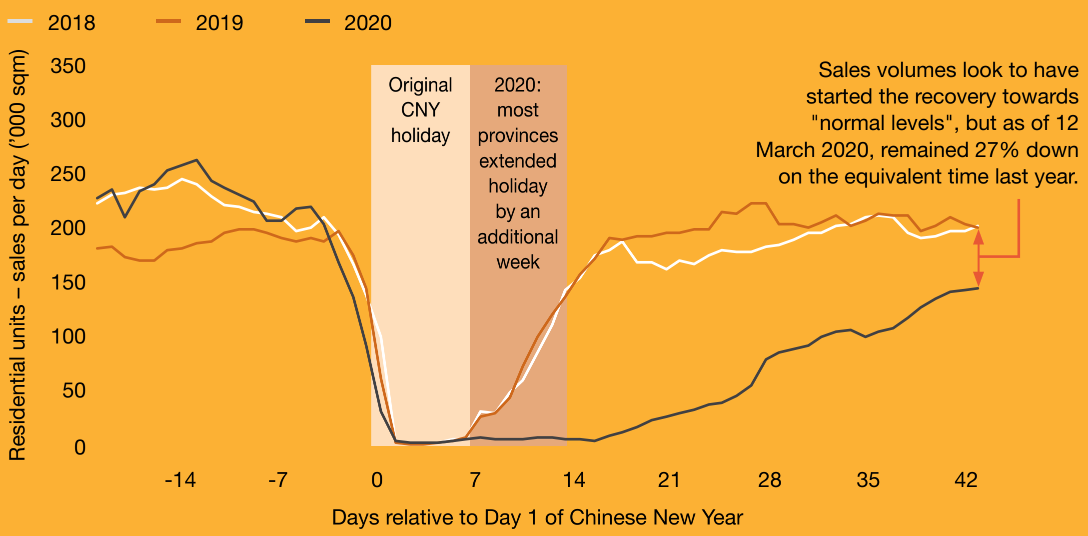
Succeeding in uncertainty: Financing China’s real estate

How Chinese developers, their lenders and debt funds should position themselves in 2020

pwc

The COVID-19 outbreak has, no doubt, placed additional pressure on developers' cash flows and their ability to finance their operations. Whilst China is gradually getting back to work, in this publication we look at how developers, their lenders and debt funds can react to succeed in uncertainty.

Figure 1: **Primary residential sales are recovering, but as of mid-March, remain 27% down on a year ago**



Source: PwC analysis, Wind
Data shown is primary market sales for ten Chinese cities (Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Nanjing, Qingdao, Suzhou, Nanchang and Xiamen) and is a 7 day moving average.

Executive summary

Even before the February 2020 COVID-19 outbreak forced the shutdown of construction sites in China and the temporary closure of sales centers, international bond investors had begun to question the sustainability of the growing debt levels at China's real estate developers.

The outbreak and shutdown has, no doubt, placed additional pressure on developers' cash flows and their ability to finance their operations, due to the lower contracted sales following Chinese New Year, compounded by expected delays in obtaining pre-sales permits on construction sites, which are a pre-requisite for generating pre-sales later in the year.

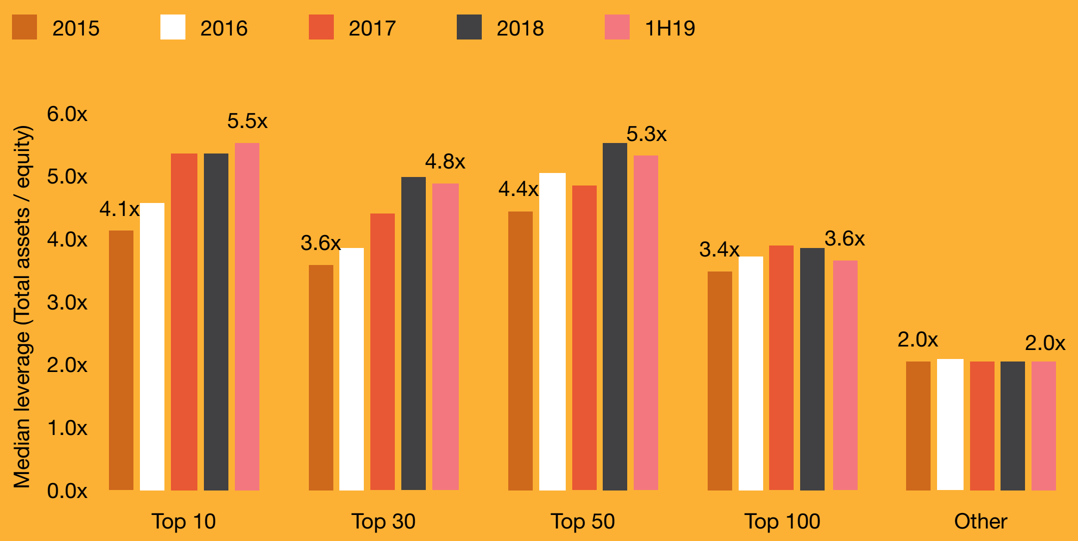
This said, as China returns to work, primary residential sales appear to have started the recovery towards a "normal" level. As of mid-March volumes were 27% down on the equivalent time last year. With appropriate support from the state and central bank, most developers should be able to mitigate any immediate cash flow issues and maintain cash levels[1] such that their reserves are sufficient to meet their debt repayment obligations, even assuming a three month pause in pre-sales[2].

In this publication, we look at how most Chinese **property owners and developers** rely on financing their operations via pre-sales and how they should position themselves to succeed given the heighted macroeconomic uncertainty.

We also look at how **existing lenders** should monitor their credit portfolios and what actions they can be taking now, to minimize risks.

Finally, we look at the types of opportunities for **private debt investors** to lend capital to companies in this space.

Figure 2: **Chinese developers' leverage ratios have – on average – grown by 20-35% over the last five years:**



Source: Capital IQ, PwC analysis of real estate groups listed on either the Hong Kong, Shanghai or Shenzhen stock exchanges. "Top 10" represents the largest ten developers (based on 2018 revenues), "Top 30" represents developers ranked between 11 and 30, "Top 50"; those ranked 31 to 50 etc.

1. Most of China's developers have plenty of options to preserve (or raise) cash levels. New land purchases can be paused. Pricing discounts can be offered to buyers to stimulate sales activity. Evergrande, a top 5 developer, for example, announced in mid-February an across-the-board 22% to 25% discount on sales of units in any of its developments. The Chinese state has also already started to provide relief measures to developers. For example, Wuxi, a city in eastern China, has extended its tax payment deadlines by three months, and Shanghai has said that it will pardon developers who fail to pay land transfer fees in time. If needed, we expect banks and other lenders are likely to be asked to implement moratoriums on upcoming principal or interest repayments for selected real estate enterprises.
2. Also see "UBS: Stress testing developers' cash on sales disruption (13 February 2020)"

Real estate financing

Developer financing: the importance of pre-sales

Real estate is an inherently capital intensive sector. Chinese developers have traditionally financed the working capital needed to purchase land, build and hold completed developments, by raising cash from either:

- Deferring the payment of construction costs due to contractors;
- Borrowing from banks or issuing bonds (either onshore or offshore); and
- Receiving deposits from selling off residential units to buyers, often prior to the related construction being completed ("pre-sales")[3]

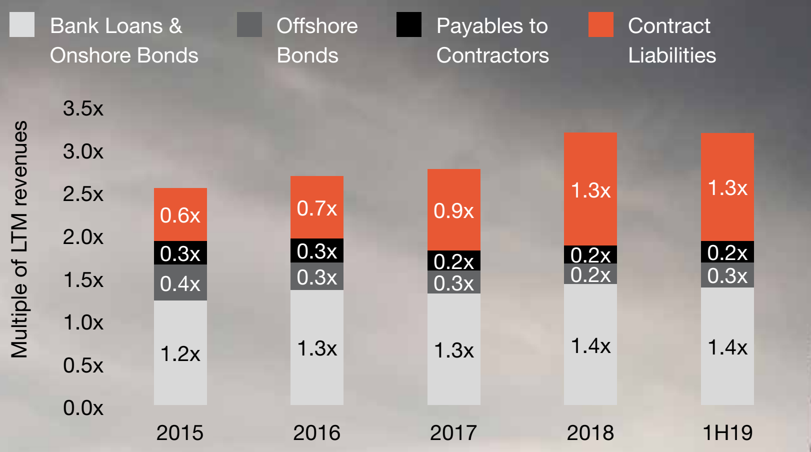
China's real estate developers have become increasingly reliant on pre-sales as a part of their overall financing of their business – in 2019, nine in ten of all residential apartments, were sold prior to the construction being completed.

Contract liabilities

1.3x

LTM revenues at June 2019

Figure 3: **Contract liabilities (from pre-sales) have become a larger % of financing**



Source: Capital IQ, PwC analysis of the largest 50 listed developers (ranked by 2018 revenue).

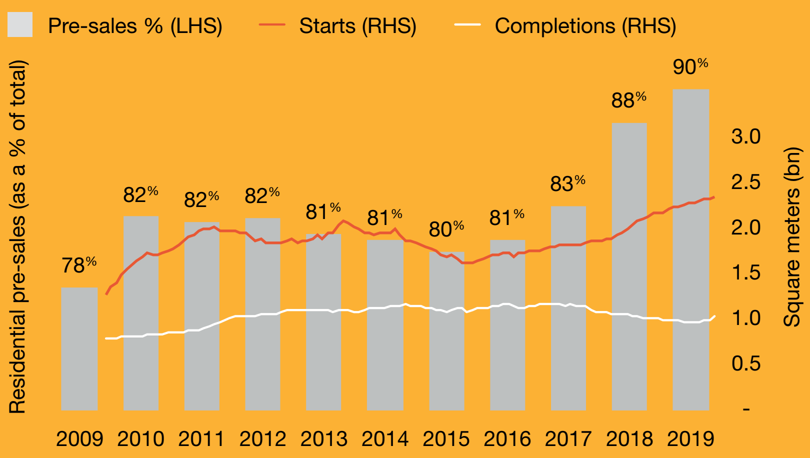
Contract Liabilities represent the cumulative cash payment received from buyers from pre-sales, at a given point of time. Under accounting rules, as these are received in advance of the developer performance obligation being met, they are recognized as a liability on the developer's balance sheet.

3. If developers seek to hold onto (and lease out) completed commercial or office sections of mixed-use developments post-completion, they can also generate net rental income. However, over 80% of total property sales between 2014 and 2018 were residential apartments: developing and selling these is the largest part of the market.

In most countries, down payments made by buyers to developers are placed into an escrow account. In China, although many cities set rules to supervise how deposits from pre-sales are used, in practice, developers have more freedom on how they use the proceeds, meaning they can be used to help finance other projects. So pre-sales are hugely beneficial to them. Pre-sales are effectively interest free[4] and in practice, developers have the ability to extend the terms. And if construction and delivery of completed units are materially delayed, the hundreds or thousands of uncoordinated households normally have little ability to influence things.

Developers also have some ability to accelerate the timing (and proportion of units sold) via pre-sales, meaning that they can accelerate the timing of their cash receipts and recycle liquidity tied up in existing developments[5]. Over the last decade, for every 187 square meters of construction started, only 100 square meters has been completed.

Figure 4: **Developers are starting more developments than they are completing, and selling units earlier and earlier**



Source: PwC analysis, Chinese National Bureau of Statistics

Pre-sales

90%

of total residential sales 2019

4. This is a significant benefit given that China's interbank one-year (RMB) loan prime rate is slightly above 4%. Bank loans are typically priced at a premium to this.

5. Several of China's largest developers have further accelerated the timing of the cash flows (from future payments for contracted sales and also future rent from lease agreements) by issuing onshore securitizations backed by the relevant receivables. In 2019, around RMB 34 billion (US$ 4.8 billion) of notes were issued, although only the largest developers are able to access this channel.

COVID-19 has highlighted the reliance of most developers on pre-sales as a key driver for them to be able to build and sell properties at a “normal” pace. Development cycle stoppages due to COVID-19 in Q1-2 2020 could lead to delays in obtaining pre-sales permits needed for pre-sales later in the year[6]. Should this occur, a breakdown in the developer financing cycle will emerge and this could lead to financial difficulties for developers, headaches for existing lenders – and opportunities for credit funds to deploy capital.

Unfortunately for developers, the COVID-19 disruption is not the only financing headwind on the horizon.

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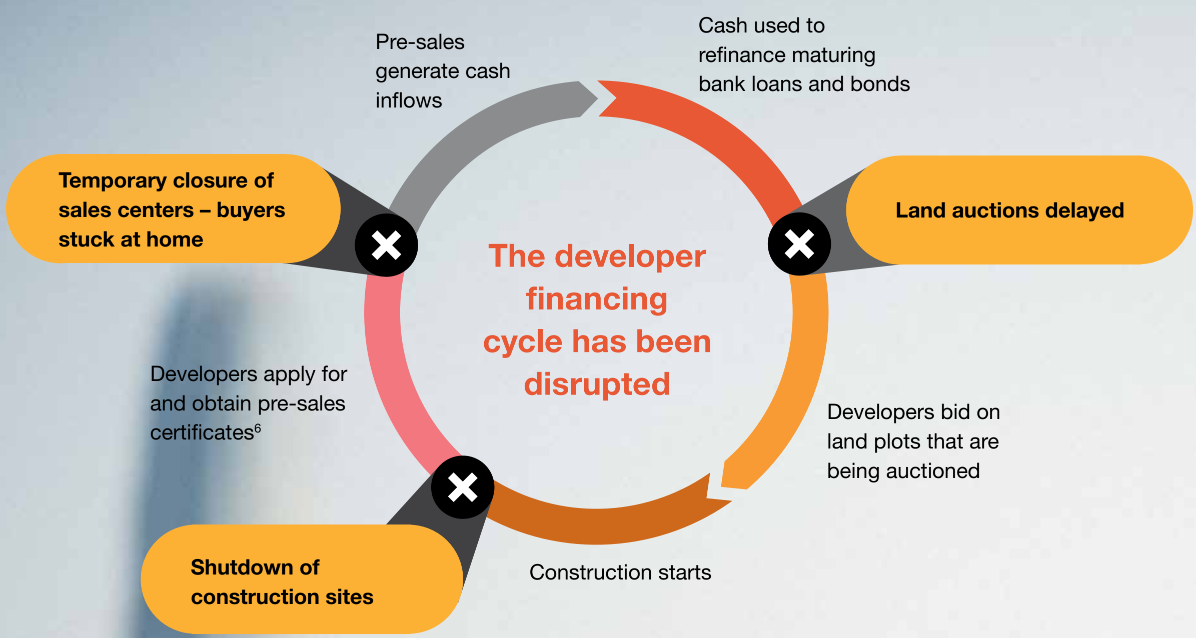
Figure 5: **Impact of COVID-19 on the developer financing cycle**



Source: PwC analysis

6. The process to obtain pre-sales permits varies by geography. In some cities, they can be obtained by simply providing design papers to the local housing bureau. Other cities require foundations to be laid, or in some cases, up to a third of construction to be finished, before they are granted.

Financing stabilized property getting harder?

Raising debt finance by pledging stabilized, income-generating, real estate as security to a lender is relatively straight forward in China. Typically, domestic banks will lend up to a LTV of 50% to 60%[7], and at a RMB interest cost of 6.0% to 9.5%, depending on the attractiveness of the location and the asset itself.

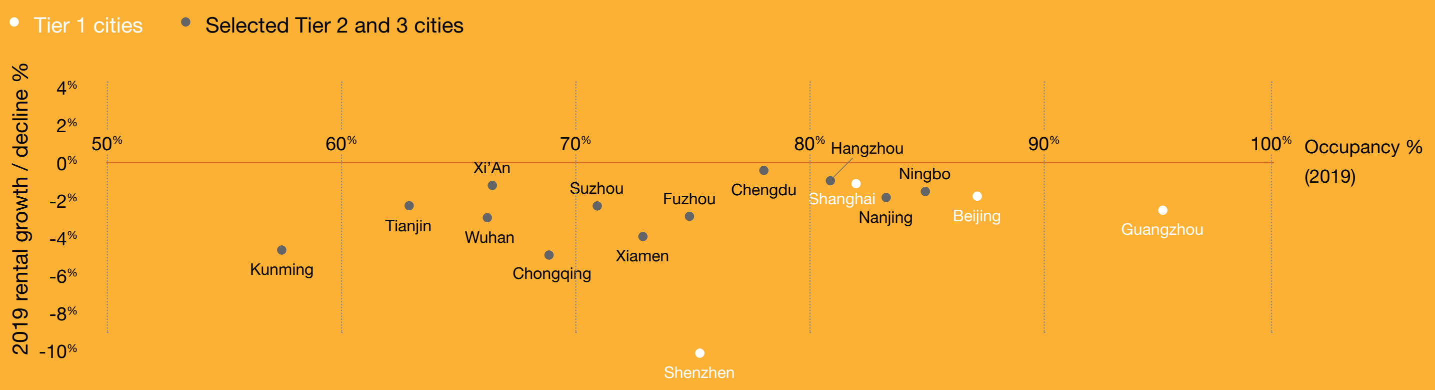
However, obtaining onshore bank loans on attractive economic terms is getting harder. This is due to several factors including the clampdown on wealth management products, banks' loan books being highly concentrated to the real estate sector[8] and clear overdevelopment in some Chinese cities, which puts pressure on the rents that landlords can generate from investing in real estate (and in turn, the cash flows that are available to service debt).

We believe overdevelopment has arisen because of an inherent conflict. Local city governments set the speed at which land is auctioned off and construction permits are granted to developers. They also benefit from higher tax proceeds from land sales and real estate taxes, which can make up the lion's share of city revenues. In our view, it's hardly surprising that officials sometimes accelerate land sales at the expense of longer-term urban planning.

The volume of new supply of offices, shopping malls and hotels in certain cities has put pressure on rents, even in cities where vacancy rates appear manageable.

Clear overdevelopment in some Chinese cities has put pressure on the level of rental income that landlords can generate from investing in real estate (and in turn, the cash flows available to service debt).

Figure 6: **Rents in China's major Grade A office markets fell over 2019, even in cities where occupancy levels are high**



Source: PwC analysis, Savills Reimagining Real Estate

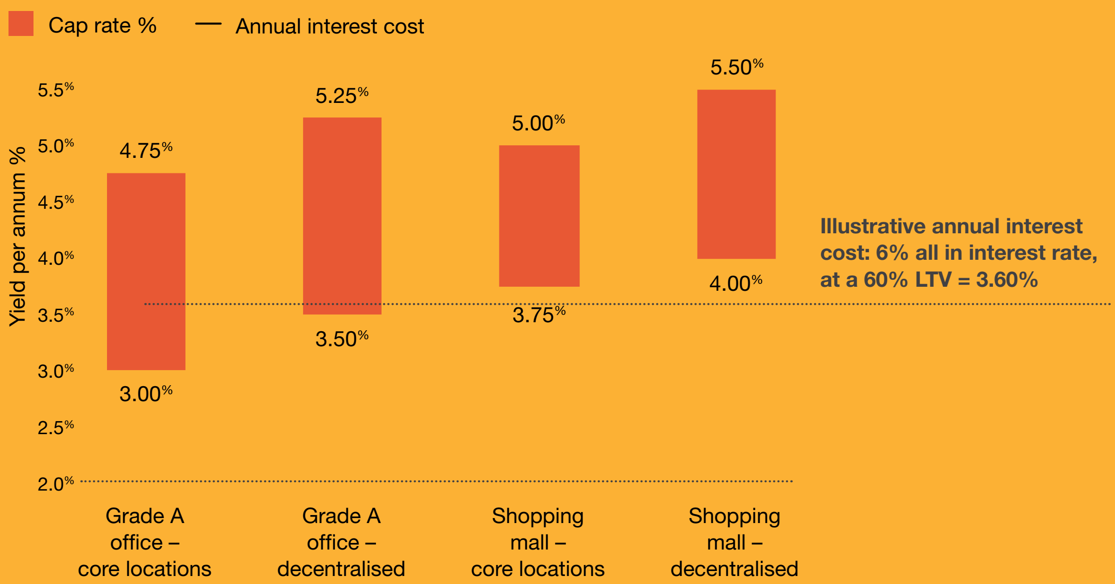
Take for example, Shanghai. CBRE estimates cap rates[9] on the best prime offices were as low as 3.0% in mid-2019. At this level, the operating profit from owning a Shanghai prime office (from rental proceeds, less costs) does not appear to be sufficient to pay the interest on a typical onshore bank loan.

7. The bank will typically ask an onshore appraisal company to come up with a property valuation, which is used in determining how much the bank is willing to lend. As the (unrealized) development margin is implicitly included in the appraised valuation, the effective leverage that the developer can obtain, on a loan-to-cost basis, may be in the region of 60% to 75%.

8. The banks have to comply with sector concentration limits which influence how much lending exposure to real estate enterprises that they can take on.

9. Cap rates represents the rate of return that can be generated on a real estate property (expressed as the ratio of the net operating income ("NOI"), over the asset value itself). A low cap rate implies that the rate of return that a landlord will generate from owning the asset is lower.

Figure 7: **In some cities, net operating cash flows barely cover the interest cost on a typical bank loan**



Source: PwC analysis, CBRE Asia Pacific Cap Rate Survey (Q2 2019). Bars represent the range of cap rates for Beijing, Shanghai, Shenzhen and Guangzhou.

Any cash shortfall between the net income the asset generates and the interest cost (which will be need to be funded by the asset owner) may be further amplified if occupancy rates continue to be depressed by further development and lower footfall as Chinese consumers stay away from crowded commercial locations and companies look to negotiate rent concessions. In time, we believe this may lead to banks reducing the amount of finance they are willing to lend to landlords upon refinancing.

"We have [access to] plenty of Renminbi in China. We are a top client of the banks and work together to arrange financing on our new projects, prior to us bidding for land plots. We know [issuing offshore] US dollar debt is expensive. But it is the market practice and it's useful to help us manage our cash flow."

— Chief Financial Officer,
Top 50 Listed PRC developer

January 2020

Financing land purchases and capex on development projects

Obtaining finance on land purchases and capex is also getting tougher for developers. Historically, a significant proportion of land purchases – certainly for the mid-tier players who have been seen as "VIP clients" of the banks[10] – have been financed through onshore bank lending. In good times, relationship bankers were chasing after project managers for new financing opportunities.

10. Compared to their larger peers, mid-tier developers have less access to alternative financing channels meaning banks have targeted this group as they can charge them higher interest rates.

Smaller private developers, with projects in less attractive locations, were seen by the banks as less attractive clients. So relying on trust companies or other financing from outside the banking sector, often at annual interest rates anywhere between 8% and 15%, was not uncommon.

This financing channel has started to close as liquidity in China's shadow banking space has dried up over the past two years. In May 2019, China's banking regulator warned banks and trust companies who were financing developers' purchases of land plots, would face "tightened scrutiny"[11].

Whilst larger developers may still be able to obtain new bank financing for land acquisition, banks are increasingly reluctant to lend to mid-sized counterparts. Banks are even looking to run off their "back-book" of land financing loans, and loopholes that have been used in the past are starting to be closed.

In May 2019, China's banking regulator warned banks and trust companies who were financing developers' purchases of land plots, would face "tightened scrutiny".

11. The China Banking and Insurance Regulatory Commission's May 2019 notice (银保监会关于开展“巩固治乱象成果 促进合规建设”工作的通知) listed a handful of categories of lending that the regulator would place under scrutiny. This included lending to Chinese real estate companies where the proceeds were used to either directly, or indirectly (via trust companies or other parts of China's shadow banking ecosystem) to fund acquisitions of land banks that hadn't yet obtained the relevant construction certificates.

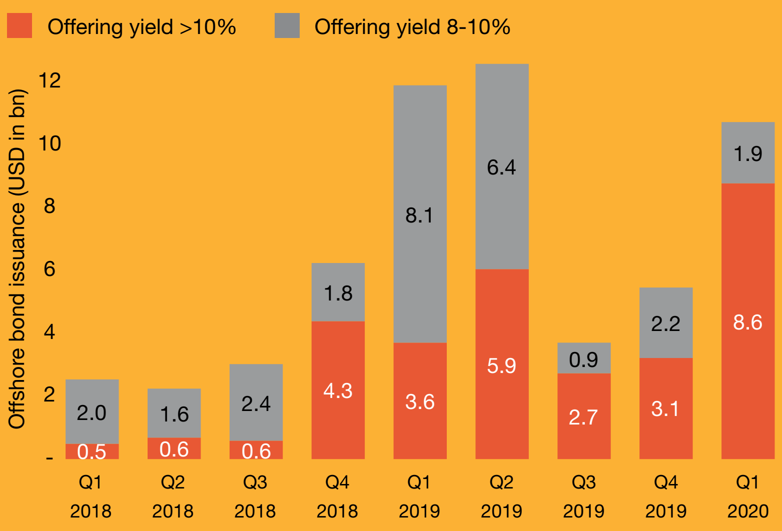
Offshore US dollar bonds

Proceeds from issuing offshore US dollar debt have also been used by developers to fund working capital and development projects in mainland China.

We estimate that China's listed real estate developers issued US$ 75 billion of offshore debt in 2019 (2018: US$ 53 billion), making them the largest category of issuers in Asia's offshore dollar bond markets. This financing was expensive.

Over
1 in 5
Dollars raised featured an interest coupon in excess of 10% p.a.

Figure 8: **~US$ 28bn of US dollar bonds have been raised in the last 18 months with an offering yield in excess of 10%**



Source: PwC analysis, Capital IQ

The record issuance levels in 2019 occurred despite the Chinese central government, (fearing the extent of the FX risk that developers were taking on[12]), introducing rules that introduced registration requirements and restricting the usage of such financing to simply rolling over existing overseas bonds[13].

Whilst these rules now prevent offshore bonds being used to finance land purchases and development capex, the rules don't currently apply to short-term debt (with a contractual maturity of 364 or less days). A handful of developers continue to use this loophole to secure short term debt to finance bridging loans or working capital. Should the scope of the regulation widen there would be further pressure on developers financing channels.

12. Developer's revenues are almost exclusively in RMB. Should the RMB weaken further against the US dollar, interest and principal payments on foreign USD debt would be larger in RMB terms.

13. In July 2019, the National Development and Reform Committee ("NDRC") issued a notice (对房地产企业发行外债申请备案登记有关要求的通知) which restricted real estate enterprises from using the proceeds of issuing offshore debt (with a tenor of 365 days or more) for any other activity, other than "refinancing medium and long-term offshore debt due within the next year". The notice doesn't apply for offshore debt with a contractual tenor of 364 or less days.

How should developers and property owners navigate the uncertainty?

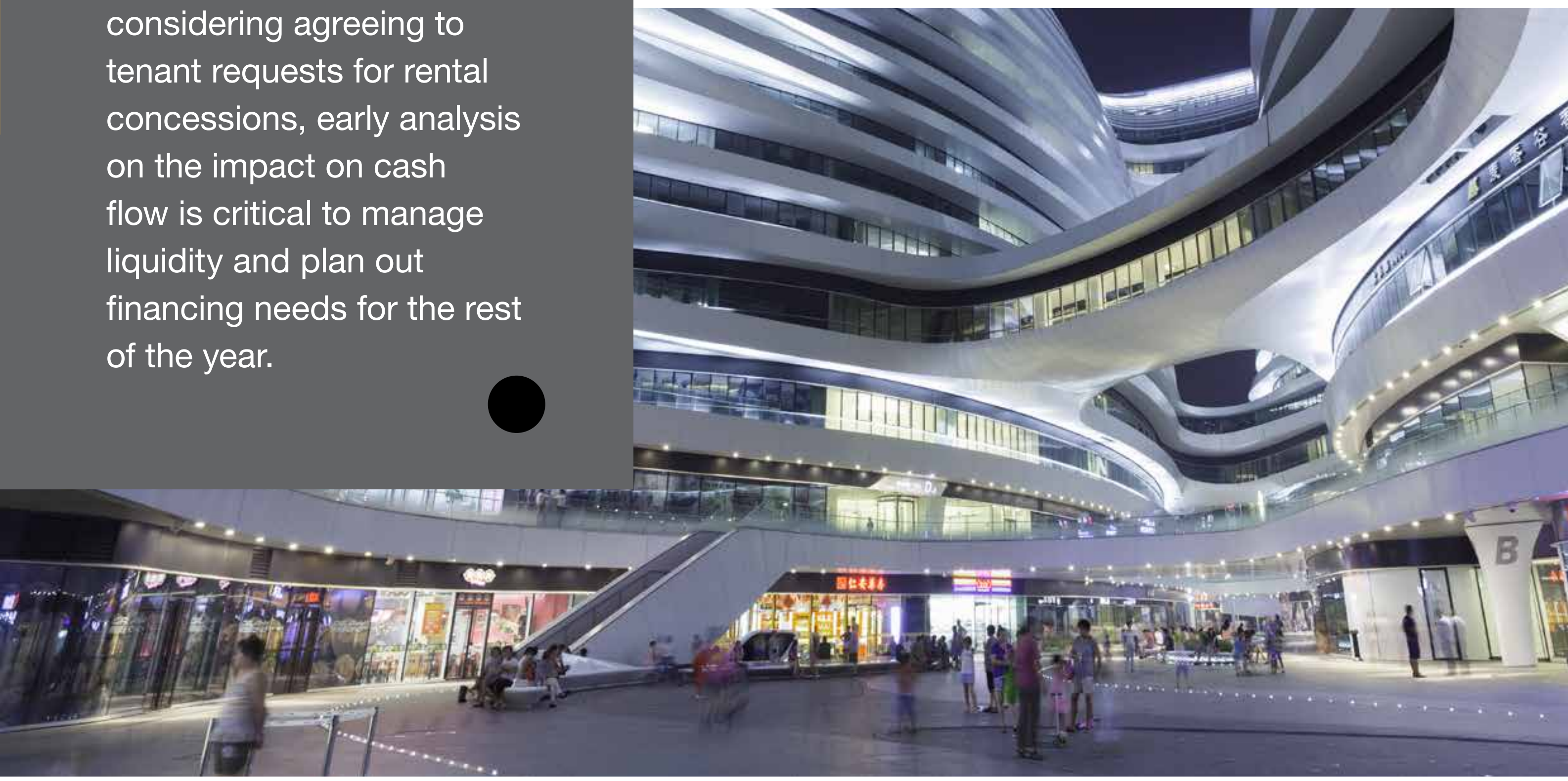
Whilst we – and many other market commentators – assume some further relaxation of policy in 2020 to help alleviate the pain of the impact of COVID-19, it would be prudent for all developers to look to diversify their funding channels and push out maturities on existing debt, whilst the markets remain open. For some, it may be worthwhile to keep all funding channels open – even those that require a higher interest cost.

To the extent additional cash flow can be raised, stronger developers may be able to capitalize on the challenges in the market by buying land banks and other projects from weaker competitors. We started to see more of this in 2019 – having completed due diligence projects for buyers acquiring undeveloped land banks, where the seller decided to exit as it couldn't obtain sufficient financing to fund the capex needed.

For landlords, it is even more critical to proactively talk to tenants: not all are feeling the strain equally[14]. Compared to mall landlords who can relatively easily monitor footfall, this is harder for office landlords who have less visibility around which tenants are struggling.

Understanding the seriousness that tenants' specific businesses are under and pre-empting which will default, or request rental concessions, is important – early analysis of the impact on cash flow is critical to manage liquidity and plan out financing needs for the rest of the year.

For landlords who are considering agreeing to tenant requests for rental concessions, early analysis on the impact on cash flow is critical to manage liquidity and plan out financing needs for the rest of the year.



14. For example, retailers who have a more established online delivery channel have, in general, been better placed to offset some of the weakness from shorter opening hours, lower footfall and temporarily closed stores on in-store sales.

Bank lenders: managing your investment in a downturn

How bad could the downturn be?

As bank lenders review their corporate real estate ("CRE") lending portfolios and attempt to forecast the financial impact of the downturn for 2020 as a whole, it appears inevitable that the current level of operational disruption, if unabated, will feed through into higher volumes of covenant breaches, and potentially defaults. Lending to the real estate sector is a material part of most banks' loan books – not just in mainland China, but also in Hong Kong SAR.

When thinking through what the ultimate financial impact may be, a key driver will be the extent to which the lost real estate sale activity in Q1-2 2020 can be deferred to later in the year.

Whilst rent concessions and discounts on property management fees will have hurt the profitability of landlords, the reliance on pre-sales as a funding channel risks having a more critical impact. Whilst most of China's developers and landlords look to have sufficient cash liquidity buffers, there are many whose finances look significantly stretched.

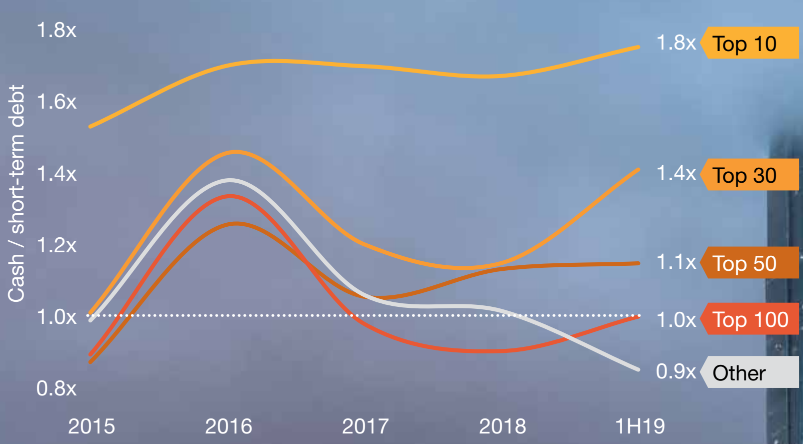
Cash reserves
< short-term debt:

19/50

of the top 50 developers

at June 2019

Figure 9: **The largest 50 developers, on average, have cash reserves sufficient to cover their short term debt although at the individual company level, there are exceptions**



Source: PwC analysis, Capital IQ. Data shown is the median reported cash and cash equivalents, as a proportion of short term debt (debt with a contractual maturity of less than 12 months). At the individual company level, there are a number of developers who appear to have lower reserves: for example, 4/10 of the Top 10; and 19/50 of the Top 50 developers had a ratio of <1.0x at 30 June 2019.

What should lenders be doing now?

Lenders will already have processes in place for ongoing monitoring of CRE credits and given the heightened level of risk, and in an effort to better understand the on-the-ground situation, relationship managers should continue to invest time to proactively liaise with debtors.

The effectiveness of this will somewhat depend on the existing relationship with the debtor and whether the debtor – whose management team is likely under a significant level of stress – understands the seriousness of the challenges it is facing.

Creditors may wish to go back and look at their contracts or agreements. If there are rights to allow creditors to obtain detailed financial information or appoint professionals to carry out review work, these options should be considered. Receiving a few pages of backward looking financial statements, without any accompanying insights or analysis, is not good enough!

When working with our banking clients to complete business reviews of troubled customers, we typically focus on the borrower's cash flow position, both current and prospective, giving the bank an independent view on the borrower's cash flow forecasts, including a perspective on "what do you need to believe in order for this to be achievable?"

For lenders whose positions are secured by first or second liens on real estate assets in Tier 1 or Tier 2 cities – the market for selling the credit (at a discount to its face value) is starting to become more active. There is a risk that equity investors start to penalize banks who are ambiguous around their exposure to Chinese real estate.

Distressed investors are being shown a large number of deals, so if there is a real intention to exit positions, it is key to market these effectively to increase the possibility of attracting interest.

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Real estate credit funds: opportunities to deploy capital

Investing in secured real estate debt or providing customised financing solutions to real estate businesses to fund their growth, has become an increasingly popular strategy for credit and special situation investors over the last 18 months, with at least US$ 1.4 billion of capital deployed.

Funds find it relatively straight forward to underwrite the underlying real estate and like the fact that – assuming the LTV ratio is reasonable – the downside protection offered by the asset class.

“COVID-19 has created uncertainty, and will likely accelerate sector consolidation. Having a local portfolio management team has improved our underwriting of risks and delivery of business plan. Our pipeline today includes a broader range of attractive partnership opportunities which spans multiple sectors.”

— Grant Chien,
Head of Special Situations Financing,
Infrared NF

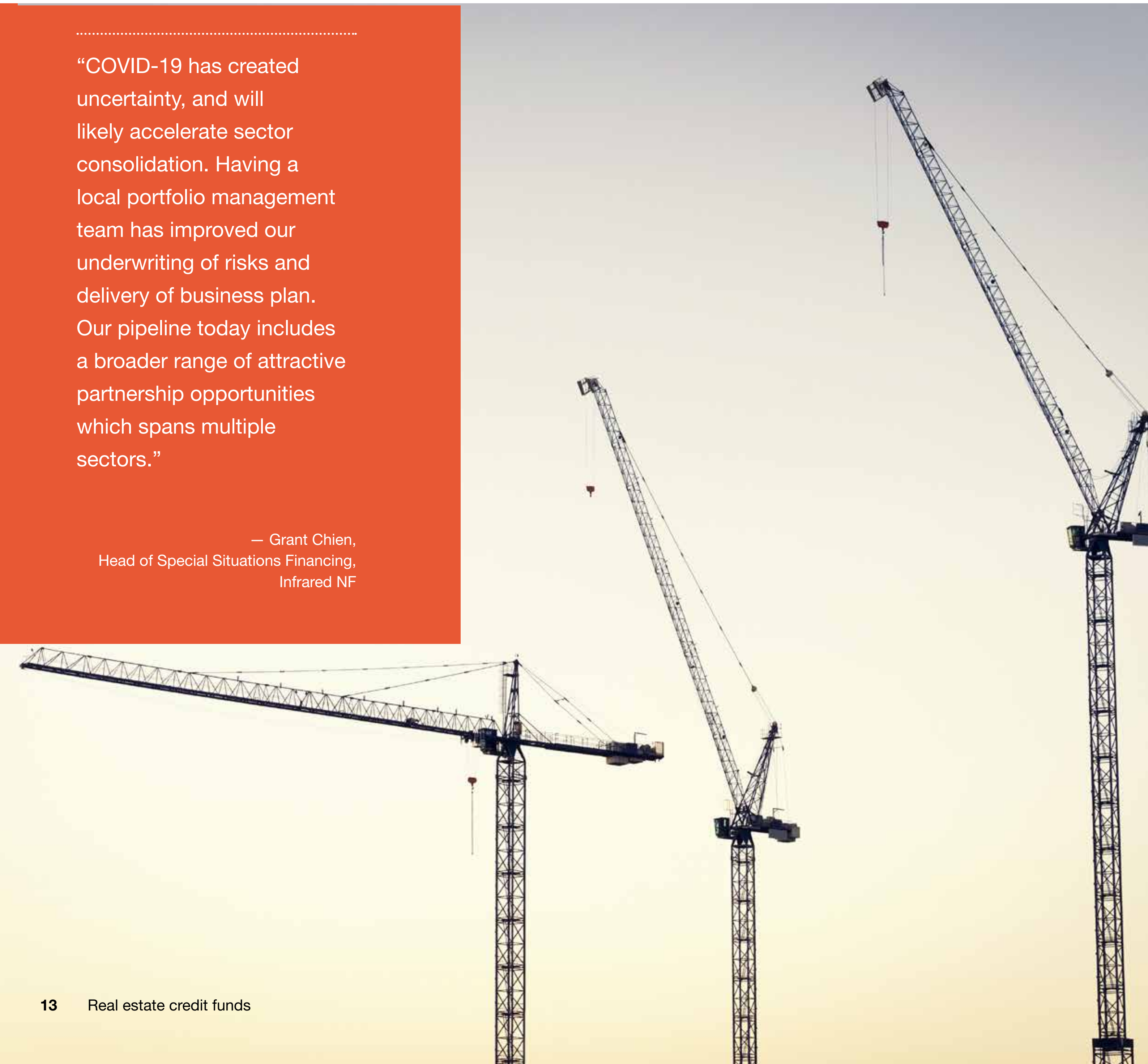


Figure 10: **Selected Chinese real estate debt deals involving international investors**

Date	Investor	Borrower group	Borrower category	Principal (US$ m)	Description
Dec 2019	Infrared NF (plus consortium)	Heneng Group	Private residential developer	105	Development financing of Changsha residential project
Sep 2019	Oaktree Capital	China Oceanwide	Listed property developer	140	Secured term loan, 3 year tenor
Sep 2019	Infrared NF (plus consortium)	Fullsun International	Listed property developer	156	Mezzanine financing, secured using three ring-fenced projects in Changsha and Zhongshan
Jul 2019	Bain Capital Credit	D&J China	Private developer, owner and operator of office/ innovation parks	300	Structured financing to fund growth
May 2019	Bain Capital Credit	ChinData	Private data center operator	146	Growth capital, co-investment with Bain Capital PE
Nov 2018	Real estate fund	China Property Group	Listed residential and commercial developer	226	Senior note financing, 3 year tenor
Aug 2018	PAG	China Oceanwide	Listed property developer	215	Refinancing of shareholder loans
Jun 2018	Infrared NF (plus consortium)	Jindadi	Regional developer	88	NPL turnaround project in Yangzhou, Jiangsu

Source: PwC analysis of public information and direct confirmations from investors. We are aware of a couple of funds who are active in this space, whose deals are excluded from the table above – so this should not be seen as a complete list.

The tightening of the domestic credit markets, together with the short-term stresses that COVID-19 has brought to the economy, means that we expect there to be more and more opportunities to lend money to, refinance existing debt, or buy assets (at depressed prices) from, Chinese developers and landlords. Once the travel restrictions are lifted, we would expect there to be a further US$ 2.0 billion+ of capital deployed from international debt funds in these opportunities in the following 12 months.

15. When we help our clients to due diligence these situations, we focus on understanding the underlying problem that led to the missed payment. We often see cases where the issue relates to a delay in obtaining the pre-sale or completion certificate (for Chinese real estate projects), or overseas real estate, with a Chinese sponsor, where the liquidity issue relates to a remittance issue. In most cases, there is a visible path to resolving these challenges.

However, that is not to say identifying opportunities and agreeing pricing will be easy. China's domestic banks have the advantage of long standing relationships and a lower cost of capital. The US dollar bond markets also remain open and travel bans are currently preventing foreign investors from seeing assets first-hand.

The key challenge for private debt investors that we speak to is sourcing: identifying counterparts where there is a motivation (and timing pressure) to agree to a deal. Some of the more attractive deals we have seen are so called "special situations" where the borrower has missed one (or more) contractual interest payment(s) and is under pressure (from its existing lender) to find a third party to refinance its debt[15].

In general, we see private credit as an attractive solution where there is a desire from the counterpart for:

- **A timely solution** – whilst every private debt fund has different investment processes, in general, we see funds as being more nimble and quicker to take decisions relative to bank lenders;
- **A reduced short term cash financing burden** – funds generally have more flexibility to enter into deals where a portion of the cash interest payment is deferred[16] and some are even willing to provide uni-tranche solutions, freeing up day one cash[17]. This can free up cash and allow the short-term liquidity pressure the borrower is facing to be alleviated;
- **A longer dated solution, to avoid the need to regularly refinance** – most funds have longer dated capital, which means they can offer loans with longer tenors, meaning counterparts don't have to go back to the capital markets every year to refinance debt[18]; or
- **A reduced level of public disclosure** – some developers we speak to tell us that don't mind paying high interest rates or origination fees, but they worry of the implications of having to disclose the rate publicly to the capital markets – fearing this risks complicate relationships with customers and suppliers. The disclosure requirements, even for listed developers, can be lower for private credit deals.

Given the relative illiquidity in the onshore land acquisition and capex financing markets, funds that are willing to accept land or construction-in-progress sites as collateral, will likely be in a better position to negotiate favorable terms[19].

We would expect there to be a further US$ 2.0 billion+ of capital deployed from international debt funds in these opportunities in the following 12 months.

"The appetite from banks [to lend] may not be there [today], but this doesn't translate into a huge dislocation in price. Just because a bank won't go to a 65 per cent LTV on senior debt doesn't mean a nonbank can come in and charge 2 per cent more than normal on that type of asset."

— China MD, Global Private Debt Fund

16. The deferred portion of the interest (which is not paid on a semi-annual, quarterly, or monthly basis) would be added to the principal of the debt and repaid on maturity.
17. Uni-tranche, or stretch senior loans, combine the senior and junior, or subordinated, debt into one package. For example, a landlord may be looking to refinance secured its existing bank debt, which may be at a 60% LTV. Some funds would be willing to provide a uni-tranche facility at a 70% LTV. The cash proceeds from the additional 10% financing is released to the landlord upon refinancing to improve its short term liquidity.
18. Some international debt funds have raised capital in vehicles with a seven to ten year life, meaning offering borrower's deals with tenors up to, for example, five years (or shorter two or three year deals with extension options) can be a differentiator.
19. Because there is less competition from China's domestic banks from lending against non-income producing assets, funds are generally able to charge higher rates of interest. The other advantage of lending against non-stabilized assets is that there is a natural refinancing trigger once the development phase is completed (and the asset becomes "bankable").

What can go wrong?

There are a handful of common key risks in most Chinese real estate debt deals, most of which can be mitigated by thorough due diligence at underwriting.

Firstly, it is important to get comfortable on there being sufficient market demand for the underlying real estate, assuming cash flows from sales proceeds will drive the interest and / or principal repayment. Whilst comparable transaction data is usually available at the local level, assessing pricing can be complicated due to price caps and other cooling measures that have been introduced by some city governments, including Beijing, Shenzhen and Hangzhou, as they have sought to cool the seemingly never ending rises in real estate pricing[20].

Secondly, there is a risk that in an enforcement scenario, one, or more, unidentified creditors come out of the woodwork and frustrate the ability of the senior lender to liquidate its security quickly. Based on due diligence that we have completed in the past, these can typically include:

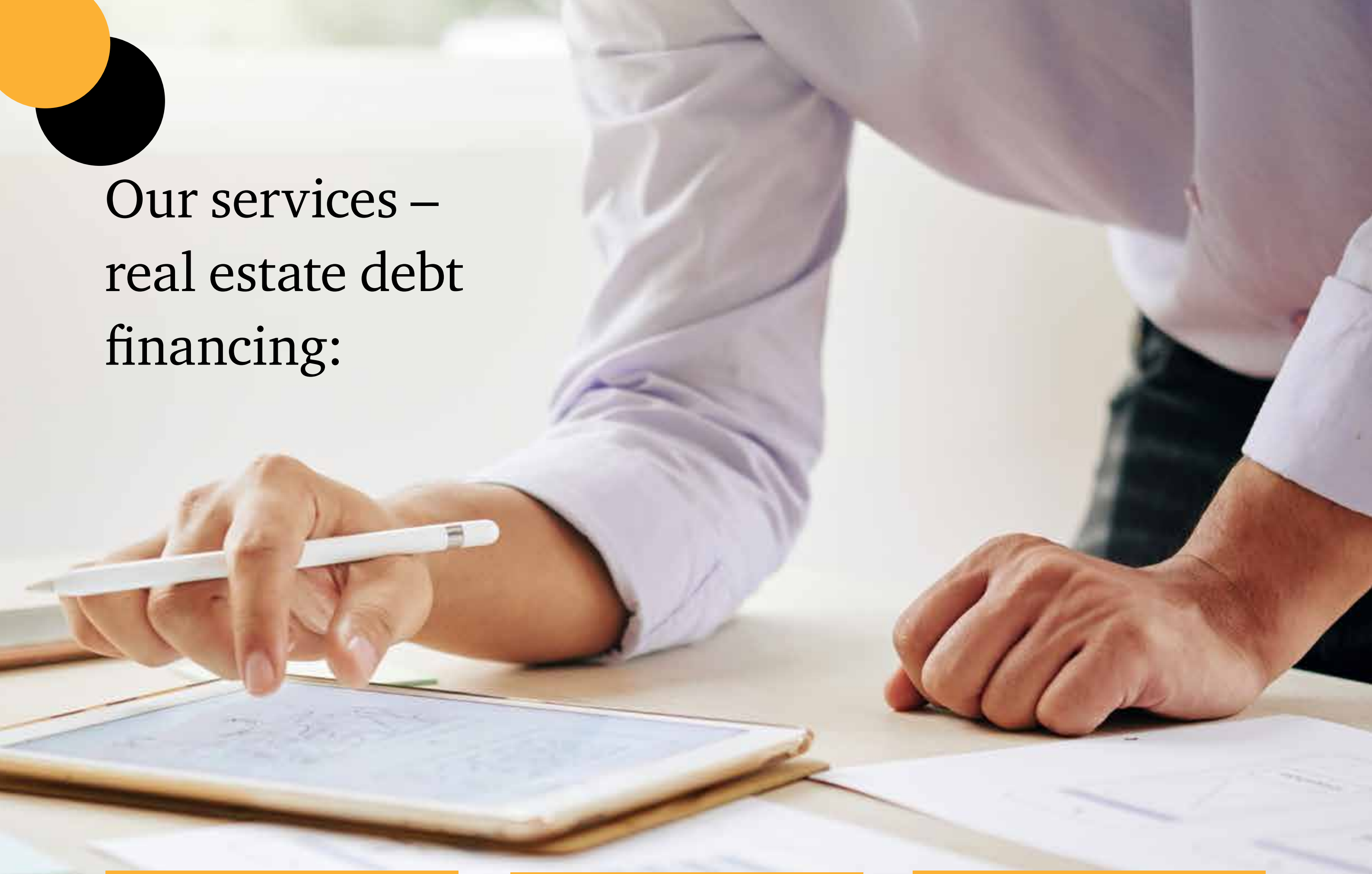
- Creditors of related parties whom the developer has provided guarantees to;
- The local tax bureau (particularly, where the land appreciation tax ("LAT") owed is significant[21]);
- The local government (the risk is greater when the land agreements include technical obligations on the developer, which may have been breached);
- Tenants who have signed long-term leases with landlords (and in some cases, may have illegally sub-let the space); and
- Local contractors or employees (whose claims in some cases can be senior to the lender).

Finally, most international funds are today most comfortable with providing US dollar financing to the offshore holding vehicles of Chinese real estate groups. If the cash is to be ultimately used in China, there is a risk this becomes trapped. Depending on the structure used (particularly if the loan is structured onshore), the taxes and cost of hedging can be significant and should be fully considered at underwriting.

There are a handful of common key risks in most Chinese real estate debt deals, most of which can be mitigated by thorough due diligence at underwriting.

20. Price caps are set at the time the land is auctioned and apply to the price the developer can sell at. They don't generally apply to the individual (who purchases the apartment from the developer) if he or she sells the property to another buyer, although in some cities the individual is restricted from flipping the property, sometimes for up to five years. Another cooling measure that has been adopted in certain cities is to restrict the number of apartments that can be owned by a single household.

21. In some geographies, it is common practice for the creditor to inherit the LAT exposure, even although technically it is a cost to be borne by the debtor. LAT can be particularly significant where the debtor is the original developer of the project.



Our services – real estate debt financing:

For developers and landlords:

- Debt and refinancing advisory
- Investor sourcing
- Tenant analysis and cash flow forecasting
- Project profitability and capital optimization analysis
- Operational advisory and cost optimisation
- Reporting accountancy services for bond issuance

For lenders and bondholders:

- Asset quality reviews
- Independent business reviews on individual stressed corporates
- Hold vs sell analysis
- Investor sourcing and lead financial advisory for sales of distressed assets or portfolios
- Acting as a receiver or liquidator
- Covenant and cash flow monitoring

For real estate credit funds:

- Market entry and feasibility studies
- WFOE set up and structuring advice
- Deal sourcing
- Commercial due diligence
- Financial, tax and legal due diligence
- Covenant and cash flow monitoring
- Advice on choice of fund and manager jurisdiction

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