

HCP Reenters Greater Boston Life Science Race With King Street Properties JV

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A healthcare REIT known mainly in Greater Boston for its senior living facilities is making a return to the region's hypercompetitive life science market.



HCP Inc. agreed in October to acquire the \$228M Hayden Research Campus in Lexington from **King Street Properties** and **The Carlyle Group**, according to a Q3 **Securities and Exchange Commission filing released Thursday**.

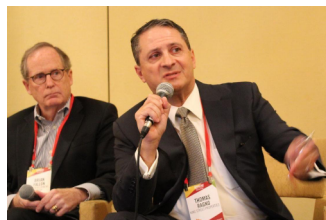
King Street will stay on as a joint venture partner, but **HCP** will own a majority interest. The deal is expected to close in December.

“The Hayden acquisition allows HCP to re-enter the Boston market with immediate scale and align with a high-quality local operator and developer,” HCP Executive Vice President and Chief Financial Officer Peter Scott said on an **earnings call Thursday**.

The campus features two existing buildings totaling 400K SF that are 66% leased with **Shire Pharmaceuticals** and Merck, Sharp and Dohme as tenants. HCP Executive Vice President and Chief Operating Officer Thomas Klaritch indicated on Thursday's earnings call the team was far along in discussions with two potential tenants to bring occupancy up to 94%. King Street is seeking approvals for the new partnership to develop an additional 209K SF of life science space on the campus.

“We're excited. They're a strong national platform, and they like us because we're the largest local owner of life science real estate in Greater Boston,” King Street Properties founder and principal Thomas Ragno told *Bisnow*. “We were happy to continue to invest in it because we bought it a year ago and see a way to continue to transform it.”

HCP owns a sizable portfolio largely focused on senior housing, life science facilities and medical offices. It has several partnership agreements on Brookdale senior living facilities throughout New England. HCP previously owned a four-story, 84K SF lab/biotech building at 1030 Massachusetts Ave. in Cambridge.



Greater Boston's real estate community sees HCP's return to the region's life science sector as a signal of more to come, with increased pressure on market-share leaders **Alexandria Real Estate Equities** and **BioMed Realty Trust**.

“The absence of HCP has been notable over the last several years, as they are perhaps the largest player by far in biotech lab-focused space without a Boston presence,” **Perry Brokerage** Director of Intelligence Brendan Carroll said. “In markets where HCP has a presence, it normally has a several-asset presence, so it is reasonable to think they intend to build that out here.”

HCP is one of the **largest life science players** on the San Francisco Peninsula, a market they share with Alexandria and BioMed, as they will in Boston. Ragno, citing HCP's \$12B market capitalization, thinks the Hayden Research Campus JV could be just the beginning for HCP in Greater Boston.

“I think they're interested in doing more here, but I think job one will be the work to do at Hayden, which we'll be executing with them,” he said. “I think they'd like to do more with us, which could be good.”

HCP leadership seems focused on the suburbs as opposed to venturing into the notoriously tight Cambridge life science market.



“If you look at Cambridge, the rents are probably \$30/SF higher, very hard to get in there. There hasn't been a lot of trades in the Cambridge area and cap rates are in the kind of the mid-4% range,” Klaritch said on the earnings call. “In the suburbs, we're seeing opportunities for growth.”

Route 128 and **Route 2** are **viewed as relief valves** for the notoriously tight **East Cambridge** submarket, where direct lab vacancies were **less than 1%** at the end of Q3. With rents usually \$30 less per SF and an easy commute to Cambridge, the suburban submarkets have begun to catch the eye of some life science tenants. The brokerage community says there is roughly 1M SF of demand in these markets, according to Klaritch.

“It's a little easier for the new companies to expand into that market,” he said.

HCP's re-entry into the market comes months after **Alexandria CEO Joel Marcus** signaled his company is moving to make its portfolio **less dominated by Greater**

Boston assets. With nearly 5.2M SF of life science properties in the area, Alexandria holds the most market share with 25%, followed by **BioMed**'s 11%, according to Perry data. The new entrant, even with its initially small market share in comparison, is seen as sign of Greater Boston's continued life science strength.

“HCP's entry into Boston is a tremendous validation of the overall Boston biotech story, and also a belief that reasonable valuations are still out there, despite rapidly increasing economics in recent years,” Carroll said.

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