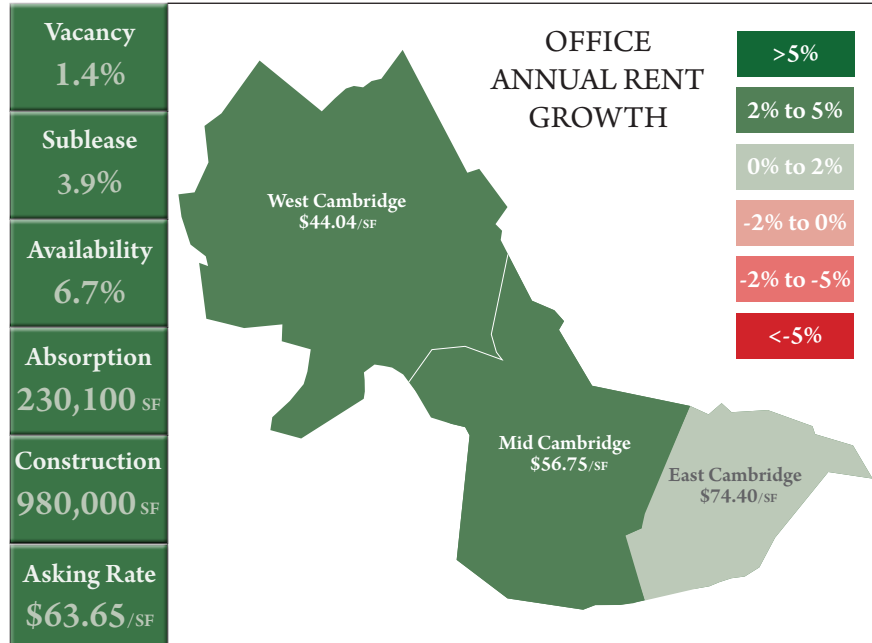


STRONG YEAR ACROSS THE BOARD

The story coming from the Cambridge markets has begun to sound repetitive. There are three major themes dotting the headlines seemingly every quarter: strong demand, high rents and low availability. The equal performance between the office and lab markets alone is surprisingly consistent -- both markets contain approximately 10MM square feet, have sub 5.0% availability and top end rents exceed \$80 PSF.

Over the past 36 months one trend that has emerged across both the office and lab markets is the surging Life Science sector which now constitutes 70% of total demand. Where this has become most apparent is that the demand for lab space has absolutely skyrocketed, nearly 2.5x stronger than office. This was a strong year for Cambridge and the forecast looks just as bright.



**MASSACHUSETTS
UNEMPLOYMENT**
2.9% (November)



**NATIONAL
UNEMPLOYMENT**
4.6% (November)



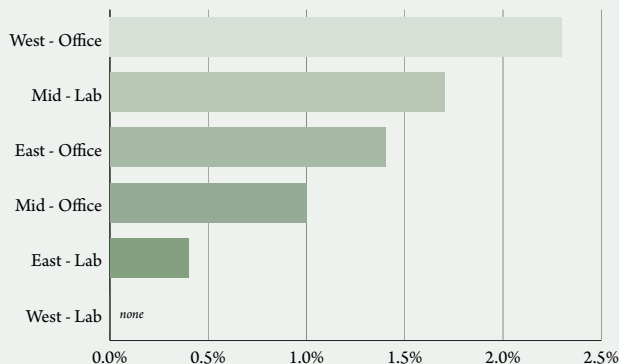
**2015 MASS
VC INVESTMENT**
\$6.3 Billion



**2015 NIH
MASS FUNDING**
\$1.71 Billion

MARKET ACTIVITY

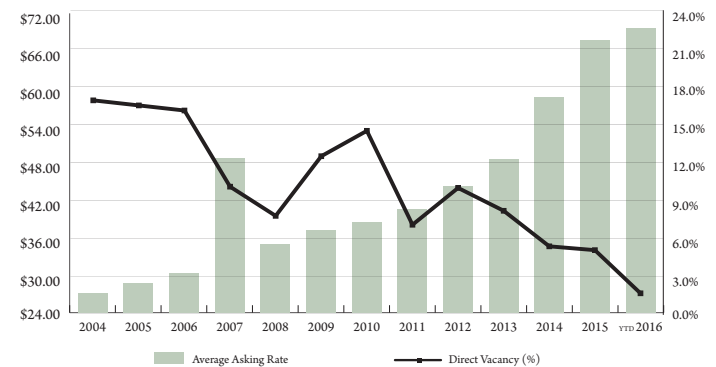
DIRECT VACANCY RATE BY SUBMARKET



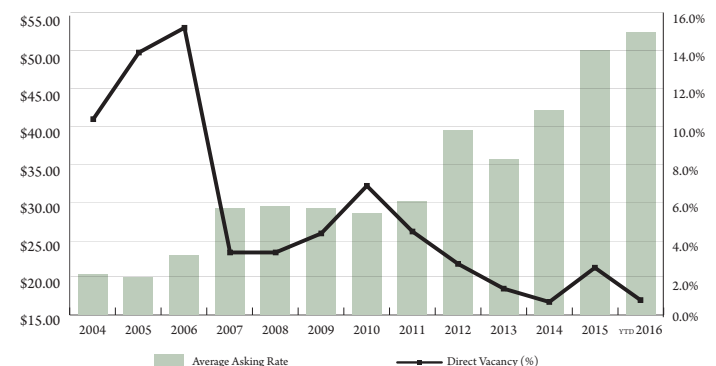
The Cambridge office market measured an incredibly low 1.4% vacancy rate which is roughly double the 0.8% vacancy rate in the lab market. Tenant demand remained extremely strong with several 100K+ square foot requirements touring the market, however with few existing options and development opportunities scarce, barriers-to-entry are at an all time high.

Across the Cambridge map asking rates are breaking through prior peaks with some rents cresting \$80 PSF. Similarly, in the investment sale market, pricing is routinely exceeding \$1,000 PSF on premier assets.

OFFICE CLASS A - ASKING RATE VS. DIRECT VACANCY



OFFICE CLASS B - ASKING RATE VS. DIRECT VACANCY





DIRECT VACANCY
1.4%



SUBLEASE AVAILABILITY
3.9%



TOTAL AVAILABILITY
6.7%



12-MONTH ABSORPTION
230,100 SF



AVERAGE ASKING RATE
\$63.65/SF

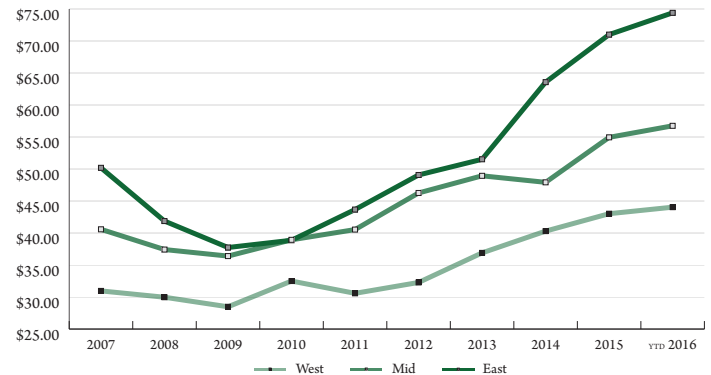
• The Cambridge office market continued its strong position with sound fundamentals pushing asking rate growth. At \$63.65 PSF, the average asking rate has reached an inflection point where many small start-ups and tech companies are struggling to maintain Cambridge locations and are frequently pursuing emerging urban technology hubs like Somerville, Watertown and Brighton.

• After comprehensively touring the market, **Akamai** recently disclosed its growth plan. When the Internet traffic data giant's current leases expire in late 2019, the company will move into a brand new four-story 454,000 square foot building at 145 Broadway to be developed by **Boston Properties**. The developer will also construct a 380,000 square foot facility at 250 Binney Street for **Akamai** to occupy during early 2021.

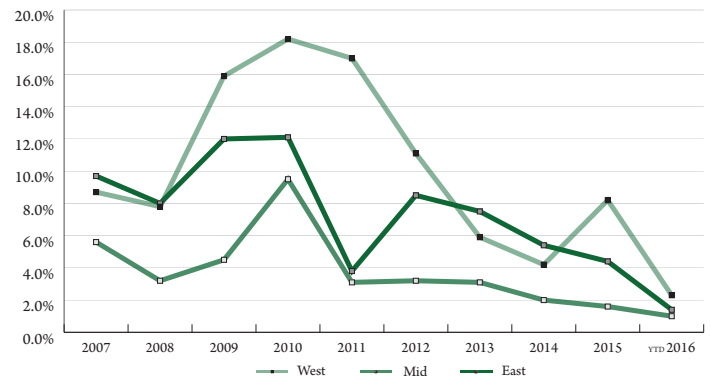
• **Shire Pharmaceuticals** expanded their Cambridge presence significantly by taking **Genzyme's** space at 500 Kendall Street. **Shire**, whose main campus is in suburban Lexington, is poised to takeover the space from **Genzyme** during 2018. **Genzyme** will be relocating operations to its new facility at 50 Binney Street in late 2017.

• A couple existing tenants, **HubSpot** and **Facebook**, both expanded their operations within East Cambridge. **HubSpot** who most recently signed options for the entire Davenport building, leased expansion space at One Canal Park where the marketing software provider will occupy 25,300 square feet. **Facebook** expanded and extended its existing lease at One Broadway where the social media giant will now span 18,000 square feet. Away from Kendall Square, **WeWork Labs** made its first Cambridge inroads setting up a 30,000 square foot co-working space at 625 Massachusetts Avenue in the heart of Central Square.

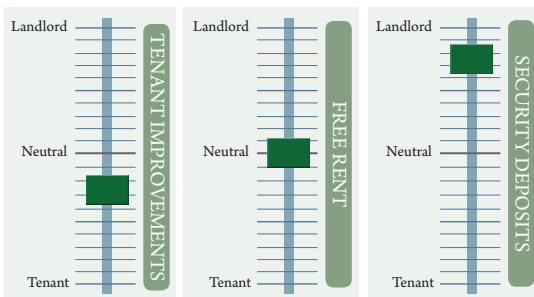
AVERAGE OFFICE ASKING RATE BY SUBMARKET



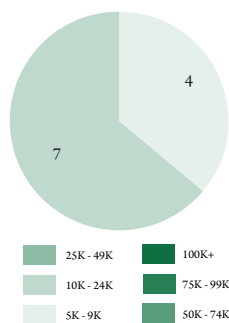
AVERAGE OFFICE DIRECT VACANCY BY SUBMARKET



LANDLORD CONCESSIONS



DIRECT BLOCKS



RECENT INVESTMENT SALES



1000 Massachusetts Avenue
\$69,500,000 (\$644/RSF)
Buyer: Intercontinental RE



1050 Massachusetts Avenue
\$46,000,000 (\$733/RSF)
Buyer: L&B Realty

NOTABLE RECENT LEASES

| Address | Submarket | Tenant | SF |
|------------------------|----------------|-----------------------|---------|
| 145 Broadway (+ other) | East Cambridge | Akamai Technologies | 636,000 |
| 500 Kendall Street | East Cambridge | Shire Pharmaceuticals | 343,000 |
| 625 Massachusetts Ave. | Mid Cambridge | WeWork Labs | 30,100 |
| One Canal Street | East Cambridge | HubSpot | 25,300 |
| One Broadway | East Cambridge | Facebook | 18,500 |

FORECAST AND PROJECTIONS (A&B)

| | 2017 | 2018 | 2019 | 2020 |
|----------------|------|------|------|------|
| Asking Rates | + | + | + | + |
| Direct Vacancy | + | + | + | = |
| Net Absorption | + | + | + | = |



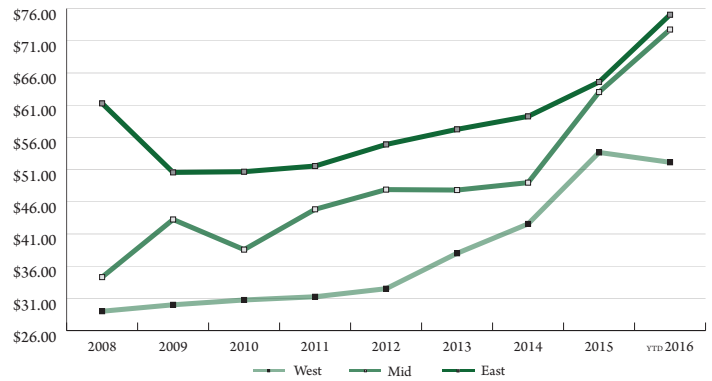
- Cambridge's lab market is even more competitive than the office market with only 113,000 SF of vacancy which translates into a 0.8% vacancy rate. While there are a couple larger blocks of space available, the market for 3,000 to 8,000 square foot tenants essentially does not exist. As such, tenants are strategically evaluating their real estate needs and in many cases being driven into periphery markets including Somerville, Watertown and Brighton.

- With the life science sector constituting nearly 70% of total demand it comes as no surprise that large pharma users are pushing demand and expanding rapidly. Most significantly during 2016, *Johnson & Johnson*, *AbbVie*, *Shire* and *Lilly* have all either committed to large expansions or been actively engaged touring for opportunities.

- The investment sale market heated up in the second half of 2016, with a handful of premier lab assets trading owners. Most splashy was *Alexandria's* acquisition of One Kendall Square from *DivcoWest*. The 11 building mixed-use portfolio was nearly 99% leased at time of closing and many of the buildings feature brick & beam construction which is rare in the Kendall Square neighborhood. The transaction also includes development rights at 399 Binney Street for a 175,000 square foot commercial asset. *Clarion Partners* purchased the 50/50 split office and lab building at 245 First Street from *Jamestown* for over \$311 million or \$1,020 PSF.

- Looking forward expect the lab market to keep performing exceedingly well with huge demand (2.5x greater than office). With a handful of projects: Volpe, Northpoint and 399 Binney Street slated to add supply over the next several years, market vacancy could uptick slightly, however the larger market will be welcomed news for many tenants.

AVERAGE ASKING RATE BY SUBMARKET (NNN)



AVERAGE DIRECT VACANCY BY SUBMARKET



RECENT INVESTMENT SALES

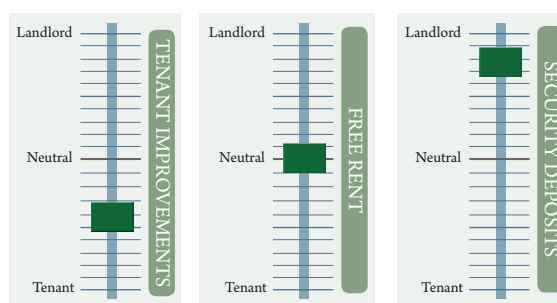


One Kendall Square
\$725,000,000 (\$1,125/RSF)
Buyer: Alexandria RE

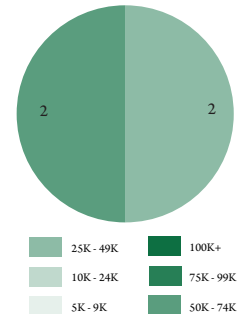


245 First Street (office & lab)
\$311,250,000 (\$1,020/RSF)
Buyer: Clarion Partners

LANDLORD CONCESSIONS



DIRECT BLOCKS



FORECAST AND PROJECTIONS

| | 2017 | 2018 | 2019 | 2020 |
|----------------|------|------|------|------|
| Asking Rates | + | + | + | + |
| Direct Vacancy | + | + | + | = |
| Net Absorption | + | + | + | = |

source: CoStar

NOTABLE RECENT LEASES

| Address | Submarket | Tenant | SF |
|------------------------|----------------|------------------------|---------|
| 145 Broadway (+ other) | East Cambridge | Akamai Technologies | 636,000 |
| 26 Landsdowne | East Cambridge | Takeda Pharmaceuticals | 100,000 |
| 21 Erie Street | East Cambridge | Target | 56,000 |
| 780 Memorial Drive | Mid Cambridge | Jounce Therapeutics | 51,000 |
| 320 Bent Street | East Cambridge | Merck Co. | 50,000 |

| OFFICE | Total Inventory(SF) | Direct Vacancy | Sublease Availability | Total Availability | Quarterly Absorption (SF) | 12 Month Absorption (SF) | Average Asking Rate |
|-----------------------|---------------------|----------------|-----------------------|--------------------|---------------------------|--------------------------|---------------------|
| OFFICE A&B | | | | | | | |
| CAMBRIDGE | 10,810,000 | 1.4% | 3.9% | 6.7% | 48,000 | 230,000 | \$63.65 |
| East Cambridge | 5,668,000 | 1.4% | 3.8% | 5.6% | 6,000 | 183,000 | \$74.40 |
| Mid Cambridge | 3,136,000 | 1.0% | 1.1% | 4.2% | 40,000 | 42,000 | \$56.75 |
| West Cambridge | 2,006,000 | 2.3% | 8.4% | 13.9% | 3,000 | 5,000 | \$44.04 |

| | | | | | | | |
|------------------|------------------|-------------|-------------|-------------|--------------|----------------|----------------|
| OFFICE A | | | | | | | |
| CAMBRIDGE | 6,977,500 | 1.7% | 5.2% | 8.8% | 9,000 | 163,000 | \$69.65 |
| East Cambridge | 4,649,500 | 1.4% | 4.6% | 6.5% | 16,500 | 157,000 | \$75.31 |
| Mid Cambridge | 1,224,500 | 1.8% | 2.0% | 8.1% | (7,000) | (7,000) | \$67.88 |
| West Cambridge | 1,103,500 | 2.7% | 10.9% | 19.4% | - | 12,000 | \$47.75 |

| | | | | | | | |
|------------------|------------------|-------------|-------------|-------------|---------------|---------------|----------------|
| OFFICE B | | | | | | | |
| CAMBRIDGE | 3,832,500 | 0.9% | 1.6% | 3.0% | 39,000 | 67,000 | \$52.72 |
| East Cambridge | 1,019,000 | 1.1% | 0.1% | 1.5% | (11,000) | 26,000 | \$70.25 |
| Mid Cambridge | 1,911,000 | 0.5% | 0.5% | 1.8% | 47,000 | 48,500 | \$49.63 |
| West Cambridge | 902,000 | 1.7% | 5.4% | 7.3% | 3,000 | (7,000) | \$39.50 |

| LAB | Total Inventory(SF) | Direct Vacancy | Sublease Availability | Total Availability | Quarterly Absorption (SF) | 12 Month Absorption (SF) | Average Asking Rate |
|--------------------|---------------------|----------------|-----------------------|--------------------|---------------------------|--------------------------|---------------------|
| LAB A&B | | | | | | | |
| CAMBRIDGE | 14,109,500 | 0.8% | 2.8% | 4.4% | 17,500 | 303,500 | \$73.26 |
| East Cambridge | 9,108,000 | 0.4% | 1.4% | 1.9% | 15,500 | 111,000 | \$75.05 |
| Mid Cambridge | 4,337,000 | 1.7% | 5.4% | 9.7% | - | 135,000 | \$72.75 |
| West Cambridge | 665,000 | 0.0% | 4.9% | 4.9% | 2,000 | 58,000 | \$52.13 |

| | | | | | | | |
|------------------|-------------------|-------------|-------------|-------------|---------------|----------------|----------------|
| LAB A | | | | | | | |
| CAMBRIDGE | 11,621,500 | 0.3% | 2.6% | 3.9% | 15,500 | 111,000 | \$75.66 |
| East Cambridge | 8,453,000 | 0.4% | 1.5% | 2.1% | 15,500 | 111,000 | \$75.06 |
| Mid Cambridge | 3,039,500 | 0.0% | 5.6% | 9.3% | - | - | \$78.00 |
| West Cambridge | 129,000 | 0.0% | 0.0% | 0.0% | - | - | \$60.00 |

| | | | | | | | |
|------------------|------------------|-------------|-------------|-------------|--------------|----------------|----------------|
| LAB B | | | | | | | |
| CAMBRIDGE | 2,488,000 | 3.0% | 3.8% | 6.9% | 2,000 | 193,000 | \$67.81 |
| East Cambridge | 655,000 | 0.0% | 0.0% | 0.0% | - | - | \$74.31 |
| Mid Cambridge | 1,297,000 | 5.8% | 4.8% | 10.7% | - | 135,000 | \$71.00 |
| West Cambridge | 536,000 | 0.0% | 6.1% | 6.1% | 2,000 | 58,000 | \$52.13 |

All information provided in LPC's Market Statistics are from sources deemed reliable, but no warranty or representation is made as to its accuracy thereof and same is submitted subject to errors, omissions, or other conditions.

Lincoln Property Company's *Cambridge Office & Lab Report* is produced by the Boston Office's research team in collaboration with our Cambridge Brokerage Group. If you have any questions regarding market conditions and the information found in this report, please contact Ethan Robert at erobert@lpc.com.