MARKET RESEARCH

Global Listed Real Estate

Emerging Markets

Special Edition

FTSE EPRA Nareit Global Real Estate Index Series

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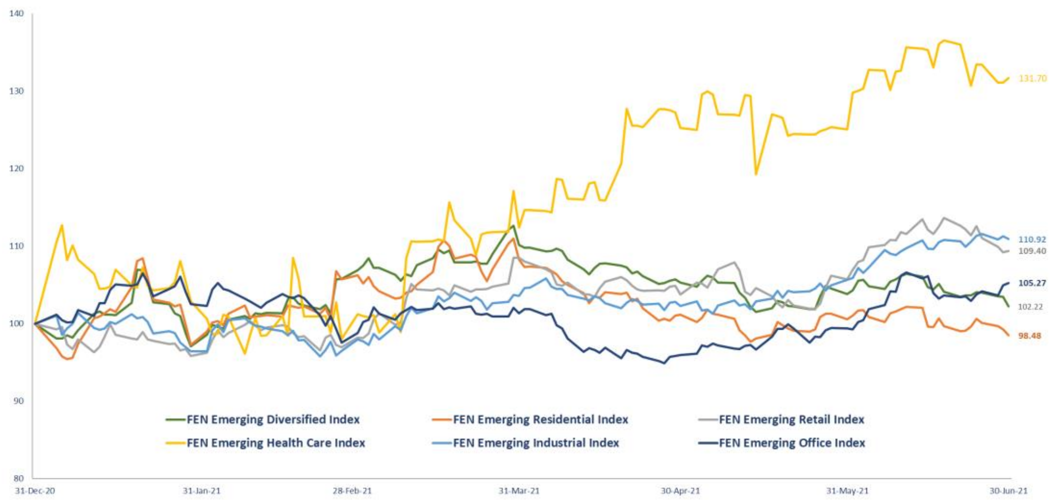
I. Executive Summary

More than a year since the pandemic began, emerging markets (EMs) are still fragile. The reason - the pandemic risks persist, inflation continues to rise, the levels of short-term foreign debt are too high in most of the countries and the fragilities in the nonbank financial intermediation cannot be holed up. Nonetheless, some signs of recovery have begun to appear since the beginning of 2021. Financing conditions have improved due to the remarkably extended and unprecedented policy accommodation, the abundance of global liquidity and positive news on Covid-19 vaccines. This means that capital markets will remain accessible for EMs with good credit fundamentals, especially as investors continue to hunt for yield - something noticeable from the listed real estate perspective too. The FTSE EPRA Nareit Emerging Market Index (FEN EM Index) recorded a positive performance of 2.47% total return (TR) during the first half of the year vs. the -22.22% TR achieved during the same period last year.

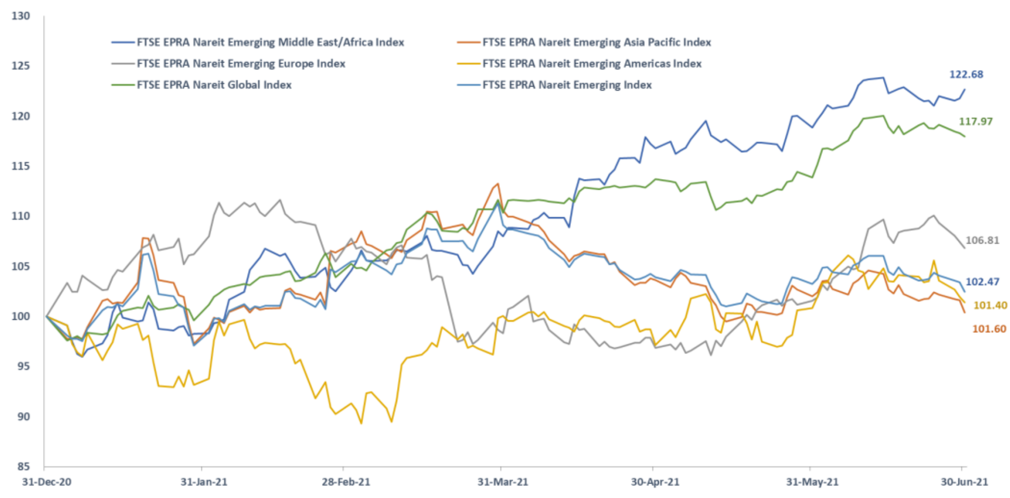
In this report, we will first examine the size and performance of listed real estate companies in the main emerging markets, as well as the key drivers and changes observed during the first half of 2021. Then, we will review the main challenges faced by China and, more specifically, we will look into the Chinese giant property developer Evergrande's debt issue.

***FTSE EPRA NAREIT Emerging Markets Index*: Sectors**



Source: EPRA

***FTSE EPRA Nareit Emerging Markets Index*: Countries**



Source: EPRA

The Asia Pacific region accounts for 75% of the FEN EM Index, 8% less than one year ago but it still prevails over the other regions. From a country-specific perspective, China represents 55% of the FEN EM Index. Therefore, its political and economic situation, including its relationship with the US, has a strong impact on the rest of the emerging economies. In this regard, the end of Donald Trump's presidential term in January 2021 played an important role. Trump left behind a very damaged legacy for the China-US relations that continued during the first half of 2021, despite the hope that President Biden will improve the strained relationship. On the other hand, China's "zero-tolerance" policy towards domestic Coronavirus infections has kept cases exceptionally low since mid-2020 and recent outbreaks have been contained swiftly through localised lockdowns and mass testing. The macroeconomic figures, collected from H1 2021 show that the cyclical rebound from the pandemic has peaked. In June 2021, China's foreign trade posted the best performance in history adding up to CNY 18.07 trillion[1], underpinned by the country's sustainable economic recovery and strong global demand, which represents an increase of 22.8% from the pre-epidemic levels in 2019. Gross domestic product (GDP) expanded 7.9% in Q2 2021 from a year earlier, while consumption and investment are also edging up faster. As a result, China's economy grew by 12.7% year-on-year, compared to a -1.6% contraction for the same period in 2020. This trend is also visible in listed real estate, where China showed a positive TR of 0.8% vs. -8.4% TR achieved during the previous semester.

Besides China, the Philippines, India and Thailand also have a considerable weight within the FEN Asia Pacific Index. Both India and Thailand posted a positive TR of 13.5% and 8.0% during H1 2021, as opposed to the Philippines which showed -8.2% TR during the same period.

Following Asia, the FEN Emerging EMEA Index continues to gain weight in the FEN EM Index. During H1 2021, the EMEA region represented 14.0% of the FEN EM Index with 38 constituents across nine countries compared to 6.4% and ten constituents less than one year ago. Moreover, the region achieved the best performance with 2.67% 6 month TR due to the returns achieved by the FEN Emerging UAE Index (8.87%) and FEN Emerging Czech Republic Index (8.70%). Lastly, the FEN Emerging Americas Index represents 10% of the FEN EM Index covering three countries: Brazil, Chile and Mexico. The Americas Index ended the first half of the year with a positive TR of 0.56%.

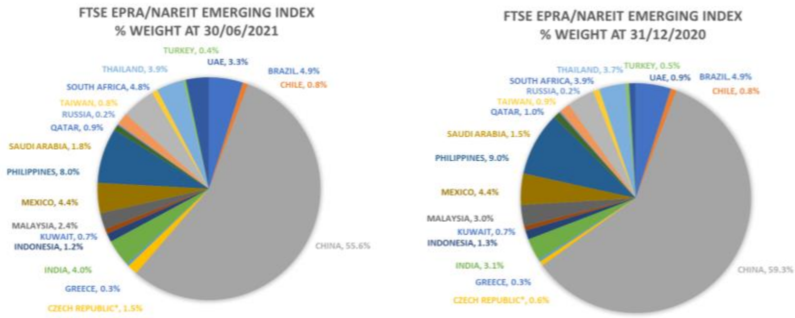
II. FEN Emerging Markets Index size and composition

During the last semester of the year, the size of the emerging markets has seen two different trends. On the one hand, the free float market cap of the FEN EM Index has increased by 3% since the previous semester, experiencing its peak in March with EUR 165.3 billion and its lowest value in January with EUR 145.1 billion. The free float of the FEN China EM index stood at EUR 71.2 billion in September 2021, a decrease of over EUR 14 billion compared to June 2021 and EUR 21 billion on a year-to-year basis. At company level, "China Resources Land" from China is still the largest company in the FEN EM Index with a free float market cap of EUR 10.02 billion at the end of September 2021. On the other hand, the size of the index has decreased by 3% from one year ago (H1 2020). Nonetheless, in terms of number of constituents, this semester the FEN EM Index has reached its highest number since inception with 152 constituents, compared to 139 during the same period one year ago.

The value of the commercial real estate in the global markets, covered by the FEN Global Real Estate Index is estimated at USD 31.6 trillion at the end of June 2021 with the total listed real estate sector being valued at USD 4.1 trillion (12.9% of CRE) vs USD 3.6 trillion in H2 2020. The full Index market cap reached USD 2.6 trillion, representing 65.0% of the total market cap of the listed real estate sector across the globe. The emerging markets as of 2021 represent 24 countries, 19 of which are covered by the FEN EM Index and have a total estimated commercial real estate value of USD 8.7 trillion, from which the total listed real estate sector is USD 1 trillion.

[1] According to the General Administration of Customs (GAC)

***FTSE EPRA NAREIT Emerging Markets Index*: Weights by country**



Source: EPRA

China remained the leader with a share of 55.6%, despite a decline of over 8.5% since the previous semester while the Czech Republic (0.6% to 1.5%), UAE (0.9% to 3.3%) and South Africa (3.9% to 4.8%) notably, increased their shares.

III. Comparative performance

In terms of comparative performance of the FEN EM Index constituents, it is important to bear in mind that the currency used for the whole FEN Global Real Estate Index series is in euros. This means that fluctuations of local currencies play a crucial role in the Index performance, especially in the FEN EM Index, where volatility could be stronger than in developed markets (DM) due to less diversified economies and restrictive regulations.

During the first half of 2021 the total currency effect in the FEN EM Index amounted to +2.53%, compared to -6.02% during the previous semester, proving that the emerging markets started to recover after the pandemic. During the first half of this year, 18 of the 20 currencies in the FEN EM Index showed an appreciation of 1.4% against the euro, compared to H2 2020. The Turkish lira and the Thai baht were the only currencies that depreciated against the euro (-13.3% and -3.7% respectively). The Turkish lira has been in a downward spiral since the abrupt dismissal of the central bank governor in March 2021 and the US inflation surge aggravates the situation. On the other hand, the South African rand showed the best currency effect, an appreciation of 5.8% against the euro, as global markets and commodity prices continued to appreciate during the first half of the year.

It is worth recalling that the Chinese constituents have exposure to three different currencies (see the table below): the Hong Kong dollar, the Singapore dollar and the Chinese renminbi. In total, the weight of these three currencies on the FEN EM Index amounts to 54.2% which can be decomposed in the following way: 51.8% from the HKD, 2.1% from the SGD and 0.4% from the CNY. As a consequence, the fluctuations of the Hong Kong dollar have a significant impact on the FEN EM Index.

Emerging Markets: Equity Markets vs Listed Real Estate and Currency Effects (6 Months)

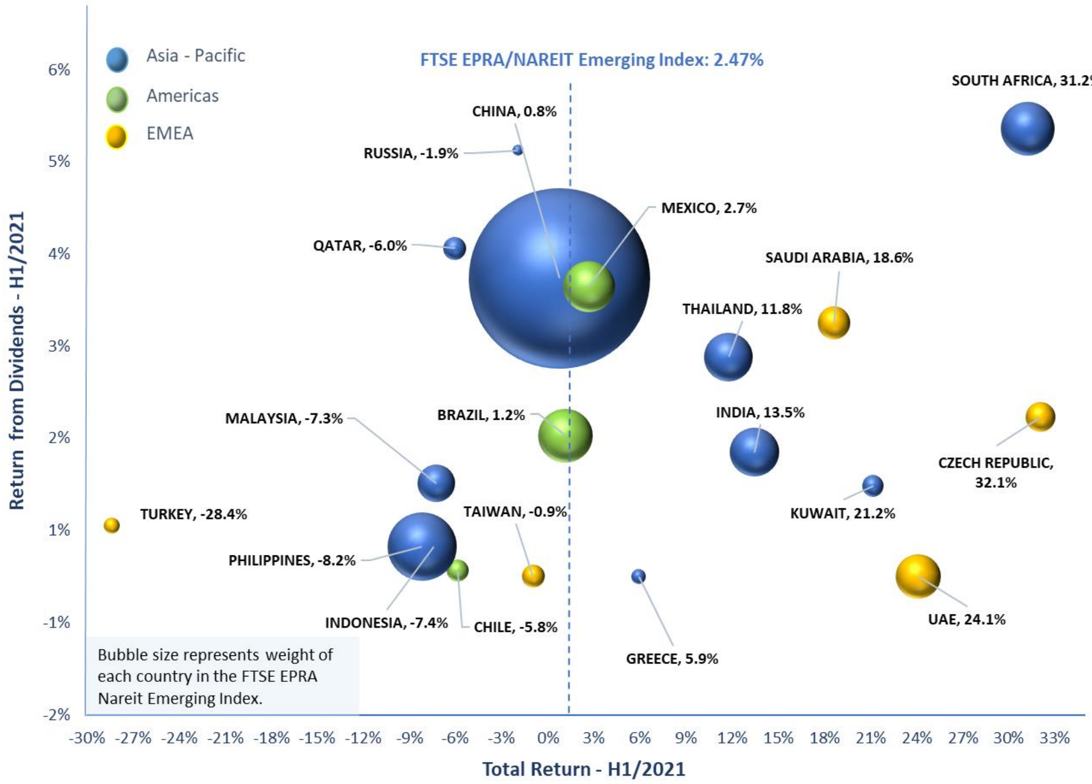
Country *	6M RETURN FROM DIVIDENDS	6M PRICE RETURN EPRA EMERGING INDEX	6M TOTAL RETURN EPRA EMERGING INDEX (EUR)	% WEIGHT EPRA EMERGING INDEX	DIV. YIELD (y/y) at 30/06/2021	CURRENCY PERFORMANCE VS EUR *	CURRENCY EFFECT ON THE INDEX	6M TR Equity Market **(Local Currency)
BRAZIL	1.5%	-0.4%	1.2%	4.9%	2.2%	6.37%	0.3%	8.3%
CHILE	0.1%	-5.9%	-5.8%	0.8%	1.9%	0.67%	0.0%	4.7%
CHINA	3.2%	-2.5%	0.8%	55.6%	5.5%	2.88%	1.6%	-0.5%
CZECH REPUBLIC	1.7%	30.3%	32.1%	1.5%	2.4%	0.00%	0.0%	11.2%
GREECE	0.0%	5.9%	5.9%	0.3%	0.0%	0.00%	0.0%	17.3%
INDIA	1.3%	12.1%	13.5%	4.0%	3.4%	1.40%	0.1%	18.7%
INDONESIA	0.3%	-7.7%	-7.4%	1.2%	0.9%	-0.03%	0.0%	-4.2%
KUWAIT	1.0%	20.2%	21.2%	0.7%	1.9%	4.00%	0.0%	15.7%
MALAYSIA	1.0%	-8.3%	-7.3%	2.4%	3.8%	-0.03%	0.0%	-4.6%
MEXICO	3.1%	-0.5%	2.7%	4.4%	4.3%	3.15%	0.1%	13.1%
PHILIPPINES	0.3%	-8.5%	-8.2%	8.0%	1.0%	1.48%	0.1%	-0.4%
QATAR	3.6%	-9.6%	-6.0%	0.9%	5.9%	3.08%	0.0%	3.6%
RUSSIA	4.6%	-6.6%	-1.9%	0.2%	5.8%	4.27%	0.0%	20.5%
SAUDI ARABIA	2.7%	15.9%	18.6%	1.8%	5.6%	3.11%	0.1%	31.7%
SOUTH AFRICA	4.9%	26.4%	31.2%	4.8%	13.5%	5.78%	0.3%	11.2%
TAIWAN	0.0%	-0.9%	-0.9%	0.8%	12.9%	3.89%	0.0%	22.0%
THAILAND	2.4%	9.4%	11.8%	3.9%	3.7%	-3.68%	-0.1%	11.8%
TURKEY	0.6%	-28.9%	-28.4%	0.4%	0.5%	-13.29%	-0.1%	-6.8%
UAE	0.0%	24.1%	24.1%	3.3%	0.0%	3.08%	0.1%	29.7%
FTSE EPRA/NAREIT Emerging Index	**2.56%**	**-0.09%**	**2.47%**	**100.0%**	**4.84%**		**2.53%**	
Emerging: Weighted Average								**4.42%**

*Currency performance for China combines HKD, SGD and CHN. For India, it combines SGD and INR. For Indonesia, it combines SGD and IDR.
**Equity markets are represented by the Thomson-Reuters TR Index for each country.

Source: EPRA (Data as of 30th June 2021)

In terms of total return (TR), the top three performers of the FEN EM Index during the first half of 2021 were Czech Republic (+32.2%), South Africa (+31.2%) and the UAE (+24.1%) facing a 15% average increase since the previous semester. The case of South Africa is particularly remarkable. The country's TR improved 20% since H2 2020, as the country's 6 month TR as of June 2020 was just of +3.7%. In the same way, South Africa also saw the strongest dividend growth on a country level (4.9%), only comparable with the one of Russia (+4.6%). Regarding China's performance, the country achieved a 6 month TR of +0.8% during the same period (H1 2021). However, the recent events that occurred in the region during the summer, made the YTD TR as of September 2021 decrease to -10.38%. At the same time, the bottom performer during H1 2021 was Turkey that ended the semester with a TR performance of -28.4%. The western Asian region has been hit again by the currency effect that as the Turkish lira appreciated 13.29% vs the euro (our Index currency base). Since May investors got back into Turkey's lira-denominated bonds, amid relief that the central bank has not bowed to pressure from President Erdogan to cut interest rates despite surging inflation. Apart from Turkey, seven other regions showed negative TR as of June 2021, but the positive performance of the countries mentioned earlier plus the dividend returns provided by most of its constituents (that amounted to 2.56%, 1% higher than the previous semester), made the FEN EM Index end the semester with a +2.47% 6 month TR. An outcome that has been damaged by the Chinese "crisis" which occurred during Q3 2021, leading the FEN EM Index to -4.05% TR as of the end of September 2021.

FTSE EPRA Nareit Emerging Markets Index



Source: EPRA

Turkey

The government has been gradually easing measures since mid-May and its vaccination programme has accelerated too, as the country aims to attract tourism revenue. However, as mentioned above, the Turkish lira reached its lowest depreciation levels. Erdogan's frequent calls to lower borrowing costs and his abrupt removal of three central bank chiefs in less than two years has eroded Turkey's monetary credibility and left it more vulnerable to high inflation and financial crisis. High commodity prices and surging demand have kept inflation high - the annual inflation reached a two-year high of 17.53% in June 2021.

Turkey's real estate market is witnessing a steady rise in prices, especially in major cities such as Istanbul, Ankara, Izmir, Antalya, and Bursa, that can also lead to higher rents. The reasons for this growth can be summarised by several factors, such as high construction costs and huge demand from foreign investors motivated by the ownership laws that allow most foreign nationalities to own real estate on their lands.

Turkish housing prices rose to an all-time high in April and upward trends are predicted to continue for the rest of the year. Sales shot up by 124% year-on-year. According to CBRE, Turkey's nationwide house prices soared by 30.6% during Q1 2021 at an average of TRY 4,054 (USD 502) per square meter.

Nonetheless, the FEN EM Turkey Index was the worst performing country during the last 9 months of the year, showing YTD TR -27.90%.

UAE

According to investors, Dubai's real estate will stage a strong rebound in the second half of 2021 due to stimulus packages, visa reforms and strong demand from end-users.

In June Dubai recorded the highest real estate sales transaction volume since December 2013 with 6,388 deals worth DH 14.79 billion according to the latest data from Property Finder. Compared to the previous year, transactions in June 2021 increased by 173.46% in terms of volume and 204.5% in terms of value. In this regard, the UAE property market is showing signs of recovery as people upgrade to larger homes with outdoor amenities amid the remote working and learning trend sparked by the Covid-19 pandemic. Economic support measures and government initiatives, such as residence permits for retirees and remote workers, and the expansion of the 10-year golden visa programme have also helped to improve the sentiment. Executives and analysts believe that the residential segment has already bottomed out and offers good opportunities for developers. As an example, Aldar Properties, the biggest constituent in the UAE Index, reported a 35% year-on-year net profit in June 2021 and recorded the highest-ever quarterly development sales.

This upward trend has also been reflected in the FEN Emerging UAE Index performance that achieved 33.77% during the first nine months of the year.

South Africa

South Africa's economy has been sluggish over the past years, due to high unemployment, weak household finances, and an underdeveloped mortgage market. However, strong export receipts have supported a rebound in activity and fiscal revenue since Q3 2020 which continues until today. Current account surpluses have sustained ZAR appreciation, strengthened external liquidity, and contributed to a lower financial stress for the government. Within the real estate market, from 2007 to 2020, house prices rose around 62% but real ones fell by 18% when adjusted to inflation. This year the country is showing signs of recovery as indicated by the continuous increase in house prices, a sharp contrast with the negative trends in most other sectors of the economy. Investors' sentiment shows a clear tendency towards buying rather than selling property, triggered by the low-interest rate cycle, the perception of "property" as a "good investment", whose value increases over time. Nevertheless, the country's economy is still unstable, socio-economic conditions are weak and citizens are facing financial strain due to Covid-19.
In line with the mentioned above, the FEN Emerging South Africa Index ended up the first nine months of the year with an outstanding TR of 32.92%.

Mexico

As a Latin American country, Mexico holds the second most populated country predicate, among others. This opens numerous opportunities for investors in Mexico's real estate sector as its residential market is thriving and contributes 6% to national GDP[2], notably since 2016, as reported by Statista. In 2018, real estate market had USD 30.98 billion worth[3] roughly, and was expected to have a value of USD 60 billion by 2025 according to Mordor Intelligence and Statista. However, in July 2021, there was a 9% decrease[4] in Mexico's housing demand, compared to the previous year. This is one of the impacts of the Covid-19 pandemic on Mexico's real estate sector. Despite the downturn on housing demand, Mexico's housing market remains appealing in a healthy manner as Sociedad Hipotecaria Federal reported that the nationwide house price index in Mexico has increased[5] quarterly: 6.59% in Q1 2021, 5.38% in Q4 2020, 5.02% in Q3 2020, and 4.78% in Q2 2020. In addition, Global Property Guide (GPG) reported that Mexicans prefer to acquire a property instead of leasing a house, and the housing market is not driven by speculators. This could be the reason why Mexico's housing market remains resilient. For the rental yields, GPG reported that Mexico City offers a rental yield range[6] from 3.4% to 6.4%. Adjacently, there are numerous other reasons why Mexico's real estate market remains robust. First, Mexico has a strong domestic market dominated by the rising middle class: almost half of the total households (16 million) are owned by this particular demographic. Second, Mexico has strong demand from foreign buyers as the country itself allowed foreigners to acquire real estate anywhere in Mexico except for the restricted areas: 64 miles from the international borders and 32 miles from the coastline. Third, Mexico is considered as the most open economy in the world as reported by GPG.

As a result, the FEN Emerging Mexico Index achieved a YTD TR of 6.40% as of September 2021.

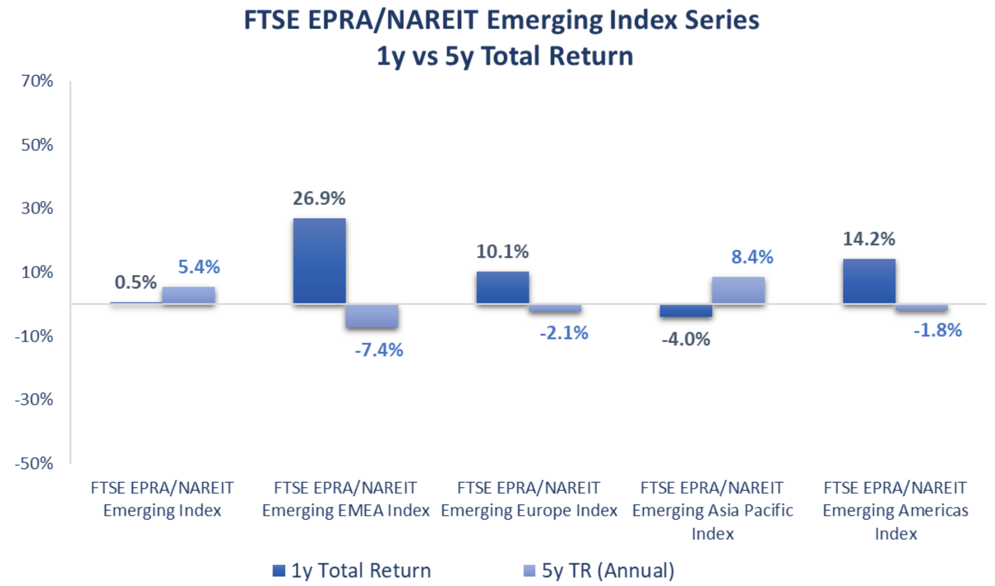
[2] Retrieved from: https://www.statista.com/topics/7019/residential-real-estate-in-mexico/#dossierKeyfigures
[3] Retrieved from: https://www.mordorintelligence.com/industry-reports/residential-real-estate-market-in-mexico
[4] Retrieved from: https://www.statista.com/statistics/1150753/mexico-change-housing-demand/
[5] Retrieved from: https://www.gob.mx/shf/documentos/90727
[6] Retrieved from: https://www.globalpropertyguide.com/Latin-America/Mexico/Price-History

Annual performance of the largest constituents by country (EUR, local currency)

Constituent	Country	Sector	REIT/Non-REIT	Total Return in EUR	Total Return in Local Currency
Emlak Konut	Turkey	Residential	REIT	-10%	5%
Is Gayrimenkul Yatirim Ortak	Turkey	Diversified	REIT	11%	30%
Halk GYO (A) REIT	Turkey	Diversified	REIT	25%	47%
Cyrela Brazil Realty S/A Empreendimentose e Partic	Brazil	Residential	Non-REIT	32%	37%
BR MALLS Participacoes S.A.	Brazil	Retail	Non-REIT	-5%	-2%
Multiplan Empreendimentos Imobiliaros	Brazil	Retail	Non-REIT	13%	17%
China Resources Land	China	Diversified	Non-REIT	1%	10%
Longfor Group Holdings (P Chip)	China	Diversified	Non-REIT	14%	24%
Country Garden Holdings	China	Residential	Non-REIT	6%	15%
Growthpoint Management Services	South Africa	Diversified	REIT	6%	-3%
Redefine Properties	South Africa	Diversified	REIT	10%	1%
Equites Property Fund Ltd	South Africa	Industrial	REIT	18%	8%
SM Prime Holdings	Philippines	Diversified	Non-REIT	15%	21%
Ayala Land	Philippines	Diversified	Non-REIT	15%	21%
Megaworld Corporation	Philippines	Diversified	Non-REIT	28%	35%

Source: EPRA and Bloomberg

FEN Emerging Markets Index: Long term perspective



Source: EPRA

The FEN EM Index reached a positive 5-year performance of +5.4%. In terms of regions, the Asian one is the best performer as it reached a +8.4% TR on a 5-year basis. However, in the short term, the FEN EM EMEA Index had an outstanding performance that amounted to +26.9% TR on a 1-year basis, followed by the FEN EM Americas Index (+14.2%) and FEN EM Europe Index (+10.1%). The FEN China EM Index achieved a 5-year performance of 8.24% but -11% on a one-year basis.

IV. Challenges of China's recovery and the Evergrande's case

Since 2010, China has become the second largest economy in the world behind the United States. In 2020, China's economic output accounted for more than 17% of the world's economy. However, after three decades of spectacular growth, the country is now moving into a slower growth phase driven by among others the devastating effects from the Covid pandemic.

Until June this year, the Chinese economy was recovering from the pandemic faster than other countries. However, recent events such as power outages, supply bottlenecks, Covid outbreaks, and concerns about the struggling property sector derived from the massive Chinese developer "Evergrande" issue curbed China's recovery. The country's economy grew slower than expected during the third quarter. According to the national statistics bureau, in Q3 2021, the country's GDP expanded by 4.9% from a year earlier, slowing down from 7.9% in Q2 2021. In line with that, Bank of America's strategists outlined a "bearish scenario" involving a disorderly adjustment to the real estate market in which property prices fall 10%, cutting sales and deterring banks from lending to the sector, where growth could reach 7.5% this year and 2.2% in 2022.

Focusing on the real estate sector alone, the following figures as of September show the deterioration of the market. According to Reuters, new constructions fell by 13.54% from a year earlier. Contracted sales at many developers have already fallen by more than 20% or 30% on an annual basis, and are expected to continue falling over the next six to 12 months, due to a weaker consumer sentiment amid tight funding conditions. According to Maybank Asset Management, developers are skipping debt payments to preserve cash since it will be difficult to refinance upcoming maturities in the international bond markets if yields remain elevated. Moreover, in October 2021, Moody's Investors Service downgraded its speculative-grade ratings on numerous developers and cut its outlook on others to negative. Statements that would probably change the investors sentiment shown in "CBRE's 2021 China Investor Intentions Survey", published in the summer, where around of 57% of respondents intended to "buy more" real estate in 2021, the highest percentage since the survey began in 2016.

As a response, the Standing Committee of the National People's Congress of China authorised a pilot programme of 5-year property tax levies[7] in selected cities to help ensure stable growth of China's economy and real estate market in the long run. The property tax will be levied on all types of real estate, including residential and non-residential properties, excluding legally owned rural houses. The purpose is to prevent and suppress speculation, reduce the vacancy rate, adjust income distribution and property allocation, and curb the polarisation of income disparity.

The downturn

To understand Evergrande's issue, it is important to keep in mind that Evergrande's core businesses range from the acquisition of government land and its development to the sale of either unfinished or finished apartments. As the Financial Times reported, the company owns as many as 778 various ongoing projects across 223 Chinese cities.
But besides the real estate development projects, the company also has an EV venture and a bottled water unit. The company has accumulated a USD 300 billion debt, as reported by the BBC[8]. Lawsuit cases from the suppliers and contractors due to unpaid bills are pending, and 1.5 million customers are waiting for their finished homes, as reported by Financial Times and Bloomberg News[9]. According to Bloomberg and CBRE, Evergrande is China's largest issuer of high-yield denominated-dollar bonds and the company failed to make a USD 83.5 million interest payment to its foreign bondholders on 23 September 2021. This supports S&P's statement regarding the default possibility for Evergrande. In order to reduce developers' excess leverage, the Chinese central government introduced the "three red lines" policy in the property sector and consequently, a new trend regarding the sales of homes by the Chinese real estate developers arose. Now, we could say that Chinese real estate developers became the net sellers of property without excessive speculation gains. This implies that developers will sell the properties to those people that really need a house. Practise that, according to CBRE will keep happening in the future, as the Chinese government wants to hind any speculative behaviour from the customers in the real estate market.

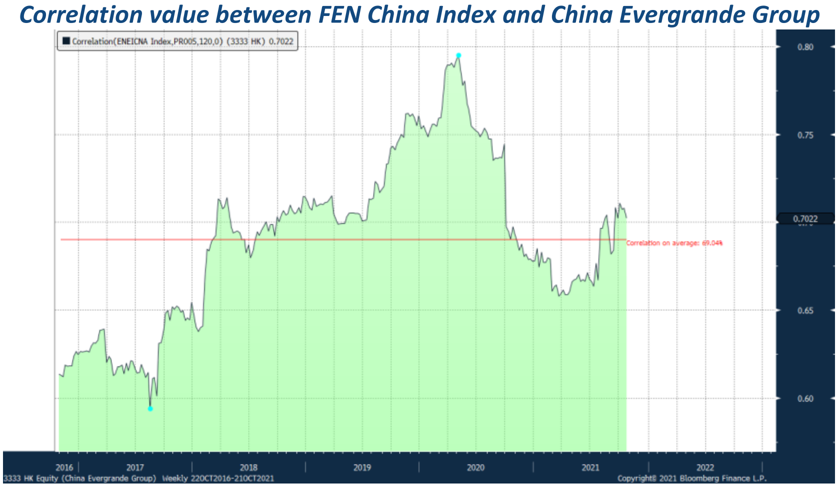
[7] http://english.www.gov.cn/news/topnews/202110/24/content_WS6174940bc6d0df57f98e3ba3.html
[8] Retrieved from: https://www.bbc.com/news/business-58579833
[9] Retrieved from Bloomberg Businessweek's "Too Big. May Still Fail: As developer Evergrande faces a debt crunch, China tries to depend less on real estate" article in its Europe edition magazine as of September 27, 2021

This is aligned with Chinese leaders' economic goals "moderate prosperity" and "common prosperity" which will avoid wealth inequality in China, as Bloomberg stated. Coming back to Evergrande, the company started it crisis in 2020, when China was still growing. Evergrande was struggling to pay the debts albeit some suppliers had already agreed to convert their receivables into equity. Things were just escalating when the Covid-19 pandemic convinced the authorities in China to impose risk prevention on Evergrande and other top property developers in China. The mechanism was an mean to cut up their debt.

The data speaks for itself

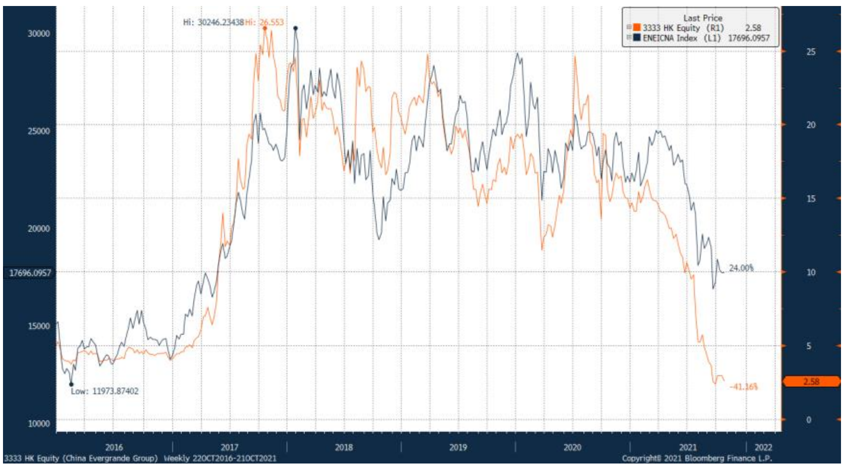
Since Evergrande is a constituent of the FEN EM China Index, it is important to look at the correlation value with the rest of the index constituents. The 5-year time-series data from Bloomberg[10] shows a positive and quite high correlation: 69.04% on average within weekly frequency starting from 28 October 2016 until 21 October 2021, as depicted in the graph below:

Correlation value between FEN China Index and China Evergrande Group



(X axis: Period within weekly frequency, Y axis: Correlation value) Source: Bloomberg

We can also observe that the FEN EM China Index and Evergrande's equity prices are shifting towards the same direction as shown in the graph below. The main drivers for this were explained before as the constituents in the FEN China Index might be operating their businesses in another region. Therefore, every constituent has a different financial performance and resilience.

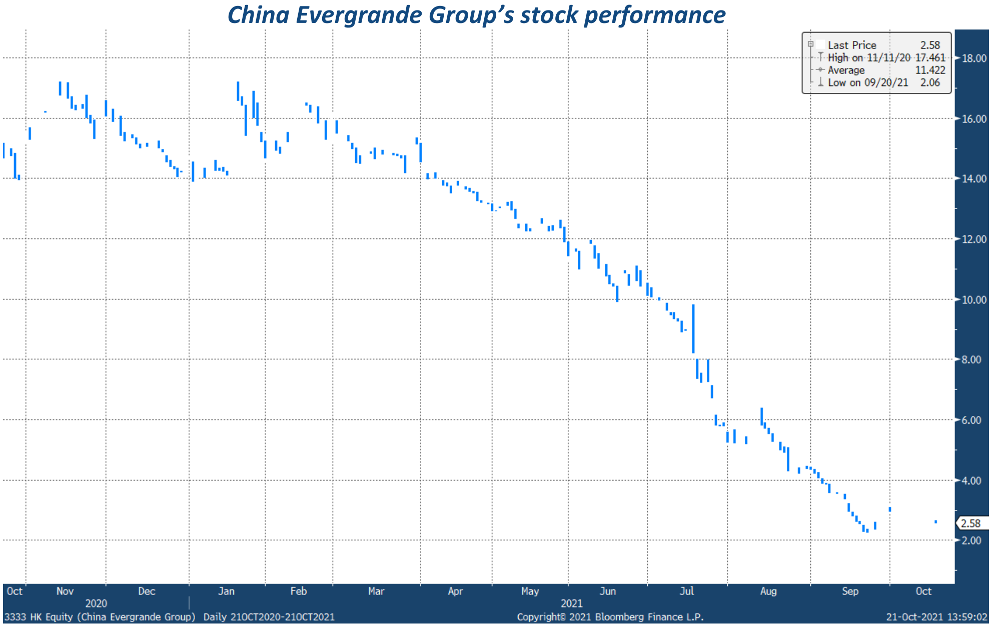


(X axis: month, Y axis: Close price) Source: Bloomberg

[10] Retrieved from Bloomberg's database as of October 12, 2021

Evergrande's stock price fall down from HKD 17.1 in October 2020 to HKD 2.58 in October 2021:

China Evergrande Group's stock performance



(X axis: month, Y axis: Close price) Source: Bloomberg

The reason? the company's debt structure, the national policy and the pandemic situation as explained previously. As a result, Evergrande had the worst performance YTD on the FEN EM Index with a TR of -78.89% as of September 2021. Then, the 4th October 2021, Evergrande stopped trading its Hong Kong-listed stocks due to a liquidity crisis. The company did not make any official statements regarding their inability to repay a USD 275 million offshore debt obligation, as the Financial Times stated.

Trading suspension: A necessity or a tactful action?

In October 2021, the Financial Times[11] stated that the Hong Kong Exchange (HKEX)'s reputation was impacted by Evergrande's lack of investor update despite the fact that the exchange allows for a 18-month stock suspension - three times higher than the limit of the London Stock Exchange. Next to this, HKEX declined to make a comment regarding the suspension of Evergrande's listed shares. In addition, analysts argued that the lack of transparent disclosures from Evergrande and HKEX created a suspicious situation for investors. Thus, the implied question is: "is the shares suspension necessary under specific circumstances or is it a tactical reason and thus Evergrande can avoid communicating with the investors?" since HKEX enables companies to suspend their shares for a relatively long time in comparison with New York and London.

The progress of Evergrande's trading suspension

As of 21 October 2021, Evergrande resumed its shares trading after a three-week suspension in HKEX with a close price below HKD 4, the lowest since 19 July 2021. During this period, Evergrande attempted to sell 50.1% of its property services division to Hopson Development Holdings for HKD 20 billion. This transaction has been terminated because Hopson believed that Evergrande should settle its obligations with the latter beforehand. Furthermore, the Financial Times also reported that Evergrande's stock suspension contributed to pushing the value of Hong Kong-listed stocks, under a trading halt, to "a record high of more than USD 61 billion" which raises concerns among investors about HKEX's corporate governance. Even though the developer has started trading again since 21 October 2021.

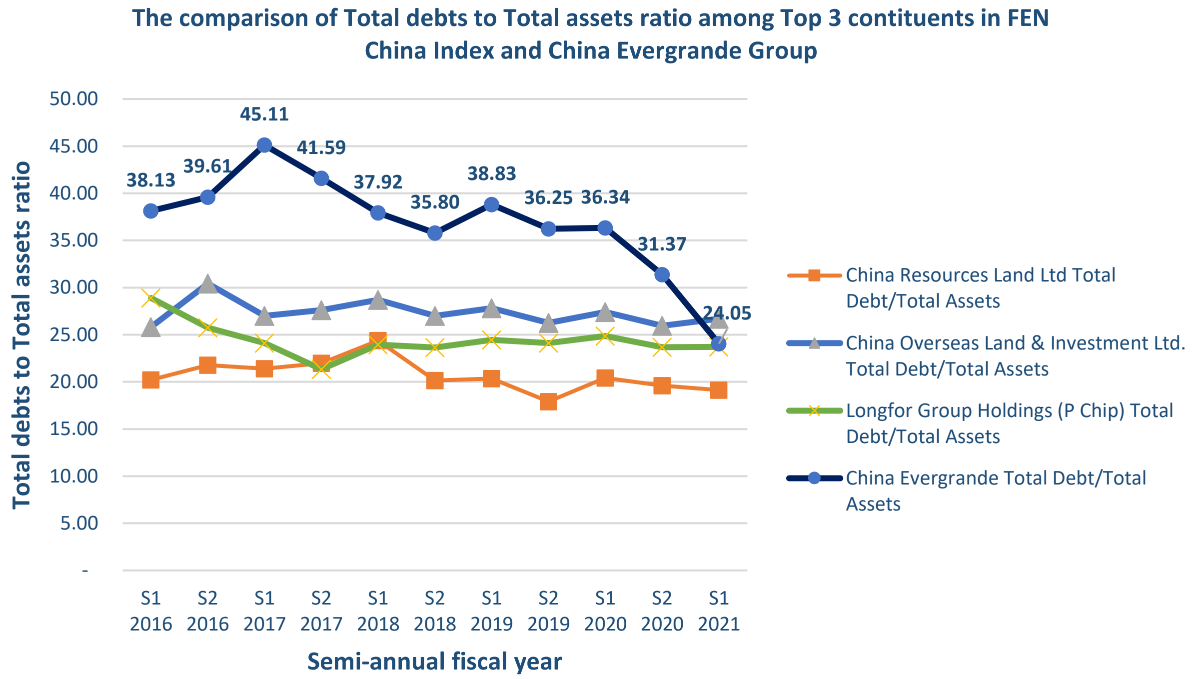
[11] Retrieved from: https://www.ft.com/content/b3bb2c37-252b-430d-99dc-bde7b3d2f179

Top three constituents[12] in FEN China Index

In order to contextualise Evergrande's financial performance we will compare it with its peers[13] within the FEN EM China Index, and we will try to show why those companies have been more resilient than Evergrande during the summer. Here below we can see the other three Chinese companies that have the biggest market cap within the FEN China Index, after Evergrande:

Rank	Company	Investment Focus	Sector	REIT Status	Free Float MCap (EUR mln) as of July, 2021
Top 1	China Resources Land Ltd	Non-Rental	Diversified	Non-REIT	7,766
Top 2	Longfor Group Holdings (P Chip)	Non-Rental	Diversified	Non-REIT	7,237
Top 3	China Overseas Land & Investment Ltd.	Non-Rental	Residential	Non-REIT	6,776

Regarding the companies' resilience in the current Chinese real estate sector, we shall look at the companies' leverage ratios side by side, and see why those top three real estate developers are more resilient than Evergrande. For that, we retrieved their leverage ratios starting from the fiscal years of 2015 - 30 June 2021 on semi-annual basis, as depicted in the graph below:

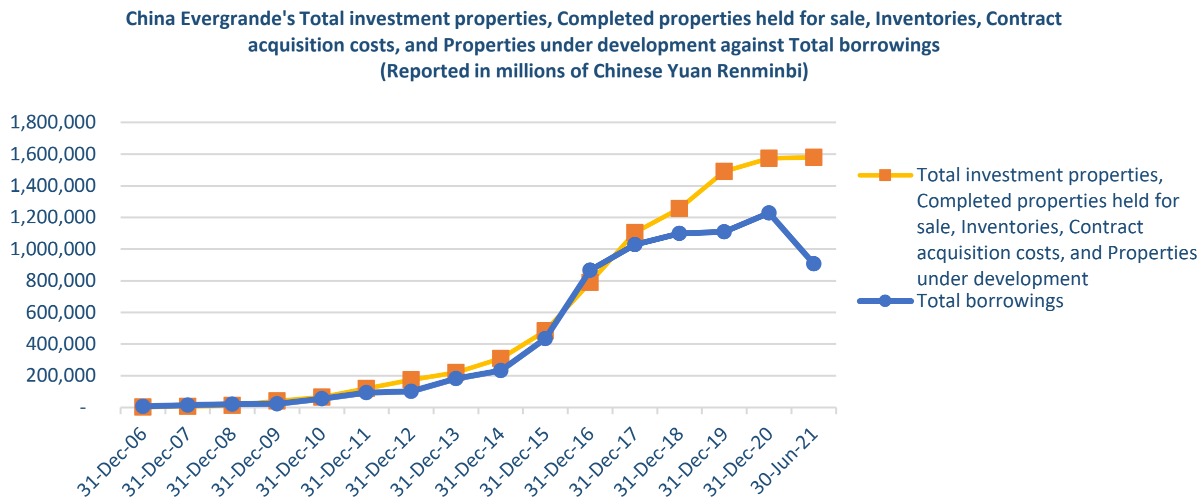


Source: Bloomberg

The graph above implies that those top three constituents have had relatively lower and stable leverage ratios compared to China Evergrande Group for the past five years within the semi-annual frequency. This also reflects the top three developers offer less risks to investors. Notably, Evergrande's ratio during H1 2021 shows a significant downturn from 31.37% to 24.05% which is good for a company because it is less risky to miss the debt payment. Even though this significant downturn reflects Evergrande's financial stability within a healthy framework, there were various reasons that justify Evergrande's debt crisis, such as the national environment factor (e.g., deleveraging policy imposed by the officials) that may disturb Evergrande's ongoing concern to repay its loans immediately, as well as the side effects of the Covid-19 pandemic.

[12] Retrieved from EPRA's Monthly Statistical Bulletin as of July, 2021
[13] In terms of size

Digging further, we can see Evergrande's effort to cut its debt from FY 2020 to HY 2021 amounting to CNY 320,874 million, as shown in the graph below. Given the nature of Evergrande's core business as a property developer, we shall also look at their properties under development that seems slightly increased despite the urge to restructure its debt from FY 20 to HY 21 as follows:



Source: TR-Eikon and China Evergrande Group's interim report as of 30 June 2021

Sourced from Evergrande's unaudited report as of 30 June 2021, their borrowing decreased because of the following repayments: senior notes, bank & other borrowings, and around CNY 12 million convertible bonds converted into ordinary shares. The Financial Times[14] also reported that Evergrande has surpassed China's new "three red lines" threshold policy which encompasses three balance sheet metrics: ratio of liabilities to assets, net debt to capital, and cash to short-term borrowings. As depicted in the graph below, Evergrande has a huge net debt to capital, amounting to 57.67% on average over the last decade. This implies the company is mainly funded by debt rather than equity, which means borrowings repayment difficulty should have been foreseen.

Source: Bloomberg

[14] Retrieved from: https://www.ft.com/content/d5803d64-5cc5-46f0-bed0-1bc207440f9c

What could happen if Evergrande collapses

The BBC reported that Evergrande's customers could lose their money since most of them acquired the property before it was finished. Huge loss and potential bankruptcy could be faced by the companies doing business with Evergrande (e.g. investors, construction companies, design firms, and suppliers). Hence, domino effect on Evergrande's lenders can occur because according to the Economist Intelligence Unit's (EIU) Mattie Bekink, as and as reported by the BBC, the company owes money to more or less 171 domestic banks and 121 financial firms. It is not impossible that China's financial system could be distorted as a credit crunch would create difficulties for companies to borrow money and grow.

The silver lining

Bloomberg and the Financial Times stated that Evergrande could avoid bankruptcy as most analysts expect that a significant debt restructuring will be conducted by Evergrande. Business restructuring expert Jack Rodman stated that the regional approach is the "most likely scenario" that Evergrande will pursue. That being said, another large state-owned developer has to take over Evergrande Group's operations and thus its debt crisis can be anticipated. According to the BBC, analysts suggest that Chinese officials shall come to the rescue by giving a bailout package to Evergrande. In consideration of that, the potential financial system distortion in China can be avoided. This is also supporting Chinese government's urbanisation plans for 10 million people each year until 2025, as Evergrande will be able to keep operating its business and thus providing houses to the targeted market.

Moreover, CBRE stated that China's commercial real estate market remains attractive for investors with a long-term perspective for varied reasons. Firstly, China has a large population of potential renters. Secondly, there is rental apartments development support from officials. Thirdly, there are attractive opportunities in various asset classes (e.g. logistic facilities, data centres, storage, business parks, offices in Chinese major cities, and retail). Lastly, China has just introduced its first domestic REITs in June 2021 which implies the officials have made an effort to suppress debt financing and to increase equity financing in China's real estate sector. CBRE also believes that equity REITs growth will create a more balanced and sustainable business environment in the long run.

What to look at going forward

For more than 10 years, China's real estate market seemed to have no limits, but this year the utopia has been broken, leaving serious consequences on the Chinese but also on the global economy. Chinese real estate developers dominate China's international high-yield bond market, making 80% of the total USD 197 billion of debt outstanding, according to Goldman Sachs. Now, since the Evergrande issue, more and more developers in China are missing their debt payments to preserve cash as it will be difficult to refinance upcoming maturities in the international bond markets if yields remain so high, according to Rachana Mehta, co-head of regional fixed income at Maybank Asset Management. Which means that the refinancing pressure is likely to intensify, with more than USD 6 billion of dollar debt maturing in January 2022, as disclosed by Goldman Sachs. In addition, and as expected, investors behaviour will be influenced and there could be less appetite to buy property, justified also by more difficulties in obtaining mortgages and fears that prices will keep rising, which in sum will not help the economic growth. In this context, we could say that the miracle to revive the markets relies on either new debt issuances or government support. Either way, what is clear is that developers behaviour will definitely change from now on.

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