

# The 3 'T's dictating the Chinese real estate recovery

Chinese real estate continues to face challenges and the outlook remains uncertain. Recovery values within the asset class look to be determined by 'the three Ts'.



1. **TRAVEL** – an end to zero-Covid policy.
2. **TRUST** – the government needs to restore by providing support.
3. **TIME** – the longer policymakers wait, the worst recoveries are likely to be.

## Recent developments

- As a result of persistent negative market sentiment, further liquidity squeezes and current policies, year-to-date returns remain negative and hopes of a rebound have been dampened by the resurgence of restrictive zero-Covid policy across mainland China – notably evidenced by the prolonged lockdown in Shanghai. The pressure this has put on the economy has resulted in delaying any recovery in residential sales, which remain significantly down year-on-year, although we are seeing encouraging sequential improvements at state-owned-enterprises.
- Although the sector got a brief respite from re-opening announcements following zero-Covid restrictions, recent headlines suggest an increase in infection rates and a consequential tightening of population mobility policies.
- Away from these factors, which have contributed to the softness seen in the space, idiosyncratic developments, such as Greenland's recent exchange offer, have further darkened the mood by creating downward selling pressure.

## Our credit selection strategy

Looking across the Chinese real estate sector, we have identified three main categories of issuers:

1. **Potential survivors**  
Names with robust balance sheets that are either privately or state owned with no default concerns.
2. **Distressed issuers**  
Trading at 8–15 cents and are already – or are on the verge of – restructuring.
3. **Privately owned issuers trading at stress levels but not yet distress**  
The vast majority of the issuers fall in this category, which we believe to be riskier and don't exhibit enough differentiation relative to lower-cash names. We are generally underweight these names.

## Risks & potential downside

Looking at our positioning, we can split possible future P&L loss into two categories, should there be further downside in the sector:

- Restructuring candidates are already trading at very low prices, in the range of 8-16 cents on the dollar. The downside from here is relatively limited as the current prices already reflect much of the bad news.
- Stronger credits are, in our view, not default candidates but could potentially exhibit significant month-to-month volatility.

## Outlook

Things remain uncertain. The liquidity pressure experienced by developers have been exacerbated by persisting restrictive Covid policies and a lack of supportive macro policies. We maintain a cautious bias towards Chinese real estate and continue to monitor the space very closely. Should the government relax Covid policies this could prove a catalyst for potentially attractive opportunities, but we are unlikely to see a shift in the policy mix before the 20th Party Congress in autumn.



### Portfolio Manager Perspectives

Our experts offer their perspectives on the latest developments in global credit and the state of the markets.

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