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The Future Trend of Consumption Downgrade and Real Estate Bubble Economy in First-tier Cities

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Abstract: This paper explores the trend of consumption downgrading and the real estate bubble economy in first-tier cities. The study is set against the backdrop of slowing economic growth and increasing uncertainty in household income, which are driving residents in these cities to shift their consumption habits towards more affordable goods. The research methods invovle examining the definition, causes, consequences, and effects of the real estate bubble economy, analyzing policy responses and preventive measures, and investigating the definition and characteristics of the consumption downgrading phenomenon, along with its impact on real estate demand and investment. The study concludes that the consumption downgrading trend has a complex and multifaceted impact on the real estate investment landscape in first-tier cities, altering the market's supply and demand dynamics and inflencing the strategic investment decisions of developers and investors.

Keywords: Consumption downgrade, Real estate bubble economy, first-tier cities, economic trends, preventive measures.

1. Introduction

The current slowdown in economic growth in various countries around the world and the increased uncertainty in per capita household income, which has led to a shift in the consumption habits of first-tier city dwellers towards cheaper goods. House-related expenditures account for a large proportion of residents' daily lives, and this shift in consumer attitudes has gradually affected the real estate market [1]. Therefore, the theme of this paper is the trend of consumption downgrading in first-tier cities and its relationship with the real estate bubble economy.Through the study of the current real estate bubble economy, this paper discusses how the trend of consumption downgrading affects the investment pattern of real estate in first-tier cities, the dynamics of market supply and demand, and the strategic investment decisions of developers and investors.

This paper begins with an analysis of the definition of the real estate bubble economy and preventive measures, and then builds on the impact of the concept of consumer downgrading on real estate demand and investment. It is the need for a more in-depth analysis of the interaction between consumption downgrading and the real estate bubble economy in first-tier cities, in addition, this study analyzes the strategies of policy makers and market participants in responding to these changes. This study emphasizes the importance of comprehensive policy measures, effective market regulation, and extensive consumer education in mitigating the effects of the bursting of the real estate bubble. The paper argues that by implementing these strategies, a more stable, sustainable and resilient real

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estate market can be promoted. In addition, this paper suggests that developers and investors reassess their market strategies to adapt to the economic changes brought about by the trend of consumer downgrading.

2. Overview of the real estate bubble economy

The real estate bubble economy refers to the phenomenon that the price of the real estate market far exceeds its intrinsic value in a certain period of time. This economic phenomenon is usually accompanied by the prevalence of speculation, resulting in an imbalance between supply and demand in the real estate market, and a serious disconnect between the price and the actual value. According to the International Monetary Fund, for example, there was a significant bubble in the US housing market before the 2008 global financial crisis, with the ratio of house prices to incomes reaching an all-time high. A bubble economy is characterized by rapidly rising house prices, easy credit conditions, excessive speculation, and an over-reliance on real estate. Markets remain irrational longer than they remain solvent and that in a real estate bubble economy, market participants tend to ignore the risks before the bubble bursts and continue to push up prices [2-3].

2.1. Analysis of formation causes

The formation of the real estate bubble economy is a complicated process, involving many factors such as the economy, society and policy. In first-tier cities, the formation of real estate bubbles is often closely related to excessive speculation, easy credit policies, and the imbalance between supply and demand in the process of urbanization. Housing prices in first-tier cities have risen much faster than incomes over the past decade, partly reflecting speculative demand for housing [4]. In addition, easy credit policies, such as the low-interest rate environment and highly leveraged loans, also contributed to the bubble in the real estate market. In first-tier cities, this irrational behavior is particularly evident in the real estate market. The scarcity of land resources in the process of urbanization and the trend of population concentration in cities further aggravate the contradiction between supply and demand in the real estate market and create the conditions for the formation of a bubble economy.

2.2. Consequences and effects

The bursting of the real estate bubble has a profound impact on the economy and society. When a bubble inevitably bursts, it causes property values to drop dramatically, leaving many homeowners with mortgages that exceed the value of their homes. This phenomenon, known as mortgage "insolvency", can lead to widespread defaults and foreclosures, severely affecting household wealth and financial stability. The financial sector also suffers as banks and other lenders face rising bad debts and the prospect of a sharp fall in the value of mortgage-backed securities. The interconnectedness of the global financial system means that the effects of such a crisis could spread outward, triggering a domino effect that could lead to a wider economic downturn or even recession [3]. Moreover, the social impact of the housing bust has been enormous. The construction industry, which often boomed during the bubble years, has experienced a sharp contraction, leaving many workers jobless or underemployed. The psychological impact on individuals who lose significant wealth or homes cannot be underestimated, leading to increased stress, anxiety, and social unrest.

2.3. Policy responses and preventative measures

To effectively offset the dangers posed by the formation of a potential housing bubble, policymakers need to introduce a comprehensive strategy. One of the key ways is to enforce stricter lending

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standards, which have helped curb the problem of excessive borrowing and speculation in the market. This requires higher minimum down payments, making it harder for buyers to get a loan with minimal upfront investment. In addition, limiting loan-to-value ratios ensures that borrowers do not take on more debt than the real value of the property, which can prevent property values from ballooning and subsequently collapsing. Stricter credit checks could also be implemented to ensure that only creditworthy individuals are granted loans, thereby reducing the risk of default [5].

Another key strategy is to increase the total supply of housing to ease the current imbalance between supply and demand. The government can introduce affordable housing programs for low- and middle-income families, making home ownership easier and reducing pressure on the housing market. In addition, by providing incentives for housing development in areas outside the major first-tier cities, the government can help redistribute the population and ease the huge pressure on the urban real estate market.

In addition to these measures, the implementation of macroprudential policies is essential to monitor and contain systemic risks within the financial system. These policies could include the introduction of counter-cyclical capital buffers, which require banks to hold higher levels of capital in good times. This approach stabilizes the financial system by ensuring that financial institutions have a capital cushion to absorb potential losses during a recession. There is also a need to improve the financial literacy of consumers to ensure they can make informed decisions. National awareness campaigns should inform the public about the dangers of speculative property purchases without a solid financial foundation. Transparent disclosure of risks by financial institutions and real estate companies can enable individuals to make more informed decisions about their finances and prevent them from being lured into risky investments in the blind pursuit of high returns [5].

In conclusion, while predicting and completely preventing a housing bubble can be challenging, a combination of smart policy measures, effective market regulation, and comprehensive consumer education can significantly mitigate its impact. By taking these steps, efforts can be made to foster a real estate market that is more stable, more sustainable and less vulnerable to the destructive effects of bubble bursting.

3. The phenomenon of consumption degradation in first-tier cities

The trend of consumption downgrading, which is becoming more pronounced in large cities, describes a situation in which individuals opt for more affordable and often lower-quality products and services due to economic hardship or reduced financial resources. This shift in consumption preferences has become more pronounced in first-tier cities. In recent years, the consumer price index (CPI) in these central cities has shown slow growth, which is in line with the slowing incoming growth among residents. This economic environment reveals a new trend of consumption downgrading [1].

In first-tier cities, the phenomenon of consumption downgrade is increasingly significant, which is not only reflected in changes in residents' daily consumption habits, but also reflected in attitudes and behaviors toward the real estate market. The growth rate of the consumer price index (CPI) in first-tier cities has slowed, indicating that residents' spending on basic necessities such as food, clothing and transportation has slowed down [4]. The catering industry in first-tier cities such as Shanghai and Beijing has shifted from a market dominated by high-end consumption to low-end catering brands, which illustrates the trend of consumption downgrading from one side to the other. In addition, according to a report by a market research institute, the growth rate of luxury consumption in first-tier cities is significantly lower than that in second- and third-tier cities, which further confirms the consumption downgrading trend [6]. In the real estate market, this consumption downgrade has manifested itself in rising resistance to high housing prices and increased demand for relatively economical properties such as small units and second-hand homes. This trend not only affects the

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supply and demand dynamics in real estate, but also has a profound impact on the investment decisions of real estate developers.

4. The correlation between the real estate bubble and the consumption downgrade

4.1. Impact of consumption downgrade on real estate demand

In first-tier cities, the consumption downgrading is becoming an important factor affecting real estate demand. As economic growth slows and uncertainty about household income growth increases, more and more consumers are reassessing their spending habits and financial situations. According to the National Bureau of Statistics, the CPI of residents in first-tier cities has shown steady growth in recent years, but their real purchasing power has been eroded by high housing prices. This consumption downgrade trend has led to a decrease in demand for high-end homes and a relative increase in demand for mid- and low-end homes with greater affordability, reflecting consumers' greater emphasis on practicality and economy when buying homes. In addition, the consumption downgrade may also affect consumers' home purchase decisions by shaping their expectations of the future economy [7].

4.2. Impact of consumption downgrade on real estate investment

4.2.1. Problem

Against the backdrop of consumption downgrading in first-tier cities, the real estate investment market is facing unprecedented challenges. Consumption downgrading means that residents' disposable income decreases, and their willingness and ability to consume decreases, which directly affects the investment demand in the real estate market. According to the National Bureau of Statistics, home prices in first-tier cities have experienced rapid growth over the past few years, but with the trend of consumption downgrading, the growth rate of home prices in some areas has begun to slow down or even decline. This trend indicates that investors' confidence in the real estate market is weakening and they are beginning to reassess the returns and risks of their investments [7].

The impact of consumption downgrading on real estate investment is also reflected in the investment decisions of real estate development projects. In an environment of consumer downgrading, developers may delay or cancel new development projects due to increased uncertainty in market demand. Consumers reduce consumption, housing demand naturally decreases, and if supply remains unchanged or increases, it will lead to a decline in housing prices, which in turn will affect real estate investment returns. This change in supply and demand dynamics not only affects the short-term performance of the real estate market, but also poses a challenge to long-term investment strategies.

In examining the impact of reduced consumer spending on real estate investment, it is important to consider the established economic principles of supply and demand. Reduced consumer spending inevitably leads to reduced demand for housing. If supply remains constant or increases, this situation can lead to a decline in real estate prices, which in turn affects the profitability of real estate investment. Changes in the balance of supply and demand will not only affect the near-term performance of the real estate industry, but will also create challenges for long-term investment approaches. Investors will need to assess market trends more carefully and adjust their portfolios to cope with the uncertainty caused by declining consumer spending [8].

4.2.2. Suggestion

In response to these conditions, both developers and investors will have to reassess their market strategies. Developers may need to refocus on creating more affordable housing options that fit the parameters of the new economy. This may require a shift from building luxury high-rises to developing mid-range, family-oriented apartment buildings or even smaller, more affordable living spaces. Innovations in building and construction methods that reduce costs without sacrificing quality will become increasingly important [9].

Investors may need to diversify their portfolios to reduce the associated risks. This may involve exploring other real estate sectors, such as commercial or industrial real estate, which may be less sensitive to fluctuations in consumer spending. In addition, investors may consider diversifying their investments into real estate markets in secondary cities or emerging markets where the impact of reduced consumer spending may be less pronounced.

In addition, the financial services industry may introduce new financial products and services in response to changing market conditions. For example, mortgage lenders may offer more accommodating loan terms or lower interest rates to stimulate demand. Meanwhile, real estate crowdfunding platforms may stand out. Government policies will also play an important role in shaping the housing market to fit new economic realities. Fiscal incentives, revisions to zoning regulations, and support for first-time homebuyers can all be tools to stabilize the market and encourage investment. However, regulators will need to fine-tune these measures to avoid creating economic bubbles or worsening the situation.

4.2.3. Future direction

The reduction in consumer spending presents challenges for the real estate industry on multiple fronts, but it also opens the way for innovation and strategic adaptation. By understanding and proactively responding to changing supply and demand dynamics, stakeholders can successfully navigate the market and position themselves for sustainable growth. As ever, adaptability and strategic vision will be the defining characteristics of successful real estate investment in these times of economic transition. Collaboration between developers, investors, financial institutions and policymakers is essential to develop sustainable solutions that can mitigate the impact of reduced consumer spending on the real estate market [5].

For developers, forming partnerships with tech companies to streamline the construction process and reduce costs could be a game changer. By leveraging advanced building materials, automation and digital tools, developers can improve efficiency, build more cost-effective properties and appeal to a wider range of buyers. In addition, a focus on sustainability and environmental friendliness can set a property apart and attract buyers who prioritize these factors. In the meantime, investors should focus on thorough due diligence and maintain a long-term perspective. This includes conducting rigorous market research, assessing the financial health of potential investments, and diversifying across different asset classes and geographies. Reaching out to industry experts and seeking professional advice can also help investors make informed decisions amid economic uncertainty [10]. Financial institutions such as banks and mortgage lenders play a key role in facilitating transactions and providing liquidity to the market. They should offer flexible financing options to adapt to the changing needs of buyers and investors. In addition, they can work closely with developers to finance projects that meet market needs and contribute to economic growth [11]. The government also has a key role to play in shaping the future of the property market. Through the implementation of policies to encourage investment, support affordable housing, and cultivation a stable regulatory environment, policymakers can create conditions conducive to the development of the industry. This includes

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providing tax incentives, easing zoning restrictions, and increasing market transparency and accountability.

5. Conclusion

The real estate industry is undergoing significant change, driven by technological advances and changing consumer preferences. With the rise of remote working and more flexible lifestyles, there is a growing demand for homes that combine comfort and functionality. This trend has prompted developers to incorporate smart home technologies, flexible living spaces and amenities to meet modern needs. At the same time, affordability issues have become a major concern for many potential homebuyers. Addressing this challenge requires a delicate balance between creating high-quality, value-added properties and keeping them affordable. Collaboration between Governments and the private sector can help achieve homeownership goals by providing financing options, subsidies and other incentives. This can help to narrow the gap between supply and demand and ensure that more people have the opportunity to own their own homes. In addition, real estate markets are increasingly globalized and cross-border investment and cooperation is becoming more common. This globalization provides new opportunities for developers and investors to enter international markets and diversify their portfolios. To thrive in this environment, developers, investors, and policymakers must remain agile, innovative, and collaborative, working together to create a stable, sustainable, and inclusive housing market in a changing landscape.

However, in this paper, the real estate market is analyzed mainly in the form of a literature review, without the use of empirical analysis and with a narrow reference to the literature. In the future, it will follow up the changes and trends in real estate based on the accumulation of professional knowledge.

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