By: TA | AP Insight

Can China clean up the mess behind the collapse of the real estate empire?

Chinese authorities are moving to finish cleaning up the mess left by the collapse of the Evergrande real estate empire, years after its default with some $300 billion in liabilities.

A court in southern China's Guangzhou said Friday it had accepted a bankruptcy liquidation case against Evergrande's mainland Chinese property development unit, which according to industry data accounted for much of the group's overall debt.

That came a day after a court in the city of Shenzhen sentenced China Evergrande's 67-year-old founder Hui Kan Yan to life in prison for financial crimes.

On the same day, dozens of others tied to the group, including Hui's sons, also were sentenced to prison terms of up to 18 years.

China takes steps to wrap up the Evergrande saga

The latest developments suggest that the Chinese government "may already have a road map" for wrapping up the Evergrande saga, said Foreky Wong, a founding partner at Fortune Ark Restructuring and a restructuring specialist.

"They will need to do these (steps) sooner or later," he said. However, he added, "Evergrande is such a big company. Its bankruptcy proceedings will last for a while."

What remains unclear is how long it will take to get the real estate market, once a main locomotive of China's economic boom and accounted for approximately a quarter of China's economy as recent as a few years ago, back on track.

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That brought on a wave of failures of other developers and a prolonged downturn in the housing market.

Home prices have fallen roughly 20% or more since 2021 and so far there have been scant signs of a solid recovery.

Supply still outstrips demand in many smaller cities, while a wider economic slowdown is weighing on people's spending power.

Creditors may not get much of their money back

Once deemed "too big to fail," Evergrande became the world's most indebted developer. It's taking years to wind up those debts.

In 2024, after failing to reach an agreement with its creditors, a Hong Kong court eventually ordered the liquidation of Evergrande group, its holding company which was listed in Hong Kong and incorporated in the Cayman Islands.

Nearly five years after the company's first default on its debts, industry experts say the liquidation progress will likely be a lengthy one.

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Hong Kong and mainland China operate under different legal systems and most of Evergrande's assets are in mainland China, the location of most of its operations.

So, Hong Kong court-appointed liquidators have a limited capacity to claw back its assets and help creditors recover what they are owed.

“There are lots of interesting legal questions thrown up by this PRC (the People’s Republic of China) ruling that will take some time to play out,” said Jonathan Leitch, a partner specialized in restructuring at the law firm Hogan Lovells Cadwalader.

That includes whether there will be other claims against Hui’s assets competing with claims that the Hong Kong liquidators are pursuing, Leitch said.

Liquidators and courts are going after Hui's fortune

In announcing the lifetime prison sentence for Hui, who is also known as Xu Jiayin and was at one time said to be China's richest man, the Shenzhen court ordered that his personal assets be confiscated.

Hong Kong-based liquidators from the restructuring firm Alvarez and Marsal have sought to locate and recover the assets of Evergrande, Hui and others tied to the company.

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The liquidators also have been seeking $8.4 billion from accounting firm PwC over its role in auditing Evergrande's financial statements before its collapse.

Investigations by authorities in Hong Kong and mainland China found Evergrande had overstated its revenues by roughly $80 billion over 2019 and 2020 by manipulating financial data.

In 2024, mainland authorities fined PwC, one of the world's largest accounting firms, around $62 million over its Evergrande audits.

Hong Kong authorities said in April that PwC was paying a separate $166 million in fines and compensation.

Evergrande's creditors will likely recover a fraction of what's owed.

Wong of Fortune Ark Restructuring expects what while the amounts might be large, they will likely figure in the single digit percentages of Evergrande's liabilities.