

# Cost control and strategy of engineering projects of real estate enterprises

Nie Zhongyuan

No.1 High School of Jimo, Qingdao, Shandong, China  
niezhongyuan2023@163.com

**Abstract:** *In the cost control link of engineering projects, most of the real estate enterprises in China only focus on the cost control situation in this link and are not faithful enough to other links. However, the author believes that cost control of real estate enterprises does not exist only in a particular link but should be throughout each link of the entire engineering project. Therefore, real estate enterprises should control the cost of the whole engineering project. This paper analyzes and studies the cost control that should be carried out at different stages of engineering projects of real estate enterprises in China and proposes targeted cost control strategies. The authors hope this paper can provide a little reference for other research scholars who study the engineering cost control of real estate enterprise projects in China.*

**Keywords:** *real estate enterprise, engineering project, cost control, strategy*

## 1. Introduction

At present, the pace of reform and opening up is accelerating, and the people's living standard is further improved based on rapid economic development and good prospects, which also drives the booming growth of the real estate industry. After the liberalization of the epidemic, China's real estate industry has gradually rebounded, but a series of problems have also emerged. These problems include an excessive increase in housing prices and a dysfunctional real estate supply structure, while various irregularities have continued to occur in the real estate market. Accordingly, the Chinese government has vigorously introduced a series of macro-control policies, such as enhancing land management, strengthening financial supervision, and rectifying the current order of our real estate market scientifically and efficiently.

China's central government has been concerned about the movement of China's real estate enterprises and is heavy-handed and launched a series of macro-control policies. In the context of this series of macro-control policies vigorously pursued, the previously overheated real estate prices have been hit to some extent. At the same time, investment in land and real estate development in each region has gradually decreased, and its rate of increase has also reduced accordingly. In addition, a series of measures have led to dramatic changes in China's real estate, particularly the decreasing rate of growth in real estate development loans and consumer loans, which has led to a shrinking scale of real estate development. The pace of real estate construction and completion in all regions has been significantly affected. At the same time, the real estate development process has been hampered by the epidemic, which has led to a severe divergence in the operating efficiency of real estate companies in China.

## 2. Real estate enterprises and characteristics

### 2.1 Real estate enterprises

The real estate enterprise is an economic organization that engages in various activities related to real estates, such as development, operation, management, and services. It is a profit-oriented organization characterized by its self-management and independent accounting.

### 2.2 Characteristics of real estate enterprises

In China, real estate enterprises have more prominent characteristics than other enterprises. Moreover, real estate enterprises in China are in the development stage and therefore exhibit distinctive attributes of a specific period.

First, the degree of organization of China's real estate enterprises is low. Compared with the real estate enterprises in developed countries, the organizational ability and level of real estate enterprises in China are relatively backward, especially in production. More specifically, China's real estate enterprises have low purity of specialization and cooperation and lack core competitiveness in real estate land use and development [1]. At the same time, the Chinese government does not manage small and medium-sized real estate enterprises sufficiently, and small and medium-sized real estate enterprises lack special legal support and supportive policies. This makes it difficult for small and medium-sized real estate enterprises, which occupy a large share of China's real estate market, to have a high level of specialized organization. In addition, from the aspect of the social service system, the gap between China and developed countries also makes the level of organization of real estate enterprises in China relatively backward.

Second, most of China's real estate projects are oriented to the domestic market and rarely to foreign markets. With China's prevention and control of the epidemic in recent years, the strength in line with international standards is less, coupled with the slowdown of China's economic development in recent years, making China's real estate support policies less. It has led to the risk of bankruptcy and collapse of real estate companies that are themselves of low quality and fund shortage, not to mention being able to go to the international market. Moreover, most real estate enterprises in China focus on developing small real estate projects, which leads to a small investment in China's real estate enterprises, and the investment has limitations, making it difficult for most of China's real estate enterprises to go to the stage of the international market [2].

### **3. Problems of engineering project cost control in real estate enterprises**

Nowadays, in the current economic background of China, the primary concern of China's real estate enterprises is that the way of cost control is not scientific enough. Even many real estate enterprises do not pay attention to cost control, and some have not yet recognized the importance and necessity of cost control, which seriously leads to high costs invested in the operation of real estate enterprises. It is also difficult to obtain better economic returns.

#### ***3.1 Low level of cost control awareness in engineering projects***

Currently, the development of real estate enterprises in China is unbalanced, and the professional quality of senior managers in many real estate enterprises is low. Especially in the cost control of engineering projects of real estate enterprises, most of the senior management of real estate enterprises ignore the decision-making stage, design stage, and bidding stage. This is also an important factor that prevents China's real estate enterprises from going abroad and entering overseas markets. Ultimately, the strategic thinking of these real estate enterprises lacks industry and long-term, and they do not consider problems from a global perspective.

#### ***3.2 Neglect the quality cost control link of engineering projects***

Real estate enterprises pay more attention to the profit gained during the construction stage of the engineering project. Nevertheless, the relationship between quality and cost is positive, i.e., a positive correlation. Suppose real estate enterprises do not carry out scientific control of costs. In that case, it is also difficult to efficiently deal with the relationship between quality and cost, which has led many real estate enterprises in China to adopt such means as cutting corners and using substandard materials to suppress costs, to obtain high profits [3]. But this approach does not achieve the long-term sustainable development of real estate enterprises and will also lead to the gradual decline of the real estate market.

The senior management of a real estate enterprise's product positioning for an engineering project directly determines the quality of the products that the real estate enterprise can produce and sell. In real estate development, some enterprises encounter the situation of rising raw material prices and often choose to reduce product quality or choose cheaper raw materials to control costs, but this practice will undoubtedly bring greater losses to the enterprise and even lose the trust of customers.

#### ***3.3 Insufficient control of engineering project's time limit cost***

Most of the real estate enterprises in the engineering project development link to pursue high profits and excessive pursuit of cost reduction efforts. Even each stage of the engineering project program is repeatedly modified, undoubtedly leading to the schedule being constantly delayed. This shows that some

real estate enterprises do not pay enough attention to the cost of the engineering project's time limit. At the same time, it will lead to an increase in the cost invested in the engineering project, which is difficult to achieve its purpose of pursuing high profits.

### ***3.4 The process of bidding for engineering projects is not rigorous enough***

Currently, most consumers are dissatisfied with real estate enterprises, and many others maintain a wait-and-see attitude toward recent real estate development. The reason behind this is that the development trend of housing prices is unclear under the current economic conditions, and the construction quality of many commercial houses is low, which will bring a poor living experience to consumers later [4]. Therefore, the author believes that real estate enterprises should implement the bidding method to reduce the cost of construction engineering projects as much as possible. And taking this approach can effectively improve the construction quality of engineering projects, which is undoubtedly an excellent path to increase profits and reduce costs.

### ***3.5 Profound disconnection in the cost control stage of engineering projects***

Engineering project management is a complex system that includes various indicators such as engineering progress, invested funds, project quality, construction workers, required machines, required raw materials, and estimated energy consumption. Real estate enterprises carrying out engineering projects in real life while achieving the maximum benefits of various indicators is usually difficult. This requires the senior management of real estate enterprises to base on the overall situation and adopt an integrated management mode to achieve the purpose of various indicators for the whole project so that the benefits of the entire project can be maximized.

In the current economic and social context, the problem of real estate enterprises in China is that they mainly focus on a certain stage or a certain sector in project management work. Some enterprises even equate computer-drawn cross-track planning progress charts with project management. Moreover, many real estate enterprises ignore the systemic nature of project management and fail to sort out the logical relationship between different indicators in project management, not to mention the deployment and optimization of various resources in project management [5]. In addition, the lack of effective communication and interaction between departments and hierarchies in our real estate enterprises also makes engineering management more difficult, which leads to delays and increased costs of engineering projects. This can affect the development of the whole real estate industry.

## **4. Cost and control strategy of engineering projects of real estate enterprises**

Under the current economic and social background, if China's real estate enterprises want to survive in the fierce competition in the real estate market, they still need to improve and optimize in many places.

### ***4.1 Investment decision stage***

On the one hand, real estate enterprises should pay attention to the research and analysis of current investment opportunities in the real estate market. Investors can subjectively judge the investment direction based on their experience and make further investment estimates for the investable direction after that. On the other hand, China's real estate enterprises also need to study investment feasibility. A feasibility study of investment is necessary for its ability to reduce investment decision errors and scientifically improve the scientific and efficient nature of investment in engineering projects. At the same time, if this link can be studied clearly, it will effectively solve the technical and fundamental information problems related to later real estate development engineering projects.

### ***4.2 Project design stage***

Most real estate enterprises in China do not attach importance to the design stage of the engineering project. However, this paper argues that this link is the key to successfully implementing China's real estate engineering projects and, more importantly, to controlling the whole process cost of real estate engineering projects. In other words, this stage is the key to realizing the entire process cost of engineering projects of real estate enterprises in China.

In terms of organizational structure, project designers of real estate enterprises in China should fully

understand the engineering project's current organizational structure and determine the project's cost control managers and the projects they are responsible for. In this step, the specific cost manager of the engineering project must be determined so that the cost control of each link of the engineering project can be implemented by individuals to control the cost input of the whole project effectively.

### **4.3 Bidding stage**

In the bidding stage of engineering projects of real estate enterprises in China, most real estate enterprises will ignore this stage. They think this stage does not play a key role in keeping costs down. But in fact, the bidding stage of engineering projects can effectively control the cost of the whole project, and this stage is also the core of engineering project management. In this stage, there are two aspects: the bidding work of equipment and material procurement and the bidding work of construction.

Through bidding activities, it can not only improve the current competition mechanism of the real estate market but also effectively reduce the investment cost of the construction of engineering projects in the real estate industry.

At this stage, China's real estate enterprises should do an excellent job in two aspects. On the one hand, China's real estate enterprises should choose the bidding method to screen the construction units to determine the high-quality ones. Notably, real estate enterprises in China should select the winning bidder for the following reasons. The construction unit should have a reasonable bid and be able to guarantee that the quality of the construction project meets the investors' expectations and that the work can be completed within the construction period. On the other hand, real estate enterprises should also develop a list of the total amount of work that meets the reality of the project.

### **4.4 Items at the construction stage**

In the construction stage of engineering projects, real estate enterprises should choose scientific construction plans, adopt advanced construction units, choose efficient construction design processes, minimize material waste and shorten the construction period of engineering projects. At the same time, they should strictly supervise and manage the change in engineering quantity. In this stage, China's real estate enterprises should do an excellent job in four aspects, which are to set reasonable cost control targets, deal with the affairs of infrastructure procedures strictly and scientifically, strictly control the changes in the process of engineering projects, strengthen the substantial control of project visas, and effectively take various measures to provide the labor productivity of construction projects.

### **4.5 Completion budget stage**

The completion budget stage is the last stage of the cost control work system. However, this stage is still crucial, and many real estate enterprises ignore this stage. In this stage, the work carried out by real estate enterprises' engineering projects is to strictly audit the costs of the whole process of the construction of the project according to the contract and relevant completion information as well as national or local laws and regulations, and to verify the number of specific project works according to the complete settlement sent for audit. Therefore, the project completion budget stage is still essential to the cost control work. Real estate enterprises should do the following four aspects of work in this stage. They are to review the content of this project's completion strictly, clarify the warranty period of this project, improve and optimize the handover management system, and conduct strict auditing work on the whole process of this project.

## **5. Conclusions**

In summary, the author analyzes that the cost control of China's real estate enterprises' engineering projects exists in all stages, not just in one stage. This shows that China's real estate enterprises should carry out cost control for the whole process of engineering projects and should pay equal attention to every stage. In addition, among the five critical stages proposed in this paper, the investment decision stage requires cost control before project construction. It directly determines whether the later real estate enterprises can effectively control the costs of the subsequent four stages, so it plays a fundamental role.

As real estate enterprises gradually rebound today, China's real estate enterprises need to improve the level of cost control of engineering projects. Only scientific and practical control of real estate engineering project costs can ensure that China's real estate enterprises obtain the highest comprehensive

benefits. In turn, the sustainable and healthy development of real estate enterprises will be achieved, which will also make the entire real estate market gradually move toward the international market.

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