



AMCHAM Shanghai

Evergrande is *Never* Lehman:

One Year on, the Evolving Evergrande Saga

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One year ago: 'Evergrande is not Lehman'

- Risk inherent in the business model of Evergrande is the reason behind its problem
- Insolvency risk in Evergrande is unlikely to be contagious
- The debt restructuring is not easy but doable
- Most commercial banks do not have large risk exposure to Evergrande, some may learn a lesson of lousy risk management.

Event Timeline: in the past year

- 2020/08/20, three redlines given in a talk between MHURD, PBC and real estate companies, including Evergrande
- 2020/08/24: It was said that Evergrande wrote to Guangdong Government for help
- 2021/06/30: In the mid-year report, the leverage remains high
- 2021/09/20: Delay interest on two bank loans
- 2021/09/23: Delay coupon payment of \$83.5 Million
- 2021/09/28: Holding Shengjing Bank share down from 34.5% to 14.57%
- 2021/09/29: delay coupon payment of \$47.5 Million
- 2021/10/03: no payment of principal of \$260 Million
- Total Debt as of June 30 2021: \$305 Billion (1.9 Trillion Yuan)

Evergrande and real estate developers in the past year

- 2021/12/03: Default on USD bond of USD 0.26 billion (1.65 billion RMB, out of total debt of 1.76 trillion RMB)
 - PBoC and other 4 regulators addressed the issue in a press conference
- 2022/01/24: Announcement delivering a preliminary debt restructuring plan by July 31
- 2022/07/29: Announcement of 'preliminary restructuring principles' for its offshore debt
- Kaisa, Fantasia, and Shanghai-based Shimao Group have also sought protection from creditors.

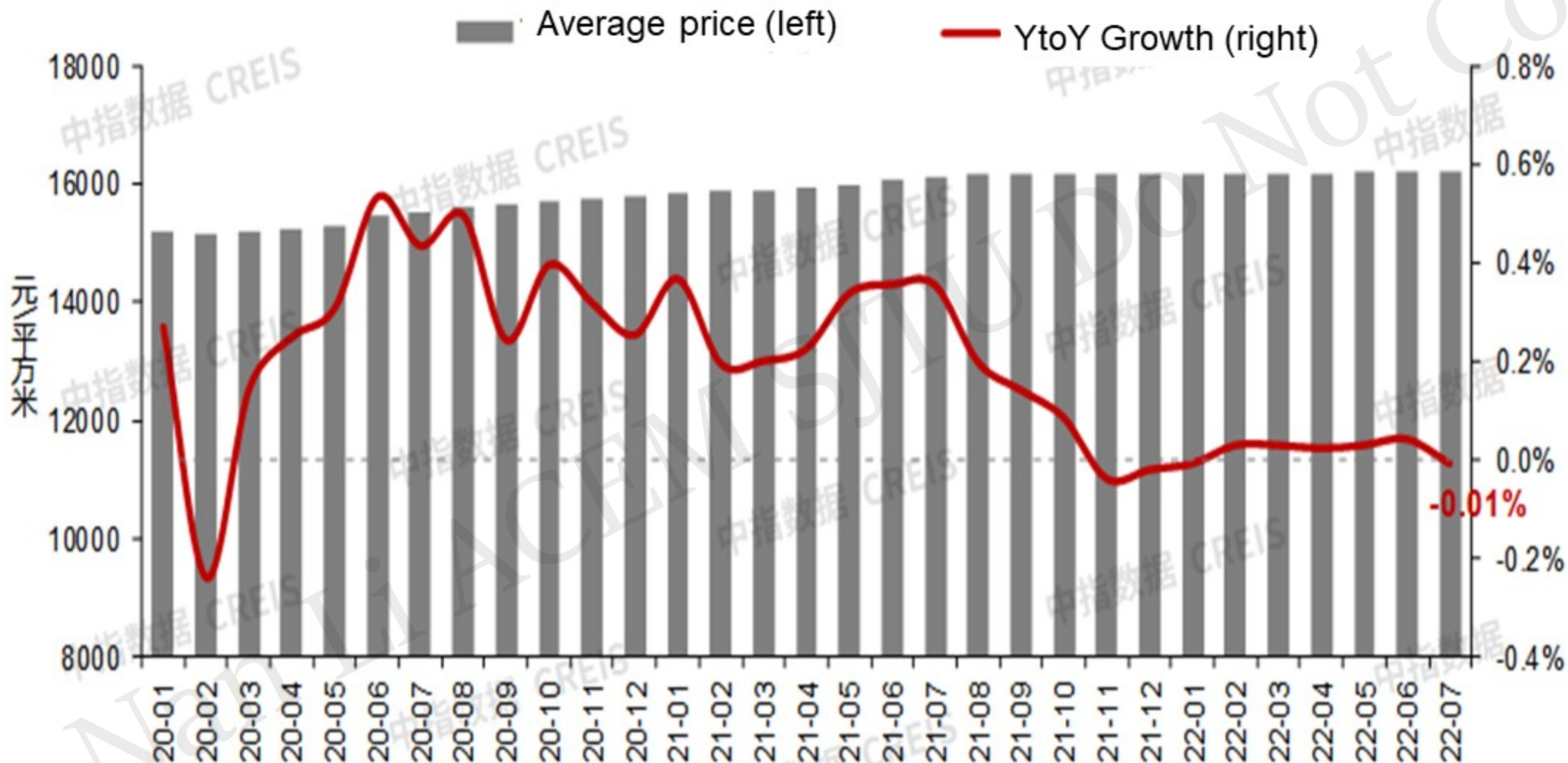
Evergrande as of July 29, 2022

- ***ensuring the delivery of housing projects***
- 96% unfinished project has been partly or fully continued, with 86% work force
- From July 1, 2021, completed 232,000 houses, total area of 24.19 million square meters.
- In the first half of 2022, sales of 12.26 Billion RMB, 1.193 million square meters
- Cut management team by 67.3% and 54.3% in headquarter and real estate department, respectively

Current problems in the financial systems

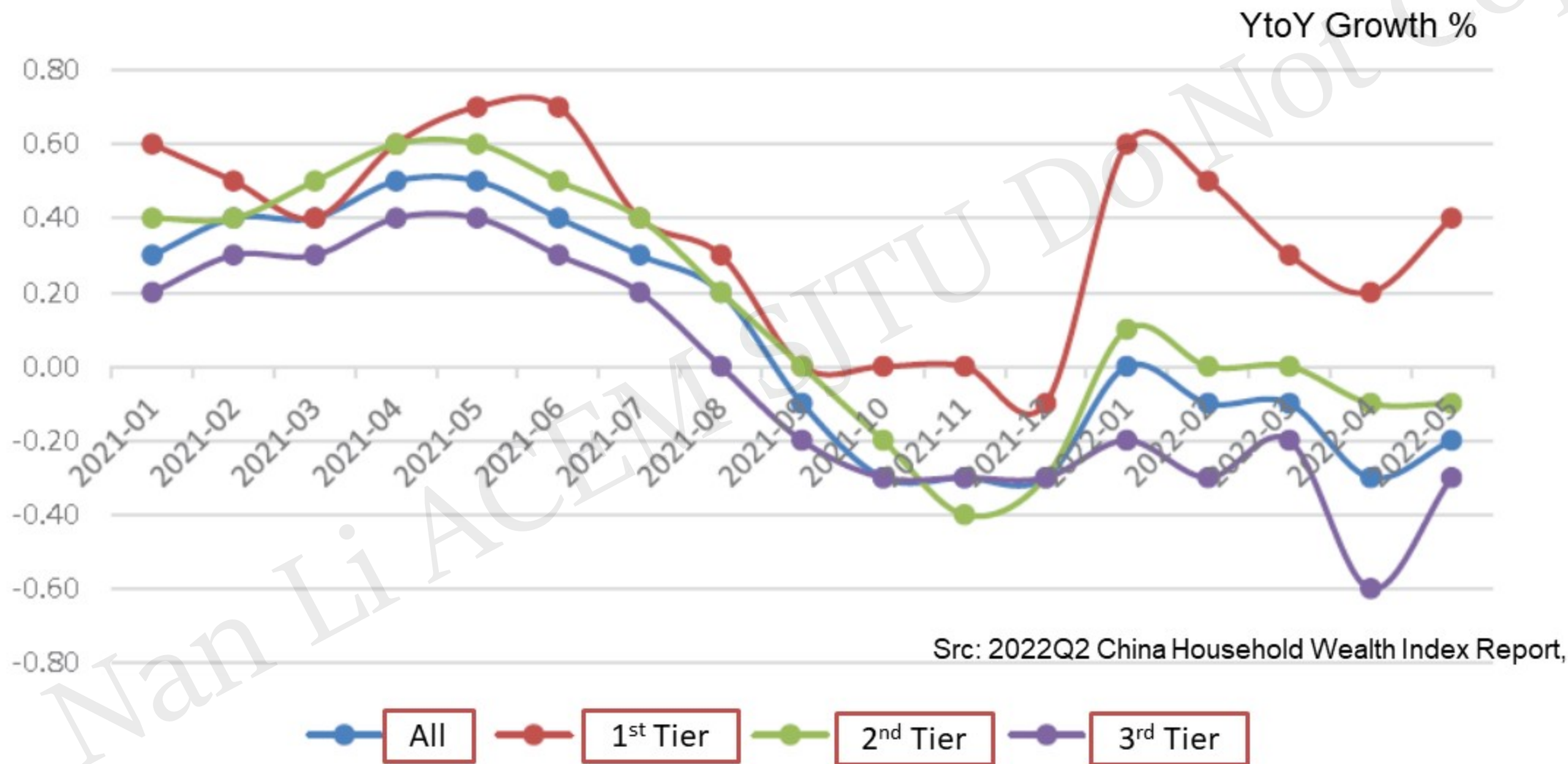
- Default of real estate developers
- Delinquency rate increases
- Household wealth decreases
- Is it systemic or local risk?

Average price of new houses in top 100 cities

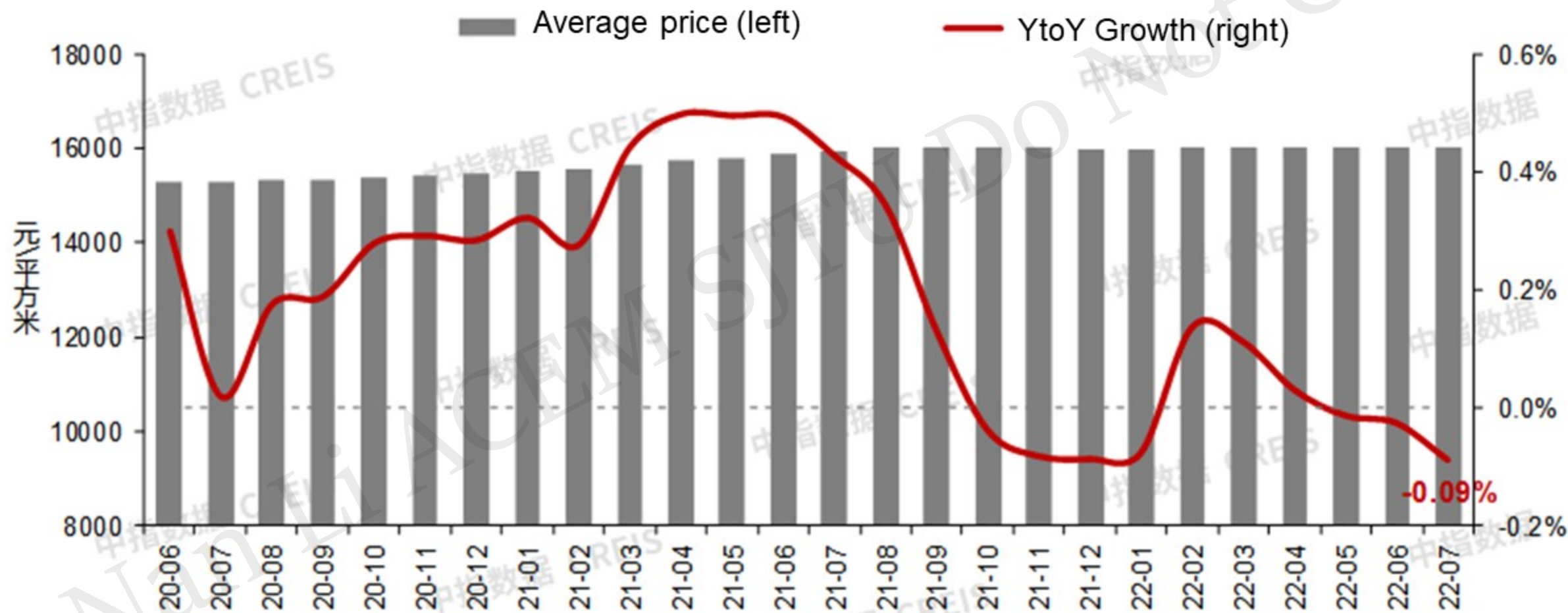


Src: <https://creis.fang.com/>

Average price of new houses by city type

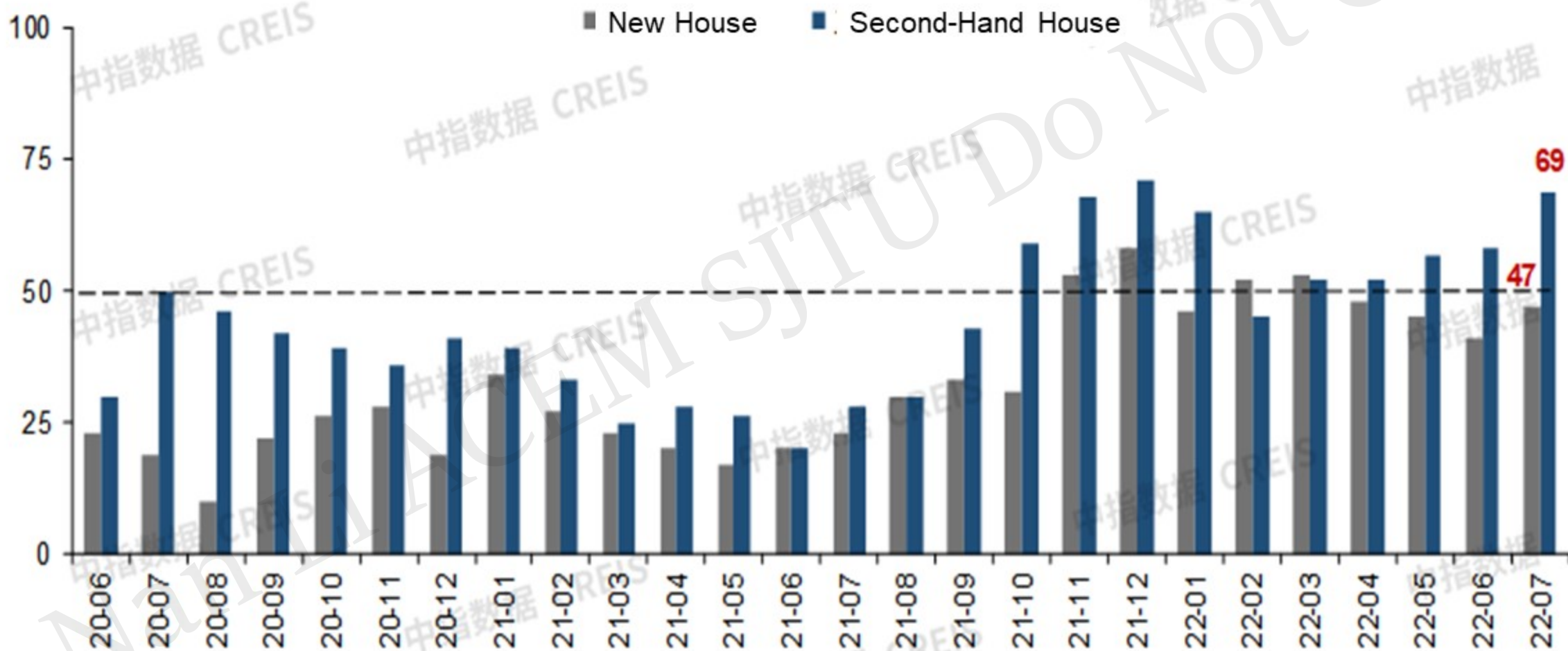


Average price of second-hand houses in top 100 cities



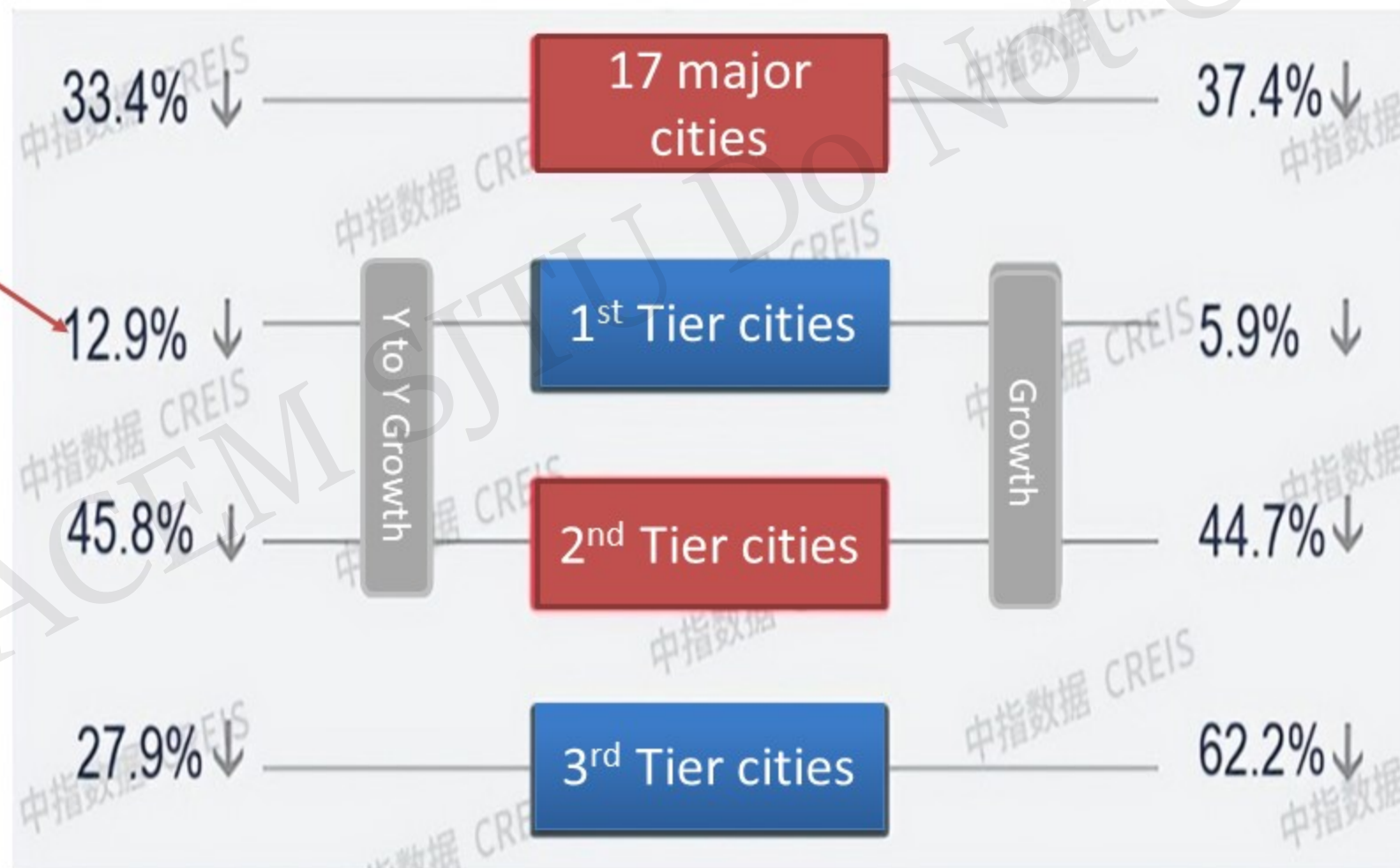
Src: <https://creis.fang.com/>

Number of cities with price drop in July 2022



Trading Volume in 2022/07

Beijing	-48%
Guangzhou	-34%
Shanghai	30%



Src: <https://creis.fang.com/>

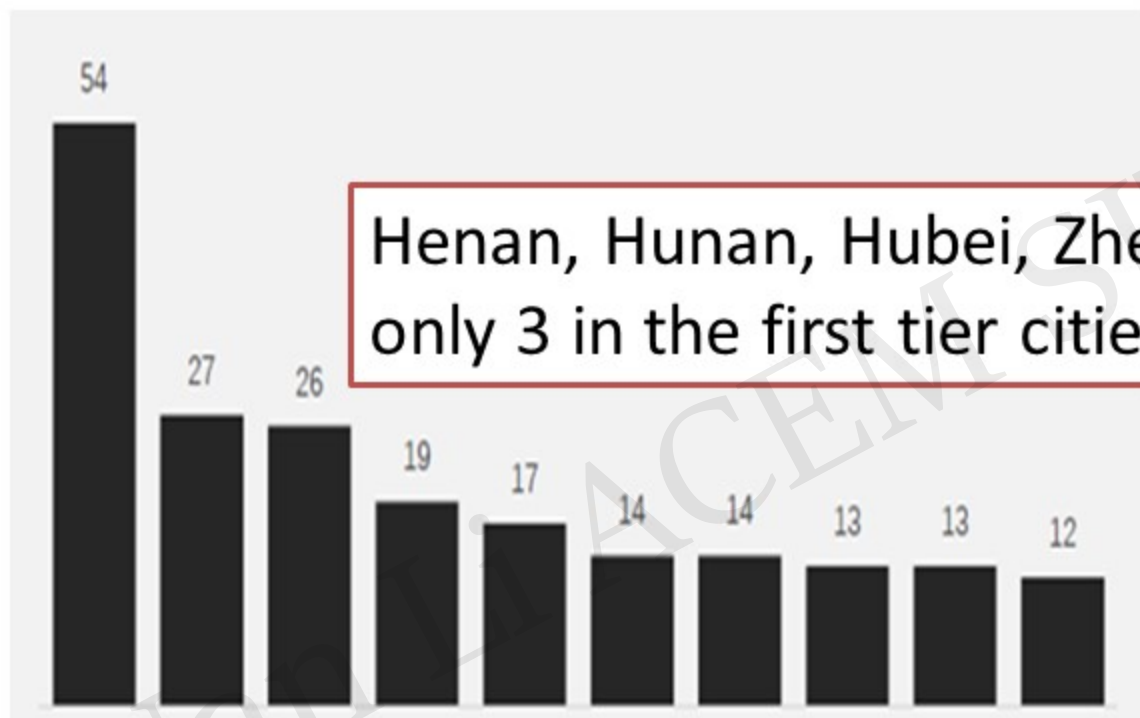
2022/01-07 sales growth of top real estate developers

公司	销售额 (亿元)				销售面积 (万平)			
	1-7月 累计	1-7月 累计同比	7月 单月	7月 单月同比	1-7月 累计	1-7月 累计同比	7月 单月	7月 单月同比
碧桂园	2855	-43%	385	-48%	3399	-41%	458	-46%
万科地产	2473	-39%	377	-27%	1483	-41%	259	-16%
保利发展	2432	-26%	330	-22%	1622	-18%	65	-79%
中海地产	1570	-32%	195	-14%	710	-38%	70	-32%
华润置地	1490	-21%	280	22%	693	-37%	105	-20%
招商蛇口	1428	-28%	240	18%	597	-30%	86	-1%
融创中国	1236	-67%	109	-78%	934	-63%	89	-75%
金地集团	1191	-37%	185	-28%	496	-43%	84	-32%
绿城中国	1051	-31%	200	37%	404	-26%	71	-16%
龙湖集团	1041	-36%	182	-4%	622	-34%	109	-5%
中国金茂	804	-46%	105	-40%	427	-51%	59	-51%
滨江集团	797	-21%	113	-11%	148	-31%	25	-1%
旭辉集团	792	-50%	161	-23%	528	-41%	107	-7%
绿地控股	763	-59%	79	-66%	721	-51%	85	-40%
新城控股	762	-43%	112	-14%	763	-39%	114	-27%
建发房产	732	-30%	112	6%	374	-27%	62	-46%
华发股份	582	-18%	88	28%	202	-27%	23	-1%
越秀地产	554	6%	72	-67%	201	1%	29	-32%
远洋集团	520	-17%	90	-13%	281	-17%	49	-12%

世茂集团	506	-71%	68	-69%	313	-68%	42	-66%
首开股份	497	-32%	93	-2%	165	-28%	31	-24%
金科集团	492	-59%	52	-69%	690	-40%	125	-12%
美的置业	475	-49%	75	-29%	385	-50%	49	-40%
中国铁建	472	-38%	74	10%	340	-27%	82	117%
中梁控股	434	-59%	47	-61%	420	-51%	42	-56%
融信集团	417	-58%	31	-80%	187	-61%	18	-77%
卓越集团	378	-51%	47	-49%	133	-65%	16	-67%
中骏集团	376	-44%	50	-38%	283	-34%	41	-28%
中南置地	374	-70%	48	-73%	302	-67%	42	-67%
雅居乐	359	-57%	38	-54%	279	-48%	31	-40%
仁恒置地	349	-17%	55	-21%	70	-13%	8	-61%
新希望地产	332	-56%	41	-62%	176	-48%	17	-65%
龙光集团	323	-69%	37	-74%	203	-62%	21	-64%
中交房地产	321	-43%	65	-25%	124	-50%	19	-51%
路劲集团	320	-38%	55	-35%	177	-38%	31	-34%
时代中国	302	-41%	28	-65%	182	-31%	17	-54%
华侨城	302	-44%	90	7%	142	-47%	36	-10%
阳光城	301	-31%	41	-57%	136	-23%	32	-52%
TOP1-10合计	16767	-44%	2483	-35%	11637	-51%	1477	-50%
TOP1-50合计	33758	-49%	4972	-40%	22122	-51%	2994	-46%
TOP1-100合计	40772	-49%	6065	-40%	26000	-52%	3562	-45%

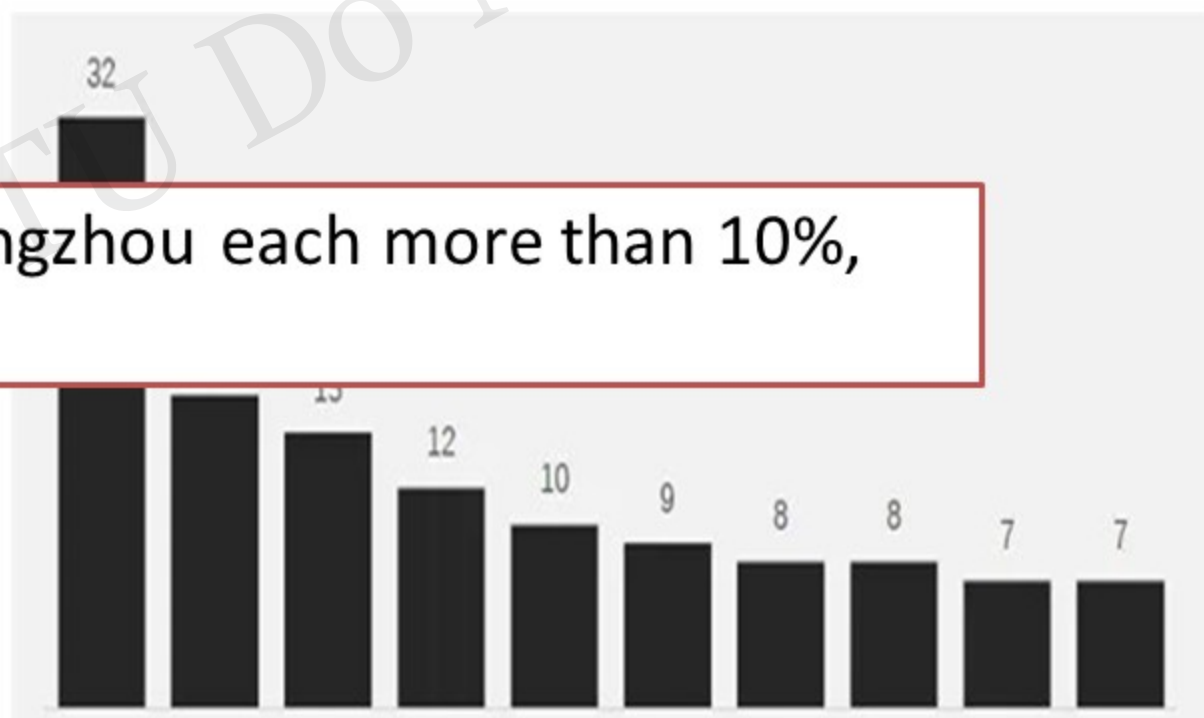
271 'Notice of Stop-Paying Mortgage'

Top 10 by Province



Henan, Hunan, Hubei, Zhengzhou each more than 10%, only 3 in the first tier cities

Top 10 by City



Henan Hunan Hubei Shaanxi Hebei Jiangxi Sichuan Guangxi Jiangsu Chongqing

Zhengzhou Xi'an Wuhan Chongqing Changsha Taiyuan Tianjin Qingdao Chengdu Nanning

Src: <https://mp.weixin.qq.com/s/BvxQm5miLdV2sKHI9BN4tw>

200 Stop-Paying Mortgage

	city		Unfinished Projects	
City Type	Number	Percentage	Number	Percentage
1st Tier	3	4%	5	3%
2nd Tier	23	29%	116	58%
3rd Tier	53	67%	79	40%
Total	79	100%	200	100%

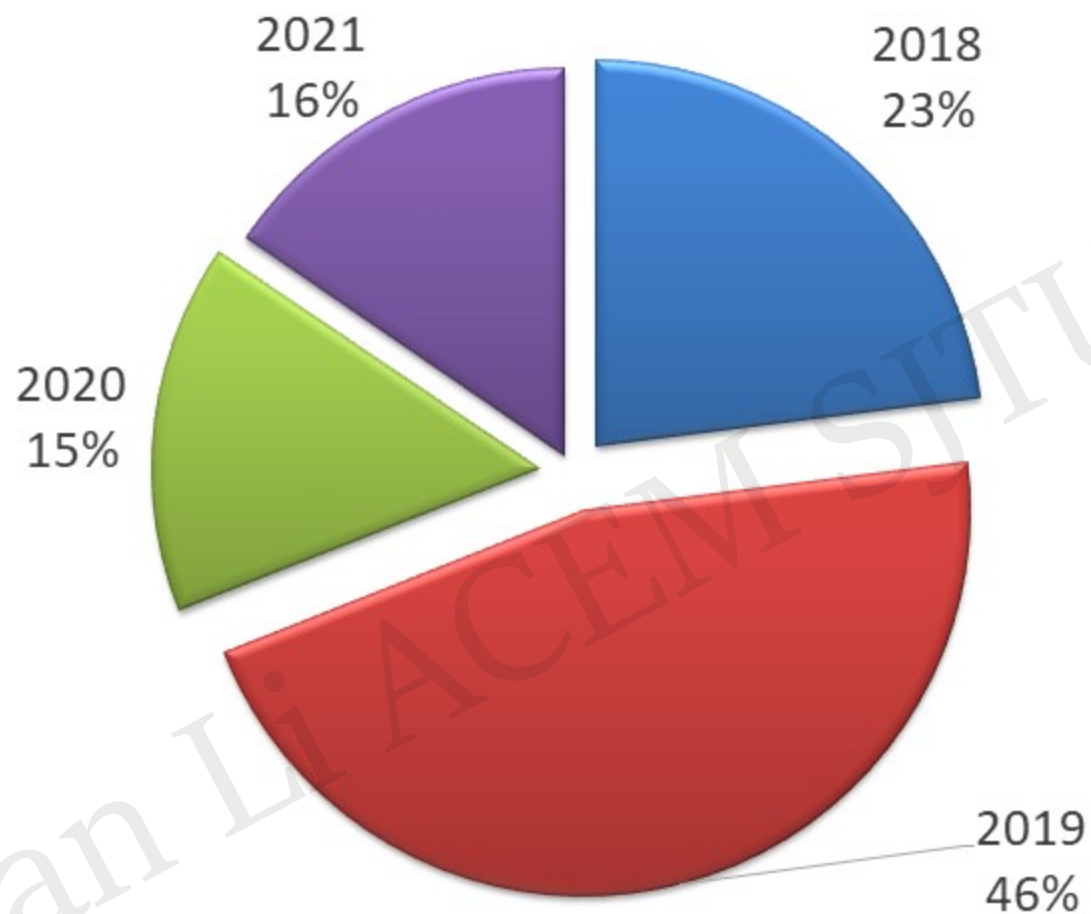
	Real Estate Developer		Unfinished Projects	
Type	Number	Percentage	Number	Percentage
Large	19	22%	115	58%
Medium	14	16%	26	13%
Small	54	62%	59	30%
Total	79	100%	200	100%

Src: <https://mp.weixin.qq.com/s/BvxQm5miLdV2sKHl9BN4tw>

8/3/2022

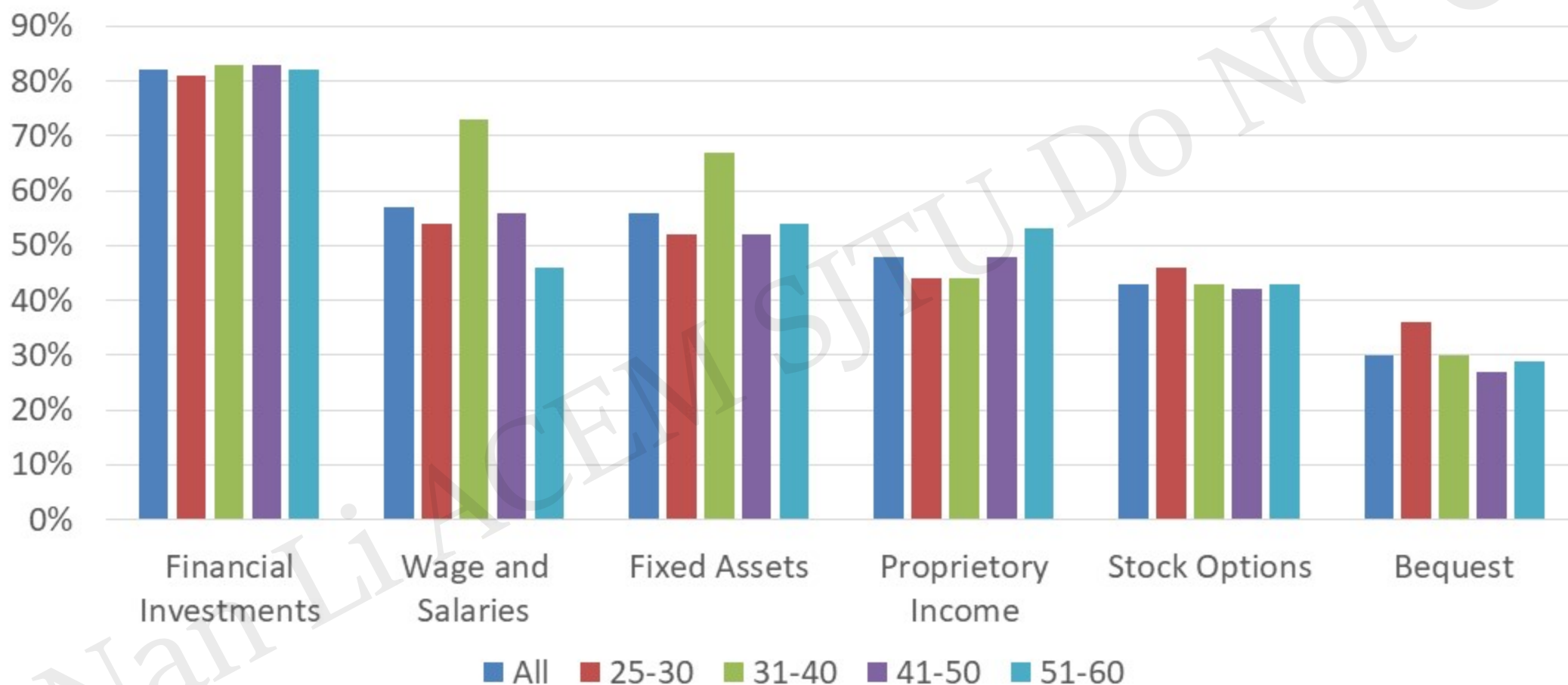
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200 Stop-Paying-Mortgage Initiated Year



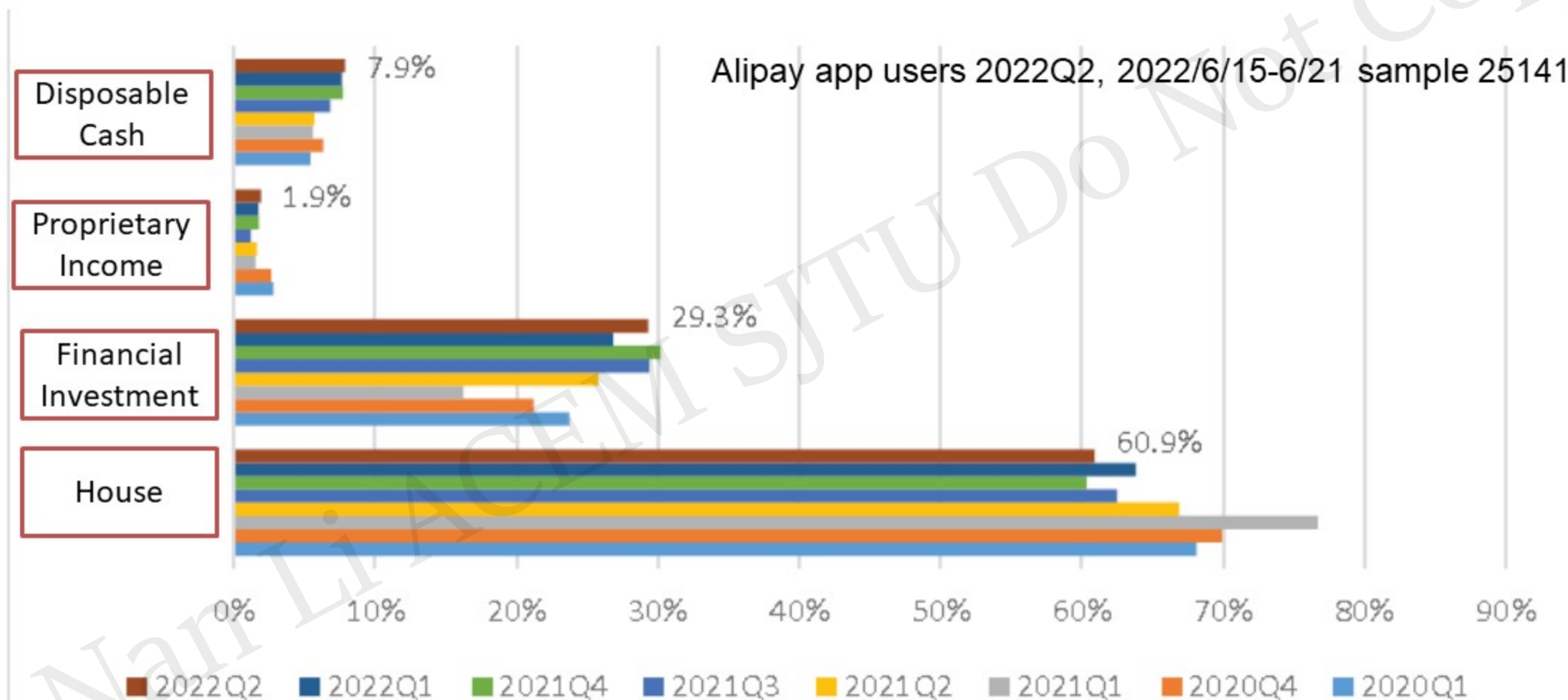
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Household Wealth Growth by Asset Type/Generation



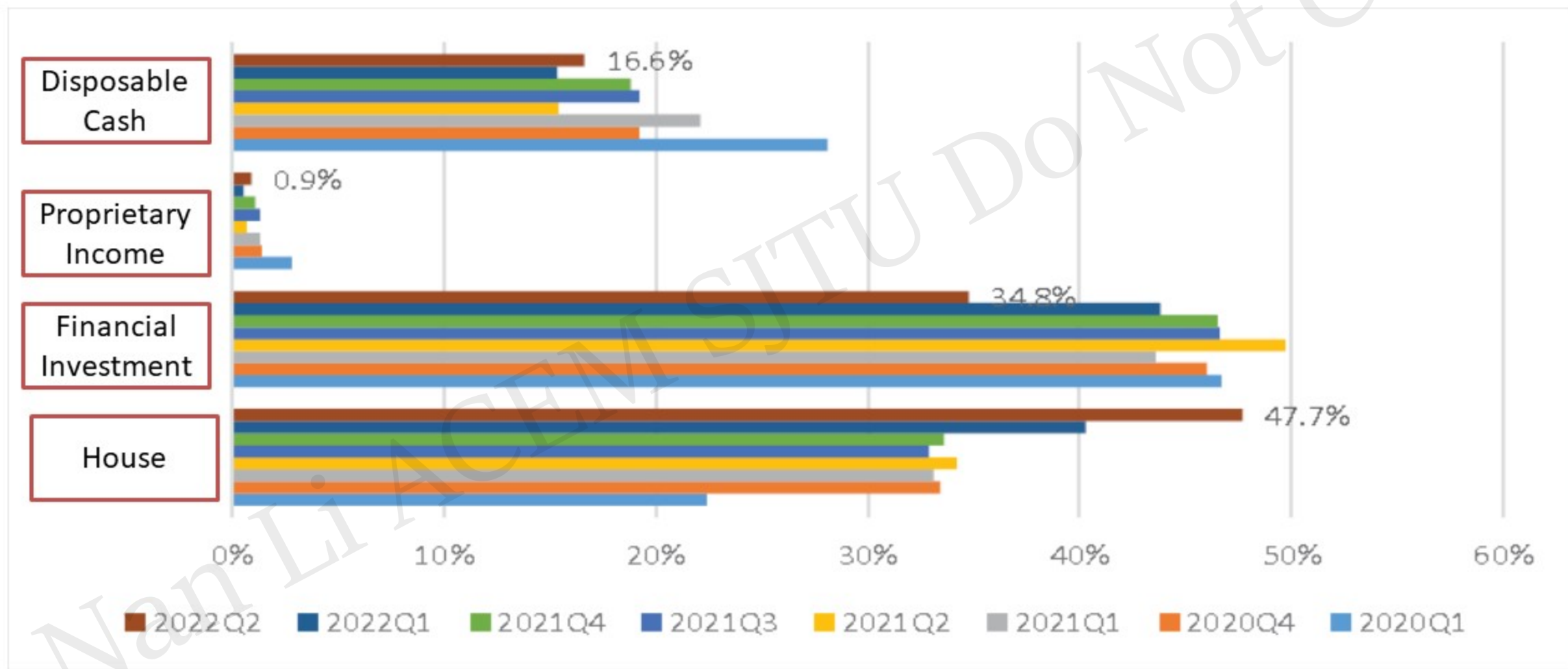
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Contribution to the increase in household wealth



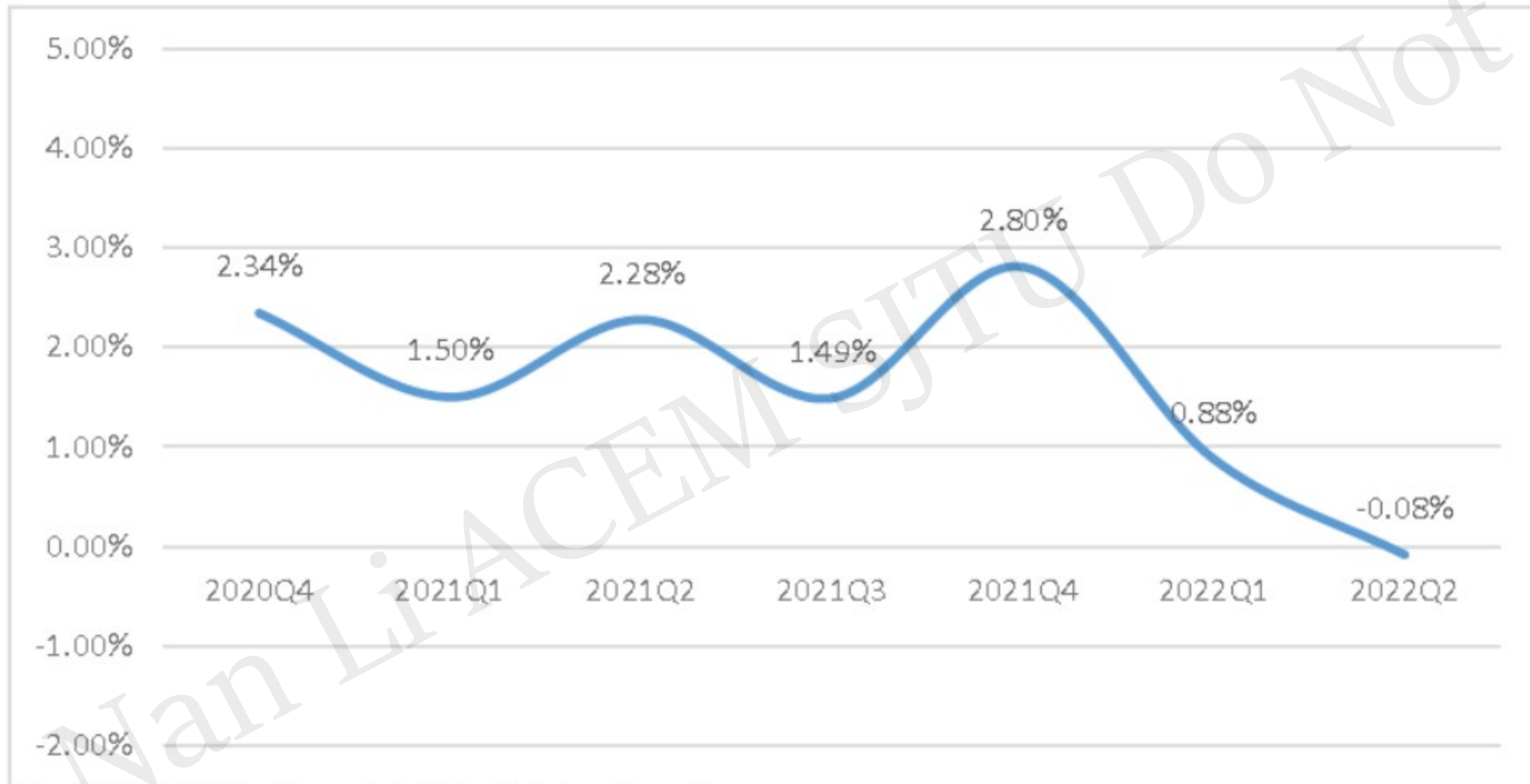
Src: 2022Q2 China Household Wealth Index Report,

Contribution to the decrease in household wealth



Src: 2022Q2 China Household Wealth Index Report

Household Return on Wealth Management Products

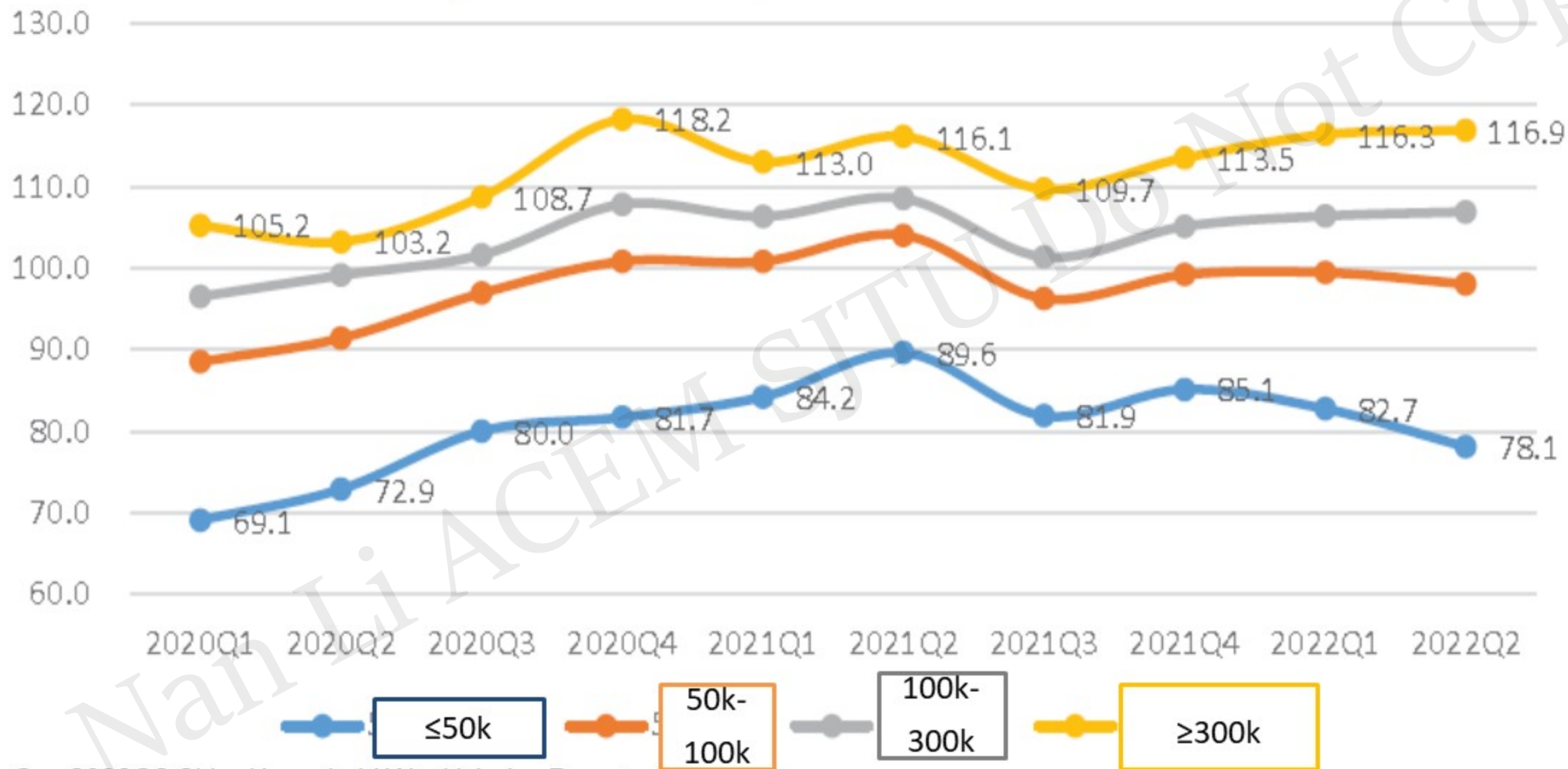


Src: 2022Q2 China Household Wealth Index Report

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Job Stability Index by Household Wealth

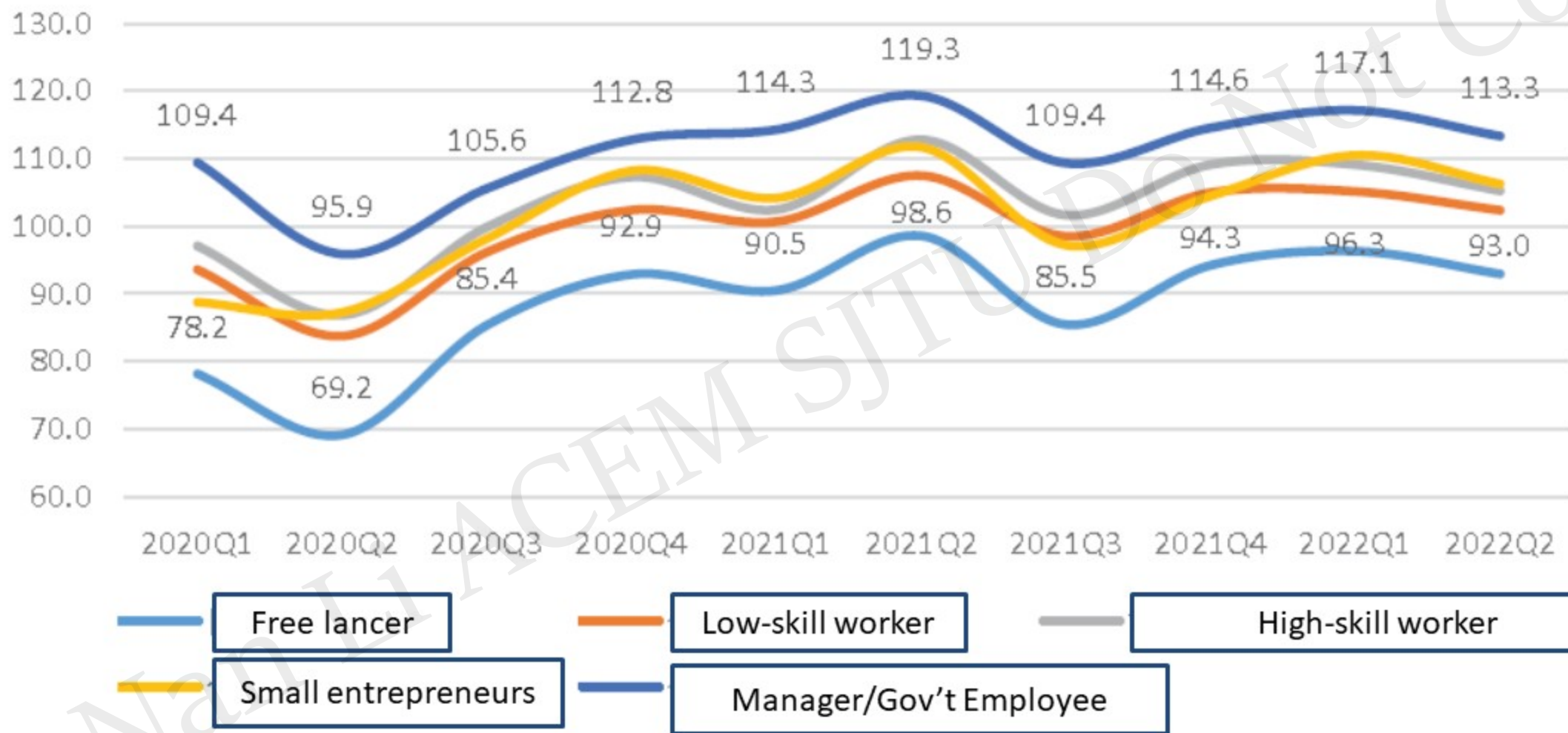


Src: 2022Q2 China Household Wealth Index Report

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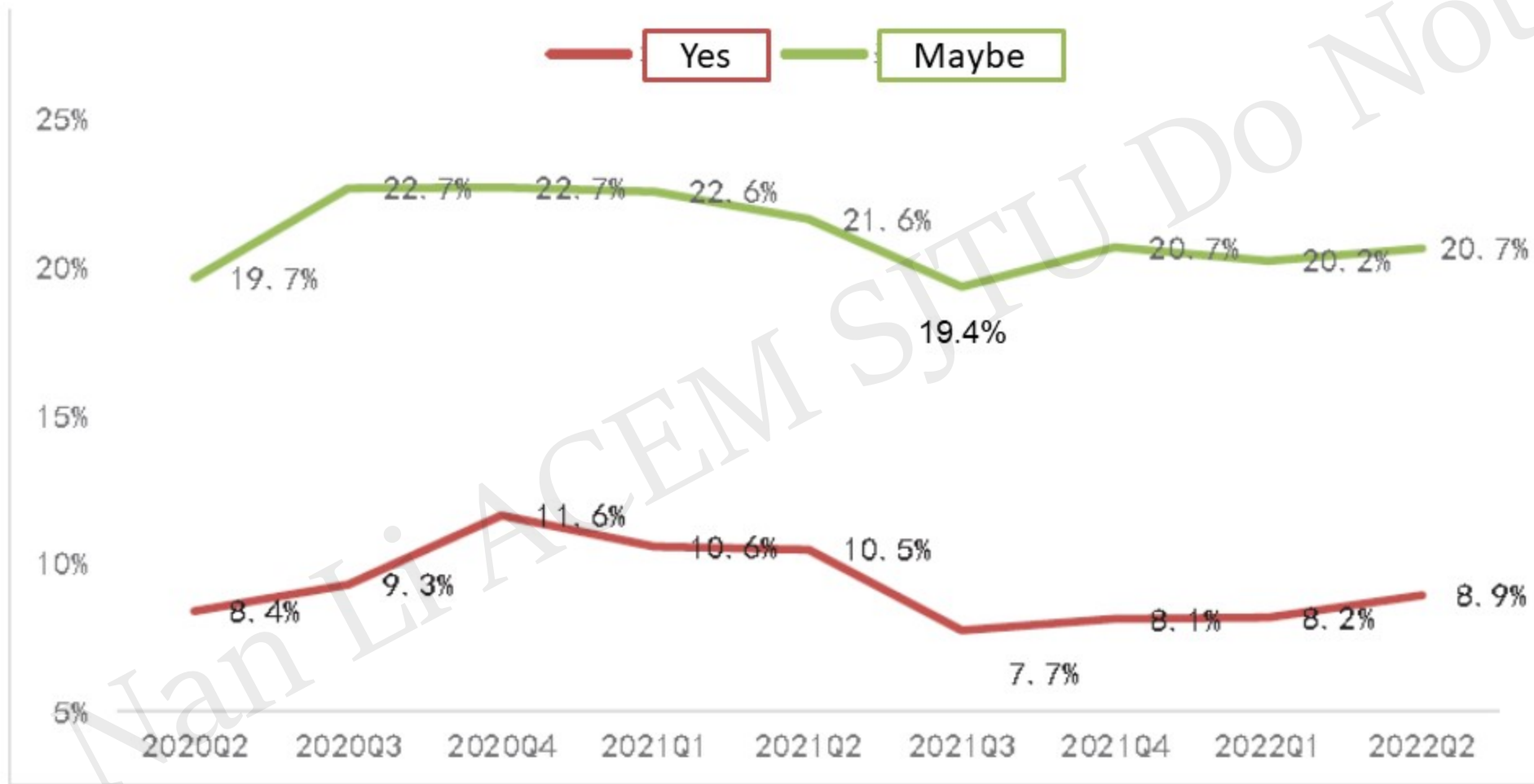
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Household Wealth by Job Type

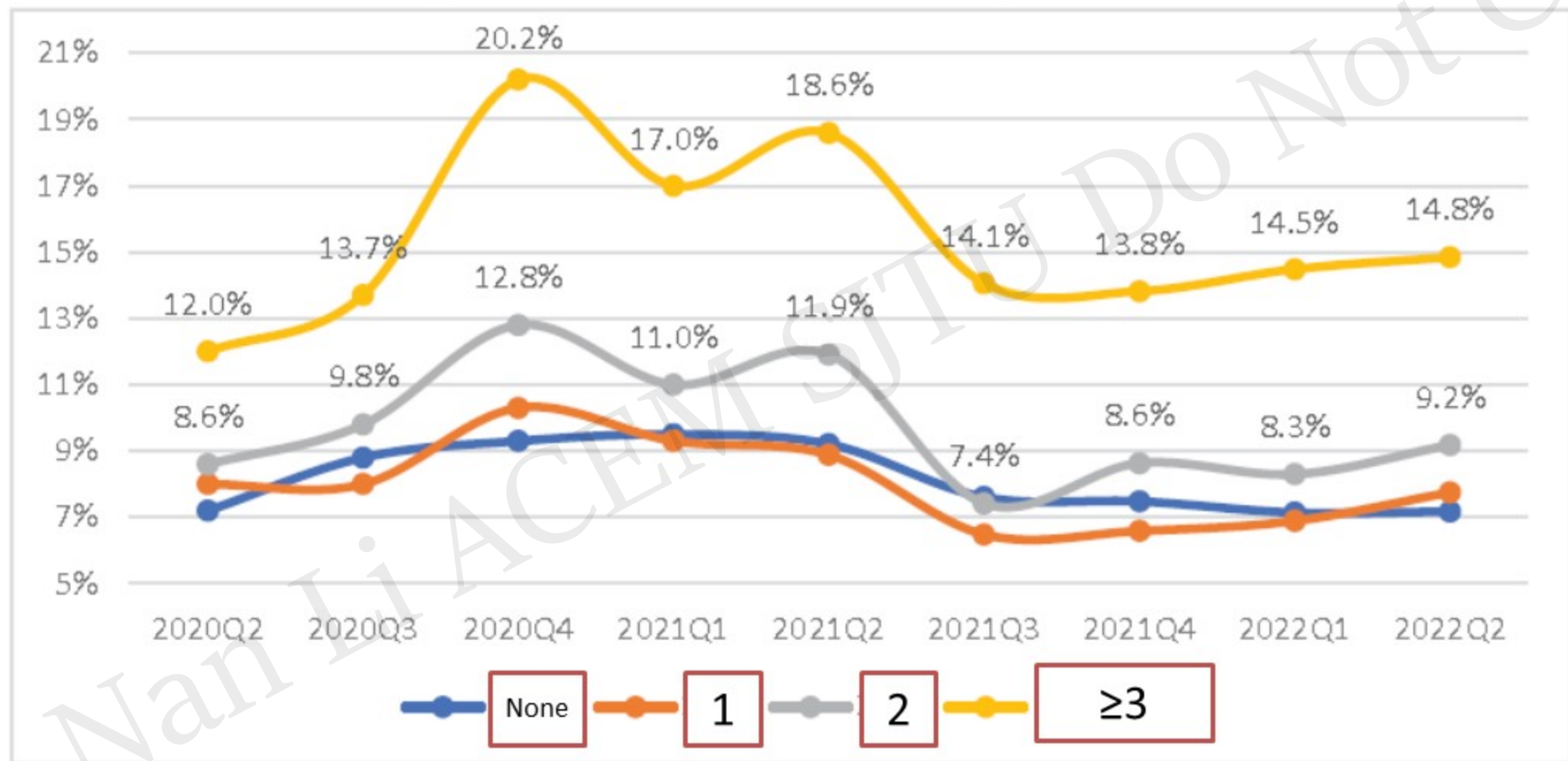


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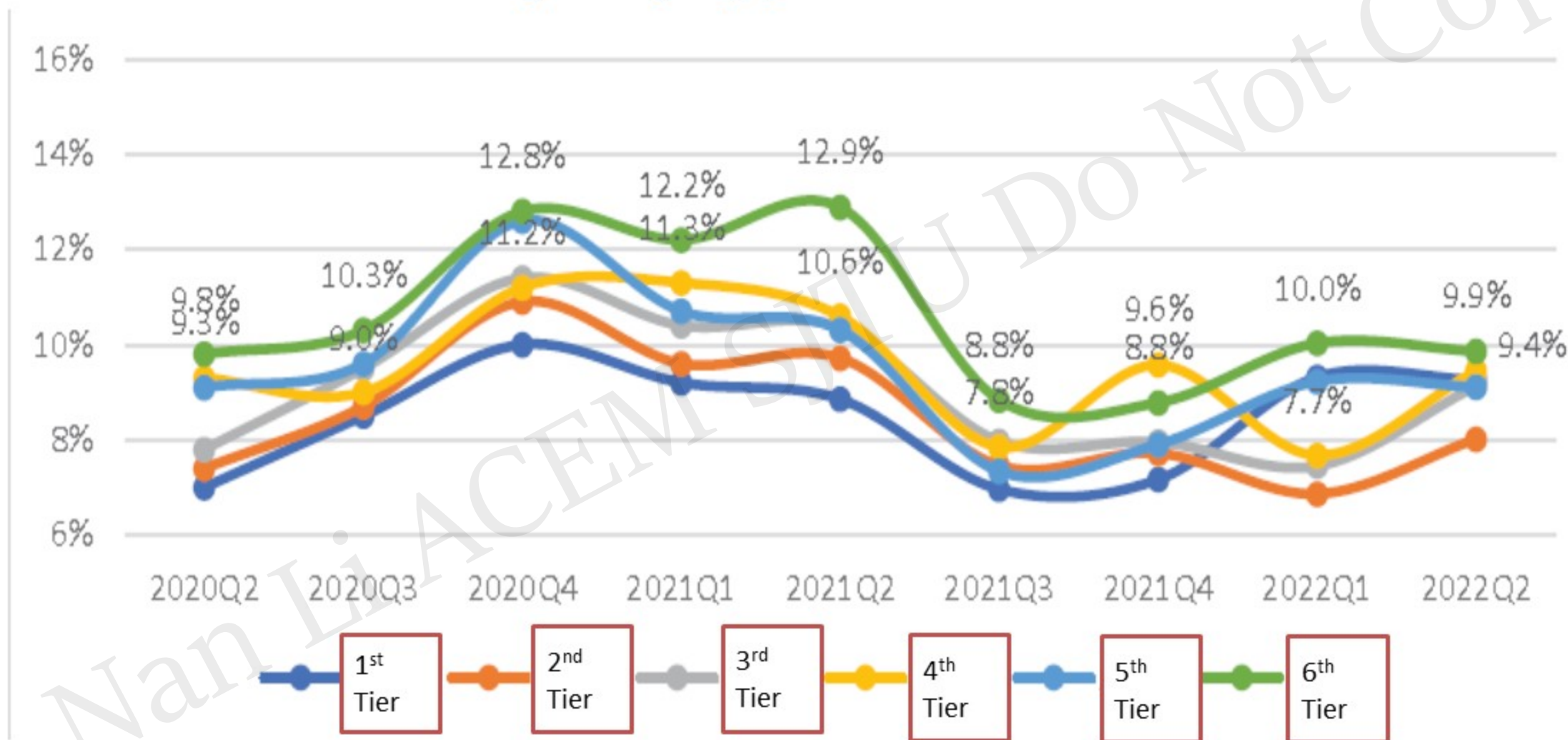
Households plan to buy a house in the next three month



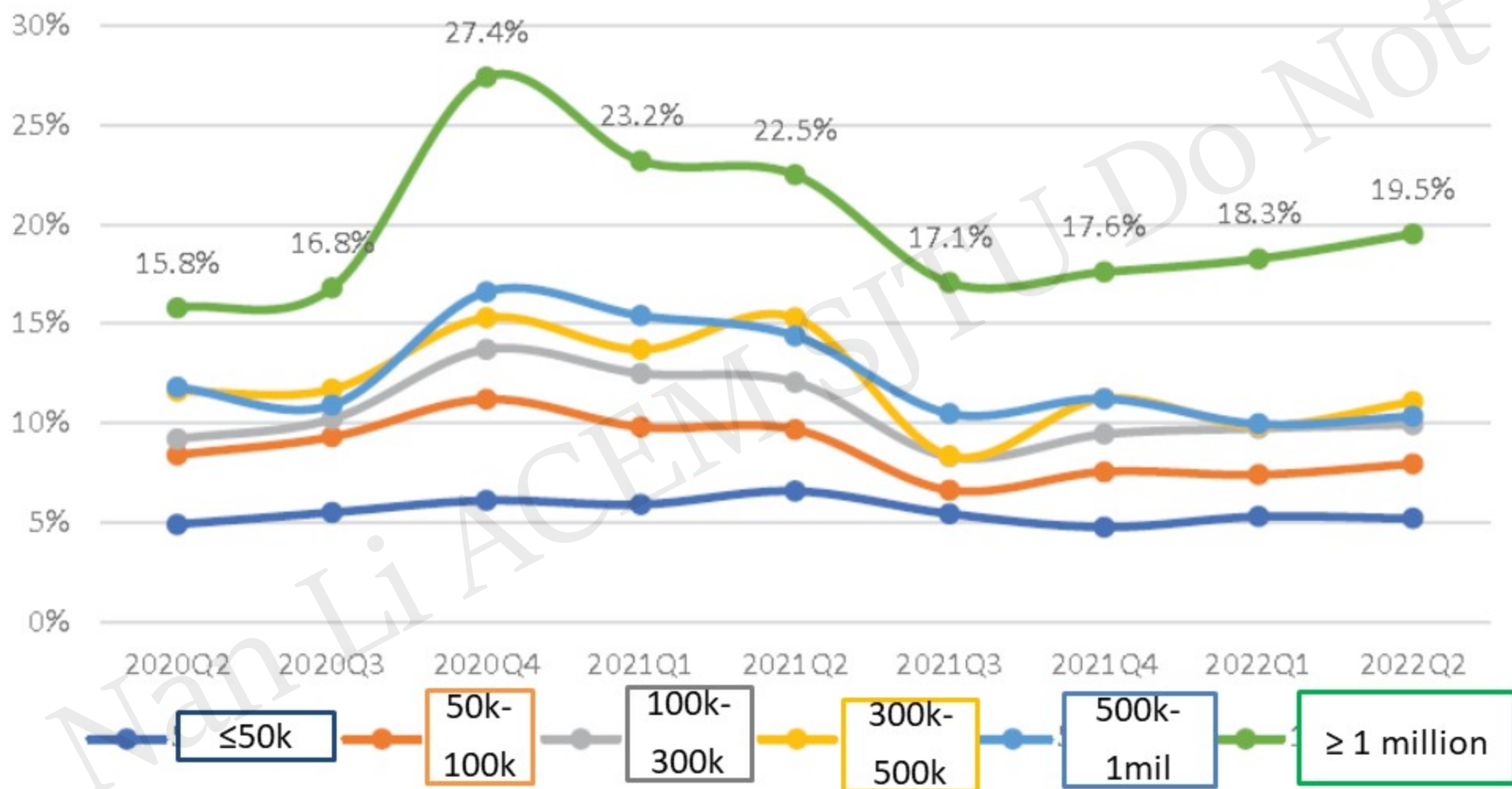
Household planning to buy a house by home ownership



Household planning to buy a house by city type



Household planning to buy a house by financial assets



One year later: 'Evergrande is not Lehman'

- Deterioration of real estate market is not due to regulatory changes and not contagious
 - Risk inherent in the business model
 - Inappropriate regulations in some cities/provinces
 - Covid-19 in March-June in Shanghai and other cities
- The debt restructuring is not easy but doable
 - Priority is to finish the profitable projects
- Most commercial banks do not have large risk exposure to Evergrande, some may learn a lesson of lousy risk management.

Politburo of the Chinese Communist Party 2022/07/28

- Stabilize the real estate market, emphasize on “houses are for living not for speculating”,
 - It is the responsibility of local governments to make sure the residential houses can be finished,
 - design and use policy tools suitable for each city,
 - support the real demand for houses (living and improving the quality)

Shadow Banking after 2013

How an umbrella trust works:

BANKS
Banks sell wealth-management products (WMP) to retail clients.

THE UMBRELLA TRUST
The umbrella trust takes cash from the WMP and puts it into a pool called the **senior tranche**.

THE HEDGE FUNDS
The umbrella trust also takes cash from sophisticated investors such as hedge funds and puts it into a **subordinated tranche**.

The subordinated tranche pays the senior tranche an annual interest return for borrowing the cash.

SENIOR TRANCHE

SUBORDINATED TRANCHE

7%-8%
interest

Cash

With the extra borrowed money, the subordinated tranche makes leveraged bets on stocks.

The Wall Street Journal



Q&A Thank You!

My website:
www.nanlifinance.org

Open-source course in English:
Bank Management
<https://www.icourse163.org/course/SJTU1-1457912173>