

The Evergrande Effect: Unraveling the Housing Crisis in China and its Global Ramifications

Arjun Sant

Abstract:- The Chinese real estate market, epitomized by the tumultuous trajectory of Evergrande Group, stands at the forefront of global economic discourse. This abstract encapsulates the intricate interplay of factors shaping this market, from speculative dynamics and urbanization trends to regulatory interventions and systemic risks. It examines the fallout of Evergrande's collapse, illuminating its ripple effects on China's economy and the reverberations felt across international financial markets. As policymakers grapple with the aftermath and chart a course forward, this abstract offers insights into the challenges and opportunities inherent in navigating the complex terrain of the Chinese real estate landscape.

I. INTRODUCTION

In recent years, the Chinese real estate market has emerged as a focal point of global economic concern, with the spotlight firmly fixed on Evergrande Group, a towering figure in the industry. As the world watches, the saga of Evergrande unfolds, revealing the intricate dynamics that underpin China's housing market and its profound implications for the broader economy. Against the backdrop of soaring property prices, speculative fervor, and mounting debt burdens, the collapse of Evergrande has sent shockwaves rippling through global financial markets, casting a shadow over the prospects of the world's second-largest economy. This essay delves into the multifaceted dimensions of the Chinese real estate market, exploring the factors driving its evolution, the repercussions of

Evergrande's downfall, and the challenges and opportunities that lie ahead for policymakers, investors, and stakeholders alike. Through a comprehensive analysis, we aim to unravel the complexities of this pivotal moment in China's economic landscape and its far-reaching implications for the global economy.

In recent years, China's real estate market has been a focal point of concern for economists, policymakers, and investors worldwide. At the center of this storm stands Evergrande Group, a real estate giant whose staggering debt burden has sent shockwaves through the Chinese economy, reverberating across global markets. The unfolding saga of Evergrande underscores the complex interplay between the housing market, financial stability, and broader economic dynamics in China and beyond.

II. LACK OF DEMAND/GHOST TOWNS

One of the most discussed phenomena in the Chinese real estate market is the existence of "ghost towns" — urban areas with high vacancy rates and low occupancy despite extensive development. These ghost towns are often the result of speculative investments, government-driven urbanization projects, and oversupply in certain regions. Developers, influenced by optimistic projections, built properties that outpaced actual demand. Consequently, many of these developments remain empty or underutilized, leading to concerns about wasted resources and potential economic repercussions.



Fig 1: Ghost Town Found in China

([https://www.google.com/imgres?imgurl=https://i.ytimg.com/vi/UJoC-](https://www.google.com/imgres?imgurl=https://i.ytimg.com/vi/UJoC-Fvc6qU/maxresdefault.jpg&tbid=pJ74Az_GRegmsM&vet=1&imgrefurl=https://m.youtube.com/watch?v%3DUJoC-Fvc6qU&docid=QZHceyazINMviM&w=1280&h=720&gl=IN&source=sh/x/im/ml/3&kgs=0ad960db3581e6ea&shem=abme,trie)

[Fvc6qU/maxresdefault.jpg&tbid=pJ74Az_GRegmsM&vet=1&imgrefurl=https://m.youtube.com/watch?v%3DUJoC-Fvc6qU&docid=QZHceyazINMviM&w=1280&h=720&gl=IN&source=sh/x/im/ml/3&kgs=0ad960db3581e6ea&shem=abme,trie](https://www.google.com/imgres?imgurl=https://i.ytimg.com/vi/UJoC-Fvc6qU/maxresdefault.jpg&tbid=pJ74Az_GRegmsM&vet=1&imgrefurl=https://m.youtube.com/watch?v%3DUJoC-Fvc6qU&docid=QZHceyazINMviM&w=1280&h=720&gl=IN&source=sh/x/im/ml/3&kgs=0ad960db3581e6ea&shem=abme,trie))

➤ *Connectivity from Main Cities*

Infrastructure development, particularly in transportation and communication networks, has significantly influenced the Chinese real estate market. The Chinese government has invested heavily in improving connectivity between major cities and peripheral regions through high-speed railways, expressways, and airports. Enhanced connectivity has not only facilitated urbanization but also fueled property development in previously inaccessible or less developed areas. Improved transportation links have spurred economic activity and boosted property values along major corridors and transit hubs.

➤ *Limited Job Opportunities Outside Four Major Cities*

China's economic growth has been unevenly distributed, with the bulk of job opportunities concentrated in a handful of tier-one and tier-two cities such as Beijing, Shanghai, Guangzhou, and Shenzhen. These cities serve as economic hubs and attract migrants from rural areas and smaller towns in search of better employment prospects. Consequently, the demand for real estate in these urban centers remains high, leading to soaring property prices and competitive housing markets. In contrast, smaller cities and rural regions face challenges in attracting talent and investment, resulting in slower population growth and subdued demand for housing.

To address some of the issues facing the Chinese real estate market, policymakers have implemented measures aimed at curbing speculation, promoting sustainable urban development, and narrowing regional disparities. These efforts include stricter lending requirements, land-use

reforms, and targeted investments in infrastructure and public services outside major metropolitan areas. However, the complex interplay of economic, social, and regulatory factors continues to shape the dynamics of the Chinese real estate market, making it a subject of ongoing scrutiny and debate.

The dynamics of the Chinese real estate market can have significant implications for the broader economy. Here's how each of the factors you mentioned can impact the Chinese economy:

➤ *Real Estate Prices*

Real estate prices play a crucial role in household wealth, consumer spending, and investment decisions. High property prices can contribute to wealth inequality and affordability challenges, particularly for young families and low-income earners. Conversely, declining property values can erode household wealth and dampen consumer confidence, leading to reduced spending and investment activity.

➤ *Inflation*

Real estate prices are a key component of consumer price inflation in many economies, including China. Rapidly rising property prices can contribute to overall inflationary pressures by driving up the cost of housing, construction materials, and related goods and services. Inflationary pressures, if left unchecked, can undermine purchasing power, reduce the competitiveness of exports, and necessitate tighter monetary policy measures to control inflation.



Fig 2: Inflation with an Example(<https://universalinstitutions.com/why-inflation-is-down-but-not-all-prices/>)

➤ *Reduced GDP Growth***

The real estate sector has been a significant driver of China's economic growth over the past few decades, contributing to employment, investment, and infrastructure development. However, excessive reliance on real estate investment as a growth engine can create vulnerabilities, including overcapacity, debt accumulation, and financial instability. A slowdown in the real estate sector can ripple

through the broader economy, leading to reduced investment, lower consumer spending, and slower GDP growth.

➤ *Risk of Defaults by Developers***

The Chinese real estate market has witnessed a proliferation of property developers, fueled by easy access to credit and strong demand for housing. However, rapid expansion and aggressive land acquisition strategies have exposed developers to financial risks, including liquidity

constraints, excessive leverage, and oversupply in certain markets. The risk of defaults by developers can reverberate through the financial system, affecting banks, investors, and other stakeholders. Heightened concerns about the health of the real estate sector can undermine investor confidence, trigger capital outflows, and exacerbate financial market volatility.

In summary, the dynamics of the Chinese real estate market are closely intertwined with the broader economy, influencing household wealth, inflationary pressures, GDP growth, and financial stability. Policymakers face the challenge of balancing the need for sustainable urban development with the imperative of maintaining economic stability and mitigating systemic risks in the real estate sector. Effective policy interventions, including targeted regulatory reforms, macroprudential measures, and efforts to diversify the economy, are essential to address vulnerabilities and promote long-term economic resilience.

➤ *The Rise and Fall of Evergrande:*

Evergrande Group, once hailed as China's largest property developer, experienced meteoric growth fueled by aggressive expansion and heavy borrowing. Leveraging a business model reliant on pre-sales of residential properties to fund new projects, Evergrande became synonymous with China's booming real estate sector. However, beneath the facade of prosperity lay a web of debt. Evergrande's voracious appetite for growth led to a ballooning debt pile, estimated at hundreds of billions of dollars. As concerns mounted over its ability to service this debt, Evergrande found itself ensnared in a liquidity crunch, unable to meet its financial obligations. The corporation gave indications to the markets earlier in September 2021 that it will miss \$80 million in interest payments by September 23, 2021. According to a number of sources, the Chinese government has not publicly shown any intention to save the company. The company is no longer receiving loans from banks.



Fig 3:Evergrande Group Headquarters(https://www.google.com/imgres?imgurl=https://images.cnbcvt18.com/wp-content/uploads/2023/09/evergrande-group.jpg?im%3DFitAndFill,width%3D1200,height%3D900&tbnid=r39882Cymk4pcM&vet=1&imgrefurl=https://www.cnbcvt18.com/market/china-evergrande-groups-shares-surge-over-40-percent-as-trade-resumes-amid-police-probe-17929541.htm&docid=M9258XJqPu_GqM&w=1200&h=900&gl=IN&source=sh/x/im/m1/3&kgs=d198273f208224cc&shem=abme,trie)

III. THE HOUSING CRISIS UNVEILED

The ramifications of Evergrande's downfall extend far beyond the company itself. The ripple effects of its liquidity crisis have exposed vulnerabilities within China's real estate market, exacerbating an already precarious situation characterized by soaring property prices, speculative frenzy, and housing unaffordability. For many Chinese families, homeownership remains an elusive dream as property prices skyrocket, outpacing income growth and widening the gap between the haves and have-nots. The specter of a housing bubble looms large, threatening to destabilize the economy and erode consumer confidence. During a July court hearing

in Hong Kong, Evergrande referenced a Deloitte research that projected a 3.4% recovery rate in the event that the developer were liquidated. After Evergrande announced in September that the authorities were looking into its chairman, Hui Ka Yan, and flagship unit for "illegal crimes" that were not specifically stated, creditors now anticipate a recovery rate of less than 3%. Bids for Evergrande's dollar bonds were placed at about one penny per dollar. Evergrande's two units, Evergrande Property Services Group and Evergrande New Energy Vehicle Group, are listed in Hong Kong, with the majority of the company's assets having been sold or seized by creditors. As of Friday, their aggregate market capitalization was down to \$973 million.

➤ *Impact on the Chinese Economy:*

The fallout from Evergrande's crisis reverberates throughout the Chinese economy, posing significant challenges to policymakers tasked with navigating a path to stability. Concerns over financial contagion and systemic risk loom large as investors brace for potential defaults cascading through the financial system. Moreover, the slowdown in real estate investment, a key driver of China's economic growth, could have far-reaching implications for employment, infrastructure development, and overall economic activity. A protracted downturn in the housing market may dampen consumer spending, undermine investor sentiment, and hamper efforts to achieve sustainable growth. Even if the developer with \$240 billion in assets being wound up would cause ripples in the already unstable capital markets, analysts said it wouldn't provide a model for how other struggling developers' liquidations would go. Several authorities and political concerns would be involved in the process due to the enormity of Evergrande's projects and debt. The corporation, the industry, and the government will place a high premium on finishing ongoing home construction projects.

➤ *Global Ramifications:*

The reverberations of China's housing crisis extend beyond its borders, sending shockwaves through global financial markets and casting a shadow over the outlook for the global economy. As one of the world's largest economies and a major driver of global growth, China's economic health holds significant implications for international trade, investment flows, and market sentiment. The interconnectedness of financial markets means that disturbances in China's real estate sector can reverberate across the globe, potentially triggering volatility, capital outflows, and contagion effects in other economies. From commodity exporters reliant on Chinese demand to multinational corporations with exposure to Chinese markets, the spillover effects of China's housing crisis are felt far and wide. The price of Bitcoin has fallen by 9% to less than \$42,669 as the Evergrande crisis engulfs international markets, while the price of Ethereum, another potent cryptocurrency, has tumbled by about 10% to \$2,940 on Monday. The values of Bitcoin and Ethereum have dropped since August, and the total value of cryptocurrencies has decreased by \$250 billion. Market sell-off was widespread due to fears of a massive debt default in China. The continuous possibility of failure of China's largest real estate company damaged not just digital but also traditional stock markets. Wall Street in the US saw a widespread sell-off on Monday, resulting in the largest percentage daily declines on the S&P 500 and Nasdaq since May. The Nasdaq and the S&P 500 were severely hampered by American tech titans Microsoft, Alphabet, Amazon, Apple, Facebook, and Tesla, among others. Conversely, when Chinese markets were closed for a national holiday on Tuesday, Tokyo's Nikkei 225 stock exchange reported its biggest one-day decline in the last three months, coming in at 2.17 percent. In particular, Japanese businesses operating in China have seen a greater fall in market value; one such company is Hitachi Construction Machinery, which has seen a value loss of more than 5%. Gold prices rose on Monday from a low of

\$1,741.86 reached more than a month ago as investors sought safe-haven assets due to fears over the consequences of property developer Evergrande's solvency problems, which rattled global stock markets.

➤ *Navigating the Road Ahead*

As China grapples with the fallout from Evergrande's collapse, the road to recovery remains fraught with challenges and uncertainties. Policymakers face the daunting task of balancing the need for financial stability with the imperative of addressing systemic risks and promoting sustainable economic growth. Efforts to rein in excessive debt, foster transparency, and enhance regulatory oversight are essential to restoring investor confidence and mitigating the risks posed by the real estate sector. Moreover, initiatives aimed at promoting affordable housing, supporting household consumption, and fostering inclusive growth are critical to addressing the root causes of the housing crisis and promoting social stability.

➤ *Road Ahead*

The road ahead for the Chinese real estate market is likely to be shaped by a combination of domestic policy measures, economic trends, and external factors. Here are some key considerations for the future of the Chinese real estate market:

- **Policy Adjustments:** Chinese authorities have been implementing measures to address concerns related to property speculation, housing affordability, and financial stability. Going forward, policymakers may continue to fine-tune regulations to promote sustainable development, curb excessive speculation, and mitigate risks associated with property market fluctuations. This could involve measures such as tightening lending standards, increasing oversight of developers, and promoting rental housing alternatives.
- **Urbanization and Regional Development:** China's ongoing urbanization process and efforts to promote balanced regional development will influence the trajectory of the real estate market. Policymakers are likely to prioritize investments in infrastructure, public services, and economic opportunities in smaller cities and rural areas to reduce disparities and alleviate pressure on major metropolitan areas. The focus on quality urbanization and inclusive growth could reshape demand patterns and investment opportunities across different regions.
- **Housing Affordability:** Addressing housing affordability challenges remains a priority for the Chinese government, particularly in high-demand cities where property prices have surged in recent years. Policymakers may explore strategies to increase the supply of affordable housing, improve access to financing for first-time homebuyers, and promote rental housing options as viable alternatives to homeownership. Balancing the need for sustainable property market growth with affordability considerations will be a key policy objective in the years ahead.
- **Economic Transition and Structural Reforms:** China's ongoing economic transition towards a more consumption-driven and innovation-driven growth model will have implications for the real estate sector. Structural

reforms aimed at reducing reliance on investment-led growth and promoting innovation, technology, and services could reshape demand dynamics and investment opportunities in the property market. The emergence of new industries and business models may create demand for innovative real estate solutions and mixed-use developments tailored to evolving consumer preferences.

- Global Economic and Geopolitical Factors: External factors, including global economic conditions, geopolitical tensions, and trade dynamics, can also influence the Chinese real estate market. Uncertainties surrounding trade policies, geopolitical risks, and shifts in global capital flows may impact investor sentiment, market liquidity, and asset prices. Chinese authorities will need to navigate external challenges while maintaining policy flexibility and resilience in the face of evolving economic and geopolitical dynamics.

In summary, the future of the Chinese real estate market will be shaped by a complex interplay of domestic policy choices, economic trends, and external factors. Adapting to changing market conditions, promoting sustainable development, and addressing affordability concerns will be key priorities for policymakers, developers, investors, and other stakeholders in navigating the road ahead for the Chinese real estate market.

IV. CONCLUSION

The housing crisis unleashed by Evergrande's downfall underscores the interconnectedness of global financial markets and the profound implications of China's economic dynamics for the world economy. As policymakers, investors, and stakeholders grapple with the fallout from this crisis, the need for coordinated action, prudent risk management, and long-term structural reforms has never been more urgent. Only through concerted efforts to address the underlying vulnerabilities and promote sustainable development can China and the global economy navigate the challenges ahead and build a more resilient future. In the event that a liquidation order is granted, the developer's assets will be sold in order to pay off its debts, and first a formal liquidator will be appointed, followed by a provisional liquidator. If the liquidators concluded Evergrande had sufficient assets or a white knight investor showed up, they might offer a new debt restructuring plan to offshore creditors holding \$23 billion in debt in the company. They might also look into the company's operations and report any alleged wrongdoing by directors to the prosecutors in Hong Kong. A liquidation order might be challenged by Evergrande, but the liquidation would continue while the appeal was underway. It's unclear if a liquidation order would result in a trading halt for Evergrande shares. A corporation must exhibit a business structure with enough operations and asset values in order to comply with listing regulations.

REFERENCES

- [1]. <https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwitw8zR1cuFAxWXR1YBHbobDZIQFnoECA4QAQ&url=https%3A%2F%2Fm.economictimes.com%2Fnews%2Finternational%2Fbusiness%2Fchinas-evergrande-what-happens-next-after-liquidation-order%2Farticle%2F107225187.cms&usg=AOvVaw3tQs-63oKaRNecU879faZe&opi=89978449>
- [2]. https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwiP9czf1cuFAxVyqFYBHfAjAGkQFnoECBEQAQ&url=https%3A%2F%2Fedepot.wur.nl%2F372625&usg=AOvVaw3zTut5e2x9AIEp6QaS_EOC&opi=89978449
- [3]. <https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwievq3s1cuFAxXJh1YBHf0lC-oQFnoECB8QAQ&url=https%3A%2F%2Fwww.quora.com%2FWhat-are-the-implications-of-Chinas-real-estate-crisis-on-the-countrys-economy-and-consumption&usg=AOvVaw3PylHYLC5qW2KvkH-IJDVI&opi=89978449>
- [4]. https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjsZ7_1cuFAxVMr1YBHZZ6CJUQFnoECA4QAQ&url=https%3A%2F%2Fm.economictimes.com%2Fnews%2Finternational%2Fbusiness%2Finside-the-downfall-of-embattled-property-developer-china-evergrande%2Farticle%2F103245942.cms&usg=AOvVaw11vw_Lz6Uwwr4xe1D9Nnum&opi=89978449
- [5]. https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjOq9mM1suFAxXlqFYBHRHDDq8QFnoECBsQAQ&url=https%3A%2F%2Fwww.imf.org%2Fen%2FNews%2FArticles%2F2024%2F02%2F02%2Fcf-chinas-real-estate-sector-managing-the-medium-term-slowdown&usg=AOvVaw2mudxauWlqB1L5Q57DI_EM&opi=89978449