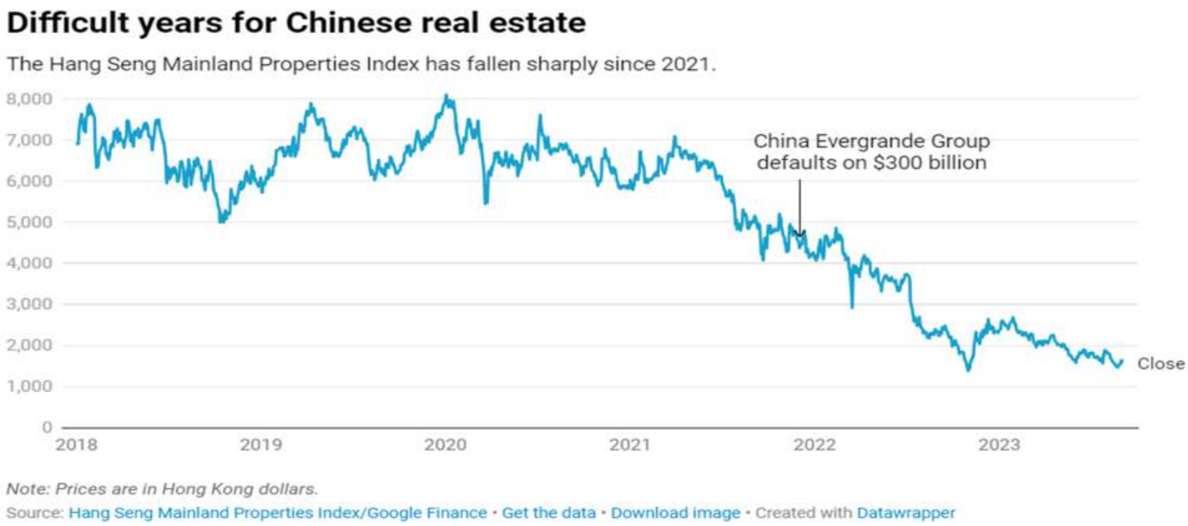
China Real Estate Crisis

China, officially the People's Republic of China, is a country in East Asia with over 1.4 billion people and GDP of $27.3 trillion in 2020, the exponential growth of the Chinese economy in recent decades has made it the second-largest economy in the world. China's economy initially grew due to manufacturing, exports, and cheap labour, converting it from an agricultural economy to an industrial one. But over time, a search for new development engines became necessary by an imbalance in growth rate brought on by low returns on investments, an ageing workforce, and diminishing productivity. With a GDP growth rate of more than 10% on average annually. The Chinese economy has grown exponentially as a result of its economic model, yet despite this, economic growth is slowing because of social, environmental, and economic imbalances. To maintain its economic growth, China is overhauling its economic system. In order to smooth the transition to a low-carbon economy, the country is reorienting its economic priorities towards sustainable, sophisticated manufacturing, and it depends on services and domestic consumption to support economic growth. Real estate constitutes about 30% of China's GDP, making it the single biggest contributor to the world's second-largest economy.

The economy of China and the rest of the world, which has come to rely on China as a reliable source of development, are being shaken by a crisis in the country's real estate market. Major developers are struggling as a result of massive losses, piles of debt, and missed payments to lenders. A long-running construction boom that fueled China's prosperity has come to an end, jeopardizing the jobs and savings of millions of people. As government take steps to boost development, China's markets have plummeted and its currency has fallen.

China's economy has been inextricably linked to an exploding housing sector fueled by population growth for decades. The property sector provided jobs and acted as a safe haven for China's burgeoning middle class. Local administrations were likewise reliant on money from land sales. But the population is not growing as it used to, and a long period of strict restrictions on Covid-19 have shaken Chinese consumers. And the government has tightened oversight of risky commercial practices, in massive debt for real estate developers and more new housing units than purchasers.

The Chinese real estate industry used to be regarded as the engine driving the country's economic growth, but things are now out of control or is veering off course. Two years ago, the debt-ridden developer China Evergrande Group went bankrupt, collapsing the country's real-estate bubble and triggering a chain reaction of developer defaults and company losses. The 2020–2023 Chinese property sector crisis is a current financial crisis triggered by the challenges of Evergrande Group and other Chinese property developers as a consequence of the new Chinese regulations on these companies' debt limits. Alongside Evergrande, the crisis in 2021 impacted significant real estate investors Country Garden, Kaisa Group, Fantasia Holdings, Sunac, Sinic Holdings, and Modern Land. The struggling China Evergrande Group, reported a US$4.5 billion loss during the same time period and filed for bankruptcy in the US last month. It attracted international notice in 2021 after defaulting on US$300 billion in debt, triggering the current crisis and Country Garden, China's largest developer, lost US$7.1 billion in the first six months of 2023, sending its stock tumbling as investors worried about probable financial default.

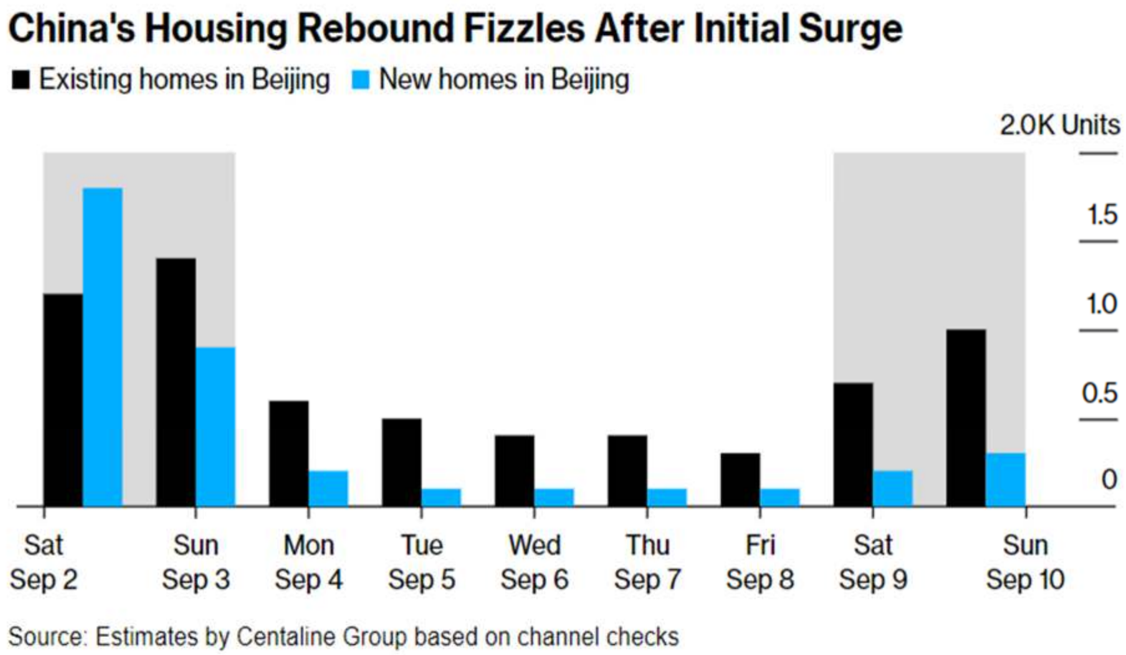


According to economists, the crisis has been building for years as a result of low-cost financing feeding a real estate bubble that is now bursting as consumer demand declines. In an effort to sell unneeded homes, the government is loosening long-standing restrictions on property ownership and making investing in a second home simpler and more affordable. One key, though indirect, explanation for China's fragile real estate market is that local governments rely largely on tax income from land sales, as well as property taxes and real estate development fees. At the same time, real estate accounts for over 70% of the general population's assets. These considerations tempted both developers and municipal governments to borrow excessively to build new construction. The market cooled as predicted when the central government began to apply tighter restrictions to discourage speculation and control prices, and it has continued to fall. In 2020, China's regulators began to enforce a crackdown against irresponsible borrowing, and forced companies to lower their debts before they took on more debt. New house sales from China's top 100 developers were down 33% year on year in July 2023. Prices are also falling. The Chinese economy has suffered as a result of this. Primarily, as demand for building materials and labor has decreased, hiring has slowed and consumers are tightening their belts. Local governments are also battling to stay afloat in the face of declining revenue, with several provinces compelled to cut government wages and perks.

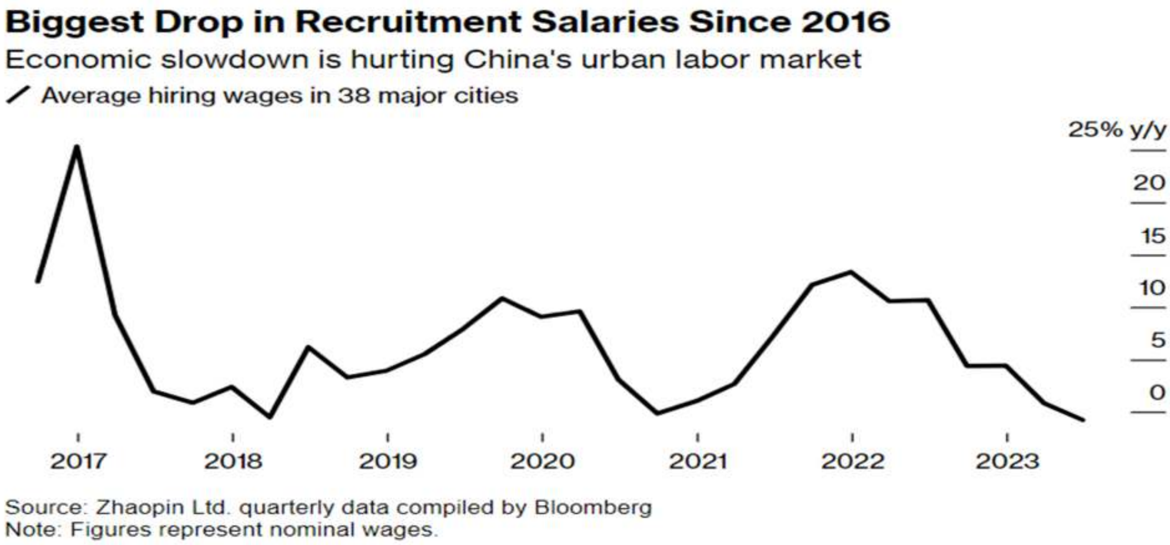
The International Monetary Fund said that China needs to do more in order to fix its real estate problems apart from the Chinese authorities' recent policy measures to ease restrictions on financing for the sector over the last several months. In China, apartments are regularly sold to homeowners before they are completed. Construction was hampered so considerably by covid and financial troubles that several purchasers stopped making mortgage payments last summer in protest. Following that, Chinese authorities underlined the need of assisting developers in finishing the pre-sold units. Nonetheless, according to official figures, residential floor area sold in China declined by roughly 27% last year, while real estate investment fell by 10%.

According to Gavekal Research, Unpaid payments by private Chinese developers amount $390 billion, posing a significant danger to the economy. Economists have reduced their expectations for China's economic growth, with many forecasting growth below the government's aim of around 5%. Imports and exports have both declined in recent months, and foreign investment into the country fell by more than 80% year on year in the second quarter. China's consumer prices declined in July for the first time in two years, indicating that Chinese people were spending less. The Hang Seng Index of Hong Kong stocks entered a bear market on Friday, plunging more than 20% from its high in January.

Following the implementation of a slew of measures to stimulate the real estate market last month by the authorities, there was a rise in activity. Property agents worked around the clock to keep up with the increased number of viewings and sales. According to estimates from a leading Chinese property brokerage, sales of existing homes fell 35% to approximately 1,700 units last weekend in Beijing, from 2,600 the weekend after the stimulus was eased. In the capital city, new residences offered by developers followed a similar pattern. Moody's Investors Service has downgraded the sector's outlook to negative. They anticipate a 5% drop in countrywide contractual sales over the next six to twelve months, owing in part to the Country Garden worry. Also, according to Reuters estimates based on National Bureau of Statistics (NBS) data, new house prices fell at the highest rate in ten months in August, down 0.3% month on month after falling 0.2% in July. Prices were down 0.1% year on year, following a 0.1% drop in July.



The slowing real estate market, falling exports, and sluggish consumer spending have all harmed an economy that the government had hoped to increase by 5% this year. Economists have been lowering their GDP growth projections amid evidence that the government is unlikely to unleash big stimulus like in previous downturns in order to avoid additional debt accumulation. According to statistics from online recruiting agency Zhaopin, hiring salaries in Shanghai and Beijing fell by 9% and 6%, respectively, in the second quarter from a year earlier, the largest reduction since at least 2015. Also A hiring slowdown has worsened the nation's young unemployment rate, which was already above 20%. Falling salaries imply employees would likely spend less on goods and services, undercutting Xi's goals to make consumer spending a more important driver of economic development.



The sector's problems are expanding to China's financial trust businesses, which promise better returns on investments than conventional bank deposits and frequently participate in real estate projects. Zhongrong International Trust, which oversees around $85 billion in assets, has failed to make payments to investors. Social media videos showed a swarm of investors protesting outside the firm's offices in Beijing, demanding that the corporation repay them.

In its latest attempt to restore confidence in the world's second biggest economy, China has put out a new round of stimulus measures to bolster the country's ailing housing market and a falling yuan. According to a joint statement issued Thursday by the People's Bank of China (PBOC) and the National Administration of Financial Regulation (NAFR), mortgage down payments would be reduced to 20% for first-time purchasers and 30% for second-time buyers countrywide. Previously, homebuyers in places such as Beijing and Shanghai had to put down at least 30% to 40% of the purchase price. Furthermore, interest rates on new mortgages have been reduced by almost 40 percentage points as a result of the central bank's decision to impose a lower minimum premium to its benchmark lending prime rate.