

## The Eastern Massachusetts **LIFE SCIENCE** REAL ESTATE REPORT



## Market Conditions by Region

*As with the office market, restraint shown in developing new facilities is starting to be reflected in the vacancy rates for lab space in Eastern Massachusetts.*

### Boston and Cambridge



#### **Center for Life Science, Boston**

The first phase of Center for Life Science will be 705,000 SF, making it the largest life science building in the area



#### **301 Binney Street, Cambridge**

Upon completion 301 Binney Street will add 450,000 SF to the Cambridge lab market

The urban centers of Cambridge and Boston have very manageable lab vacancies of 15.1% and 4.8% respectively. Aside from the mostly institutional Longwood Medical Area, Boston still has one of the smallest lab submarkets in Eastern Massachusetts with 1.7 million SF, while Cambridge has one of the largest with 7 million SF. However, Boston's lab inventory will nearly double by 2007. **Lyme Properties** has broken ground on the 705,000 SF Center for Life Sciences in the Longwood Medical Area (LMA), anchored by a 360,000 SF commitment from **Beth Israel Deaconess**, for occupancy by 2007. Another Lyme/Beth Israel project called the Longwood North Research Center will bring 300,000 SF to the LMA in mid-2007. There are similar trends in Cambridge, where vacancy rate is expected to hold fairly steady with a balance of good absorption and over one million square feet of additional lab-ready buildings coming to the market in the next two years.

The proportion of lab vs. office space in the Cambridge market presents an interesting dynamic. Overall, the percentage of Cambridge lab to office space has been increasing over the

years at various rates, sometimes faster and sometimes slower than the office sector, but always fueled by the growth of Cambridge life science companies and the lure of higher returns to landlords for lab deals. In Cambridge, of the 16.7 million SF classified as the Class A and B office market, just over 7 million SF, or 42%, of the inventory is now what we would categorize as existing lab space. That percentage is up from 36% of the total Cambridge market just three years ago. We expect the lab segment to hit 46% in the next year and continue on its way to becoming 50% of the total Cambridge inventory.

### West Suburban



#### **100 Beaver Street, Waltham**

100 Beaver Street, Waltham is an incubator site that is 100% leased

As Cambridge develops, the west suburban market will directly benefit from its proximity. The corridor leading west and north through Watertown, Waltham, Lexington and Bedford has become the next logical location for a significant portion of Cambridge life science companies. If another large deal is transacted in the west market, the current 23.2% vacancy could easily drop below 20%. We believe this scenario to be unlikely though, since the total west suburban lab inventory is expected to continue expanding from its current 2.7 million SF. Many of the existing one and two story flex/R&D buildings in the West are relatively easy to convert into lab facilities.

### North Suburban



#### **32 Tozer Road, Beverly**

32 Tozer Road, Beverly is the former headquarters for **New England Biolabs** and is currently available for lease or sale

In the North, the lab market stands at 3.2 million SF of space and a healthy-sounding vacancy of 12.6%. That vacancy rate should be viewed as deceptively low since Cummings Properties, with over half a million square feet of existing lab area in Woburn, is set to convert more of its four million SF Woburn Park into

### North Suburban *continued from cover*

lab facilities, and even more in Beverly at Cummings Center. There is also potential to develop an extensive amount of lab space at Devens Industrial Park, which stretches among four towns: Ayer, Shirley, Devens and Harvard and contains over 250 acres of land and a unique one-stop permitting with 75-day turnaround. Devens continues to be promoted by **MassDevelopment** as the life science manufacturing center for local life science and pharmaceutical companies, competing against Research Triangle and other bio-clusters for national manufacturing facilities. A central location with close ties to the Cambridge and Worcester life science centers, strong infrastructure, affordable housing and numerous tax incentives are key advantages at Devens.

### South Suburban



**1022 Hingham Street, Rockland**  
1022 Hingham Street, Rockland is a 125,266 SF biotech lab/office facility and has 30,000 SF available.

The south lab market is struggling with 35% vacancy on 1.3 million SF, mostly due to the former **Ares Serono** facilities standing empty in Randolph and some unoccupied former Copley Pharmaceutical buildings on John Road in Canton.

### NAI Hunneman Lab Survey Methodology

For the purposes of the NAI Hunneman Life Science Report for Fall 2005, the entire Eastern Massachusetts and Worcester/Central markets for commercial space have been examined. We have identified approximately 187 buildings that can be categorized as existing lab facilities. Included are properties that meet the following criteria:

Existing buildings that contain some significant portion of wet laboratory space suitable for life science work. The proportion of lab area in the building could range from less than 10% up to 100%. However, in properties that cannot or do not intend to set up lab space in the rest of the building, only the sections that now contain wet lab space are counted. In multi-tenant buildings which contain both life science and other types of tenants, only the square footage occupied by life science companies containing wet-lab sections has been calculated.

Even if currently fully occupied, each building included is potentially a part of the leasing market inventory. Our calculations do not include any owner-occupied facilities or properties owned by the biomedical institutions unless those properties have been entered by their owners in the leasing market.

We also track proposed and under-construction projects, but we do not include those statistics in our vacancy statistics until they are completed for occupancy.

### Worcester/Central MA

Worcester is primed for more lab activity as **Worcester Polytechnic Institute** is constructing the first Gateway Park building. In July 2005, **WPI** and the **Worcester Business Development Corporation** broke ground on the first 124,000 SF lab/office building at Gateway Park. The first of four life science buildings there, it will also contain a 10,000 SF **Massachusetts Bio Initiatives** incubator, the third MBI location in Worcester. The Worcester lab market currently stands at 328,000 SF of existing lab buildings with a 9.0% vacancy.

### Rents and Terms: All Markets

Existing lab space in Boston, Cambridge and the west suburbs is usually quoted in the \$30-\$40 PSF NNN range "as is" or with refinishing allowances up to \$25 PSF. New first-class lab-capable shell space is generally \$40-\$50 PSF NNN with landlords currently offering build-out allowances ranging up to \$100-125 PSF, approaching turnkey packages. New lab build-out allowances under \$100 PSF would now be considered below market for first-class shell space in Cambridge.

The north, south and Worcester areas compete at lower rates for lab space, from the high teens PSF NNN in Beverly to more typical quotes of mid \$20's PSF NNN elsewhere.

## Trends

### Collaborations are fueling the market

- The mix of collaborations between the big biotechs, big pharma, and smaller life science companies that have headquartered in Cambridge in the last few years is now in full swing.
- **Novartis** has reeled off a string of impressive agreements with local players **Alnylam**, **Idera** (formerly Hybridon), **Vertex**, **Infinity**, **Genomics Collaborative**, and the **Broad Institute**.
- While **Biogen Idec** and **Elan** are in the headlines with the removal of the multiple sclerosis drug Tysabri from the market and layoffs of 650 employees, Biogen has more quietly announced partnerships with **Genentech**, **Collectis SA**, and **Protein Design Labs** for newer compounds in the pipeline.
- **Shire Pharmaceuticals Group** of England completed its acquisition of **TKT** for \$1.6 billion in July. Aside from former TKT CEO Michael Astrue's move to **Epix Pharmaceuticals**, nearly all of the 400 employees that were at TKT remain at Shire Pharmaceuticals, with fewer than 20 people laid off so far.
- **Vertex Pharmaceuticals** is conducting clinical trials with **Merck**.
- **Immunogen** has extended its research agreement with **Aventis** for another \$18 million beginning September 2006.
- **Inotek Pharmaceuticals** has a joint drug development deal with **MedImmune**.

## Incubators are Hatching



### 790 Memorial Drive, Cambridge

The Alexandria Science Hotel at 790 Memorial Drive, Cambridge is filling up again

The Science Hotel at Cambridge, developed by **Alexandria Real Estate Equities** specifically for new life science companies, is filling up again after several startups expanded out of the facility last year. **MIT** and **Equity Office** each joined Alexandria in addressing the requirements of smaller startups by dividing up and building out one of their empty floors at 500 Technology Square and 245 First Street. Alexandria also took the incubator concept to a second stage level by fitting out a 12,000 SF suite from shell at their new building at 480 Arsenal Street, Watertown.

**Cummings Properties** has been offering six months free rent at their Woburn lab space in a special incentive program with MIT startups. Cummings now reports over 500,000 SF of existing lab space out of a total of four million SF their Woburn park. They have been the most active landlord in eastern Massachusetts in leasing to small life science companies.

## IPO? Maybe, Maybe Not

Several IPO's were pulled due to unfavorable market conditions earlier this year, including **CombinatoRx** (\$72 million) and **Synta Pharmaceuticals** (\$96 million). **Predix Pharmaceuticals** recently announced a \$70m IPO; it will be interesting to see if this deal is consummated. Also, **Altus Pharmaceuticals** has filed its registration statement with the SEC.

## Noteworthy Deals



### 55 Cambridge Parkway, Cambridge

Genzyme is now the largest tenant at 55 Cambridge Parkway



### 830 Winter Street, Waltham

Praecis Pharmaceuticals headquarters at 830 Winter Street, Waltham will soon have space available

- **BioMed Realty Trust** has completed its mammoth \$531 million purchase of the seven performing **Lyme Properties**

buildings, Fresh Pond Research Park, and 134 Coolidge Avenue in Watertown (1.1 million SF, 96% rented).

- **The Broad Institute** has already fully programmed personnel for the 230,000 SF 7 Cambridge Center, under construction for mid-2006 delivery. The Broad will retain its existing 26,000 SF at 320 Charles Street, the original office/R&D facility in which the human genome was computed. We wonder if The Broad will end up keeping its floor at 320 Bent Street as well.
- **Genzyme** expanded into 31,000 SF more office space at 55 Cambridge Parkway for a total of over 76,000 SF there, and **Genzyme Biosurgery** renewed its 41,000 SF lease at 64 Sidney Street. Meanwhile **Genzyme** is going big in European manufacturing, announcing the investment of over \$500 million in manufacturing and research facilities in Belgium, Ireland and the UK.
- Speaking of Europe, **UCB Research** bought **Celltech** this year and pulled its 45,000 SF Cambridge, MA office back to the UK, subleasing lab and office space at 840 Memorial Drive to **Beth Israel** (25,000 SF) and startup **Alantos** (10,000 SF).
- **Idenix** expanded near its 60 Hampshire Street headquarters, this time taking 37,000 SF of former **Genzyme** office space at One Kendall Square, Building 1400.
- Startup **Archemix** has struck a deal for a new 34,000 SF Cambridge headquarters at The Beal Companies' 300 Third Street.
- Assisted by a \$2.5 million loan from the **Massachusetts Emerging Technology Fund** (the largest fund placement to date), **Spherics** relocated from Lincoln, RI to set up a 29,500 SF custom facility at Mansfield's Cabot Industrial Park.
- The near western suburbs continued to get a share of the life science action, with three major leases: **Affymetrix** in a blend/extend for 80,000 SF at 4 Crosby Drive, Bedford; **ActivBiotics** in 17,800 SF at 110 Hartwell Avenue, Lexington; and **BG Medicine** in 21,500 SF at 610 Lincoln Street, Waltham.
- **Praecis Pharmaceuticals** is selling its 180,000 SF headquarters at 830 Winter Street in Waltham to **Intercontinental Real Estate** for \$51.2 million to reduce mortgage debt and help fund its R&D. **Praecis** will trim down from almost 200 to around 80 employees, lease back 65,000 SF as part of the sale, and may relocate.

## New Buildings

- **Novartis** is expanding their Cambridge campus with a new building next to 250 Mass Ave. Will the parade of new hires by Novartis weaken the local companies that Novartis wanted to be near, to the point where they may become acquisition candidates by Novartis or other large companies?
- **AstraZeneca** is moving forward with another building on its Waltham campus.

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**New Buildings** *continued from page 3*

- **Alexandria Real Estate Equities** has picked up two lab rehab candidates in Cambridge: 45,000 SF at 161 First Street (one of the early Lotus Development office buildings in the 80's software boom) and 27,000 SF at 171 Sidney Street, due for delivery in mid 2006.
- The US federal government's proposed Bio-Terrorism Level 4 lab at BioSquare is moving through neighborhood negotiations and approvals.

## Forecast



**675 West Kendall Street, Cambridge**  
Vertex Pharmaceuticals is rumored to be absorbing about 150,000 SF of sublease space at their new building at 675 West Kendall Street.

We see a continued recovery with vacancy rates inching down and rents stabilizing. There is also a fair amount of activity in the market, look for the following developments:

- On the heels of layoffs, **Biogen Idec** is returning a major chunk of their office space to the East Cambridge market in a five-floor 94,000 SF sublease offering at 4 Cambridge Center. Biogen has already sold a manufacturing plant in California to **Genentech**.
- **Millennium Pharmaceuticals** is also going through some refocusing on the heels of a strategic review by new CEO Deborah Dunsire. The company has decided to focus more on drug discovery for cancer than inflammatory diseases and has trimmed 100 jobs. As part of this effort Millennium will vacate its 70,000 SF 270 Albany Street facility and is considering more space cutbacks.
- **Novartis** is expected to be eyeing 500 Technology Square for a 90,000 SF expansion, which would plug a major hole in the East Cambridge market.
- **Vertex Pharmaceuticals** is rumored to be absorbing about 150,000 SF of sublease space at their new building at 675 West Kendall Street.
- **CombinatoRx** will lease two floors of lab and office space in the range of 40-50,000 SF to almost fill the rest of **Equity Office's** lab conversion at 245 First Street, Cambridge. CombinatoRx is leaving their former landlord at BioSquare for the shores of East Cambridge, contrary to the pattern that the Boston life science market is trying to establish.

- **Greenfuel** is looking at 20,000 SF of laboratory and office space in Cambridge and the surrounding suburbs, having incubated from their offices at One Broadway's **Cambridge Innovation Center**.
- It's not just the Yankees anymore: **Alexandria Real Estate Equities** has won the competition to develop the 700,000 SF East River Science Park, Manhattan's first privately developed life sciences park. While not an immediate threat, the prospect of a long-delayed biotech real estate market taking hold in New York's medical mecca should not be taken lightly in Massachusetts.
- Tenant improvement allowances have been heading toward turn-key deals. With the sluggish absorption of shell space in recent years, the most committed life science landlord have bid up their allowances with turnkey lab build-outs of \$125 PSF or if rental rates and tenant credit support it.
- Anything that can be developed for life sciences in Cambridge and Longwood will be. The other markets will follow.
- More companies outside the region will set up satellite operations here, primarily in Cambridge for the image and reputation.
- Massachusetts wants manufacturing to stay here, but is still thought of primarily as a research center. Will Massachusetts be able to lure and/or keep manufacturing?

## NAI Hunneman Life Sciences Capabilities

NAI Hunneman is focused on the specialized real estate requirements of the biotechnology industry. Our professionals deliver expertise gained from years of real estate experience along with the industry knowledge and contacts acquired from active membership and participation in the Massachusetts life science community.

Our services include:

- Strategic planning and space needs analysis
- Site and space searches
- Tenant representation in space procurement, disposition, and subleasing
- Financial analysis of lease terms, lease audits, tax and operating expense review
- Construction management and move coordination
- Leasing and property management for building owners