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Tight life sciences lab market spurs speculative building in area



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JOHN TLUMACKI/GLOBE STAFF

King Street Properties is working on a \$200 million biomedical complex in Cambridge that doesn't yet have tenants. Developers Tyson Reynoso (above left) and Stephen Lynch looked out over the work.

By [Robert Weisman](#) | GLOBE STAFF MAY 20, 2017

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WALTHAM — Construction workers are laying the foundation for a 145,000-square-foot life sciences lab building on a hill overlooking the tree-lined Cambridge Reservoir. By the end of next year, it is expected to be crammed with scientists developing new drugs.

But for now, the developer of the \$200 million project, King Street Properties, doesn't know what tenants will occupy this future hive of drug discovery that is now just a hole in the ground.

The new three-story building at 828 Winter St., with a four-story underground parking garage, will connect with a fully leased existing building next door in an office park chockablock with biopharmaceutical companies. It is one of several high-profile new Boston-area laboratory complexes being built "on spec," meaning developers hadn't signed up tenants before breaking ground. But they are confident there will be robust demand in a market where drug development has been exploding, lab space expanding, and vacancy rates shrinking for more than a decade.

"Speculative construction is the ultimate risky thing," admitted Stephen D. Lynch, principal in King Street Properties of Cambridge. Especially when it comes to biotech — companies' space requirements often change rapidly depending on the results of research. "You have to build it and hope they come," Lynch said. "It's not for the faint of heart."

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Yet commercial real estate statistics tell a story that shows that it's not that much of a gamble these days. Lab space in Waltham and Lexington, two suburbs hugging Route 128, nearly tripled to 2.8 million square feet from 2004 to 2017. During that same period, the lab vacancy rate plunged from 34.3 percent to 0.7 percent.

In the life sciences hub of Cambridge, lab inventory climbed 58 percent to 10.6 million square feet over that time, while the vacancy rate fell from 21.2 to 2.4 percent.

"It's the best lab market in the country," said Brian Fallon, president of development at the Davis Companies in Boston, which recently began construction on another spec lab building, the 223,000-square-foot Alewife Research Center at 35 Cambridgepark Drive next to the Alewife MBTA station in Cambridge. "It's reflective of the high confidence we have in the market we're in. We have a Cambridge address, which means a lot to the lab users around the world."

Biopharmas are prized commercial real estate tenants because they are typically well-funded

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capital firms. That's important when the asking rates for lab space leasing range from \$40 to \$50 a square foot in Waltham, and between \$60 and \$80 a square foot in Cambridge, according to brokerage firm Transwestern Consulting Group. That tops the San Francisco Bay area, home to another big life sciences cluster, where leasing rates range from \$40 to \$65 a square foot.

Having an ample supply of lab space, and proximity to the biotechs that occupy it, is a priority for more than a dozen global pharmaceutical companies that have put down roots in Cambridge or Boston's western suburbs over the past 15 years. Giants like Pfizer Inc. — which opened a 280,000-square-foot research center in Kendall Square three years ago to collaborate with startups — are keeping a close eye on the tight Boston-area market.

“We want to be in a place with the smartest scientists in the world,” said Morris Birnbaum, a Pfizer senior vice president and chief scientific officer of its internal medicine research unit. “We spend a lot of time talking to biotechs trying to fund opportunities to drive our [drug] portfolio. Having all these biotechs around is very important. It's easier to get into a car and drive to Cambridge or Watertown than flying to North Carolina to see a company.”

Developers are well aware of the fickle nature of biopharma research. If a company meets its goals in a clinical study or acquires new drug compounds from a competitor, it might need to expand rapidly. Conversely, a company facing a drug safety problem or a clinical trial setback might cut its research staff drastically and back out of plans to use lab space.



An artist's rendering of the 828 Winter St. building.

A much-watched test of the Boston-area market's strength came in 2014, when Ariad Pharmaceuticals Inc. scaled down plans to open a new headquarters and research complex in the new Alexandria Center development on Binney Street in Cambridge. The company's ease in subleasing space to blue-chip tenants like IBM Watson Health calmed developers' nerves.

That case helped fuel the new wave of speculative lab construction. In addition to the Winter Street and Alewife projects, DivcoWest, a San Francisco-based builder, paid nearly \$300 million in 2015 to buy 42 acres on the Northpoint site in East Cambridge, where millions of square feet of housing, office, and lab space are planned. At the time of the purchase, it was the priciest land deal on record in Greater Boston, and Divco aimed to capitalize on the migration of life sciences companies from Kendall Square to adjacent neighborhoods and cities.

Last fall, Divco finalized city permits on its first Northpoint building — a 370,000 square-foot project that could house either offices or lab space — with plans to start construction before landing an anchor tenant.

The speculative construction can give developers a leg up on their rivals if their projects are completed in time to take advantage of a spurt of new or growing companies.

But some established players still work to line up tenants before they begin building.

“It's always preferable if you're a developer or a landlord to try to get some pre-leasing on a new project,” said Tom Andrews, executive vice president and Greater Boston regional market director for Alexandria, which has built some labs on spec in the past. “It reduces the risk.”

Lab space at a premium

As the biotech industry grows

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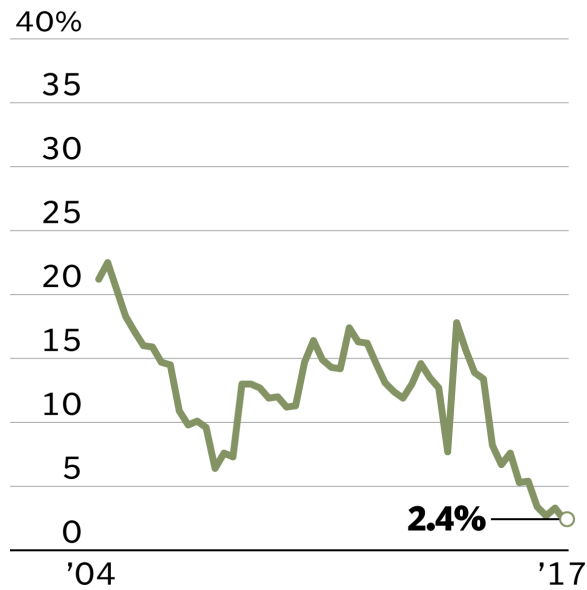
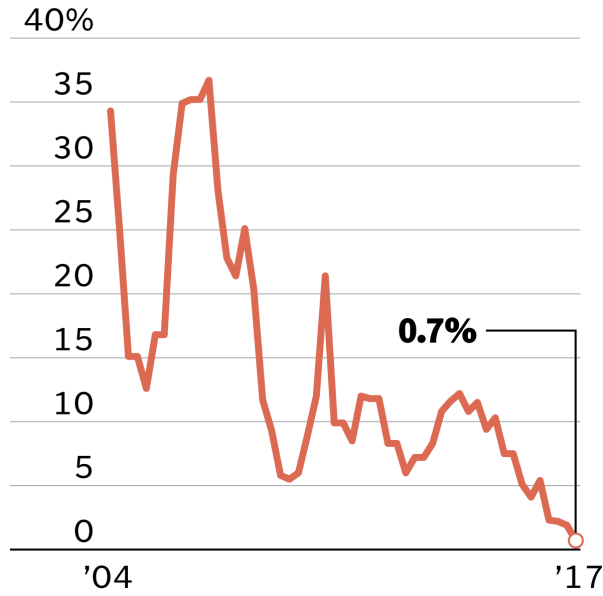
vacancy rate has plunged over the past decade.

Comments

Waltham-Lexington

Cambridge

Vacancy rate



Lab space

Tim Loagan of the Globe staff contributed to this report. Robert Weisman can be reached at

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