

Under the hood Beijing's red lines crossed by half of leading Chinese developers

Push for deleveraging in property sector has global investors on edge as Evergrande debacle raises risk of default and economic contagion

Almost half of China's 30 biggest developers were in breach of at least one of Beijing's leverage rules, according to an FT data analysis.

Last August, Beijing unveiled the "three red lines", which aim to curb developers' debt. The FT analysis, based on data from Beike, part of China property group KE, showed that of the 30 developers, 14 had breached at least one red line as of June 14. These groups accounted for the majority of the 30 developers' sales last year.

Evergrande, the world's most indebted developer, teeters on the edge of default after missing an interest payment last month. Its problems have thrust China's deleveraging policy into the spotlight and convulsed markets. The group is the most extreme example of the high leverage that has for years funded China real estate development and underpinned the country's rapid growth, and which the government is seeking to rein in.

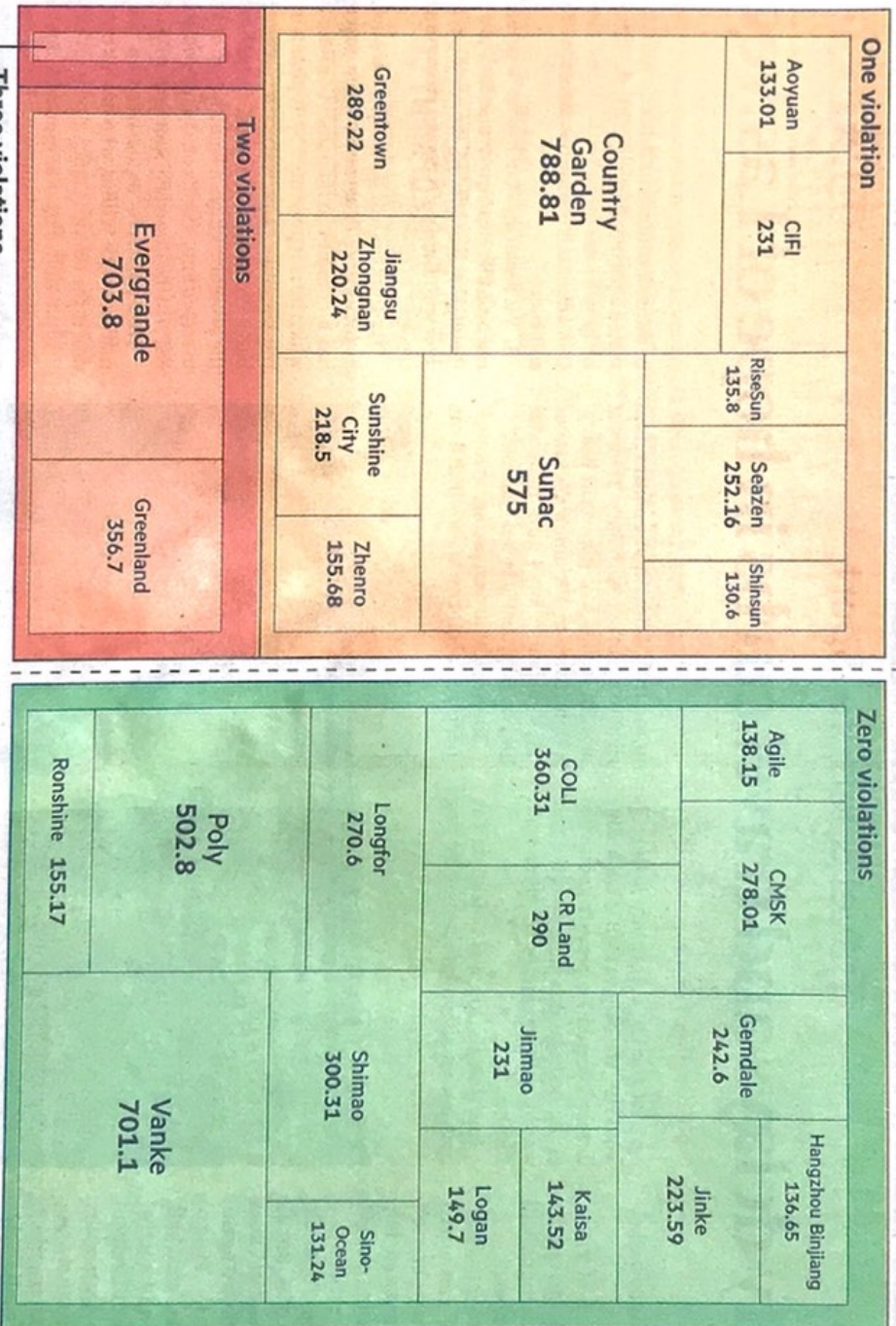
Only a few of the 30 developers in the FT analysis had violated two or more red lines, but liquidity crises at those companies, including Evergrande and Guangzhou R&F, have raised concerns about contagion to China's economy. If developers breach the rules, they face caps on their ability to raise new debt.

S&P noted that while Beijing had not released a statement on the rules, they were widely reported in domestic media. *Andy Lin, Thomas Hale and Hudson Lockett*
See Markets

Red line violators account for half of top China developers' sales

Last August, Beijing unveiled its "three red lines", which aim to curb developers' debt according to three metrics: ratio of liabilities to assets, net debt to equity, and cash to short-term borrowings. By June this year, almost half of China's 30 biggest developers were in breach of at least one of the rules.

Top 30 real estate developers by sales (rmb bn) and grouped by number of red lines crossed



Of the 30 developers, 14 had breached at least one red line

Three violations
Guangzhou R&F 149.66