Vacancy in Boston-area lab space climbs to ten-year high

By Dana Gerber Globe Staff, Updated November 10, 2023, 4:12 p.m.

A view of the life sciences building being constructed at 66 Galen Street in Watertown on Sept. 21, 2022. As vacancy rates in the area's lab space continue to rise, Watertown may be well suited for a recovery down the line, said Jeffrey Myers, a research director at real estate firm Colliers. SUZANNE KREITER/GLOBE STAFF

As local biotech companies slash jobs and face dwindling investments, it appears that the long-red-hot real estate market for life sciences space in the area is continuing to follow a similar downward trend.

Lab space vacancies in the Boston area hit a ten-year high in the third quarter, reaching an 11.7 percent availability rate, according to a report released Thursday by real estate firm Colliers. This represents more than five million square feet of unclaimed space, up from just 300,000 square feet of available space on the market in 2021. The demand from companies looking for space has dropped from about eight million square feet in 2021 to about two million square feet today.

“More companies these days are finding themselves concerned with stretching out the money they have, increasing their runway for operations, than they are about going out and leasing extra space for growth,” said Jeffrey Myers, a research director at Colliers.

The rising vacancy rates, Myers said, are an issue of supply outstripping demand. A wave of projects that launched construction a few years ago when inventory was tight are now opening into a market that suddenly has little need for them.

“The market needs more space,” Myers said, “but just not as much as is currently being built.”

The properties struggling the most, Colliers found, are the newest ones to come on the scene, with 30 percent of the space in buildings completed this year yet to be leased, compared to just 0.1 percent of space in new buildings that opened in 2020 and 2021.

With plenty more construction still underway — such as Harvard's new Enterprise Research Campus in Allston — vacancy rates are expected to continue to mount through next year, said Myers. But that doesn't mean there is diminished demand: There has been an 11 percent increase in occupied inventory over the last four quarters, Colliers reported, thanks in part to tenants locking down space prior to a building's completion.

"The market's not dead," Myers said. "There are opportunities for leasing. It's just not as strong as it was before."

And in a market where many corners of the region have ample lab space, some geographies are faring better than others.

Consider Boston: Citywide, there is an 11 percent vacancy rate for life science space — far higher than its historical average — but that figure drops down to 2.3 percent in Allston/Brighton and swells to 14.7 percent in the Seaport.

Cambridge, home to the life science hotbed of the Kendall Square neighborhood, has a vacancy rate of 9.9 percent — lower than that of either Boston or the suburbs, though the highest for the city in almost a decade.

Farther-flung areas are saddled with the most empty space, with a 13.2 percent vacancy rate in the suburbs, though close-in Watertown and Somerville are well-positioned for a recovery "in the long haul," said Myers.

The conditions right now make for a strong renter's market, Myers said, with more firms able to afford rent in neighborhoods that they could not previously. Sublease inventory, too, is growing, making up about 40 percent of all available space as companies try to offload space they are stuck with under a long-term lease but no longer want. The subleasing inventory fastest to come off the market, Myers added, “are the spaces in the urban core,” meaning fewer renters are being pushed out into the suburbs.

“If you’re a tenant right now, and you’re in the market for space, you have options where you didn’t before — that’s not a bad thing,” he said. “You really don’t want to have a market where there is no opportunity for companies to grow and to locate in, and be able to reasonably afford to do so.”

The real estate flux comes as a number of once-high-flying biotech firms have shrunk their workforces in recent months, including Biogen, Sage Therapeutics, and Takeda, all in Cambridge.

The job reductions are part of a broader cooldown in the life sciences sector as venture capital investments drop and regulatory developments — such as President Biden’s move to allow Medicare to negotiate with drug manufacturers over prices — send shockwaves through the industry.

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