◆ WSJ NEWS EXCLUSIVE | PROPERTY REPORT

Oak Hill Advisors Leads Group Investing $326.5 Million in Suburban Office Property Company

The investors are betting that the property type will benefit from shifting work and living patterns accelerated by the pandemic

Workspace owns 10 million square feet of mostly suburban office space in Tampa, Fla., and other markets.

PHOTO: MIKE EHRMANN/GETTY IMAGES

By [Peter Grant]

Aug. 24, 2021 8:00 am ET

An investment group led by Oak Hill Advisors' new real-estate business is making a $326.5 million investment in a suburban office building company on the premise that the property type will benefit from shifting work and living patterns accelerated by the pandemic.

Oak Hill's real-estate unit is making a debt-and-equity investment in Workspace Property Trust LP, a six-year-old firm that owns 10 million square feet of mostly suburban office space in Tampa, Fla., Phoenix, Minneapolis, Philadelphia and other markets. The deal will help give Workspace the muscle to go on a shopping spree over the next five years, said Tom Rizk, the commercial real-estate veteran who is co-founder and chief executive of Workspace.

“Over a five-year period, we would like to do $5 billion in acquisitions,” he said.

The deal marks the first investment made by Oak Hill’s new real-estate unit since last fall when it started by recruiting Matt Borstein, the former global head of Deutsche Bank’s commercial real-estate business. Oak Hill has more than $50 billion of capital under management focusing on distressed and performing credit investments.

Mr. Borstein said the new business initially planned to focus on the “historic dislocation” that many investors expected in the commercial-property market from the pandemic. But that hasn’t materialized thanks in part to the easy-money policies of the Federal Reserve.

“As everybody knows, the distress opportunity lasted about 30 seconds,” Mr. Borstein said. “We pivoted towards: What are the best opportunities to marry Oak Hill’s knowledge of the credit world and direct lending with real estate.”

Suburban office building investments were considered a contrarian bet in the years leading up to the pandemic when businesses were flocking to downtowns to be near millennials who wanted to live in hip locations. But there is more than 2.5 billion square feet of suburban office space and some markets have performed better than others, Mr. Rizk pointed out.

The more successful suburban markets have been in low-tax and low-cost-of-living regions that have logged population growth in recent years. Also, as millennials have aged, some have moved to the suburbs to start families. Average rents of Workspace’s Tampa portfolio, for example, have increased to $26 a square foot from $21 3½ years ago, the company said.

The pandemic accelerated trends favoring the suburbs. Many people moved out of cities, which lost their appeal as infection risk shut down bars, restaurants, stores and other amenities.

A growing number of businesses likely will follow that migration, Mr. Borstein said. “Part of our premise is, hey, rolling out of your bed in your brand new suburban home and being able to go to your nice new corporate office park may be part of the overall shift.”

SHARE YOUR THOUGHTS

Did you or the company you work for set up new offices during the pandemic? Join the conversation below.

Shares of suburban office building real-estate investment trusts have fallen during the pandemic partly due to investor concern over demand for office space following 17 months of most white-collar employees enjoying working from home. But shares of suburban REITs haven't fallen as much as those of downtown office REITs, Mr. Rizk said.

Mr. Rizk noted that Workspace signed over 100 leases during the pandemic and about 99% of its tenants continued paying rent even though many of their employees worked from home. "I think that's proof positive" of the strength of suburban office space, he said.

Suburban office buildings also are appealing to Workspace and Oak Hill because prices have stayed low compared with the more popular commercial-property types such as rental apartments and industrial space. Typically buyers of suburban office property get a yield ranging from 6% to 8% compared with 4% for rental apartments and industrial, Mr. Rizk said. Yield falls as prices rise.

Write to Peter Grant at peter.grant@wsj.com