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## TECH & INNOVATION / BIOTECH

# Biotech slump pushes lab space vacancy rates up

By Jeffrey Krasner, Globe Staff, 5/7/2003

The biotech slump, which has led to layoffs, battered share prices, and tighter development budgets, has suddenly hit the Greater Boston lab space market hard, pushing up vacancies and forcing down rents.

Vacant laboratory space in Cambridge and the Boston suburbs is at a five-year high, according to brokers, and biotech firms can extract more concessions from landlords anxious to let space.

The tanking laboratory market undermined what was one of the last remaining pockets of strength in the commercial real estate market. As the dot-com bubble burst in 2000 and the state economy fell into recession, markets for office space and for telecommunications quickly sank. But biotech remained a bright spot, helping to boost Cambridge and surrounding communities with high concentrations of life-science companies.

***"I've been in this business for 15 years, and I've never seen a lab market that has softened as quickly or to the same extent," said Roy Hirshland, president and chief executive of T3 Realty, a Waltham firm that advises technology and life-science companies on real estate transactions.***

Vacancy rates for lab space reached nearly 19 percent in Cambridge, the center of the local industry, while rents have dropped about 10 percent in the past year, according to brokers. Lab space is specially outfitted to support biomedical research. It requires specialized heating and ventilation systems, custom plumbing for gases and liquids, and systems to deal with hazardous wastes — all of which make it very expensive to convert a standard office building for use as a laboratory.

In the South San Francisco area, a concentration of biotech and life-science companies even larger than Boston and Cambridge, "things are at a standstill," according to Jeff Dizon, a market researcher at Colliers International, a real estate firm. "Low- to mid-cap companies are either cutting back on leased space or not looking to expand. They don't want to fall into the same trap that happened to the dot-coms," in which many small companies leased too much space in anticipation of growth that never happened.

In Worcester, the Massachusetts Biotechnology Research Park, an industrial park developed over the past 20 years, is almost completely leased. But efforts to further expand Worcester's share of local life-science businesses could be slowed by the big vacancies in Cambridge and surrounding areas. Despite its proximity to the University of Massachusetts Medical School and other educational resources, Worcester still doesn't have the draw of Cambridge and Boston's Longwood Medical District.

"The companies looking for space would rather be in Boston and Cambridge," said Nancy J. Kelley, director of life sciences for Spaulding & Slye Colliers, a Boston real estate developer and broker that is an affiliate of Colliers International.

***T3 Realty's Hirshland said he is seeking between 30,000 and 40,000 square feet for a biotech start-up in the Boston area. "I'm astounded at the number of options the client has," he said. "Three years ago we might have had maybe three choices."***

In January 2001, there wasn't any lab space available in Cambridge, according to Spaulding & Slye Colliers. In this year's first quarter, a whopping 880,000 square feet were available, or about 19 percent of the total supply.

In Boston's suburbs, vacant lab space grew to 1.65 million earlier this year from 359,000 square feet in January 2001, according to Spaulding & Slye. Over the same period, the vacancy rate grew to 25.9 percent from 7.4 percent.

The entire biotechnology sector was hit hard last year. Several high-profile drug applications were rejected by the US Food and Drug Administration. Stock prices sank, and investment from venture capital firms and public offerings dried up.

But while the real estate market was eroding, the problems weren't visible because large new buildings and rehabs for specific tenants — projects that began before the biotech slump — were completed and occupied. That led to a large net increase in the amount of space leased, even while vacancy rates, as a percentage of total space, were climbing.

"For a long time, there were never any lab space vacancies in Cambridge," said Peter Calkins, senior vice president of development and planning for Forest City Enterprises, the developer of University Park at MIT, a large Cambridge development with a concentration of life science tenants. "Only in the last year has there been existing lab space in any quantity staying on the market for any time. That's a new phenomenon."

Calkins is planning one building, 100 Landsdowne St. The 240,000-square-foot building would be the final piece of University Park, a giant 2.3 million development that includes housing, a hotel, and retail space. But slow sales of space for the last building have delayed construction, he said.

"We'd like to be 50 percent leased before we start construction," he said. "We've been marketing the building and the market is slow."

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