



# Boston Life Science Market

## Laboratory Market Activity Slowed at Year End

Greater Boston's laboratory fundamentals shifted meaningfully during the second half of 2022. Supply-side pressures are mounting while tenant requirements declined from 6.0 million square feet to 1.8 million square feet across 50 companies. Solid preleasing in many of the newly delivered laboratory buildings drove quarterly net absorption to nearly 850,000 square feet; however, area vacancies increased by another 210 basis points due to increasing sublease inventories and the completion of partially leased developments. In 2022, 6.2 million square feet of purpose-built and converted laboratory product delivered throughout the metro area. This represents the largest inventory increase on record and accounts for 35.5% of all space built within the last 10 years. In addition to near-term supply risks, rising interest rates and inflationary pressures are making it difficult for new projects to secure financing and developers are reevaluating proposed conversion and ground-up projects. Leasing velocity slowed as cautiousness characterizes tenant decision-making, particularly at the executive board levels. With that, new company formation is still occurring and firms with promising science continue to receive funding. GlaxoSmithKline and Dicerna Pharmaceuticals executed sizable expansions during the fourth quarter of 2022, and subleases in core clusters such as Kendall Square are attracting good interest. Fundamentals will remain challenged over the next 12 to 15 months, with market conditions continuing to favor laboratory tenants. However, Greater Boston's eminence as a global life science hub is unrivaled and the metro's innovative ecosystem and underlying drivers bolster the long-term outlook for recovery.

### Current Conditions

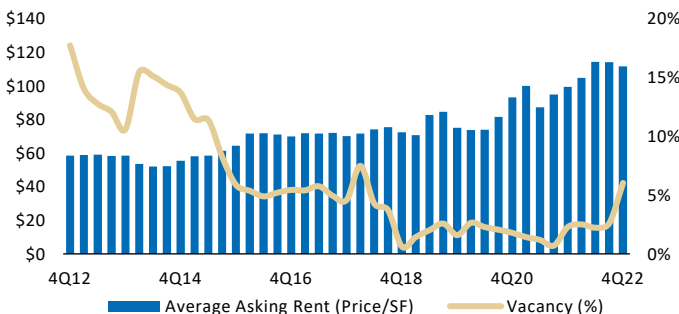
- New supply and rising sublease inventories led laboratory vacancies to increase by another 210 basis points.
- In 2022, more than 3,000 layoffs have been announced by local life science companies.
- In 2022, close to 6.2 million square feet, or 18.8% of current inventory, in new laboratory space came on line.
- IPO activity remained muted, with only 8 Massachusetts-based biotech companies going public in 2022.

### Market Summary – Cambridge Lab

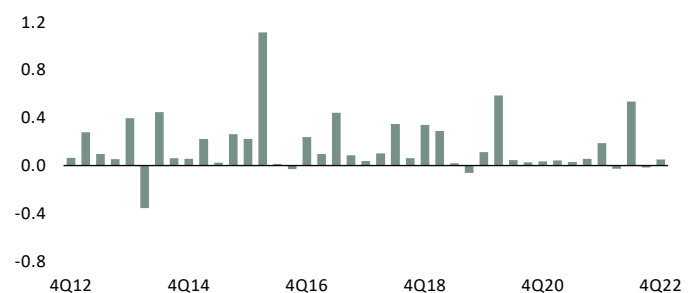
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	13.9M	13.4M	12.5M	↑
Vacancy Rate	6.0%	2.6%	2.3%	↑
Quarterly Net Absorption (SF)	51,125	-15,939	186,819	↔
Average Asking Rent/SF	\$111.56	\$114.02	\$99.52	↓
Under Construction (SF)	3.0M	2.6M	2.5M	↔

### Market Analysis

CAMBRIDGE LAB ASKING RENT (NNN) AND VACANCY



CAMBRIDGE LAB NET ABSORPTION (SF, MILLIONS)



## RESEARCH Q4 2022

### Cambridge

Cambridge laboratory fundamentals ended 2022 on weaker footing. Vacancies increased to the highest rate in five years, reaching 6.0% in the fourth quarter of 2022, as new sublet offerings offset net absorption. While direct vacancies did escalate over the quarter, vacant sublease space increased at nearly three times the rate as life science companies such as Agios, Cedilla, Rubius and Takeda put space on the sublease market. That said, plug-and-play options in the historically tight Kendall Square are seeing good tenant activity and commitments. Accordingly, East Cambridge still boasts the lowest vacancy rate within the region at 4.1%, and two of the largest laboratory leases executed in recent months occurred in this submarket. Editas Medicine extended its 59,783-square-foot lease at 11 Hurley St. in East Cambridge with Alexandria Real Estate Equities, and Factor Bioscience subleased 54,000 square feet at 250 Water St. in Cambridge Crossing from BMS. GlaxoSmithKline expanded its footprint during the fourth quarter of 2022 as well, leasing nearly 200,000 square feet at 200 CambridgePark Dr. in Alewife with King Street Properties. Pricing for existing Cambridge laboratory space is easing, ending 2022 below \$112.00/SF NNN on a direct basis and averaging \$107.00/SF NNN for sublease space.

The region's anticipated supply wave is beginning to gain momentum and bears watching. In 2022, more than 1 million square feet of newly converted or purpose-built laboratory space came on line throughout Cambridge. This represents the largest annual supply increase since 2016 when a similar amount of new product delivered. In the fourth quarter of 2022, BioMed Realty broke ground on its 600,000-square-foot project at 585 Third St. in East Cambridge. The development, which is preleased entirely to Takeda Pharmaceuticals, pushed under construction totals to a historic high. With more than 4.0 million square feet of new laboratory construction and conversion underway, Cambridge's inventory is slated to expand by another 30.0% over the next few years. On a more positive note, commitments and preleasing within many active projects are healthy, and inflationary pressures and rising interest rates could ultimately reduce supply-side risks as laboratory projects are harder to finance. Local legislation limiting new supply in select Cambridge neighborhoods is gaining traction and could also make future development more difficult. The near-term outlook for Cambridge remains challenging. The continued softening of fundamentals, especially tenant demand, will shift some leverage back to tenants. However, given that Cambridge is the epicenter of the region's life science industry, any market shifts will be less pronounced here. Both tenant demand and development investment will seek less risky, core locations, like Cambridge, which will further bolster this market.

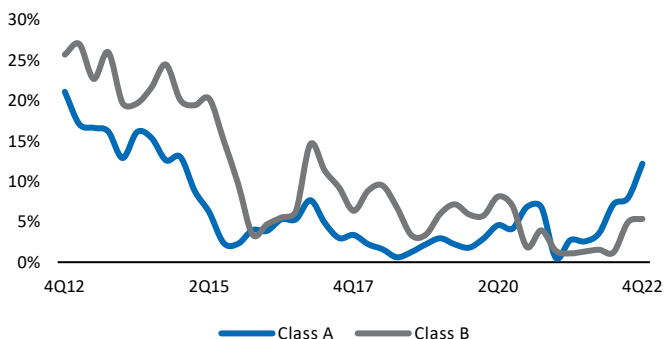
### Boston and Suburbs

Boston laboratory fundamentals have benefitted from healthy pre-leasing in new developments. That said, vacancies still ended 2022 above 20.0% as sublease availabilities recorded a second-consecutive quarter of 100-basis-point increases. The conversion of several hundred thousand square feet of space at 17-19 Drydock Ave., which is part of the Innovation and Design Building, in the Seaport wrapped up during the fourth quarter of 2022. New laboratory tenants in the building include HotSpot Therapeutics, Ratio Therapeutics and Entrada Therapeutics. Existing laboratory inventory in the Boston market has reached 6.1 million square feet as a result. With another 4.0 million square feet of purpose built and conversion projects currently underway, this market will see inventories surpass 10.0 million square feet by 2026, which represents a 66.0% expansion from 2022 levels. Projects are continuing to move through Boston's development pipeline. Construction is underway on Alexandria Real Estate Equities and Samuels & Associates's 525,000-square-foot ground-up development at 421 Park Ave. in the Fenway. Approvals were issued for both 125 Lincoln St. at the edge of Chinatown and the Channelside in the Seaport. However, developers are reevaluating proposed projects due to significant headwinds in the larger life science sector. A handful of proposed conversions and purpose-built laboratories are already on hold temporarily or permanently. Average asking rents remain elevated around \$100.00/SF NNN, but lease rates or taking rates are nearly 5.0% off from the peak.

In 2022, Greater Boston's suburban laboratory market experienced one of the most dynamic years in recent history. In total, 15 new laboratory developments totaling 2.6 million square feet were delivered in the suburbs and inventories are now 13.7 million square feet. Office-to-lab conversions accounted for most of the new space in 2022, with 200 Exchange in Malden and 117 Kendrick St. in Needham being two more recent projects. Healthy leasing momentum drove nearly 1.3 million square feet of net absorption over the past year as well. Dicerna Pharmaceuticals' (now Novo Nordisk) 107,000-square-foot expansion at 65 Hayden Ave. in Lexington with King Street Properties topped fourth-quarter lease transactions. Discovery Life Sciences (53,000 square feet) and Evolved by Nature (42,779 square feet) executed leases during the fourth quarter of 2022 as well, and both firms will be anchoring recent laboratory conversions.

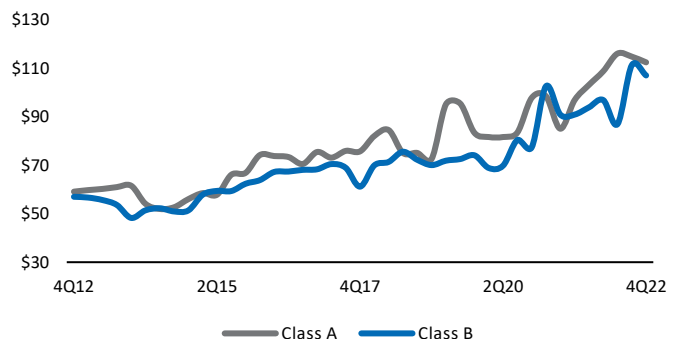
### Total Availability Rates – Cambridge Laboratory

#### AVAILABILITY RATES BY CLASS



### Asking Rent by Class – Cambridge Laboratory

#### AVERAGE ASKING RENT (\$/SF NNN)



## RESEARCH Q4 2022

Vacancies ended 2022 at 8.7%, which represents the third consecutive quarter of increase. While rapidly rising sublease inventories have been driving recent trends in suburban laboratory fundamentals, direct vacancy is also on an upward trajectory. However, overall vacancies are still well below historical norms and near-term net absorption will likely be bolstered by tenants taking occupancy in new buildings. With more than 9 million square feet of new development and conversion projects underway in the suburbs, inventories are expected to increase significantly over the next few years. Supply risk is waning slightly, and a number of office buildings slated for conversion are pausing, given the uncertainty in the marketplace. Investors continue to target alternative assets for repositioning to life science use, though at a slower pace than in previous quarters. Developments lacking entitlements and/or significant preleasing are most at risk of being shelved. Declining asking rents are indicative of broader market trends. In the suburbs, average lease rates for laboratory space ended 2022 at roughly \$75.00/SF NNN, which represents a 3.5% decline from the third quarter of 2022. With that, pricing is still nearly 20% above year-ago levels. Downside risks will persist in the life science sector over the next several quarters and suburban laboratory fundamentals will continue to soften as a result.

### Capital Markets

Life science-related properties continue to drive investment sales activity in Greater Boston, but capital flows remain depressed. The typical year-end acquisitions push was limited as buyers have put new investments on hold due to uncertainty in the marketplace. The pace of investment slowed further during the fourth quarter of 2022 as a result. Over the last year, \$6.5 billion in office and laboratory assets changed hands throughout the metro area. While this represents less than half of total investment reported in 2021, volumes are only slightly lower than the long-term annual average in Greater Boston. Pricing has slid as well given the relative lack of

assets transacting, compared with recent history. Two recent suburban laboratory conversions represented two of the largest transactions of the quarter. MetLife acquired the recently converted 4 Burlington Woods in Burlington for \$103.0 million, or \$944/SF. In October, DRA Advisors and Griffith Properties sold 20 Maguire Rd., a stabilized laboratory conversion in Lexington, for \$89.0 million, or \$878/SF. In a sale-leaseback, Oxford Properties expanded its suburban portfolio with the acquisition of a cGMP facility at 92 Crowley Drive in Marlborough from Resilience Biomanufacturing. The sale price was \$125.0 million, or \$1,826/SF. Although sentiment has been shifting toward stabilized laboratory assets due to current market conditions, there is still investor appetite for potential conversions, as evidenced by the sale of 25 and 40 Hartwell Ave. in Lexington and 880 Technology Park Dr. in Billerica.

### Outlook

Continued headwinds are on the horizon for Greater Boston's laboratory market. The next 12 months will likely trail recent growth trends, as a result of deteriorating macroeconomic conditions, continued layoffs by local life science companies, limited IPO activity and more calculated tenant leasing decisions. With record levels of new supply expected to deliver in the next 24 to 36 months, supply-side pressures will certainly impact market fundamentals as well. Tenant growth could consolidate in more established nodes as landlords, tenants, and investors become more risk-averse in the coming quarters. Moreover, many proposed projects will be shelved due to a more difficult financing climate, higher construction costs and reduced tenant demand. Despite these near-term challenges, given the metro area's preeminence as a global technology and life science hub, Greater Boston's long-term outlook for recovery is encouraging and only expected to strengthen.

### Select Lease Transactions

Tenant	Building / Address	Submarket	Type	Square Feet
GlaxoSmithKline	200 CambridgePark Drive, Cambridge	West Cambridge	Lease Expansion	197,302
Dicerna Pharmaceuticals	65 Hayden Avenue, Lexington	West – Route 128	Lease Expansion	107,238
Editas Medicine	11 Hurley Street, Cambridge	East Cambridge	Lease Extension	59,783
Factor Bioscience	250 Water Street, Cambridge	East Cambridge	Sublease	54,000
Discovery Life Sciences	200 Exchange Street, Malden	Urban Edge	Direct Lease	53,000
Evolved by Nature	117 Kendrick Street, Needham	West – Route 128	Direct Lease	42,779

### Select Sale Transactions

Building / Address	Submarket	Sale Price	Price/SF	Square Feet
92 Crowley Drive, Marlborough	West – Route 495	\$125.0M	\$1,826	68,442
4 Burlington Woods, Burlington	North – Route 128	\$103.0M	\$944	109,085
20 Maguire Road, Lexington	West – Route 128	\$89.0M	\$878	101,310
25 & 40 Hartwell Avenue, Lexington	West – Route 128	\$34.2M	\$537	63,739
880 Technology Park Drive, Billerica	North – Route 495	\$18.2M	\$120	151,564

RESEARCH Q4 2022

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A NNN Asking Rent (Price/SF)	Class B NNN Asking Rent (Price/SF)	Total NNN Asking Rent (Price/SF)
<b>Cambridge Total</b>	<b>13,851,486</b>	<b>3,025,616</b>	<b>6.0%</b>	<b>51,125</b>	<b>540,495</b>	<b>\$112.38</b>	<b>\$107.01</b>	<b>\$111.56</b>
East Cambridge	9,031,474	2,864,000	4.1%	-60,910	608,407	\$113.21	\$117.82	\$116.01
Mid Cambridge	2,953,910	-	8.4%	-119,386	-244,651	\$115.64	\$103.59	\$113.33
West Cambridge	1,866,102	161,616	11.6%	231,421	176,739	\$107.48	-	\$107.48
<b>Boston Total*</b>	<b>6,065,766</b>	<b>3,470,370</b>	<b>20.1%</b>	<b>401,966</b>	<b>1,540,976</b>	<b>\$99.75</b>	<b>\$111.65</b>	<b>\$100.28</b>
Boston – Seaport	3,352,212	1,524,346	19.1%	148,202	708,551	\$108.00	\$115.00	\$108.48
Boston – Fenway/LMA	1,905,288	825,000	0.6%	109,792	561,391	-	-	-
<b>Inner Suburbs/Urban Edge</b>	<b>3,637,833</b>	<b>3,889,780</b>	<b>15.1%</b>	<b>149,277</b>	<b>268,646</b>	<b>\$80.81</b>	<b>\$82.70</b>	<b>\$81.86</b>
<b>Route 128 Total**</b>	<b>8,882,282</b>	<b>1,563,700</b>	<b>6.9%</b>	<b>241,135</b>	<b>988,524</b>	<b>\$73.72</b>	<b>\$74.60</b>	<b>\$74.19</b>
North – Route 128	1,848,381	270,000	15.5%	440	69,803	\$71.50	\$70.06	\$70.21
West – Route 128	6,496,693	1,293,700	5.0%	218,695	896,721	\$81.09	\$78.00	\$79.46
<b>Route 495</b>	<b>1,146,323</b>	<b>-</b>	<b>2.2%</b>	<b>4,989</b>	<b>32,746</b>	<b>-</b>	<b>\$28.08</b>	<b>\$28.08</b>
<b>Market</b>	<b>33,583,690</b>	<b>11,949,466</b>	<b>9.6%</b>	<b>848,492</b>	<b>3,371,387</b>	<b>\$98.96</b>	<b>\$81.97</b>	<b>\$94.90</b>

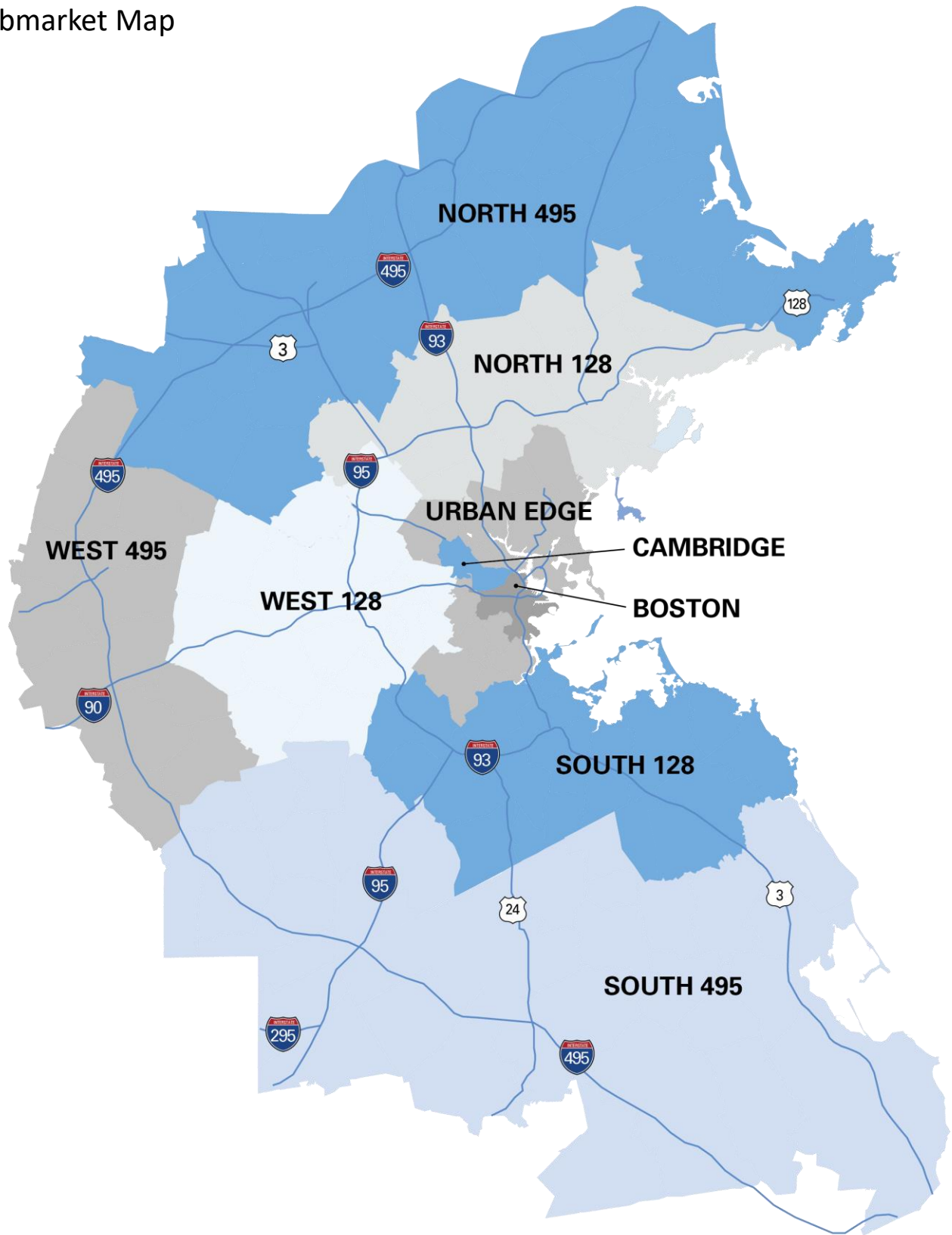
\* No direct space available for lease within these submarkets. These figures represent the highest achievable rents in these submarkets assuming direct availability, and are not factored into the submarket and market average calculations.

\*\* Route 128 Total statistics include several laboratory buildings located in the South - Route 128 market. Boston Total statistics include several laboratory buildings located outside of the Seaport and Fenway/LMA

Cambridge Laboratory Statistics – Class A						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A NNN Asking Rent (Price/SF)
East Cambridge	7,812,634	2,864,000	4.4%	-44,021	613,236	\$113.21
Mid Cambridge	2,154,108	-	11.1%	-119,386	-237,729	\$115.64
West Cambridge	1,478,424	161,616	14.0%	231,421	184,150	\$107.48

Cambridge Laboratory Statistics – Class B						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class B NNN Asking Rent (Price/SF)
East Cambridge	1,218,840	-	2.3%	-16,889	-4,829	\$117.82
Mid Cambridge	799,802	-	0.9%	-	-6,922	\$103.59
West Cambridge	387,678	-	2.3%	-	-7,411	-

## Submarket Map



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