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The building at 650 East Kendall St. in Cambridge was built on spec.

Biotech/lab space remains a bright spot amid slump

BY JAMES MCCOWN
SPECIAL TO THE JOURNAL

In one of the worst commercial real estate slumps in memory, one segment of the market is exhibiting surprising resilience. Biotech/lab space was the only sector to post positive absorption for 2009 — although a modest 264,000 square feet, according to **Colliers Meredith & Grew**. The vacancy rate at year end was holding steady at about 15 percent, unchanged from year-end 2008, compared with 18.6 percent for the Route 128 submarket and a whopping 26.5 percent for the I-495 submarket.

"The lab market performed pretty well last year," said **Mary Kelly**, senior vice president and chief research officer at Colliers Meredith & Grew.

And there are signs the resiliency is continuing into this year. While Greater Boston's office vacancy rate rose to 14.5 percent at the end of the first quarter — the fifth consecutive quarter it increased — the Cambridge submarket posted a decline in sublease vacancy, due largely to demand for office and laboratory space, according to a recent report by **Lincoln Property Co.** Sublease space now stands at 10.4 percent, and asking rents have increased to \$36.15 per square foot from \$35.54 the prior quarter.

Kelly, of Colliers Meredith & Grew, attributed the market's performance to established players expanding their space.

"Within the 15 percent vacancy rate is a lot of old and obsolete space," Kelly said. "What's becoming clear is that when high quality space does come on the market, it leases quickly."

As an example of this, Kelly cited **Alkermes'** vacating of 143,000 square feet at 88 Sydney St. in the University Park development in Cambridge, near the **Massachusetts Institute of Technology** and Kendall Square. Alkermes decided to vacate the space and move its operations to Waltham, and the space at University Park was sublet by **Vertex Pharmaceuticals** with-

in 60 days, she noted.

A new building casting a figurative shadow over the biotech and life science market is 650 East Kendall St., located at the heart of the Kendall Square submarket. Completed in the second half of 2009, the 311,000 square-foot building was constructed on spec by **BioMed Realty Trust**, a real estate investment trust that owns most of the surrounding buildings, including the world headquarters of Genzyme.

Officials at BioMed feel they have made a good bet with the class A building.

"I disagree when people say the timing was bad," said **Matt McDevitt**, executive vice president of acquisitions and leasing for BioMed. "When you want to come out of the ground is not when four other buildings are coming out. We think we have come on line at a point when supply and demand are in equilibrium. We are debating whether to make the building single tenant or multitenant."

Beyond Cambridge, Lexington, Waltham and Woburn represent individual nodes of biotech/lab space. These suburbs are attractive to many tenants because rents and operating expenses are lower, and many of their employees live nearby.

There is no better example of the push-to-suburbs trend among biotech/lab space users than **Shire Human Genetic Therapies Inc.**, which is consolidating most of its operations into Lexington Technology Park. The company is in the midst of a \$400 million expansion in the park that will include lab, manufacturing and administrative space. Attracting them was a coup for the owners of the park, Patriot Partners.

"In picking to expand in Lexington Technology Park, Shire has validated what our original vision had been for the park, which is providing a place where companies can control their own destinies," said **Steve Rice** of **Patriot Partners**, the owner of the Shire property.