



# ***Harry's Take***

July 20, 2021

## **China Developer Defaults \$4.1B as of Mid-March, Which Is \$19.7B Annualized**

Real estate developers are 29% of China's economic output, and they are defaulting again after their debt growth peaked at 57% in 2017, in a housing market that has grown 6 times in value in 15 years since 2005. Yes, that's a bubble! It's China's second one. Ditto for the U.S. and the rest of the developed world.

China has the greatest bubble in real estate globally and the highest valuations compared with income in the world, as I have shown many times in the past. And now the chickens are coming home to roost, with \$20B+ in defaults expected this year.

That doesn't sound like a lot in the big picture of a \$14T economy, but when bubbles start to burst, there is always a snowball effect. The more home prices drop, the more the defaults, the more the prices then drop again, and so on.

China Fortune Land Development Co. has already defaulted on \$1.34 billion and has \$10.3 billion in total debt that it is likely to default on ahead. The table shows 15 top developers in China and rates them starting from green as they cross three successive lines of default: yellow, orange, and then red.

## 14 of 15 Major China Property Developers Have Lower Debt Ratings

### China's property moguls and their debt woes

Mainland developers, their debts and their key representatives at the 2021 Two Sessions

● All lines crossed ● Two lines crossed ● One line crossed ● Zero lines crossed

Developer, key person	Position at CPPCC/ NPC	Total debts (billion yuan)
● China Evergrande, Hui Ka-yan	CPPCC, Economics	835.5
● Country Garden, Yeung Kwok-keung	CPPCC, HKSAR	342
● Shimao Group, Hui Wing-mau	CPPCC, HKSAR	141.2
● China Resources Land, Fu Yuning	CPPCC, Economics	164.5
● China Merchants Shekou, Li Jianhong	CPPCC, Economics	147.2
● Yango Group, Lin Tengjiao	NPC, Fujian	109.2
● Jiangsu Zhongnan Construction, Chen Jinshi	NPC, Jiangsu	78.1
● China Jinmao Holdings, Ning Gaoning	CPPCC, Economics	98.6
● Guangzhou R&F, Zhang Li	CPPCC, Economics	187.7
● Zhenro Group, Ou Zongrong	CPPCC, All-China FIDC	63.6
● Sichuan Languang Development, Yang Keng	NPC, Sichuan	71.4
● Powerlong Real Estate, Xu Jiankang	CPPCC, Macau	59.3
● Yuzhou Group, Lam Lung-on	NPC, HKSAR	64
● Macrolink Group, Fu Jun	CPPCC, Social Welfare	23.2
● Radiance Group, Lin Dingqiang	CPPCC, FROC	55.7
Source: Northeast Securities, Tianfeng Securities, company reports		SCMP

Source: <https://www.scmp.com/business/companies/article/3140908/sichuan-languang-defaults-us-139-million-bond-payment-debt-woes>

[www.HSDent.com](http://www.HSDent.com)

The largest developer, the one most watched by its nervous government, is China Everglades, at \$129B, which has the worst rating (red).... Ouch! The smallest is Macrolink, at \$3.6B. On average, the 15 developers are \$23.2B in debt.

There are 4 companies (\$26.7B on average) rated red, with a total of \$173.7B in debt exposure; 4 are at orange with \$45.7B, and 6 are yellow with \$132.2B—in all, a total of \$351.7B in potential bad debts. Only one is in the healthy green zone, with \$164.5B.

Developers that rate green, passing all 3 credit tests, are allowed to expand their debt 15%, a lot lower than in the past. But you can see here that most major developers will not be able to expand at all or will only be able to expand at much lower rates. That means home building will slow. That means more developers will have to discount house prices to raise cash they can't borrow now, and that means home prices will go down and owners will get hurt... and the avalanche grows.

Expect China to be in a full real estate recession and collapse again by early 2022... and global real estate and the world will fall with it again.

And you know my forecast in the U.S.: Home prices will go down 40% to 50% this time, more than the 34% from 2006 to 2012.

Harry

*Got a question or comment? You can reach us at [info@hsdent.com](mailto:info@hsdent.com).*