Analysis of Development Strategy of Building Decoration Industry under the Background of Downward Development of Real Estate Economy

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Abstract. This article explores in depth the development strategy of the building decoration industry under the background of the downturn in the real estate economy. Faced with challenges such as reduced demand, intensified competition, and rising costs brought about by the adjustment of the real estate market, the construction and decoration industry urgently need to formulate and implement effective development strategies to cope with current difficulties and seek long-term development. This article first analyzes the current situation of the industry and points out the specific impact of the downturn in the real estate economy on the industry. Then, this article elaborates in detail on the development strategies that the construction and decoration industry should adopt during the downturn in the real estate economy. Finally, conclude and provide recommendations as well as prospects. With the advancement of national policies and the upgrading of consumer demand, the building decoration industry will usher in new development opportunities and continue to move towards green environmental protection, intelligence, and personalization.

Keywords: Real estate economy; building decoration industry; development strategy.

1. Introduction

The current real estate industry in China is facing a relatively severe situation, manifested in negative growth in indicators such as real estate development investment, new house sales growth rate, housing price increase, and real estate investment [1]. In the first half of 2024, the national real estate development investment decreased year-on-year, the newly started construction area decreased significantly, the land market was sluggish, the scale of land supply and demand contracted, and the willingness of real estate companies to acquire land was not strong. The real estate industry is currently undergoing a complex and ever-changing transformation period, facing multiple factors such as slowing economic growth, sustained policy regulation, and adjustments in market supply and demand relationships. In addition, there have been risk events such as debt defaults by real estate companies, and the downturn in the real estate industry has begun to drag down overall economic development.

The market supply and demand relationship has transformed, and the current housing market is relatively stable, with most consumers in the market being first-time homebuyers. In recent years, the government has introduced a series of policies that have gradually weakened the investment attribute of housing and officially defined the commodity economy attribute of housing [2]. Under the macroeconomic regulation of the country, the sales prices of the construction and real estate markets tend to stabilize. The return on investment in real estate has decreased, and investment demand has been frustrated. With loose policies and the arrival of the traditional peak season, the real estate market may experience a certain recovery. However, housing price expectations and residents' wait-and-see sentiment remain the main limiting factors, and the market is still in the bottoming-out stage. The future development trend will depend on the effectiveness of policy implementation and the speed of market demand recovery.

The real estate industry, through investment and consumption, drives the manufacturing sectors related to housing such as building materials and furniture, as well as the tertiary industry such as finance and business services, totaling more than 50 upstream and downstream industries, with a long industrial chain and significant driving effects [3]. For example, fluctuations in the real estate market directly affect the demand for building materials. During market downturns, sales of building materials may decline; when the market recovers, demand will increase accordingly. Secondly, the activity level of new house sales and second-hand house transactions will directly affect the scale of the home decoration market. Furthermore, the prosperity of the real estate industry is directly related to the loan scale and asset quality of financial institutions such as banks and trusts.

Real estate and its closely related construction industry are important pillars of the national economy. With the continuous decline of the real estate market, real estate companies have reduced their investment and development in new projects under financial pressure. According to statistics, in the first seven months of 2024, the total investment in real estate development in China was 6.1 trillion yuan, a year-on-year decrease of 10.2%. Among them, the newly started construction area decreased by 23.2% year-on-year. This trend directly leads to a significant reduction in the amount of newly signed contracts in the construction industry, with many construction projects being canceled or postponed, and existing ongoing projects also being affected by insufficient funding, resulting in a noticeable slowdown in construction progress. This not only affects the output value and profit of construction enterprises but also increases the difficulty of project management and financial risks. At the same time, issues such as delayed delivery may also lead to legal disputes between real estate and construction enterprises. Nowadays, in the context of decreasing market demand, competition within the construction industry is becoming increasingly fierce. To compete for a limited market share, enterprises have adopted methods such as lowering prices and improving quality, further compressing the profit margins of construction companies, which tests their business management capabilities. Although the downturn in the real estate industry has reduced some costs, the construction industry still faces cost pressures such as rising raw material prices and increased labor costs. At the same time, with the increasing requirements for environmental protection and energy conservation, construction companies also need to invest more funds in the application of green construction and intelligent construction technologies.

This article aims to explore the development strategies and upgrading research of the construction industry under the downward trend of the real estate economy. The first part of this article will describe the challenges and opportunities of the downturn in the real estate economy for the construction and decoration industry. The second part will describe the analysis of the development strategy of the architectural decoration industry.

2. Challenges and Opportunities of the Downturn in the Real Estate Economy for the Construction and Decoration Industry

2.1. Challenge

2.1.1. Shrinking market demand

With the overall decline of the real estate market, developers have reduced their investment and development of new projects, which directly leads to a decrease in the order volume of the building decoration industry. As a downstream industry of real estate, the market demand of the architectural decoration industry is closely related to the prosperity of the real estate market. So, not only has the new home decoration market been affected, but the second-hand home renovation and partial decoration markets have also decreased due to the decline in the purchasing power of homebuyers. In recent years, the government has introduced a series of policies that have gradually weakened the investment attribute of housing and officially defined the commodity economy attribute of housing. So, most consumers are first-time homebuyers, resulting in a significant decrease in housing demand in the market. Due to the continuous decline in housing demand in the market, several construction and real estate companies with a certain scale are in a difficult situation of "having houses to sell". In addition, the government's support has decreased, and the entire industry is facing the problem of significantly increasing expenditure levels, and a continuous decline in returns and operating income, which seriously affects the sustainable development of the construction industry.

2.1.2. Rising costs

The downturn in the real estate economy has had a profound impact on the construction industry, with a significant manifestation being the rise in construction costs. This cost increase not only affects the profitability of construction companies but also poses a challenge to the stability of the entire industry chain. Firstly, with the acceleration of urbanization, the scarcity of land resources is becoming increasingly prominent. Although market demand may have slowed down, land prices have not significantly decreased but have continued to rise due to the scarcity of land resources. Real estate companies must pay higher land costs to acquire land, which directly leads to an increase in the total investment cost of construction projects. Secondly, the development of the global economy and the rise in resource prices have led to a continuous increase in the prices of building materials such as steel bars, cement, sand, and gravel. These materials are an essential part of construction projects, and their price increases directly drive-up construction costs. Furthermore, changes in the labor market have led to a gradual increase in the wage levels of construction workers. The construction industry is a labor-intensive sector, with labor costs accounting for a significant proportion of total costs. With the development of the economy and the improvement of living standards, the demand for wages of construction workers has increased, which will inevitably increase the labor costs of construction enterprises. Fourthly, the government's regulatory policies on the real estate market, such as purchase restrictions, loan restrictions, and sales restrictions, not only affect the transaction volume and prices of the real estate market but also indirectly affect the costs and demand of the construction industry. Policy regulation has led to increased uncertainty in the real estate market, increased investment risks in construction projects, and thus pushed up the operating costs of construction enterprises.

At the same time, the government also regulates the real estate market by increasing land transfer fees and adding tax burdens such as property taxes. These taxes and fees directly increase the development costs of construction companies, making it more difficult for construction projects to make profits in the context of economic downturn. Fifth, with the rapid development of technology and the increasing demand for green and sustainable buildings in society, construction companies need to invest more resources and funds in technological upgrading and transformation. This includes introducing new technologies, and new equipment, and cultivating professional technical talents. For smaller or traditional enterprises, this is a huge challenge and increases their operating costs.

2.1.3. Intensifying competition

Due to a significant decline in market demand, the order volume in the construction industry has noticeably decreased. In the face of limited order resources, construction companies must increase their competition for projects to survive and develop, competing to lower prices and improve service quality to gain more market share. The government's regulatory policies on the real estate market not only affect the trend of the real estate market but also indirectly affect the competitive landscape of the construction industry. For example, policies such as purchase and loan restrictions have limited the demand for home purchases, making the funding chain of real estate developers even tighter, thereby reducing the development of new projects. This further intensifies the competitive pressure in the construction industry.

Faced with fierce market competition and the dilemma of compressed profit margins, construction enterprises need to reduce costs, improve efficiency, and enhance competitiveness through technological innovation, including introducing new technologies, and new equipment, and cultivating professional technical talents. However, technological innovation requires significant investment and long-term accumulation to achieve breakthroughs and result in transformation. This is a huge challenge and pressure for construction companies with weaker strength or insufficient funds.

2.2. Opportunities

Against the backdrop of a downturn in the real estate economy, although the entire real estate industry is facing many challenges, the construction and decoration industry is nurturing new opportunities in this process.

Firstly, consumers have increasingly high demands for living environments, and personalization and customization have become new consumption trends. Architectural decoration enterprises can meet consumers' pursuit of living quality by deeply understanding their needs and providing personalized design solutions and customized services. This can not only enhance the competitiveness of enterprises but also bring higher profit margins to them. In the context of consumer upgrading, consumers' demands for building decoration services are also increasing. High-quality and refined services have become important factors for consumers to choose building decoration enterprises. Enterprises can enhance customer satisfaction and loyalty, and win more market share by improving service quality, optimizing service processes, and strengthening after-sales service.

Secondly, with the increasing awareness of environmental protection and the continuous development of technology, environmental protection, and intelligence have become consumption hotspots in the building decoration industry. Consumers' demand for environmentally friendly materials and smart home systems is constantly increasing. For example, more and more households may consider diatomaceous earth instead of paint when decorating, which provides new development opportunities for building decoration enterprises. Enterprises can enhance the added value and competitiveness of their products by introducing environmentally friendly materials and smart home technology, meeting the diverse needs of consumers. Of course, with the continuous advancement of technology, new building materials and construction techniques are constantly emerging. Architectural decoration enterprises can actively pay attention to the development trends of new materials and technologies and strengthen research and application. By introducing new materials and technologies, as well as equipping smart homes, the performance and quality of products can be improved to meet consumers' pursuit of high-quality life.

Thirdly, against the backdrop of a downturn in the real estate economy, construction and decoration enterprises need to accelerate their pace of digital and intelligent transformation. By introducing advanced technologies such as BIM and VR, digital transformation and intelligent upgrading of various aspects such as design, construction, and management can be achieved. This can not only improve construction efficiency and quality, and reduce construction costs, but also provide consumers with a more convenient and efficient service experience.

3. Analysis of the Development Strategy of the Building Decoration Industry

3.1. Market Positioning and Segmentation Strategy

The construction and decoration industry, as an important link in the real estate industry chain, has undergone profound changes in its market environment and competitive landscape. To address this challenge, architectural decoration enterprises need to re-examine their market positioning and develop corresponding segmentation strategies to meet diversified and personalized market demands through differentiated competition.

Firstly, after experiencing the financial crisis, China's housing stock has continued to increase, which means that the development potential of the secondary decoration market is enormous. Residential buildings need to be renovated every 8-12 years, while public buildings such as restaurants and office buildings require a renovation time of 6-8 years. In addition, with the tightening of real estate policies, the regulation of new real estate projects, and the increase in transaction volume in the second-hand housing market, the transaction volume of secondary decoration of existing residential properties has significantly increased [4]. Secondly, under various policy requirements and guidance from the government, our housing rental system and pattern are constantly forming and developing. The government explicitly encourages and supports major real estate developers to fully utilize existing housing to develop rental businesses, and encourages urban micro-renewal projects to upgrade and transform old residential areas into furnished apartments for rent. Therefore, the stock market is very large [5].

With the improvement of Chinese residents' consumption concept and aesthetic taste, people have put forward higher requirements for the decoration of residential and public buildings. For these residential buildings that require renovation and secondary decoration, building decoration enterprises need to conduct in-depth communication and research, accurately grasp the needs and pain points of customers, provide targeted solutions, ensure that the renovated buildings meet or exceed the original standards, and meet the unique needs of different customers. Architectural decoration enterprises can create personalized living environments through innovation in color matching, material selection, spatial layout, and other aspects. Utilize modern building technologies and materials, such as BIM technology and prefabricated buildings, to improve the efficiency and quality of renovation and renovation. At the same time, attention is paid to detail processing to ensure that the renovated building meets customer requirements in terms of functionality and aesthetics.

3.2. Technological Innovation and Product Upgrade

Architectural decoration enterprises need to seek new growth points through technological innovation and product upgrading strategies. In-depth exploration and practice in environmental protection, energy conservation, and intelligence can enhance the core competitiveness and sustainable development capabilities of the industry, thus ushering in broader development prospects.

Energy conservation and environmental protection are mainly reflected in two aspects: building technology and decorative materials. In terms of design, adopting reasonable thermal, ventilation, and air conditioning design can achieve the effect of energy conservation. In the field of architectural decoration technology, the focus should be on independent and comprehensive innovation during the construction process, actively promoting new energy-saving technologies and processes. For example, photovoltaic building integration technology combines photovoltaic panels with building materials, which can generate electricity and be used as building materials, with significant energy-saving effects. In terms of decorative materials, building decoration enterprises can apply new building materials, environmentally friendly green decorative materials, renewable materials, and low-energy materials to engineering construction, as well as waste recycling materials. These materials not only reduce environmental pollution but also improve the sustainability of buildings by minimizing the impact of decoration on the environment and resource consumption using new processes.

At the same time, with the improvement of people's living standards, building decoration enterprises should increase the application of smart homes in decoration. Smart home systems can connect various devices in the home through IoT technology, achieving remote control and intelligent management. This not only improves the convenience of living but also achieves efficient utilization of energy, thereby meeting higher consumer demands and seizing more market share.

3.3. Risk Management

The cooling of the real estate market has led to a reduction in new development projects, resulting in a decrease in decoration demand. Enterprises in the industry need to adopt a low-price competition strategy to compete for limited market share, which in turn affects profit margins. At the same time, factors such as extended project payment cycles, increased liquidity pressure, fluctuations in raw material prices, and rising labor costs have made cost control more difficult. Furthermore, in a fiercely competitive market, one may accept contract terms that are unfavorable to oneself. Due to financial issues or poor management, the project cannot be completed on time and with quality. Faced with a series of complex and ever-changing risk factors, construction and decoration enterprises urgently need to adopt proactive risk management strategies to effectively respond to the challenges brought by market changes and ensure the stable operation and sustainable development of the enterprise.

Firstly, strengthen market research and flexibly adjust strategies. Architectural decoration enterprises should closely monitor the dynamics of the real estate market, analyze market trends, and adjust their business layout and product structure promptly. And expand diversified markets, such as old house renovation, public building decoration, etc., to reduce dependence on a single market. Secondly, strengthen financial management to ensure the safety of funds. Architectural decoration enterprises need to establish and improve financial management systems and strengthen cost control and budget management. Optimize fund chain management, improve fund utilization efficiency, and ensure sufficient project funds. Thirdly, strict contract management should be implemented to prevent performance risks. Strengthen project management and construction supervision to ensure that project quality and progress meets contract requirements. Fourth, promote technological innovation and product upgrading. Increase research and development investment, promote the application of new technologies, materials, and processes, and enhance product competitiveness and added value. Pay attention to the development trends of intelligence and realization, develop new products and services that meet market demand, and thereby increase the competitiveness of enterprises in the market.

3.4. Supply Chain Optimization and Cost Control

Against the backdrop of downward pressure on the real estate industry, the construction and decoration industry, as a closely connected downstream industry, is facing multiple challenges such as shrinking market demand, fierce competition, and rising costs. To maintain competitiveness and achieve sustainable development in this environment, the construction and decoration industry must strengthen the optimization of the supply chain and cost control.

Firstly, in terms of supplier selection and evaluation, building decoration enterprises should establish a wide supplier network, reduce dependence on a single supplier, and lower supply chain risks. And establish a scientific supplier evaluation system, comprehensively evaluate suppliers from multiple dimensions such as quality, price, delivery time, and service, and select high-quality suppliers to establish long-term cooperative relationships [6]. Secondly, utilizing big data and artificial intelligence technology to establish demand forecasting models, improve the accuracy of demand forecasting, provide a scientific basis for inventory management, reduce inventory backlog and waste, and improve inventory turnover rate. Thirdly, by optimizing the design scheme, reducing material consumption and construction difficulty, and controlling costs from the source, as well as promoting standardized design, reducing design duplication and waste, and improving design efficiency and quality. Fourthly, in the procurement stage, increase the procurement volume through centralized procurement, strive for lower procurement prices, and establish a comparative procurement mechanism to ensure reasonable and transparent procurement prices. Fifth, strengthen refined management during the construction process to reduce material waste and rework.

Faced with the downturn in the real estate industry, the construction and decoration industry must strengthen the optimization of the supply chain and cost control. Thus, reducing business risks, improving profitability, achieving sustainable development, and enhancing the core competitiveness of the enterprise can help it gain more advantages in market competition.

4. Conclusion

With the complex and ever-changing global economic environment and the continuous adjustment of the domestic real estate market, the real estate economy has entered a downward cycle, which has had a profound impact on the construction and decoration industry. As an important link in the real estate industry chain, the construction and decoration industry is facing multiple challenges such as reduced market demand, intensified competition, and rising costs. To address these challenges and achieve sustainable development, building decoration enterprises need to develop clear development strategies, such as market positioning and segmentation strategies, technological innovation and product upgrades, risk management, supply chain optimization, and cost control.

In the face of the impact on the construction industry, this article proposes the following suggestions. Firstly, establish industry collaboration mechanisms, strengthen cooperation and communication among enterprises, and jointly address market challenges. Secondly, closely monitor national policies and industry development trends, and adjust business strategies and management models promptly. Thirdly, focus on improving service quality, enhancing customer satisfaction and loyalty, and strengthening the market competitiveness of the enterprise.

Although the architectural decoration industry faces many challenges, there are still many opportunities and great development prospects. With the promotion of national policies such as new urbanization construction and renovation of old residential areas, as well as the continuous improvement of consumer requirements for the living environment, the demand for secondary decoration has also increased. In the future, the construction and decoration industry will pay more attention to green environmental protection, intelligence, and personalized development, promoting the industry's transformation towards high quality, high efficiency, and high added value. At the same time, with the advancement of technology and the improvement of innovation capabilities, the construction and decoration industry will continue to emerge with new business and service models, bringing new growth points and development momentum to the industry.

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