

# BANKER & TRADESMAN

## **Tech Cos. Helping Bring Heat To Cambridge Office Market** Strong Demand, Scarce Space Has Some Even Talking New Construction

By: Paul McMorrow  
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Last year, Cambridge's lab market was the local commercial real estate market's sole bright spot. Now, Cambridge's office market is following suit and showing signs of turning a corner, with both startups and blue chips leading the way.

"As we start to see the light at the end of the tunnel, Cambridge is a little ahead of the pack," said Peter Bekarian, a senior vice president at brokerage Jones Lang LaSalle. "Cambridge has fared considerably better, relative to the suburban markets or downtown."

"We led the market down last time," added Steve Purpura, a partner at Richards Barry Joyce & Partners. Purpura started working Cambridge for RBJ at the height of the dot-com bust, when office sublease space flooded the market. "It's different this time around."

In the first quarter, when vacancy rates in most local submarkets were either flat or weakening, Cambridge's office market bounced back with 103,000 square feet of positive absorption, according to data from CB Richard Ellis. East Cambridge, the city's market-driver, paced those gains with 124,000 square feet of positive absorption. Vacancy dropped, and rental rates inched upward.

That all stands in sharp contrast to 2009, when Cambridge's office market shed 626,000 square feet of space, including 419,000 square feet in East Cambridge, according to CBRE.

### **High Tech Explosion**

Nearly 846,000 square feet of leasing deals closed in the first quarter, CBRE said. Curtis Cole, a senior vice president at CBRE, said that made it the single busiest leasing quarter Cambridge has seen since the second quarter of 2007.

"A quarter does not make a trend," Cole cautioned. Still, he said, the sheer number of companies that made real estate decisions in the year's first three months made it "feel like 2009 was well behind us."

"If you look at the numbers, availability is not down dramatically," argued Ted Lyon, a senior vice president at FHO Partners. "But compared with what's going on in the rest of the world, a 2 percent dip in the vacancy rate is a pretty big deal."

What's more, while the quarter did see a 60,000-square-foot expansion from Ironwood Pharmaceuticals, the growth spread beyond Cambridge's core of biotech and pharmaceutical companies. The Cambridge Innovation Center business incubator expanded, as did tech firms Google and HubSpot (both Innovation Center alums).

Cole characterized demand in the city's office market as strong.

"We do know when the Cambridge market begins to make adjustments, it can happen very quickly," he said.

Microsoft, which already has a presence at One Memorial Drive, is scouring the city for 115,000 square feet of space, according to Cole. Yahoo! and VMware each need 60,000 square feet. EMC is hunting for an 85,000-square-foot block of space.

Speaking at a recent CBRE breakfast in Kendall Square, Steve Vinter, director of Google's Cambridge office, said the company's recent 20,000-square-foot expansion "won't hold us for very long. We're continuing to grow very quickly."

Vinter noted that all Google needed to open an office was an Internet connection and some desks. In 2007, the company launched at the Cambridge Innovation Center with 40 employees; two years later, it had 200.

"The explosion of companies in the high-tech field happens at a different scale than any other industry, including life sciences," Vinter said. "It's very easy to grow very quickly here, because the talent is so phenomenal."

#### **A, B, C, Details**

Purpura, of RBJ, cautioned that the optimism isn't being spread around equally. Tight capital and a virtually nonexistent IPO window in 2008 and 2009 restricted the growth of startups into mid-stage companies, Purpura said. That, in turn, has led to sluggish demand for medium-sized blocks of Class B space.

"Startup activity is pretty robust," Purpura said, but the absence of mid-sized demand would lead to fiercer competition, and more aggressively priced rents, among Class B landlords.

On the other hand, blue chip technology and pharmaceutical companies are driving demand for Class A trophy space, to the point where Purpura predicted rent growth by the end of the year. A relative shortage of big blocks of Class A office and lab space has Alexandria Real Estate Equities designing the first two buildings of its planned 1.75 million-square-foot, mixed-use development along Binney Street.

"If demand continues, there will need to be some new construction in relatively short order," said Thomas Andrews, Alexandria's market director. "You're not seeing new construction in Boston or in the suburban office markets, outside of build-to-suit."