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What Happens to Evergrande in China Stays in China

While US markets were a little shaken by news of Evergrande, commercial real estate will likely be fine.

By Erik Sherman
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Concerns about property developer China Evergrande Group had investors going early in the week of September 20. **Dow futures were off** by nearly 500 points, when *Fortune* took a pulse on Monday. They'd ultimately drop by **more than 664 points**, as the site DowFutures.org's historical graph noted.

A look at the same Dow futures history graph showed that by Tuesday, roughly two-thirds of the drop had come back. So, maybe not the next Lehman Brothers, as some opined?

"With more than $300 billion in liabilities and only $15 billion in cash on hand, Evergrande is currently the world's most indebted real estate developer," wrote Ryan Detrick, chief market strategist for LPL Financial. "Worries are mounting that starting next week it won't be able to pay $84 billion of interest due (according to *Bloomberg*), along with potentially missing a principal payment on at least one of its loans."

There was reason for concern, especially if you were a shareholder. And if you were holding a portion of the company's bond debt through global mutual funds or ETFs, that could well be the case.

When it comes to impacts on commercial real estate and the US stock markets, one needs to look at how much of the securities are held in funds controlled by fund groups like Vanguard and Blackrock. "If they have substantial positions in the China Evergrande Group, this could be a problem," James Cassel, chairman and cofounder of investment bank Cassel Salpeter & Co., tells GlobeSt.com.

But there are hard assets, unlike Lehman, and the danger seems largely in someone else's backyard.

"The Evergrande issues are important but shouldn't be overblown," David Russell, vice president of market intelligence at TradeStation Group, tells GlobeSt.com. "Global banks don't have a lot of exposure to Chinese real estate so global contagion isn't a huge concern now. There's no significant links to US commercial real estate. We've also seen little impact on high-yield credit spreads."

There might even be some good news for the commercial real estate industry. "We may see a small shock to equity and real-estate markets globally depending on the Chinese government's response in the short term," Vinny Yu, a former portfolio manager at investment firms and co-founder of investment app JAVLIN Invest, tells GlobeSt.com. "But in the medium term, there may be a flight to quality for both real-estate and equity investments from China to the US."

"It could ultimately be a positive because less Chinese construction means less demand for copper and steel," Russell adds. "That could help bring down inflationary pressures and reduce the need for interest-rate hikes in the US. Never forget that the roaring bull market of the 1990s followed the collapse of Japanese real estate in 1992.”