

# Evergrande Crisis - Highlighting the Fragility of China's Real Estate Industry

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## Abstracts

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### SUMMARY

Evergrande, China's second largest property developer is currently on the brink of collapse, which has sent shockwaves through the finance and property sectors. Evergrande isn't the only property firm grappling with huge debt and its position is indicative of deep-rooted issues facing the construction and real estate industries in China. This case study takes a look at how Evergrande found itself in crisis, and what potential outcomes lay ahead.

### KEY HIGHLIGHTS

Evergrande often was seen as a posterchild for the property boom in China, after rising to prominence during a period of mass urbanization and growing to become the country's second largest developer. However, it has recently found itself in hot water after years of excessive borrowing, which could see it collapse in a worst-case scenario. This eventuality would have far reached implications on China and potentially, around the world.

The real estate industry in China, which is closely linked to the residential construction industry, has faced issues historically. The country experienced a property bubble between 2005-2011 which saw average house prices surge, before the government stepped in to reduce the swell in prices. The real estate and construction industries are a key driver of the Chinese economy; therefore, their health is crucial in maintaining a stable economy within the country. In

order to curb the industry's excessive debt and stave off another housing bubble the government introduced the three red line strategy in 2020, which was a key factor in exposing the issues facing Evergrande and the industry as a whole.

The news of Evergrande's potential default has sent shockwaves around the globe, with some fearing that its downfall could prompt another 'Lehman Brother's' moment. However, there are also arguments that the country's second largest property developer is simply too big to fail and that the Chinese government must nationalize and restructure the firm to protect those relying on the Evergrande, including suppliers, potential homeowners and the economy. Regardless of the way in which the Evergrande crisis plays out, it is clear that the government must take further action to resolve the issues of debt laden property developers and stabilize the market.

## **SCOPE**

Understand the Evergrande crisis and its extent

See how the industry has struggled and understand its major issues

Learn how China has reacted and if the problem can be resolved

## **REASONS TO BUY**

What is the Evergrande crisis?

How has the crisis come about?

What does China intend to do about it?

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