PERE

FRIDAY LETTER
May 26, 2017

China Life's $950m recapitalization – key takeaways

China Life Insurance is taking a bet on non-primary markets with its latest US acquisition, but it would be wrong to see it as the only Chinese investor eager to diversify.

China Life's majority-purchase of 48 US single-tenant net lease properties raised eyebrows this week. On the surface, the purchase from manager ElmTree Funds seemed a departure from the usual and higher profile property purchases by Chinese institutions. But explore the context behind PEREnews.com's best read story of the week and a set of new - or at least evolved - understandings are apparent. We've spotted three key takeaways from this purchase of 5.5 million square feet of US brick and mortar by Chinese insurance capital that are worth considering.

1. Look beyond the price tag

The recapitalization deal may not be as flashy as some of China Life's prior overseas acquisitions, but it would be wrong to judge it simply by its price tag - or to think of them differently in terms of equity outlay. The $350 million equity investment made by the Chinese investor in the ElmTree portfolio was, in fact, consistent with its usual outbound ticket size. Indeed, very few of its overseas deals where China Life is the sole investor exceed $500 million, even if the large prices paid in prior overseas deals involving the insurer alongside other investors ran into the billions of dollars.

Furthermore, for those onlookers pondering whether this outlay was ripe for shutdown by Beijing's policymakers, it is understood to have been made via China Life Insurance's Hong Kong subsidiary, meaning no RMB was expatriated. It is a classic example of how some Chinese investors can avoid the mainland's capital control net aimed at preventing a mass exodus of the country's currency to foreign investments.

2. Stop calling Chinese investors trophy hunters

The 48 assets held in the joint venture are spread across 20 US cities. Many of them are secondary and tertiary markets. Folks involved in the deal told PERE that by choosing to invest in non-primary markets, China Life can generate a higher rate of return versus an investment in a trophy asset in New York, although they declined to specifically disclose the expected IRR on the deal.

China Life's investment strategy for this latest deal may surprise some onlookers, but an analysis of the insurer's previous US property buys should dispel any unjust labels. The sprawling logistics portfolio that China Life acquired with two other Asian investors in 2015 from Global Logistic Properties, for example, also included assets in some third-tier cities. Then there were also some budget hotels in less-fancied markets within the $2 billion portfolio acquired from Starwood Capital Group last year.

What's more, China Life is no longer the only Chinese institutional investor willing to diversify. At the annual PERE China conference held in Shanghai this week, several panelists, including investment managers deploying Chinese institutional capital in overseas markets, and Chinese insurance companies, spoke of shifting their investment focuses to more income-generating assets in alternative sectors such as budget hotels and senior living. Like their institutional brethren from other regions, they think core assets in primary US markets are overpriced in the current cycle and are doing something about it.

3. Emergence of distinct investment styles

With a maturation of Chinese investors' overseas strategies, the distinction between different groups' investing styles is also becoming more evident. China Life Insurance's acquisitions of diversified real estate portfolios across different sectors contrasts with Anbang Insurance's arguably more typecast pursuit of large single assets thus far, like the Waldorf Astoria hotel in New York for instance.

In another approach to overseas investing, a senior director at Taikang Asset Management, the asset management arm of the Beijing-based life insurance company, told PERE China he prefers investing in overseas markets via real estate funds with co-investment options. Meanwhile, the mega Chinese conglomerate Fosun International has built global assets under management primarily by acquiring stakes in regional real estate investment management platforms, most recently the purchase of a 50.01 percent stake in the listed manger Paris Realty Fund.

Those are our thoughts, but do you think there are other indicators from this transaction to consider? Let us know what you think. Email PERE's Asia senior reporter Arshiya Khullar at arshiya.k@peimedia.com.