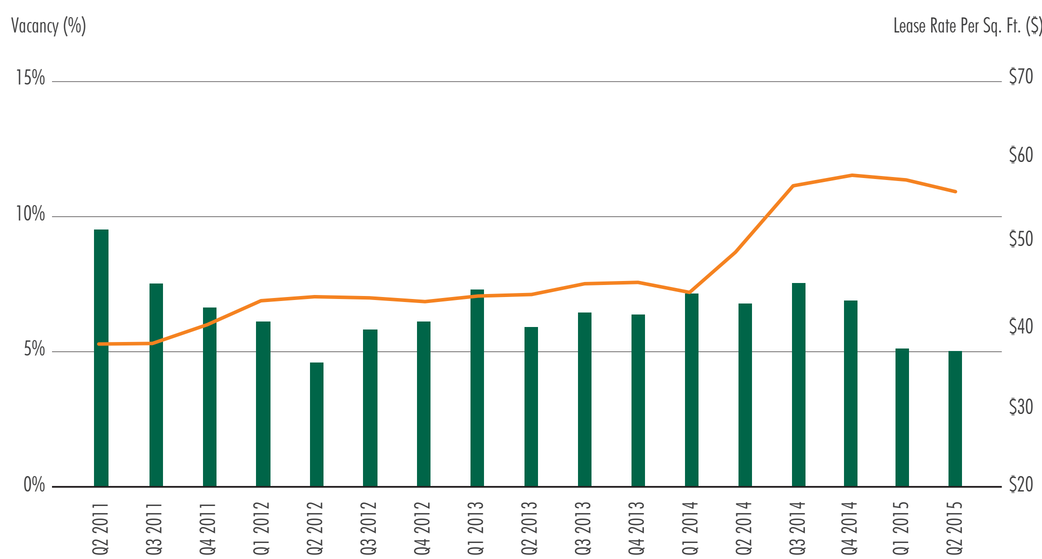
Cambridge Office/Lab, Q2 2015

Cambridge Office & Lab market at tightest levels since early 2000's.

Office Availability	8.4%
Lab Availability	9.6%
Occupied Sq. Ft.	22.1 MSF
Under Construction	1.7 MSF

Figure 1: Office Vacancy vs. Lease Rate



Source: CBRE Research, Q2 2015.

OFFICE MARKET

As competition for available space in Cambridge has reached a fever pitch, tenants are faced with one of the tightest markets since 2000. Vacancy and availability rates declined to 5.0% and 8.4%, respectively, at the close of Q2 2015. Although rents declined quarter-over-quarter to $55.17 as a direct result of the lackluster quality of remaining availability, they remain up more than 13% year-over-year. Class A office achieved rents that hovered around the mid $70.00 per sq. ft. mark, particularly in East Cambridge. The Cambridge office market saw 156,000 sq. ft. of positive absorption in Q2 2015. East Cambridge saw the most activity, posting 133,559 sq. ft. of the market's absorption as vacancy continues to decline, down 40 basis points quarter-over-quarter to 4.1%, its lowest point since mid-2012.

What was once considered a peripheral location, Lechmere is now a coveted East Cambridge address, marking the evolution and expansion of the submarket as a core trend throughout the first half of the year. A flurry of activity took place at 2 Canal Park in the second quarter with almost 150,000 sq. ft. of space absorbed. Hubspot, a creator of inbound marketing software, continued to grow its footprint in East Cambridge by executing the largest new office deal of Q2 2015, a 60,000-sq.-ft. expansion. This expansion added to the 117,000 sq. ft. currently occupied at 25 First Street. Philips North America cemented its intent to relocate its North American headquarters to 2 Canal Park as well by inking a deal for 48,000 sq. ft. The consumer electronics company signed a five-year research alliance with MIT and will pump $25 million into innovative research, now from the institute's back yard. Finally, technology security firm Symantec leased 41,000 sq. ft. and will relocate its local operations from Waltham. Other notable transactions included technology giant Hewlett Packard furthering its commitment to West Cambridge by leasing an additional floor at 150 CambridgePark Drive, increasing its occupancy to a total of 73,600 sq. ft. in the building. With tenant demand and the need to be in Cambridge far outpacing available options, particularly in East Cambridge, competition for the remaining blocks of space is fierce. As a result, rapidly escalating rents are expected to continue to climb across all Cambridge submarkets for the foreseeable future.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Office				
MIT	600 Technology Square	105,869	East Cambridge	Renewal/Expansion
Hubspot	2 Canal Park	60,000	East Cambridge	Expansion
Philips North America	2 Canal Park	48,000	East Cambridge	New
Symantec	2 Canal Park	41,000	East Cambridge	New
Hewlett Packard	150 CambridgePark Drive	29,000	West Cambridge	Expansion
Lab				
Bristol-Myers Squibb	100 Binney Street	208,000	East Cambridge	New
Biogen Idec	301 Binney Street	80,000	East Cambridge	Expansion
Novartis	45 Sidney Street	48,000	East Cambridge	Renewal
WaVe Life Sciences	733 Concord Avenue	31,000	West Cambridge	New
RaNA Therapeutics	200 Sidney Street	24,000	East Cambridge	New

Source: CBRE Research, Q2 2015.

LAB MARKET

Much like the office market, and reflecting the general themes throughout Cambridge, the lab market has seen vacancy rates decline to levels unreached since the early 2000s, while tenant demand continues to reach historic highs. Continuing the momentum of the first quarter, the second quarter of 2015 posted almost 392,000 sq. ft. of positive absorption, marking the sixth consecutive quarter of growth. As usual, East Cambridge led the way with a staggering 426,000 sq. ft. of positive absorption. Availability fell 130 basis points quarter-over-quarter to 8.3%, the lowest point in over 15 years. Likewise, vacancy declined by 80 basis points quarter-over-quarter to 6.0%. Average asking rents in the overall Cambridge lab market are also on the rise, up more than $10.00 per sq. ft. NNN quarter-over-quarter to $67.95, almost back to the rent levels in 2000. Putting an exclamation point on the first half of the year, one particular owner is now quoting high $80s NNN for its remaining availability at a new construction lab building, the highest ever asking rent quoted for East Cambridge for lab space.

Proving Cambridge to be the North American heart of life science, Bristol-Myers Squibb announced it would open a drug discovery center at 100 Binney Street in Kendall Square. The center will house about 300 employees in 208,000 sq. ft., occupying about half of the Alexandria Center @ Kendall Square building that is slated to open in 2018. In recent years Pfizer, Sanofi SA, Novartis and Baxter International have all consolidated research operations in Cambridge, a trend driven by the unique partnerships with world-class academic institutions and industry leaders. Not to be outdone, Cambridge's home grown darling, Biogen Idec continued its rapid expansion by leasing an additional 80,000 sq. ft. at 301 Binney Street, bringing BioMed's building to full occupancy. Regardless of rents, the minimal availability of lab space in Kendall Square coupled with unwavering demand will leave lab tenants with no choice but to evaluate alternative locations for requirements of all sizes in the back half of the year.

Figure 3: Market Statistics

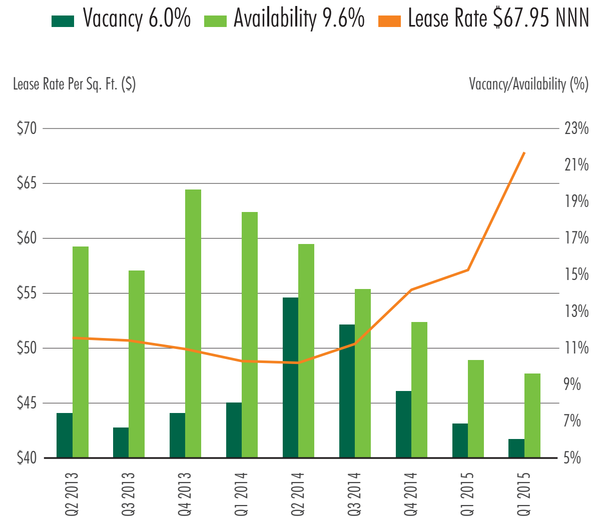
Total Cambridge Office/Lab	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg Asking Rent $ (NNN)
Cambridge Office								
Cambridge - East	53	7,661,866	7.6	4.1	2.1	133,559	646,731	63.37
Cambridge - Mid	32	1,969,015	5.1	2.3	0.3	(9,515)	(9,515)	43.50
Cambridge - West	19	1,932,288	14.7	11.4	1.2	32,231	9,499	37.60
Cambridge Office	104	11,563,169	8.4	5.0	1.7	156,275	646,715	55.17
Cambridge Lab								
Cambridge - East	69	9,717,745	8.3	6.0	3.3	426,304	586,443	71.45
Cambridge - Mid	7	1,411,672	14.6	0.6	0.0	(58,959)	(33,182)	71.26
Cambridge - West	12	656,680	19.0	17.4	0.0	24,596	90,952	46.21
Cambridge Lab	88	11,786,097	9.6	6.0	2.7	391,941	644,213	67.95
Total Cambridge Office/Lab	192	23,349,266	9.0	5.5	2.2	548,216	1,290,928	

Source: CBRE Research, Q2 2015.
* The reported numbers for the previous quarter and year have changed due to updated data.

LAB VACANCY/AVAILABILITY & RENT

The Cambridge lab market continues to see rents climb, increasing almost $10.00 per sq. ft. NNN quarter-over-quarter to $67.95 NNN per sq. ft. Availability continued to steadily decline in the second quarter, down 80 basis points quarter-over-quarter to 9.6%. Similarly, vacancy also declined by 90 basis points quarter-over-quarter to 6.0%. Leading the way was the East Cambridge lab market, which saw availability and vacancy plummet 130 and 80 basis points quarter-over-quarter, respectively.

Figure 4: Lab Vacancy/Availability & Rent

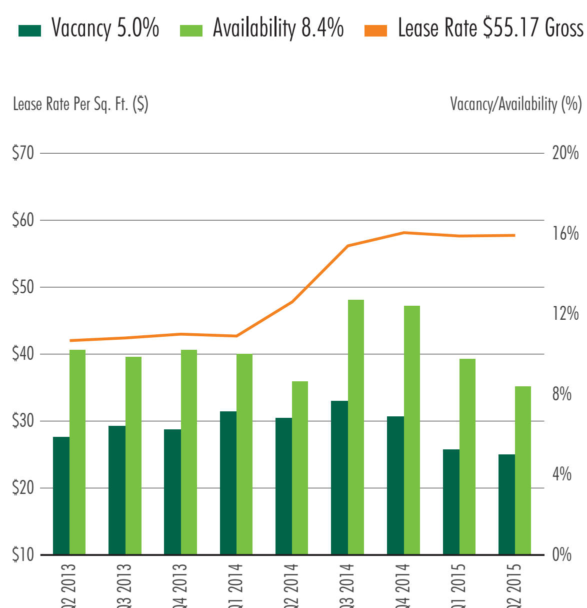


Source: CBRE Research, Q2 2015.

OFFICE VACANCY/AVAILABILITY & RENT

Cambridge office vacancy continues its decline, down 20 basis points quarter-over-quarter to 5.0%, its lowest point since the early 2000s. Similarly, the availability rate declined slightly in the second quarter, down 30 basis points quarter-over-quarter to 8.4%. Average asking rents declined for the first time in recent quarters, a direct result of the lack of quality of availability, ending the second quarter at $55.17.

Figure 5: Office Vacancy/Availability & Rent



Source: CBRE Research, Q2 2015.

Definitions

AVERAGE ASKING LEASE RATE
Rate determined by multiplying the asking gross lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

GROSS LEASES
Includes all lease types whereby the tenant pays an agreed rent plus estimated average monthly costs of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

MARKET COVERAGE
Includes all competitive buildings in CBRE's survey set.

NET ABSORPTION
The change in occupied sq. ft. from one period to the next, as measured by available sq. ft.

NET RENTABLE AREA
The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas.

OCCUPIED AREA (SQ. FT.)
Building area not considered vacant.

UNDER CONSTRUCTION
Buildings that have begun construction as evidenced by site excavation or foundation work.

AVAILABLE AREA (SQ. FT.)
Available building area that is either physically vacant or occupied.

AVAILABILITY RATE
Available sq. ft. divided by the net rentable area.

VACANT AREA (SQ. FT.)
Existing building area that is physically vacant or immediately available.

VACANCY RATE
Vacant building feet divided by the net rentable area.

NORMALIZATION
Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and vacancy figures for those buildings have been adjusted in previous quarters.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