



**Commercial Real Estate Direct**

**China Life Takes Big Stake in Net-Leased Property Portfolio**

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China Life Insurance Group, the largest insurer in China, has acquired a 95 percent stake in a portfolio of 48 properties with 5.5 million square feet owned by ElmTree Funds, a St. Louis investment manager that specializes in the net-leased property business.

The transaction values the portfolio of industrial, medical-office and healthcare properties at some \$950 million and gives China Life "immediate scale and diversification in the U.S. market," according to Jim Koman, managing principal and founder of ElmTree, which sponsors a series of funds and separate accounts. Among its big investors is the Michigan Municipal Employees' Retirement System.

The transaction is effectively a recapitalization of the 48 properties, all of which are owned by ElmTree Net Lease Fund II, which had raised \$325 million of investor commitments in capital-raising that was completed in 2014.

ElmTree's venture with China Life also has an option under certain circumstances to buy two other properties from the fund.

The latest deal includes \$570 million of mortgage financing provided by lenders led by JPMorgan Chase Bank, which plans to securitize it.

The properties in the portfolio are all in secondary and tertiary markets, a clear indication that institutional investors are increasingly moving beyond primary markets in their pursuit of yield. Properties in such markets generally can be had for lower prices, which all other things remaining equal, generally translate to greater yields than those generated by properties in major or primary markets. Concentrations are in Texas, South Carolina and Florida. Tenants at the fully occupied properties include Cardinal Health, United Technologies, GE, Caterpillar and Tyco.

While ElmTree has purchased some properties, it specializes in developing facilities specifically for individual tenants and most of the properties in the portfolio were built to suit their tenants. ElmTree will continue to serve as asset manager for the portfolio and pursue additional investments on the venture's behalf.

China Life, meanwhile, previously has invested in U.S. properties. Two years ago, it bought a stake in an office and residential development at Pier 4 in the Seaport District of Boston.

Hodes Weill & Associates, which had been placement agent for ElmTree's funds, was financial adviser for the investment manager.