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TIMING IS EVERYTHING

Building Ahead of the Market

Spec Lab Projects Spill into More Neighborhoods

By [Steve Adams](#) | Banker & Tradesman Staff | Apr 22, 2018

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Building lab-ready buildings on speculation has been a no-lose development proposition in recent years, spilling out of the life science industry's Cambridge hub to an ever-expanding list of relief valve markets from Boston's Seaport District to Metrowest.

Developers including DivcoWest, Related Beal, NB Development and Alexandria Real Estate Equities all have secured leases at buildings still under construction in Boston and Cambridge totaling nearly 1 million square feet.

Cambridge-based King Street Properties is banking on a similar reception to 828 Winter St. in Waltham, a \$75 million, 145,000-square-foot spec lab building scheduled for completion in July.

The risks of breaking ground without a tenant – and the higher construction costs of lab buildings compared to offices – are outweighed by the life science industry's strong growth and its speed-to-market priorities, said Thomas Ragno, King Street founder and principal.

"We've built speculatively because the way the life science market works, peoples' (real estate) needs pop up and they want space right away," Ragno said. "They make a drug discovery and need space, so we build ahead of the market."

King Street Properties has had success since 2014 targeting a succession of spillover submarkets – first Alewife, then Route 128, and most recently Framingham – as destinations for life science firms while Kendall Square availabilities remain in single digits. In late 2016, it secured Cambridge-based rare disease specialist Wave Life Sciences as anchor tenant for 115 Hartwell Ave. in Lexington, a \$45.5 million, 94,000-square-foot spec office and lab building that opened last year.

More recently, it acquired 33 New York Ave. in Framingham, the former GateHouse Media headquarters, with plans to convert the 100,000-square-foot building to biomanufacturing space.

"The demand far outstrips supply to such an extreme in Cambridge that you're going to continue to see an outmigration," said Mark Winters, an executive managing director at Newmark Knight Frank. "The first preference will continue to be Cambridge, particularly Kendall Square, but given the scarcity and pricing, most tenants are willing to consider Alewife or Route 128."

Life science specialist Alexandria Real Estate Equities jumped at a rare opportunity to build an infill spec development in East Cambridge, where asking triple-net rents for class A lab space averaged \$82 per square foot in the first quarter, according to Newmark Knight Frank research.

Alexandria is building a new 164,000-square-foot life science building at 399 Binney St. on its One Kendall Square campus, which it acquired in 2017 for \$725 million. 399 Binney is now leased to three life science tenants: Rubius Therapeutics, Relay Therapeutics and Celsius Therapeutics, according to an SEC filing. A fourth tenant has signed a letter of intent, which would bring the building up to 100 percent occupancy, according to a real estate industry source.

In Alewife, a traditional relief valve when Kendall Square fills up, The Davis Cos. is on track for fall 2018 completion of its 223,000-square-foot Alewife Research Center at 35 Cambridgepark Drive. Lexington-based Ribon Therapeutics is in negotiations for a 50,000 square foot lease, sources say.

Other developers are looking to the eastern end of Boston's Seaport District.

A partnership between Related Beal and Kavanagh Advisory Group broke ground last year on iSQ Seaport, a 125,000-square-foot lab building at 6 Tide St. After securing a 58,000-square-foot lease from Mass Innovation Labs last December, the developers are in talks with multiple potential tenants for the remainder of the space, said Pete Bekarian, a managing director at JLL Boston which represents ownership.

"It validates not only their decision to move forward (on spec), but their decision to even get involved in a location like the Seaport that was untested," Bekarian said. "There were some life science companies there, but I don't think anyone was looking to that as the next subcluster."

Local Life Science Cluster Strengthens

Concerns about overbuilding mount in any lengthy real estate cycle, and the life science industry is susceptible to risks from new government regulation and potential shocks to public markets and venture capital flows.

But Greater Boston's higher education system and biomedical research facilities have laid the groundwork for the East Coast's largest industry cluster, ranging from early-stage companies in Kendall Square incubators to pharmaceutical manufacturing plants in outer suburbs.

"The new product is leasing up very quickly in Cambridge and these firms have specialized science, so they want to control production from research all the way to drug manufacturing," said Aaron Jodka, director of research for Colliers International in Boston.

The region's employment-intensive research and development sector, in particular, has driven demand for more lab space in recent years, according to a 2017 report by CBRE research. Limited development sites in Kendall Square have spread spec life science development to new submarkets including Brighton, Watertown and the Seaport.

NB Development, the real estate arm of New Balance, has leased lab space in the new Celtics and Bruins training facilities at Boston Landing to life science tenants including Proteostasis Therapeutics, Mass Innovation Labs and Roche Diagnostics.

After years of delays, new ownership by DivcoWest kickstarted spec lab development at the former NorthPoint site in East Cambridge, now known as Cambridge Crossing. The lab-ready, 425,000-square-foot building under construction at 250 North St. is now 80 percent leased to Philips North America, which announced in January plans to



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move operations from its Minuteman Road campus in Andover.

Philips initially announced a 243,000-square-foot lease at 250 North St., but reportedly has since exercised an option to increase its occupancy to over 340,000 square feet.

Philips spokeswoman Silvie Casanova declined to give specifics but confirmed that Philips has "refined our square-footage requirements to ensure we have the appropriate space to start and flexibility for the future."

"We've seen significant success in anything that's broken ground, whether it's in Cambridge or Lexington, which is a major suburban life science hub," said Liz Berthelette, director of research at NAI Hunneman. "A lot of these buildings are being marketed to both office and lab tenants, and we're starting to see projects in areas that we haven't seen before."

This article has been updated to include comment from Philips North America received after Banker & Tradesman's print deadline.

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