

**The St. Louis Post Dispatch**

[Clayton firm inks \\$1 billion real estate deal with Chinese insurer](#)

**By Jacob Barker**

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China Life Insurance Group has invested in U.S. real estate before, but the insurer's nearly \$1 billion deal this week with Clayton-based ElmTree Funds LLC was a further sign of increasing investor appetite for properties beyond the hottest U.S. cities.

For nine months, Jim Koman's ElmTree Funds, launched in 2011, worked to sell the merits of a portfolio of 48 commercial properties located in smaller markets across the Midwest, Southeast and Southwest.

ElmTree announced Tuesday a \$950 million deal with Beijing-based China Life in which the state-owned insurer would take a 95 percent stake in the portfolio while ElmTree retains the remainder and continues to manage the properties.

Koman, in an interview, said it "took a long time" for the big institution to see the advantages of ElmTree's platform of office, medical and industrial properties leased by a single tenant and located outside of major markets such as New York and San Francisco.

The longtime St. Louis area developer and real estate investor who also founded Koman Properties (now Clayton-based KP Development), thinks investors are increasingly looking for higher yields in secondary markets such as St. Louis, where property values haven't been driven as high as those in faster-growing cities.

"The core markets, in their mind, perhaps, had started to become a little overheated," Koman said. "They could find better returns with similar credit and expand beyond these primary markets."

Indeed, local real estate brokers in St. Louis say there has been growing demand in the last couple of years for local real estate from private equity groups and other investors, many from outside of the region.

"Markets like St. Louis offer an opportunity for these out-of-town buyers where they're not finding any opportunity in tier-one markets, or the opportunities that are out there, the yields are so low that they're looking in markets like St. Louis," said Joseph Hill, a senior vice president at the St. Louis office of Colliers International who focuses on real estate investment.

Most of the buyers are private equity groups looking for higher returns beyond the biggest U.S. cities, Hill said. But many of the local high-quality properties with strong tenants and long-term leases have already changed hands.

Markets such as Clayton, where office vacancy is in the low single-digits, could probably even support speculative office space, Hill said. Downtown, on the other hand, has high vacancy, so there's less demand from investors for office properties there because downward pressure is expected to continue weighing on rental rates.

“Demand (from tenants) is somewhat limited because St. Louis is not a major growth market, so a lot of demand for space is coming from within St. Louis,” Hill said. “It’d be great to see more opportunities to sell because there is ample demand (from investors) and prices are at peak.”

Even big institutional investors such as real estate investment trusts (REITs) are looking at St. Louis-area properties, particularly on the industrial side, said Brian Bush, a vice president with commercial real estate firm CBRE’s local office.

Warehouses have gone up in Kinloch’s NorthPark recently and several new ones are being built in Hazelwood. Two in Edwardsville leased by Amazon last year were recently bought by a New York REIT and a German real estate investment firm.

“What you’re starting to see a little more this year, because so much equity is being raised, you’re seeing these institutions becoming even more aggressive,” Bush said.

Now they’re willing to buy single properties instead of large portfolios, “in order to push that money out the door,” he said.

All that capital means there’s at least one local real estate investment firm with a fresh pot of money to put into new properties in markets that had been largely overlooked by big institutions. And Koman’s ElmTree will be doing it from one of those so-called secondary markets.

“I think we’re just going to continue what we do every day,” Koman said. “We’re going to continue to manage and look for net lease opportunities around the country.”