

Tens of thousands face eviction after Chinese rental company collapses

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As winter approaches and temperatures reach below freezing point across many cities in China, hundreds of thousands of people who rented through Danke Apartment, one of the largest rental platforms in China, face potential eviction. Tenants across 13 cities where Danke has established operations, including major ones like Beijing, Shanghai and Shenzhen, have either already been evicted or are living in uncertainty.

The collapse of Danke provides an insight into the far broader housing crisis in China confronting workers and young people, and exposes the profiteering and parasitic character of layers of capitalists in China.

Unlike traditional apartment leasing business where tenants usually pay monthly rents directly to landlords, the service provided by Danke involves four parties. Danke, as the rental agency, pays monthly rents to individual landlords and then sublets these apartments to tenants. It encourages its tenants to pay a full-year's rent in advance by offering a tempting discount, compared to paying by the month or by the quarter.

Even with the discount, however, a whole year's rent is a huge expense for most people. Danke encourages them to take out loans with micro-credit companies to pay a full year's rent to pay Danke while paying back the loan every month or quarter. Danke even cooperates with these micro-credit companies and pay the monthly interest, further encouraging their tenants to take out loans. More than 60 percent of Danke's tenants are involved in rent loans.

As a result, when Danke experienced a major breakdown in its complex financial operations due to the impact of the COVID-19 pandemic and lockdowns in January and February, it led to a social catastrophe for its landlords, tenants and employees. According to the Chinese journal *Caixin*, Danke has an overall debt of \$520 million right now, including \$171 million in unpaid rents to landlords.

Since early November, up to a hundred or so landlords and tenants gathered at Danke's office in Beijing to file complaints, demanding rents, or trying to terminate leases. Most landlords have not received rents for at least a month. At the Beijing office, many had to stand in lines for hours on multiple days in a row, hoping their complaints will be resolved. Even if landlords are willing to forgo rents in arrear so they can reclaim their apartments, their contracts with Danke cannot be

terminated until the tenants move out.

The result has been forced evictions, and in some cases, violent confrontations between landlords and tenants. For tenants, their loan contracts with micro-credit companies do not terminate automatically if they are evicted. In other words, they still have to make loan repayments after losing their apartments. Moreover, trending posts on social media have revealed that many tenants have been evicted on a very short notice, and had to spend the night sitting in 24-hour fast food stores or sleeping in their cars.

Tragically, a young tenant fell to death on December 3 from an 18th floor apartment in Guangzhou in what was likely a suicide. Days before the incident, the landlord had put a note on his apartment urging him and his flatmates to move out within a week. Their landlord has not received rents from Danke for over two months. The young person just graduated from college this year, was still looking for a job, and took a full-year's loan to pay his rent.

For those still in their apartments, their living conditions are poor. As early as in September, tenants in most of the 13 cities where Danke operates reported that their internet had been cut off. A large number of maintenance complaints about leaking pipes and water and power stoppages were left unattended. Some tenants found out that Danke has not paid the energy and water bills at their apartments for as long as two years.

Even if tenants found alternative housing, they cannot easily terminate their lease with Danke. Its offices in Hangzhou and Chengdu are already empty. On Black Cat, a platform for customers to submit complaints, Danke has received more than 30,000 complaints, a proportion of which are from the recent few months. Tenants complained that Danke's service hotline is always busy. Some managed to terminate their leases using Danke's online system, but deposits and previous cash back benefits in their accounts could not be cashed out.

Danke's tenants are overwhelmingly young people who are attracted by the more diverse work opportunities in big cities. According to Danke, the average rent for one of its single bedrooms with shared public space (kitchen, bathroom, etc.) is around 2,788 RMB (about \$US400) per month. This price is attractive for young white-collar workers and college graduates who have just started their careers and earn a few thousand a

month.

The collapse of Danke has turned their lives upside down. One person posted on social media: “My landlord came this morning [to evict me]. We tried to negotiate, but did not reach an agreement. The landlord called the police, but the police said we should seek to resolve it with Danke.... When I got back to the apartment [from the police station] at 1 pm, power and internet have already been cut off. It’s a really windy day in Chengdu today. There’s not much sun out there. My heart has gone cold as well.”

Service workers working for the company were also hard hit by the collapse of Danke. On November 9, a number of maintenance workers went to Danke’s Shanghai office, demanding their wages.

One worker said it is now impossible for him to live in Shanghai anymore because he had been paid nothing in the past four months. Another said Danke already owed him more than 30,000 RMB (\$4,285), which should have been enough to sustain his family in the countryside for at least three years.

However, even before these workers reached the office in Shanghai, the company had already called the police. Two workers were taken away by the police with no real explanation. It was also reported that Danke had already dismissed its apartment cleaning team.

Under pressure from tenants, workers and landlords, Danke eventually made a response on November 16 through its official Weibo (a Twitter-type social media platform) account. The company acknowledged its financial crisis, but said, “We are not in bankruptcy and we will not run away.” The micro-credit company with which Danke collaborated, WeBank, announced on the same day that tenants’ credit score would not be affected by Danke’s collapse until at least March 31 next year.

However, neither of these announcements are reassuring. More tenants are being evicted every day, and many who have terminated their leases reported that they still receive calls from WeBank, urging them to pay their loans on time.

Danke’s business model is extremely risky. In order to occupy a larger share of the apartment leasing market, Danke offered landlords high rents while subletting to tenants with a lower price. More than 400,000 apartments have been collected by Danke since its founding in 2015.

In other words, Danke actually loses money from each transaction. However, in each transaction, Danke acquires a whole-year’s rent from the micro-credit company but only needs to pay the landlord one-month at a time, thus retaining a large amount of cash at hand. This constant cash flow, rather than profit from each transaction, has been what the company bases its business on. During the first three quarters of 2018 and 2019, payments from micro-credit companies made up 88 percent and 80 percent of the company’s entire income respectively.

This cash-flow-based model requires a constant expansion of

Danke’s business, where payments from new tenants are required to maintain its finances. As an expert from a real estate broker trade association pointed out, an operating strategy like this requires that at least 90 percent of Danke’s apartments to be sublet. By the September 2019, Danke’s occupancy rate was 87 percent.

On January 17, 2020, Danke became a publicly-listed company on the New York Stock Exchange, which, according to its prospectus, aimed to “continue to deploy capital to grow and source new apartment units.”

Expansion cannot go on indefinitely, and Danke was well aware of the risks. In fact, Danke has never made a profit since its founding in 2015 and has been constantly in debt. In the same prospectus, the company acknowledged that they incurred a net loss of hundreds of millions dollars in 2017, 2018, and the first three quarters 2019. They also had a negative cash flow during the same periods.

As the financial collapse of Danke produced a serious social crisis, the Chinese government gave the company a token slap on the wrist. The state-owned CCTV-2 broadcasts on economic programs declared that Danke had violated regulations and relied too much on loans. In late December 2019, the Ministry of Housing and Urban Development announced a new regulation mandating that the income of apartment rental companies from loans should not exceed 30 percent of its total income from rents. However, the new regulation allowed until the end of 2022 for these companies to adjust. No measures have been taken to address the immediate difficulties facing tens of thousands of tenants, workers and landlords.

The collapse of Danke is a manifestation of a far broader housing crisis in China. As the housing prices have skyrocketed in the past decade in major cities, it has become ever more impossible for young people whose families do not live in major urban areas to buy an apartment. Even those who manage to make a down payment, usually with financial assistance from their parents, face the heavy burden of large mortgages.

These high housing prices have led to the rapid expansion of the apartment rental market, with companies like Danke exploiting the situation to profiteer at the expense of the immiseration of workers and young people.



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