

THE WALL STREET JOURNAL.

The Wall Street Journal

[China Life Buys Sprawling Portfolio of Small-Market U.S. Real Estate](#)

Deal for 95% stake vales portfolio of 48 properties at \$950 million

By Peter Grant

May 23, 2017

China Life Insurance Group is buying a 95% stake in 48 commercial properties scattered throughout the U.S. in deal that values the portfolio at \$950 million and highlights the growing appetite among foreign investors for real estate in markets they mostly have ignored until now.

The company, one of China's largest insurers, is buying the majority stake in the 5.5 million-square-foot portfolio from ElmTree Funds LLC, a private-equity firm based in St. Louis, ElmTree said.

ElmTree said it will keep a 5% stake and continue to manage the properties.

Foreign investors used to focus almost exclusively on trophy properties in major cities like New York and San Francisco. But lately prices in those markets have gotten so high that foreign investors have started scouting less popular locations.

"We're seeing more and more foreign capital coming into secondary and tertiary markets all across the country," said Jim Koman, managing principal at ElmTree Funds.

China Life was prohibited by the Chinese government from making investments in foreign property, but that lifted in 2012. Three years later, in its first U.S. deal, the company joined Ping An Insurance in buying a majority stake in a Boston development in the city's popular Seaport District. China Life couldn't immediately be reached for comment.

Last year, China Life teamed up with New York developer Scott Rechler to purchase a 1.8 million-square-foot Manhattan office tower for \$1.65 billion.

The properties in China Life's latest deal aren't nearly as flashy as the ones in Boston and New York. The ElmTree portfolio includes properties like an industrial building leased by Caterpillar Inc. in Seguin, Texas, and a FedEx Corp. distribution facility in Staunton, Va.

But the properties' incomes are attractive. Mr. Koman declined to discuss the financial details of the deal but he said that, in general, properties in off-the-beaten-path locations can produce yields that are more than 3 percentage points greater than yields of trophy buildings in top locations.

ElmTree's business model has been to develop properties and lease them to single tenants on a long-term basis. "You have guaranteed set rents with annual increases in place," Mr. Koman said.

About 60% of the deal's \$950 million value reflects the new debt the China Life-ElmTree venture is putting on the portfolio. That debt is being converted into commercial mortgage-backed securities and sold to investors by a bank group led by J.P. Morgan Chase & Co.