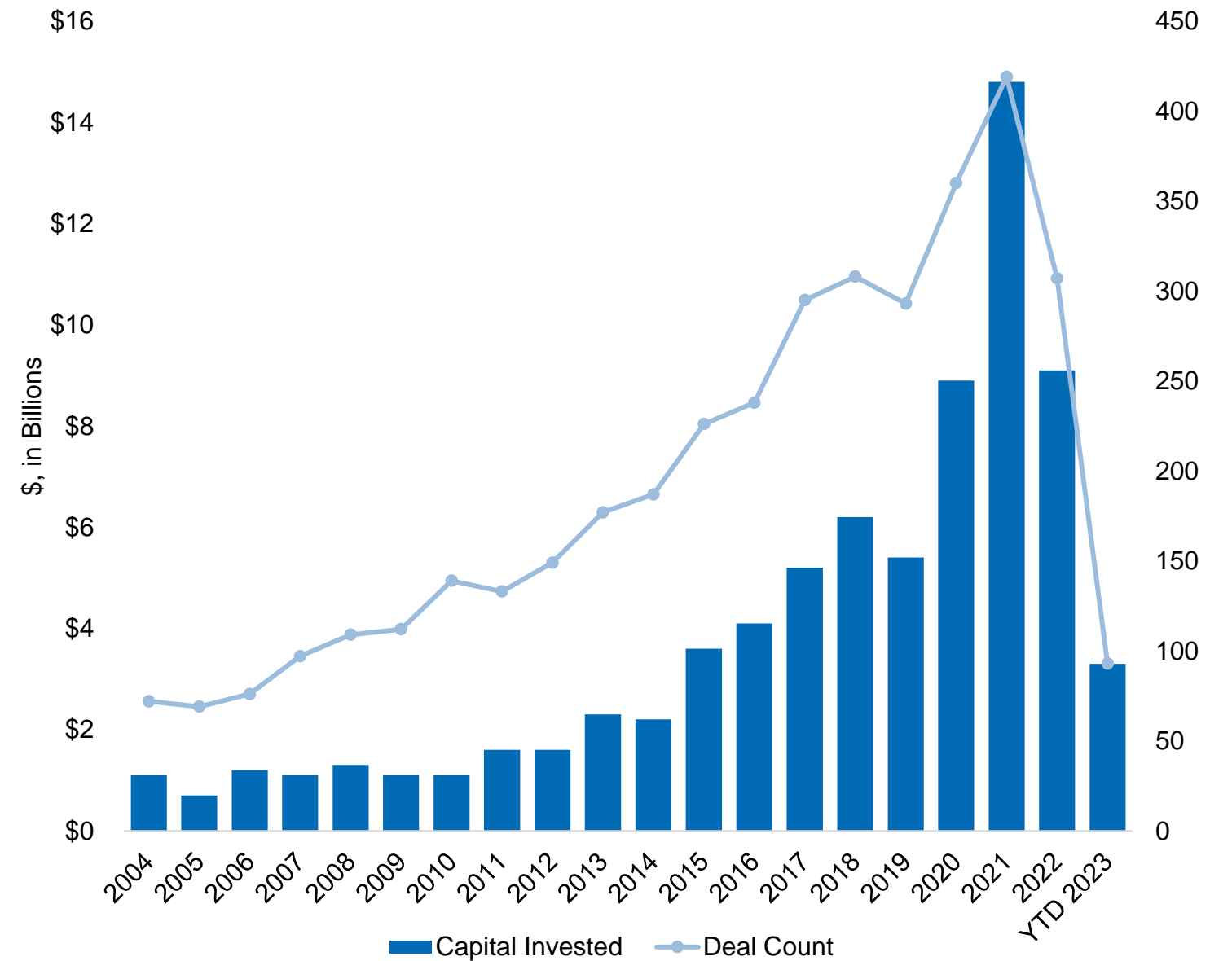
Venture Capital Funding Is Still Comparable to Long-Term Historic Averages

Year-to-date 2023, Greater Boston life science companies raised roughly \$3.3 billion in venture capital funding. While this represents roughly 1/3 of all capital raised in the previous year, annual funding from 2004 to 2022 averaged \$3.8 billion. Series A and Series B rounds continue to dominate funding, accounting for 66.0% of all capital raised during the first half of 2023.

Year-to-Date Greater Boston VC Funding by Series



Greater Boston Historical VC Funding



Source: U.S. Bureau of Labor Statistics, Boston-Cambridge-Nashua MSA, Pitchbook

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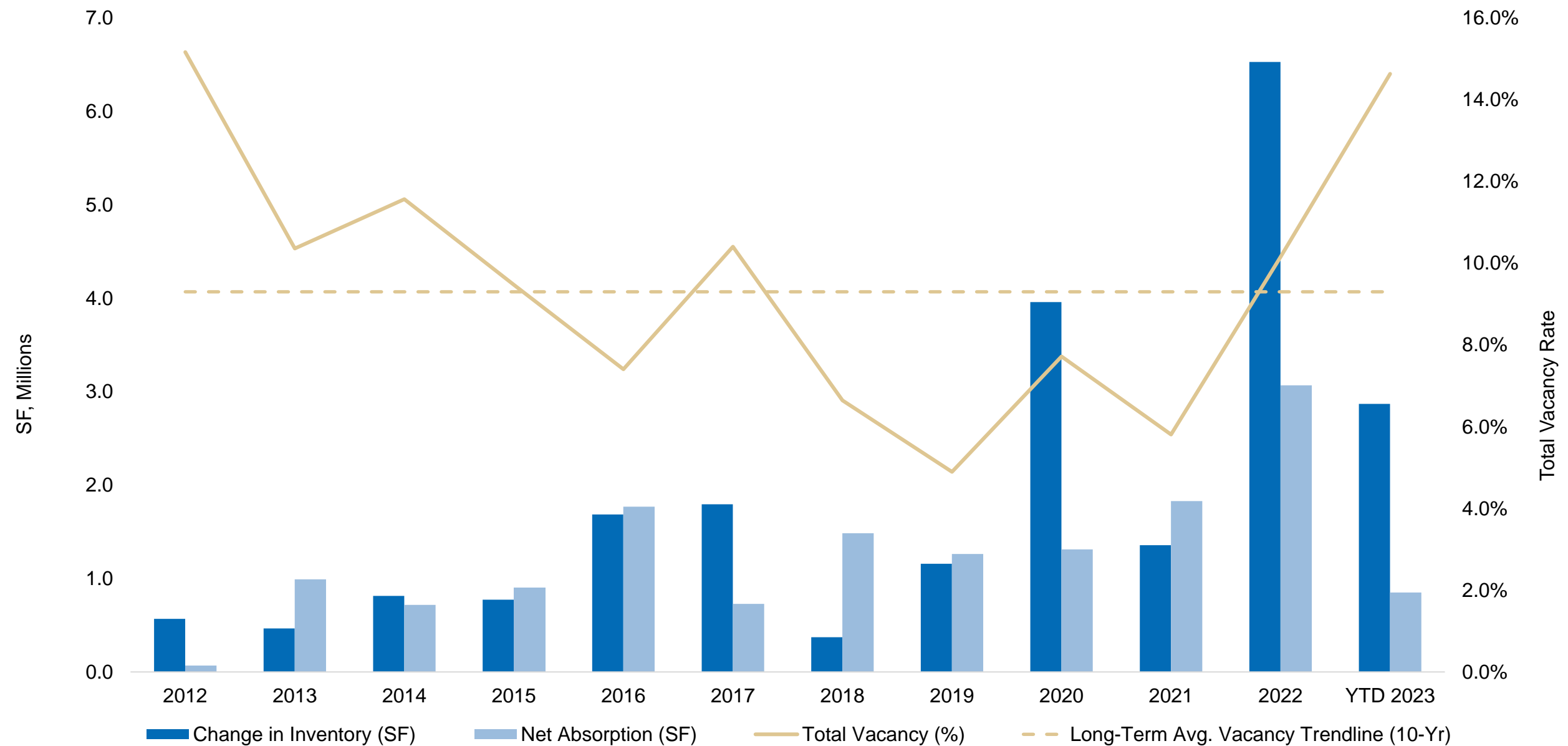
Leasing Market Fundamentals



Supply-Side Pressures Are Driving Vacancies Higher

Greater Boston laboratory vacancies ended the second quarter of 2023 slightly below the 10-year high recorded in 2012, at 14.6%. New deliveries continue to outpace demand, due to increased sublet offerings and more speculative space. While roughly 16.0 million square feet of purpose-built and converted laboratory space is still under construction, a number of proposed developments are being delayed or reevaluated.

Historical Construction Deliveries, Net Absorption, and Vacancy

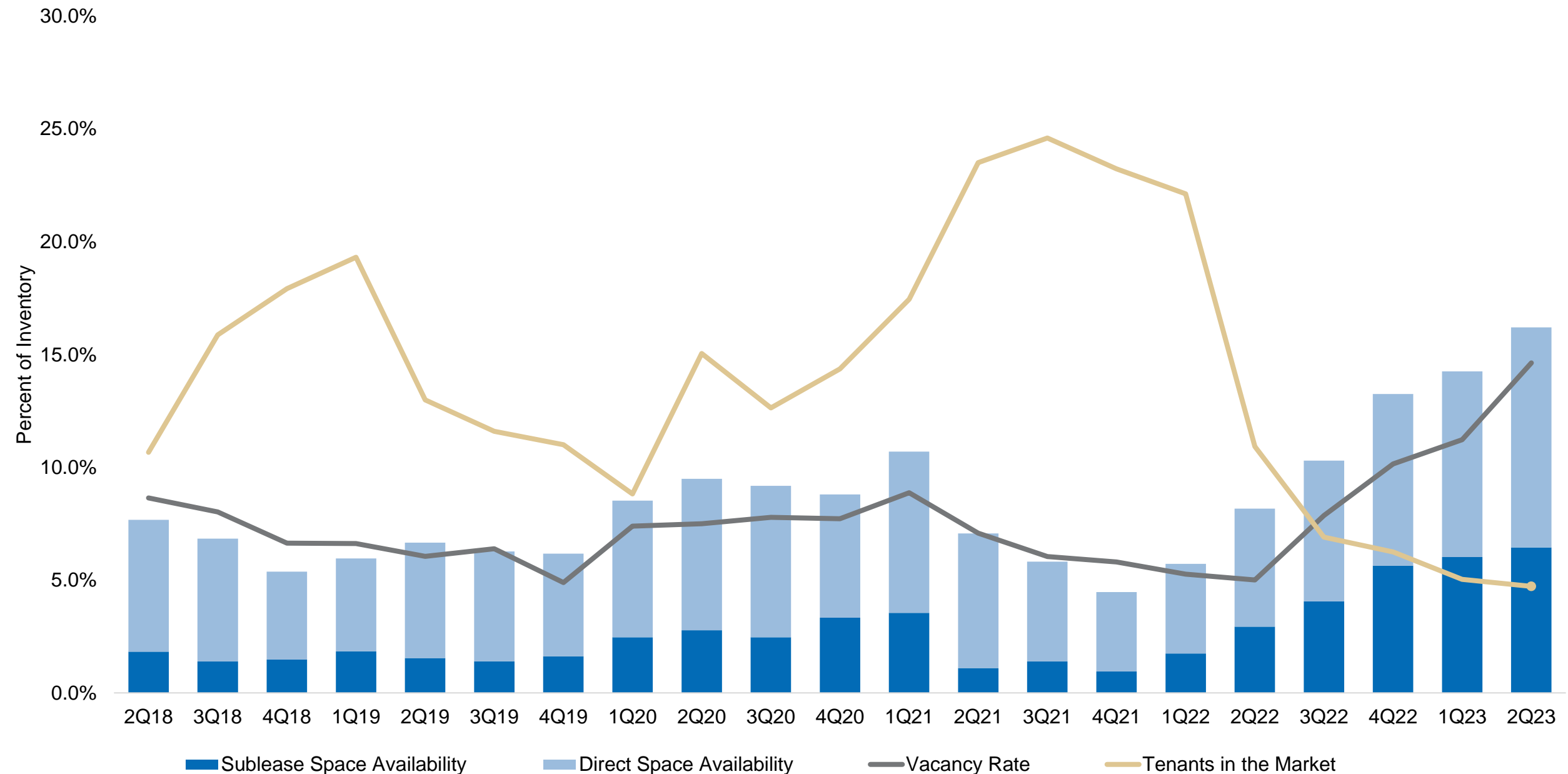


Source: Newmark Research

Availability and Tenant Demand Are Diverging in the Laboratory Market

Greater Boston laboratory fundamentals continued to unwind through the second quarter of 2023. Tenant demand ended the second quarter of 2023 slightly below pre-pandemic historical averages, while the availability rate for laboratory space continued to rise. Smaller users remain most active, and the average requirement is roughly 37,000 square feet. This represents a 42.7% decline from late 2022.

Available Space and Tenant Demand as Percent of Overall Market

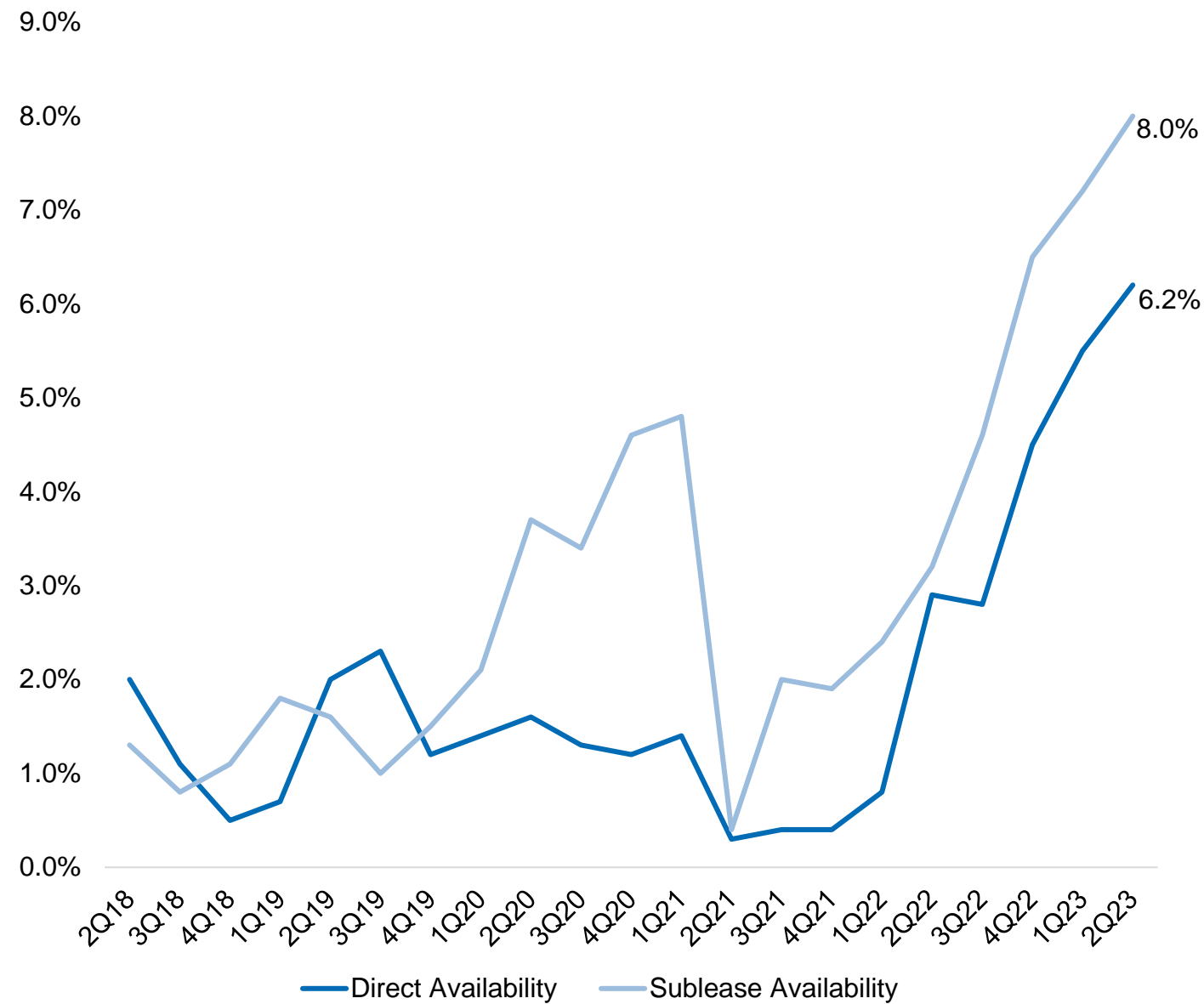


Source: Newmark Research

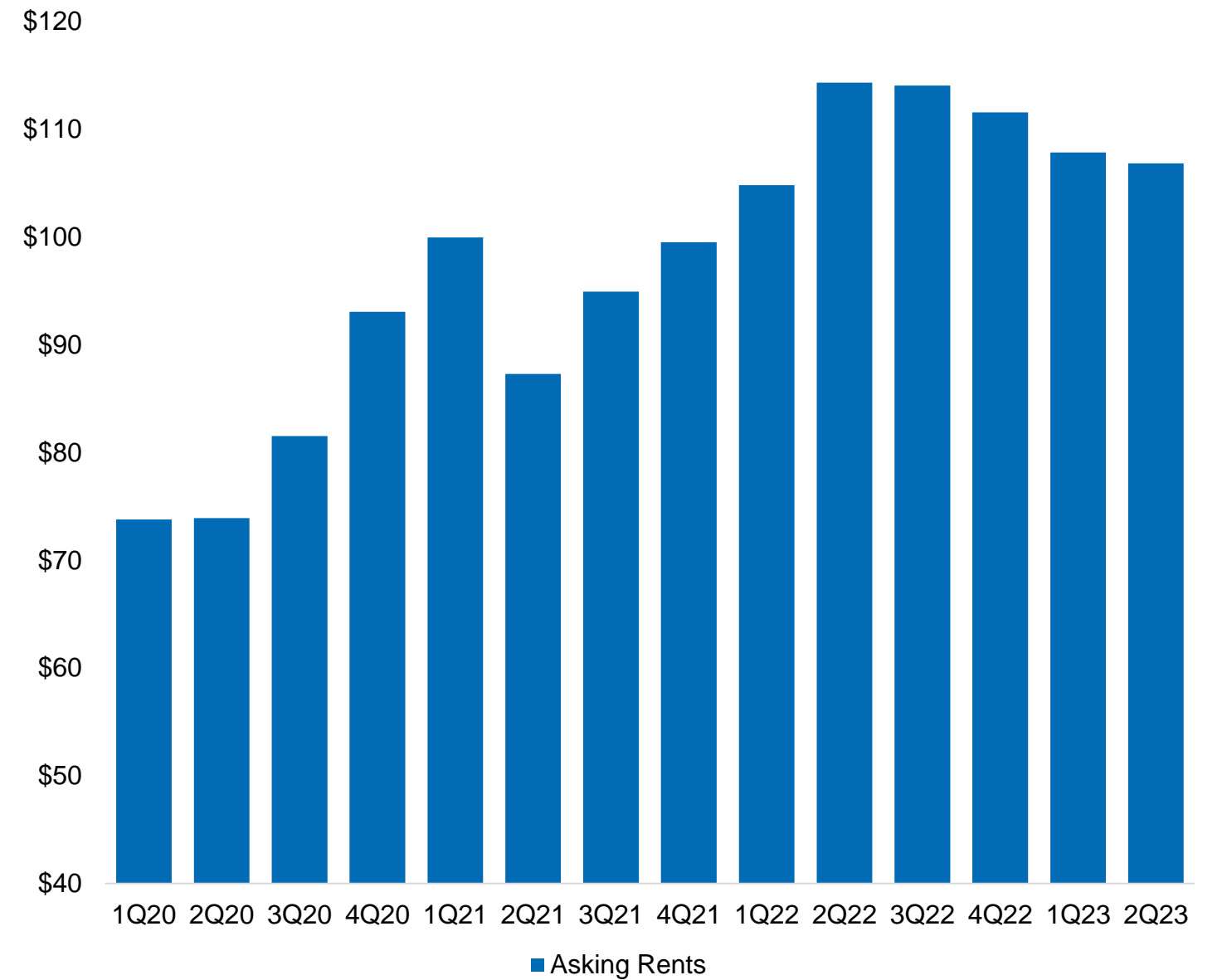
Sublease Space Continues to Outpace Direct Availabilities in Cambridge

Both direct and sublease available space have been on the rise in the Cambridge laboratory market, with the latter ending the second quarter of 2023 at 8.0%. Following the mid-year 2022 peak, asking rents for Cambridge laboratory space have posted moderate declines. That said, lease rates are still more than 40.0% above pre-pandemic levels.

Cambridge Availability Rates



Cambridge Asking Rents

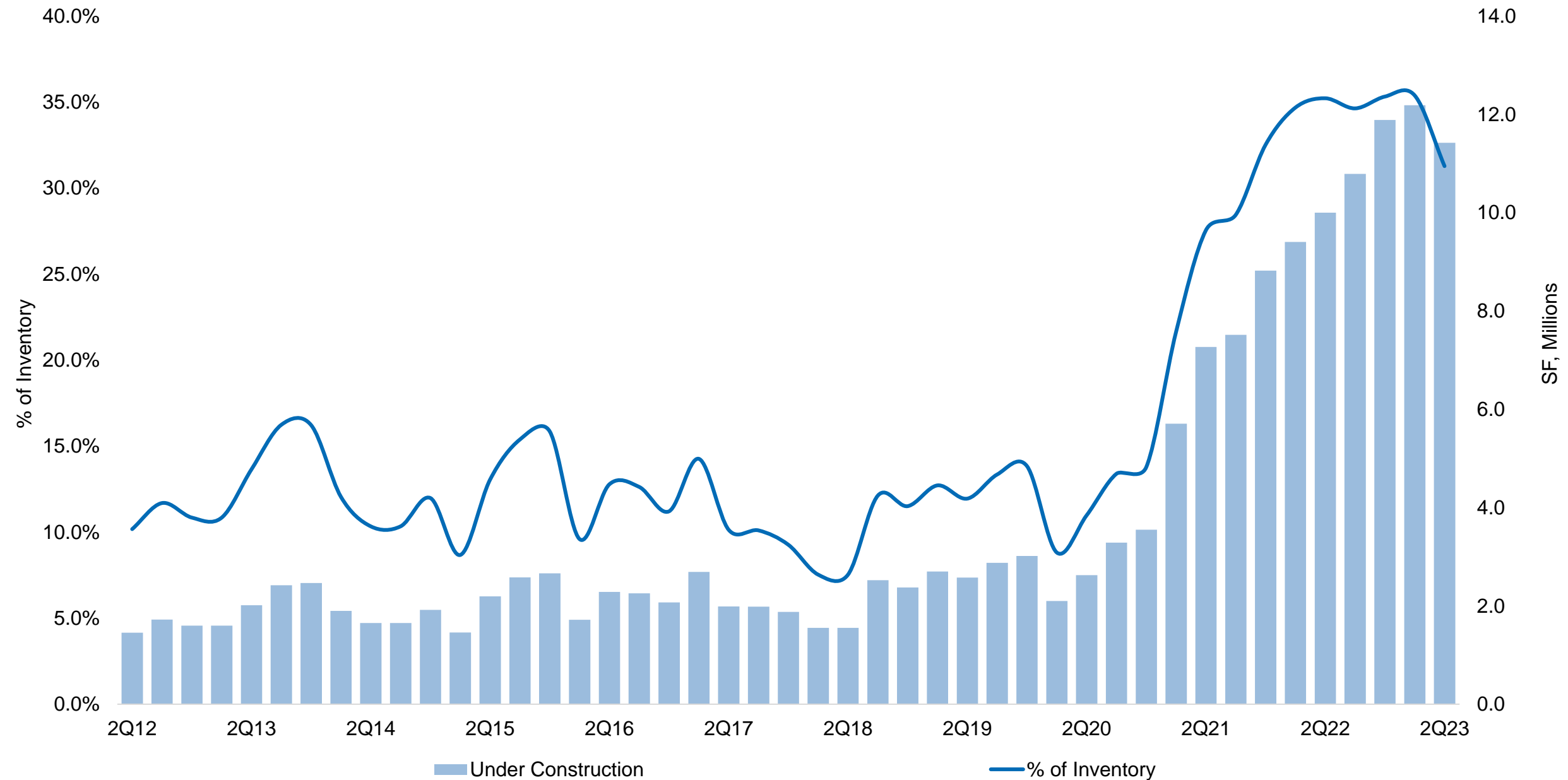


Source: Newmark Research, CoStar

Purpose-Built Projects Continue to Dominate Laboratory Developments

New ground-up laboratory space ended the second quarter of 2023 at 11.4 million square feet, which accounts for 31.3% of existing inventory. This represents a sizeable decline from the previous quarter when purpose-built development totaled more than 12.0 million square feet. As new projects deliver and fewer new projects move forward, Greater Boston's laboratory pipeline should normalize.

Purpose-Built Laboratory Under Construction and % of Inventory

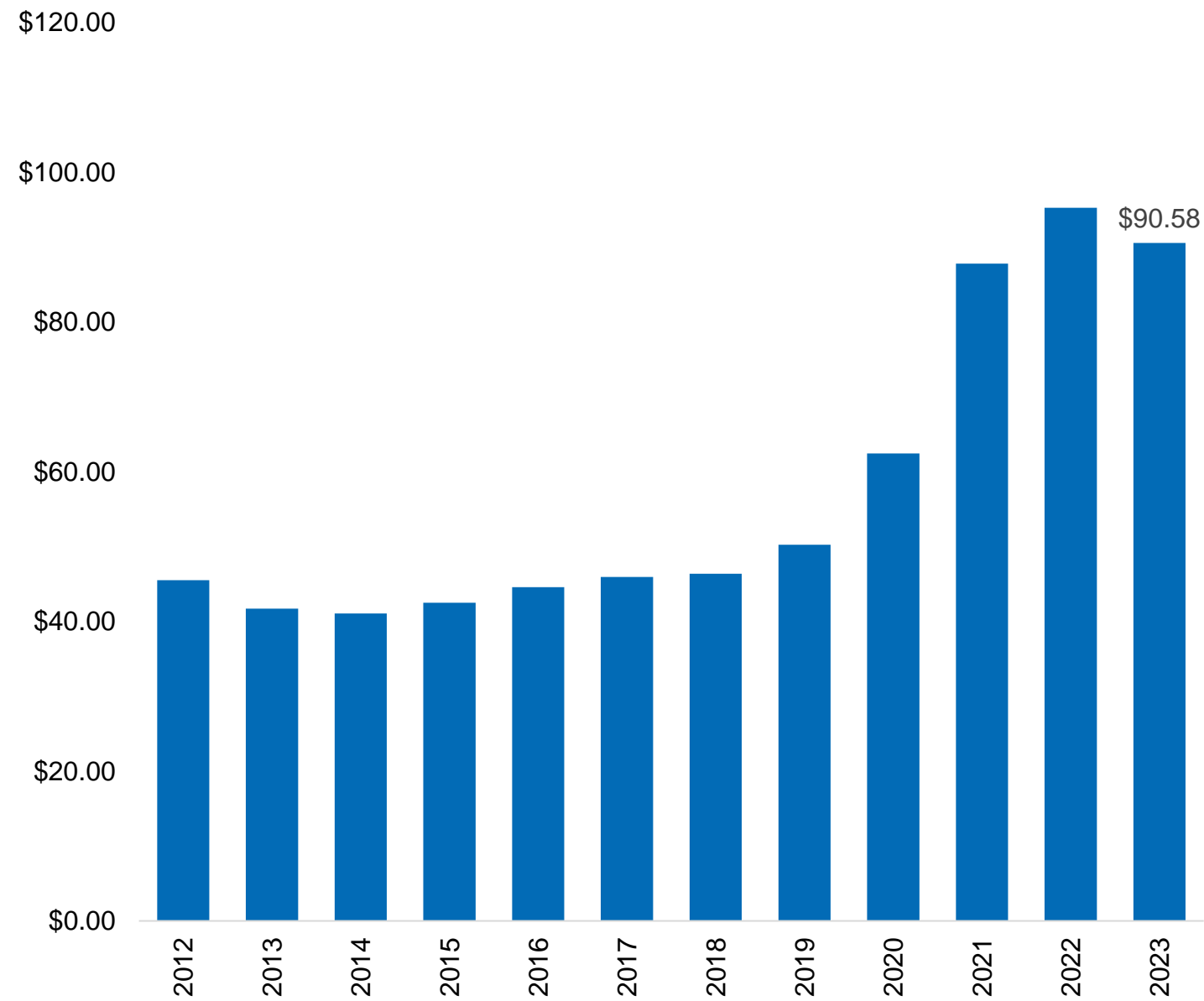


Source: Newmark Research

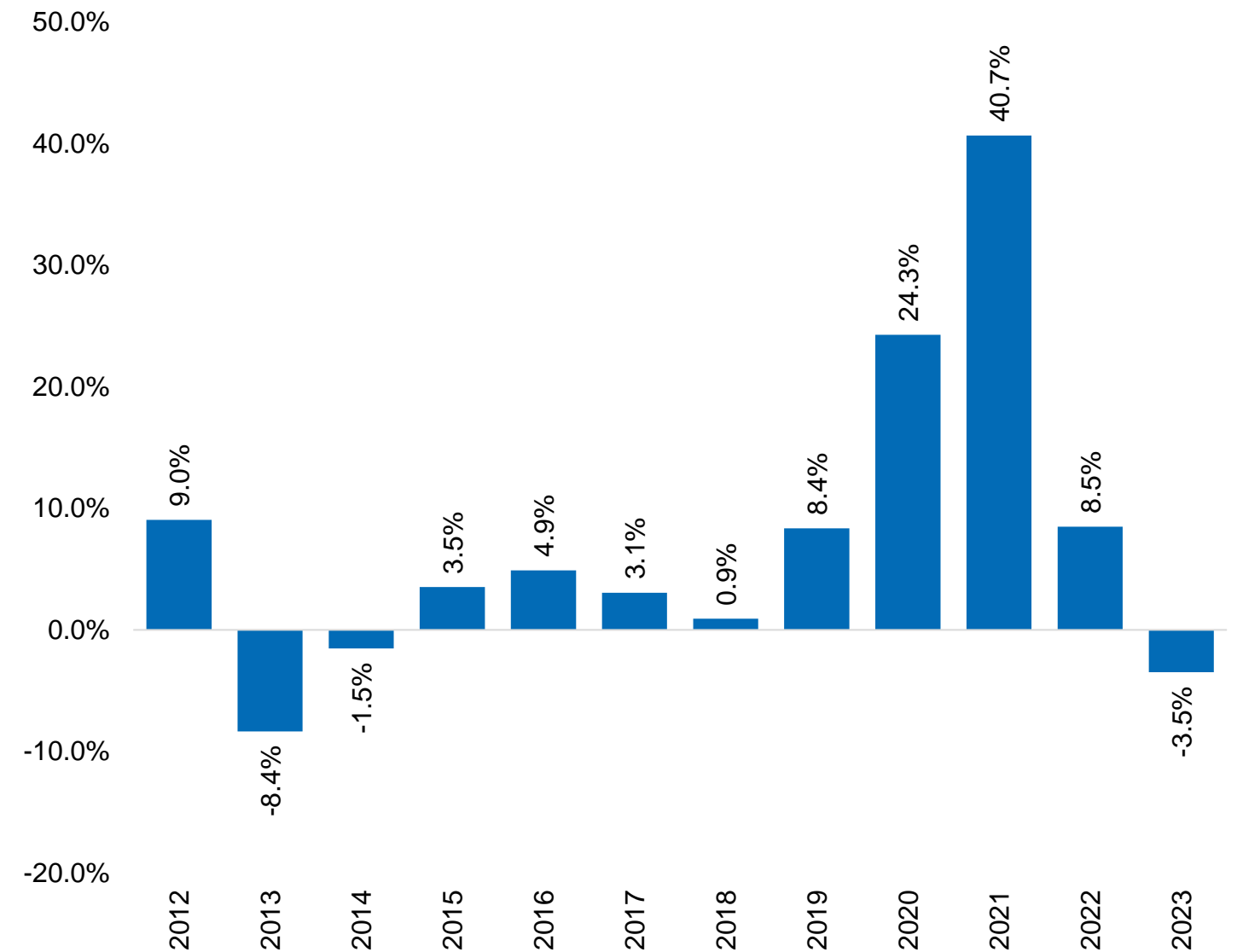
Laboratory Rents Continue to Decline in Greater Boston

Outside of the heady days of 2020 and 2021, annual rent growth for laboratory space has been less than 10.0% throughout much of the last decade. In the second quarter of 2023, asking rents have reached their lowest level since year-end 2021, with year-over-year losses totaling 3.5%. Comparatively, Cambridge laboratory rents have decreased by 6.5% from year-ago levels.

Laboratory Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

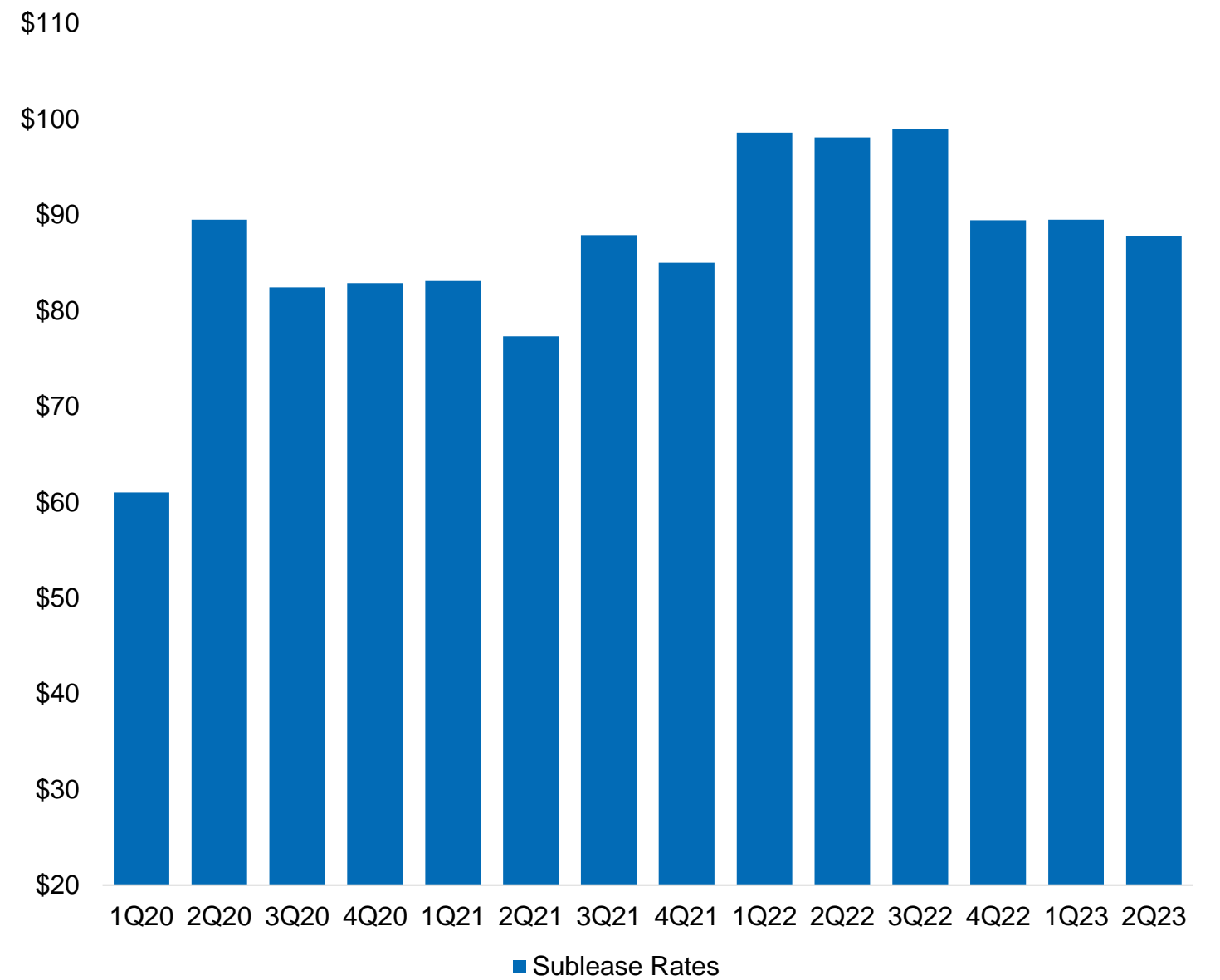
Asking Rents Remain Elevated, but Pricing Has Eased

Since peaking in the third quarter of 2022 at close to \$100/SF, lease rates for laboratory space have declined by more than 6.0% across the metro area. Asking rent losses in the Cambridge and West – Route 128 submarkets are in line with the metro average. Average sublease rents are also off 11.4% from peak rates reported in 2022.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Slows

Overall leasing activity in Greater Boston’s laboratory market slowed during the second quarter of 2023, with limited large transactions executed in recent months.

Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Novartis Institutes for BioMedical Research	700 Main Street	East Cambridge	Lease Extension	99,883
<i>The tenant signed a five-year renewal on its space in East Cambridge.</i>				
PROMETRIKA	100 CambridgePark Drive	West Cambridge	Lease Extension	15,927
<i>PROMETRIKA extended its lease within this West Cambridge lab conversion.</i>				
Mercy Bioanalytics	880 Winter Street	West – Route 128	Direct Lease	13,993
<i>This early-stage biotech company leased nearly 14,000 square feet in this Waltham lab conversion and plans to relocate from Natick.</i>				
Fapon Biotech	10 Maguire Road	West – Route 128	Direct Lease	13,328
<i>Fapon leased a “turnkey” spec suite.</i>				
Lytica Therapeutics	840 Memorial Drive	Mid Cambridge	Direct Lease	7,448
<i>Lytica’s long-term lease represents a relocation from East Cambridge.</i>				

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