

Big Bet on Spec Suites to Compete in the Lab Market

Increased availability of move-in ready options across different blocking sizes are signs of a tenant-friendly market

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KEY TAKEAWAYS

- 1. Tenants Have Options**
With the increased availability of move-in ready options across all size ranges, tenants have optionality in the market and are taking the driver's seat back from landlords.
- 2. Bet on Spec Suites**
Building owners are constructing a record amount of spec suites, primarily in the Rockville, Gaithersburg, and Germantown submarkets, to accommodate the speed to occupancy required by companies progressing with their research and development.
- 3. Availability Rises**
As venture funding has slowed and companies continue to draw down on their cash reserves, real estate has emerged as an operational cost cutting strategy, leading to an increase in available options such as subleases or spec suites.
- 4. Getting Healthy**
Rental rates will remain flat despite a peak in lab deliveries in 2024. Landlords will have to increase concessions in the form of free rent and tenant improvement allowances to compete for limited demand.

MARKET SNAPSHOT

-  AVAILABILITY
-  RENTAL RATES
-  ABSORPTION
-  CONSTRUCTION DELIVERIES



9950 Medical Center Drive

AstraZeneca is investing \$300mm into an 85K SF manufacturing facility in Rockville marking one of the largest tenant-funded improvement projects in the corridor's history.

FORECAST

New capital sources bringing private credit and capital, anticipated interest rate cuts, and falling company valuations will lead to increased deal making creating a market reset. Venture investments will rise, although with a similar level of caution

that we witnessed throughout 2023. We will see unique deal structures for companies with strong clinical data with investors playing an active role to develop a seasoned executive team. M&A activity will thaw with pharma making a push to acquire smaller, promising companies, as valuations continue to adjust downward. Pharma will prioritize companies with emerging technologies that are synergistic to existing business lines as they attempt to diversify their product mix due to forthcoming patent expirations. The trend toward space consolidation and subleases will be particularly challenging for speculative lab developments delivering in 2024.



Existing Inventory (SF)
11,367,672



Under Construction (SF)
438,166



Under Renovation (SF)
574,759



Proposed (SF)
2,112,000



Availability Rate (%)
11.45



Avg. Asking Rents (\$)
42.26

To compete, and attract tenants, developers are betting on speculative spaces that are move-in ready. For scientific companies, especially early-stage focused on rapid growth, speed to occupancy is a pivotal factor. Owners are using a portion of their buildings to develop speculative lab and office suites (“spec suites”) between 2,000-15,000 SF to accommodate companies that cannot allocate the time or capital to build their own labs. We estimate there will be 43 available spec suites in the I-270 Biotech Corridor, with the majority under 10,000 SF. Twelve have already delivered, with another 31 planned, totaling 240,234 SF this year. There are far fewer spec suites in Baltimore although landlords like Grandview Partners and South Duvall are building seven spec suites totaling 36,034 SF.

Landlords view these spaces as sunk costs in their portfolio which enables them to be more flexible on lease terms.

For early-stage companies, the downside is that the layout of spec suites can sometimes result in underutilization, redundancy of areas, and inadequate mechanical, electrical, and plumbing infrastructure to serve specific equipment.

The utilization of scientific real estate continues to evolve due to the varying needs of scientific companies as they conduct research and develop technologies. The market continues to reset in favor of tenants. Demand for lab space fell to a multi-year low relative to the historical market average of ~500K SF and nearly 40% in the 2021 peak of 1.05M SF. Current tenant prospects are evaluating their options more conservatively and we estimate that there is roughly two to two-and-a-half years’ worth of inventory given current demand fundamentals.




City Garage at 101 W. Dickman Street will deliver three (3) spec suites totaling 17,034 SF scheduled to deliver in 2024 and provides a flexible option for tenants exploring space options in the Baltimore market.

Additionally, the rise in sublease availability, currently at 4.64% or 527,804 SF, has led to an increased amount of move-in ready real estate options for consideration. Companies can take advantage of pre-equipped spaces with access to existing lab infrastructure such as HVAC, backup generators, furniture, and equipment. Tenants moving out are aiming to recover their investments as quickly as possible and often entice new users by asking below-market

base rent. By avoiding long-term lease commitments, and large upfront investments, companies can keep their financial exposure limited while maintaining flexibility during phases of growth. However, subtenants should be wary of the leaseholder's financial position prior to inking a deal in the event of a default or building sale which could be highly disruptive to their business.

AVAILABLE SPEC SUITES



Property Address
1500 Research Blvd.


Submarket
Rockville

Square Feet
41,142

Building Status
Under Construction

Expected Delivery
Spring 2024

Owner
Altus



Property Address
55 W Watkins Mill Rd.


Submarket
Gaithersburg

Square Feet
42,429

Building Status
Under Construction

Expected Delivery
Spring 2024

Owner
Alexandria Real Estate Equities



Property Address
800 King Farm Blvd.

Submarket
Rockville

Square Feet
36,384

Building Status
Existing

Expected Delivery
Fall 2024

Owner
Banyan

FUNDING


Arcellx
PIPE
\$285mm

DEKA Biosciences
Series B
\$29.8mm

Novel Microdevices
Series A
\$6.98mm

Alphyn Biologics
Raising Series B
\$6.9mm

NOTABLE LEASE TRANSACTIONS




Property Address
700 Progress Way

Submarket
Gaithersburg

Tenant Name
Astrazeneca

Square Feet
198,000

Deal Type
Direct New




Property Address
7301 Calhoun Place

Submarket
Rockville

Tenant Name
Agnovos

Square Feet
31,547

Deal Type
Renewal



Property Address
9808 Medical Center Dr.


Submarket
Rockville


Tenant Name
STCube

Square Feet
13,000

Deal Type
Direct New

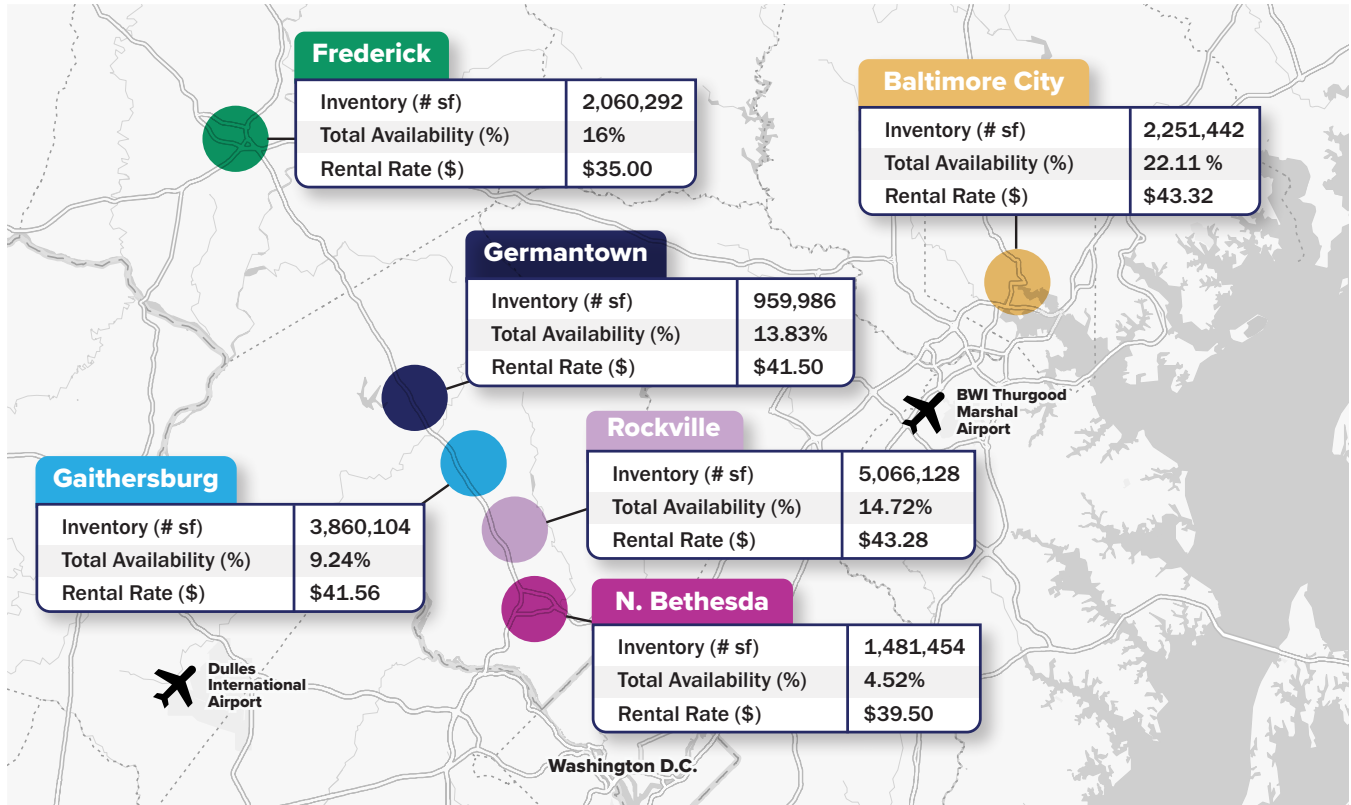
MERGERS & ACQUISITIONS

 **propagenix**
by **STEMCELL Technologies**

 **Cartesian**
THERAPEUTICS
reverse merger with
Selecta Biosciences

AexeRNA
by **BioNTech**

SUBMARKET MAP



The ‘Big Bet on Spec Suites’ comes at a time where landlords are competing for their share of demand in a tenant-friendly lab market. This has led to a noticeable increase in the availability of move-in ready options across various size ranges, where scientific companies can find adaptable spaces tailored to their specific research and development, without significant lead times.



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