

## >: How You Can Profit from Chinese Real Estate

Thursday, June 26, 2008 / Wayne Mulligan

Wow, what a week this has been!

I landed in China about 7 days ago and have been completely amazed by how much it's changed in the last few years. I haven't set foot in Beijing since late 2005 and the difference between then and now becomes evident as soon as you hit the airport.

Tons of signs in English, English speaking sales people and no more illegal cabs parked out front with their drivers trying to drag you into their cars.

Beijing is really trying to get the city in shape for the Olympics. Bootlegged merchandise, while still around, isn't nearly as prevalent as it once was and the posters all over the city discouraging [copyright infringement](#) make the [Gaihang](#) and a little sad at the same time.

But the biggest change I've seen is in a sector many thought was invulnerable: China's real estate market.

So when I saw this question on TickerHound, I thought it was a PERFECT opportunity to share some firsthand experiences with you:

Now, just to be clear, my analysis isn't complete yet but I think it'll be helpful to share some of the observations I've made by speaking with local businessmen and homeowners.

### **Is a Bubble Popping?**

When I was last here people were falling all over themselves to buy a new home and hopefully sell it for a quick profit in a year or two. I saw this trend everywhere from Beijing, to Shanghai and all the way down south in Fujian.

Prices were rising every month and developers couldn't put up new apartment complexes fast enough.

But things have certainly changed in a few short years.

Whenever I speak to homeowners or prospective homeowners this time around, I keep hearing the same thing: prices are too high.

Many people are content with holding out until the market pulls back a bit before investing in a new home, and the developers are starting to feel it as well.

Not only are they providing discounts and rebates if buyers put more money down (for example: if a buyer were to put up the entire cost of the home upfront, then he'd get a 10% discount on the entire home) but they're also engaging in some creative marketing campaigns as well. The most interesting one I've seen so far is, "Buy a home and we'll give you a car for free!?"

To me, this is like walking into a retailer and seeing that they're discounting their entire inventory. Meaning, people don't like the merchandise enough to pay full price and it'll inevitably be reflected in the company's bottom line at the end of the year.

I think we're seeing the same thing in China right now and the summer might mean a serious downturn in the once red-hot real estate market.

### **But Don't Take My Word For It**

Keep in mind that these are just my general observations after being here and speaking with dozens of people for the last week.

But I think there's a more telling indicator that we can look at which not only confirms my suspicions, but could also help us profit from this coming downturn.

In December of 2007, Claymore launched a China Real Estate ETF (NYSE: TAO). The fund was setup to capture the upside in one of the world's hottest real estate markets. And with prices rising by double-digit percentages every month it seemed like a good idea.

But if you take a look at the ETF's chart since it launched then you'll see that its performance has been less than stellar.

In fact, it's down about 25% in the last 6 months.

My bet is that we'll see some negative news from this sector over the next quarter and shorting this ETF might be a smart way profit from it.

However, I have to warn you that you need to be careful here. People have been predicting a downturn in China's real estate market for years now

and while there were certainly hiccups along the way, this market has continued to skyrocket.

I have a tremendous amount of faith that the overall real estate sector will continue to do well here over the long term, but for now I think it's a buyers' market and profits in the sector will suffer for the time being.

**Have a Question on China?**

If you have a question on China or a Chinese stock then [click here](#)

to ask it on TickerHound now. Who knows, you might see an answer to your question right here in next week's Tycoon Report!



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