



COLLIERS IN FOCUS

## How the West Was Won: 495 2.0

By [Aaron Jodka](#) | February 2018

Investors generally like value. Whether that's finding a core asset with long-term leases in place at an appropriate price, or a building that sells for below replacement cost, or any number of other considerations. Have you thought about the Boroughs lately? Marlborough, Northborough, Southborough, and Westborough are worth another look.

First a bit of background. These markets really came to be in the late '90s dot-com boom. Since that bubble popped, vacancies have generally languished, as have rents. Deals done out in the Boroughs are close to the same price today as they were 10 years ago, if not 20 in some cases. That market has underperformed at a time when Boston has surged, causing a massive disconnect between historical performance and today's conditions.

Rents have always come at a discount out west. From the late '90s to mid-2000s, rents in the Boroughs were on average 43% lower than those in Boston, and then from the mid-2000s to 2011, that discount moved up to 59%. Today it's nearly 70%! That's right, you get more than triple the Boroughs' space for the cost in Boston.

Meanwhile, the cost to purchase a building relative to that in Boston has never been wider (see following chart). Over the past 20 years, the average discount hovers right around \$240/SF. Today it is over \$500, or more than twice its historical spread.



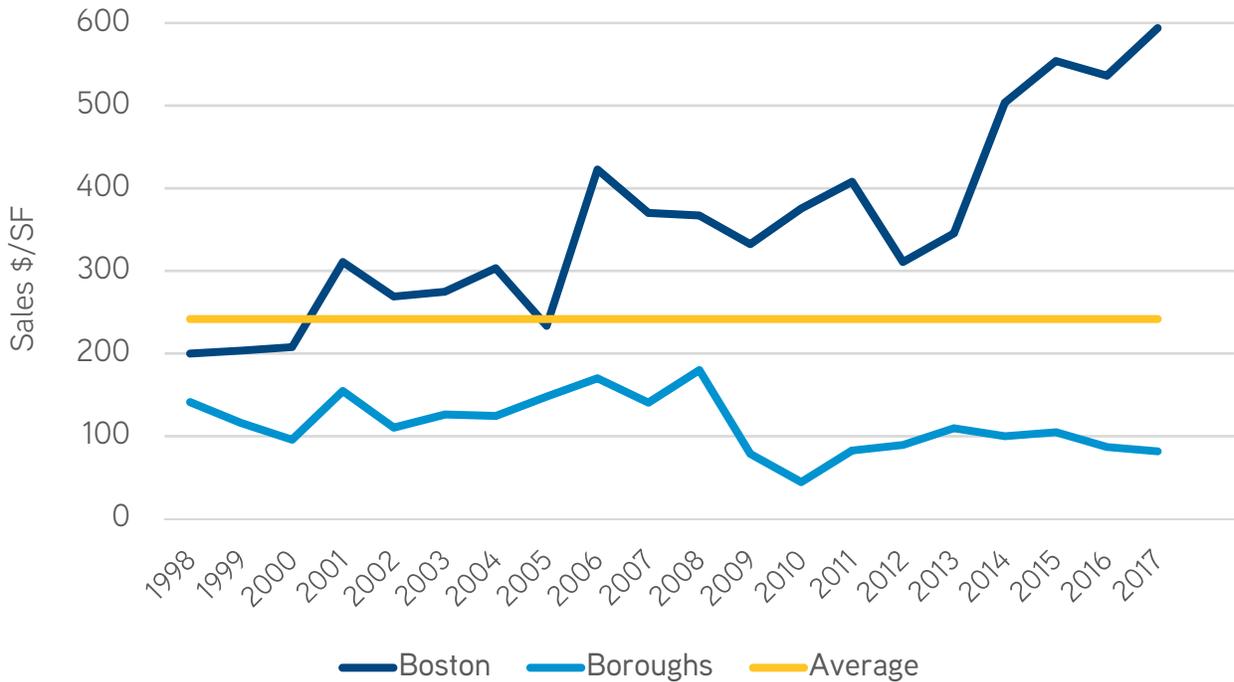
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Relative To History, The Boroughs Are A Screaming Buy



Sources: Colliers International | Boston, CoStar

as of Q4 17

I'm not suggesting that Boston and the Boroughs are interchangeable. They are very different markets and always have been. But today's pricing differences seem too far out of whack to me.

The Boroughs are inhabited by a well-educated workforce with educational attainment levels that trump national and state levels. This has been a driving force for recent growth by the likes of TJX, Quest, and GE. In fact, Tony Kotarski, an executive from GE, notes that "proximity to leading research hospitals and colleges and universities that offer post-graduate degrees in the life sciences is invaluable. When GE made the decision to establish their [Healthcare Life Sciences] headquarters up here [Marlborough], they did it because this is one of the premier life sciences clusters in the world."



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The Boroughs themselves are becoming more of a cluster in their own right. Astellas has recently leased 250,000 SF of space at 9 Technology Drive for a new research and development facility, investing tens of millions of dollars to do so.

And for those targeting Millennials, the 20–34-year-old age cohort grew an astounding 27% in Northborough, Southborough, and Westborough combined (its numbers were up only slightly in Marlborough) from 2010 to 2016. During that same time, the Millennial population group grew by 7% in the state, and by just 5% in Boston. As Millennials age, they are starting families and buying homes. This trend is just beginning.

This seems like a recipe for value-add success in the Boroughs. Growth in the ever-popular and tech-savvy Millennials cohort, above-average education levels, pricing discounted to historical norms from both a rent and sales perspective: All point to potential upside in these communities. The key will be differentiating one's product so that it stands out. Adding popular and necessary amenities will be essential.



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