

New Boston Buys Stake in 111 K St. NE

By Erika Morphy
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111 K. St. NE. New Boston now owns a piece of the pie.

WASHINGTON, DC—New Boston Fund has acquired a 67,000-square foot stake in J Street Properties' 111 K St., NE building—that is, the company has bought the remaining space that has not been sold as office condos. J Street delivered the 11-story, approximate 90,000-square foot building in the NoMA submarket with the plan of selling office condos.

It did sell a few floors as office condos—the Student Affairs Administrators in Higher Education purchased the 10th floor, which is approximately 9,400 square feet, for example—but the majority of the building is still vacant. New Boston Fund declined to provide pricing for the purchase.

John Thompson, vice president and regional director of acquisitions in New Boston Fund's Mid-Atlantic office, tells GlobeSt.com that the company never considered continuing with the office condo strategy. "We're a buy-and-hold investor," he says. The asking rate for the remaining space, according to David Langol, vice president of Asset Management in the New Boston Fund's Mid-Atlantic office, will be between the mid \$40s to the upper \$50s per square foot, net of electric. The rate will depend on which floor the tenant wants.

The company acquired it for cash and is now working with TD Bank to secure a mortgage, Thompson says. New Boston is also looking at additional acquisitions, Thompson adds. "One in the District, and a few in the suburbs, both Virginia and Maryland."

Unfortunately for the previous owner, 111 K St. NE was built at a fairly inopportune time in NoMa's most recent development cycle, Jones Lang LaSalle research director Scott Homa tells GlobeSt.com. Even as recently as 2010, tenant demand was based largely on the government. Since then the office market in that part of the District has broadened, which bodes well for leasing efforts.

"Tenant demand in NoMa has diversified beyond purely government agencies into a more dynamic user base, including Mathematica, the American Chemistry Council and Kaiser Permanente," he says. "Although demand across the city has fallen in light of the current political gridlock and election cycle, NoMa is now increasingly being seen by many DC tenants as a core location."

That is one factor that no doubt went into the pricing. Homa notes that, in general, investment sales activity in NoMa has been sparse so far this year. Recent comps include 840 First St.; 1100 First St.; and 1200 First St, all NE. These sales encompassed 833,746 feet of inventory and traded for a total of \$419.5 million, or \$475 per square foot. Homa says. "It's worth noting that, unlike 111 K St., these trades involved stabilized assets with little leasing risk," he notes. "The vacancy contained at 111 K Street requires the assumption of more leasing risk, and given the current slowdown in tenant demand, it's a more aggressive purchase than the stabilized asset sales that occurred in 2011."