

PERPUSTAKAAN UMP



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**FACTORS AFFECTING HOUSE PURCHASE DECISION OF  
MIDDLE CLASS INCOME IN KUANTAN**

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## ABSTRACT

The main purpose of the study is to investigate the effecting of key factors on housing purchase decision of middle class earner in Kuantan. First, a model which is proposed based on analyzing of previous literature. Then the model is tested on a on a larger survey of 292 samples. The study finds out a strong positive relationship between top two factors, including “affordability ownership”, “location and environment” and customers’ housing purchase decision. The three weaker positive relationship factors are “house feature”, “developer reputation” and “family factor” to housing decision makers. It is also found that there is difference in decision making of customers according to different demographics consisting of gender, age, marital status, monthly income and education level.

## ABSTRAK

Tujuan utama kajian ini adalah untuk menyiasat faktor-faktor yang mempengaruhi keputusan pembelian rumah oleh golongan pendapatan sederhana di Kuantan. Pertama, model yang dicadangkan berdasarkan analisis sastera yang sebelumnya. Kemudian model yang diuji pada kaji selidik yang lebih besar daripada 292 sampel. Kajian ini mendapati hubungan positif yang kuat antara dua faktor, termasuk "kemampuan memiliki rumah", "lokasi dan persekitaran" di dalam membuat keputusan untuk membeli oleh golongan berpendapatan sederhana. Tiga faktor hubungan positif yang lemah adalah "ciri-ciri rumah", "reputasi pemaju" dan "faktor keluarga" kepada pembuat keputusan perumahan. Ia juga mendapati bahawa terdapat perbezaan dalam membuat keputusan oleh responden mengikut demografi berlainan yang terdiri daripada jantina, umur, status perkahwinan, pendapatan bulanan dan tahap pendidikan.

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## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF STUDY**

As universal population levels continue to rise, the housing shortage in many developing countries has reached critical levels Morel (2001). Real estate is one of the most important things to citizens, so “the house purchase decision of them can change their life” Wells (1993). The house purchase decisions are different from other business decisions due to “the innate, durable and long-term characteristics of real estate”. It is a highly differentiated product with “each specific site unique and fixed in location” Kinnard (1968).

Over’s the years, Malaysia’s housing programs have focused on the eradication of poverty and restricting of society through integration of the various ethnic communities. The government has provided a settlement policy to keep pace with Malaysia’s rapid economic growth “to eradicate hard-core poverty, to bring a better quality of life to people and to conserve forest eco-system for future generation. The role of private sector developers became more significant and resulted in the formation of a consultative committee on housing and construction between public and private sectors.

To provide affordable housing for the poor, soft housing loans are offered, to encourage Home Ownership for Low-Income Groups, the government is increasing its role to build more houses for sale at subsidized price, to supplement private sectors efforts. The private sector will play a major role in providing “Low-Medium Cost” houses at affordable prices.

## **1.2 PROBLEM STATEMENT**

In general, home is one of the basic human needs. Home is a place not only to protect the people living in it than the physical aspect, but also the home as a place for privacy, tranquillity, a place to relax, and do family activities. Therefore, every individual is determined to own their own homes to meet the needs of himself and his family live. Unfortunately, not many individuals have the opportunity to buy a home, due to a host of problems and obstacles either directly or indirectly.

The purpose of this study was to identify response capabilities lower middle class to own houses as well as the criteria required in leading well-being of society. “There are two main fields of customer research are how customers go about making decisions and how decisions should be made. In addition, “creating true value for customer and customer notion focused approach” is confirmed. It is found that “customer decision making is one of the most important areas of customer behaviour and it requires gathering a lot of regarding information”. There have been many published academic research about customer house purchase with variety of both developed and developing countries. However, “the national and cultural characteristics play a very significant role in house purchase decision, that mean finding which is applied in specific context may not extend to another context” Opoku & Abdul-Muhmin (2010).

### **1.3 RESEARCH OBJECTIVES**

The main objectives of this research are as follow:

**1.3.1** To determine affordable housing prices that preferred by middle class in Kuantan

**1.3.2** To determine the key factors affecting the house purchase decision of middle class earner in Kuantan

**1.3.3** To determine the impact of these factors on house purchase decision of middle class earner in Kuantan

### **1.4 RESEARCH QUESTIONS**

**1.4.1** What is the affordable housing prices that preferred by middle class in Kuantan?

**1.4.2** What are the key factors affecting the house purchase decision of customers in middle class earner at Kuantan?

**1.4.3** How is impact of these factors on house purchase decision of customers evaluated in middle class earner at Kuantan context?

### **1.5 SCOPE OF STUDY**

To meet the research objectives, this study will focus on the ability of lower-middle class living in Kuantan to own houses provided under PR1MA program. Some variables were household income, household expenses, types of employment, education, housing and the amount of the monthly payment required basic needs in leading a prosperous life.

The study area is the population that living in Kuantan and born in Pahang. Studies focusing only middle-low income groups as they meet the conditions set by the government to apply the Perumahan Rakyat 1 Malaysia (PR1MA).

## **1.6 SIGNIFICANCE OF RESEARCH**

Home is one of the basic human needs. Home is a place not only to protect the people living in it than the physical aspect, but also the home as a place for privacy, tranquillity, a place to relax, and do family activities. This study is very important because a home is one of the main problems faced by the people of Malaysia. Therefore, through this study, we were able to identify the problems faced by people of lower middle income and basic needs required.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

Individuals have natural preference towards homeownership. The decision to own a house might be affected by a desire to have a property of one's own, a desire for stability and pride of ownership, things that cannot be easily captured by age or income. Following psychologist Abraham Maslow's motivation theory, owning a house may satisfy more than wide-ranging household's needs. For example, a home offers basic protection from physical discomfort of harm (shelter). A home also can provide protection from unwanted social contact (privacy).

As such, shelter and privacy form a physiological and safety's dimensions of needs. The benefits of home ownership to both owners and society can be found in many housing studies ranging from sociological to economic benefits. Owning a house can improve the home environment in which a child lives, improve child's cognitive ability and reduce behaviour problems. Besides, home owning increases household's self-esteem and life satisfaction because it can be viewed as a significant achievement of a household. Increased parental self-esteem has resulted in a greater emotional support for the household's children.

## **2.2 FACTOR AFFECT HOUSE DECISION BUYERS**

There are five main factors that affect house decision buyer such as house feature and characteristic, location and environment, ownership affordability, developer reputation and family factor.

### **2.2.1 HOUSE FEATURES & CHARACTERISTIC**

Firstly, “features” of the building structure itself is an important determinant of a household choice of residence Quigley (2011). Also, it is confirmed that “feature” has significant effects on customers’ house purchase decision making Sengul (2010). The “feature” of house includes “outdoor house scenery”, “Total numbers of room”, “Total numbers of toilet”, “Room and living room size”, “Cleanliness of the surrounding environment”, “Gated and Guarded facility (CCTV, patrol etc)”, “Spacious car park”, “Overall standard of the surrounding resident and public security” and “Energy conservation, carbon reduction, green building design concept” determinants relating to decision making to buy a house of an individual Opoku and Abdul-Muhmin (2010). There is a positive impact of house features on customers’ house purchase decision.

#### **2.2.1.1 OUTDOOR HOUSE SCENERY**

Choosing where to live is a decision that will affect many of the things that touch people's everyday lives - the schools their children attend, their daily commute, the amount of energy they consume and the quality of the natural environment around them. Selecting the location and style for a home can help owners reduce environmental impacts from their activities, preserve the surrounding ecosystem, and improve their quality of life.

### **2.2.2 HOUSE ENVIRONMENT & LOCATION**

Secondly, “house environment & location” is one of most important factors affecting to “consumer housing decision”. House environment and location consists of “Near working premises”, “near commercial area”, “near shopping centres”, “near school” and “near main transportation route” Location really does matter. These preferences suggest that a neighbourhood with facilities which can be reached on foot (home buyers believe this helps engender a sense of community), along well-lit streets, which are overlooked by home entrances, are fundamentals which can produce a quality environment. It is no surprise that these are broadly the recommendations of all the recent housing design guidance. The presence of shops, schools and local services – particularly schools all enhance the attractiveness of a locality for home buyers. But the picture is not clear-cut. While just fewer than half the respondents in one survey said they would put up with a home which was not exactly right in order to have convenient access to shops and services, the majority 55% were willing to forego these amenities for exactly the right home. Proximity to a wide range of shops did rank highly in a number of surveys, and was third in the Mulholland work. This was linked to lifestyles and stages, with the majority of those who lived in metropolitan or urban areas placing particular value on convenient access to a range of facilities. Good access was particularly important for the oldest and the youngest, while families with children were most likely to trade off convenience against other criteria such as a larger house or a bigger garden. There is a positive impact of house environment and location on customers’ house purchase decision.

### **2.2.3 AFFORDABILITY OF OWNERSHIP**

Thirdly, “Affordability of ownership” status is much significant to customer house choice Hinkle and Combs (1987). The “financial” element of real estate requires access to a relative large amount of “capital” and as well as “borrowing costs” Xiao and Tan (2007). In addition, “Affordability of ownership” status bases on combination of “financial assistance from family members”, “Present financial capability”, “approved

bank facility for instalment with best rate”, “reasonable price of the house unit”, “guarantee return form developer (example: 8% per annum for 3 years)” and “Provide management for charter contract to gain rental income”. Haddad (2011) finds out the “economic” factor which is consisted of five variables, such as “income”, “interest rate”, “area”, “conversion” and “taxes”.

A final consideration in measuring affordability is choosing how to compare the required payments of ownership with financial resources. One commonly used measure of affordability is the ratio of required payments to income. The ratio comparison gives the share of annual resources devoted to housing. It serves as an intuitive benchmark to assess affordability. An increase in the ratio indicates that house payments are growing faster than income, suggesting that affordability has declined. An important drawback of the ratio measure is that it can give a misleading measure about household welfare—that is, whether households benefit from given changes in income and homeownership financial obligations.

An alternative measure of affordability is the arithmetic difference between income and required payments. This measure shows how much income households have left over after they purchase a representative, constant quality of housing. This residual income can be used to purchase non-housing goods and services or to save for the future. Unlike the ratio measure, residual income correctly reflects household welfare. If residual income affordability is higher in one year compared to another, household welfare has improved.

#### **2.2.3.1 INTEREST RATE**

According to Teck-Hong (2007) base lending rate is the key determinant of the residential housing activities in most of the states in Malaysia for the year 2000 - 2006. However, changes in house prices may not necessarily influence residential housing activities in the country when there is a mismatch between current and desired housing



of all households. Housing developers and policy makers must consider that any housing decisions not always should be made just on the basis of interest rates and house prices, but should pay more attention to the efficiency and effectiveness of housing delivery system in the country.

A higher interest rate, for instance, can decrease the net worth of households, since households' real debt burden will increase and housing prices (collateral value) will come down. Furthermore, the higher interest rate will also increase interest payments. Together, these effects may aggravate the consequences of asymmetric information, ultimately leading to a reduction in the supply of credit to households

According to Zhu (2006) examine the determinants of house prices in a number of industrialized economies, and find that economic growth, inflation, interest rates, bank lending and equity prices have significant explanatory power. While, based on impulse response analysis by Hofmann (2001) finds that property price innovations have a significantly positive effect on bank lending and vice versa, suggesting a two-way relationship between credit and property prices.

#### **2.2.4 DEVELOPER REPUTATION**

Fourthly, "Developer reputation" status is much significant to customer house choice Hinkle and Combs (1987). A buyer will consider a number of factors when purchasing a residential property. The major factors are location, building Conjoint Analysis of Buyers' Preferences size, type of unit, number of bedrooms, design and layout, amenities, facilities, view, density, developer reputation, promotional efforts, security, and convenience. In addition, "Developer reputation" status bases on combination of "Developers corporate brand image", "The experience of the developer", "Developer successful projects", "Sales personnel attitude and services", "Brokerage fees from broker and property agency", "After sales services from developer" and "House advertisement appeal (famous spokesman, sample unit, TV)"

A brand, as defined by Keller, is “a product, but one that adds other dimensions that differentiate it in some way from other products designed to satisfy the same need Biplab (1998). These differences may be rational and tangible – related to product performance of the brand or more symbolic, emotional, and intangible – related to what the brand represents”. Mariotti defines a brand as “a simplified ‘shorthand’ description of a European Scientific Journal March package of value upon which consumers and prospective purchasers can rely to be consistently the same (or better) over long periods of time Biplab (1998).

### **2.2.5 FAMILY FACTORS**

Family is not an informal or artless organization of people, but it is a divinely designed institution. It can be defined as any group of people closely connected by blood. The family role is important in every culture and society because it is the most important foundation and structure of society itself. According to some researchers, household is considered the relevant unit of analysis, not the individual consumer Davis (1976). Given that the number of family household units is significantly greater than the number of single households, research in the field of family decision making (FDM) is essential in advancing our knowledge of consumer behaviour.

The family has been identified as the most important decision making and consumption unit and key research area for understanding of consumer behaviour Ekstrom (2004). Moreover, Scanzoni and Polonko (1980) define decision making as an expression which expresses that it is the process by which family build choices and on the basis of that they make judgments and the finally come to the conclusion which direct that behaviour. More than one member's input and conformity with decision is required and it is the most important aspect of the process of family decision making.

Decision making may take place at any level; it can be at individual or group level. Families make up an essential social and economic unit that affects consumption decisions of the household and individual family members. Cottee and Wood (2004)

were of the view that family exercises a complex influence on the conducts of its members. The concept of involvement in family decision making suppose that the relative influence for the spouse in a decision is higher if he/she is more involved in the decision and that reflects his or her individual's preferences and interests Qualls (1987). Therefore, in general there is a positive affiliation between personal relevance and involvement.

Family behaviour is an important issue and socio-cultural factor. The family is considered as a significant decision-making unit, due to the large quantity of products and services that are consumed by the household. The history of 1960's research can be tracked on husbands and wives roles played in family decision making. As David (1970) first performed a study on the relative influence of husbands and wives on the family decisions. Several studies, since that time, have scrutinized different components of marital roles and family decision making. According to the researchers, household is considered as the relevant unit of analysis, not the individual consumer Davis (1976).

Nelson and Jenny (2005) found that strong organized family significantly makes more joint buying decision on vacation (specialty product) than weak organized family. They also established that modern family make significantly more joint purchase decision on vacation than traditional family. Nelson and Jenny (2005) proved that strong unified family significantly makes more joint purchase decision on furniture (shopping product) than the weak unified family. They further held that modern family makes significantly more joint purchase decision on furniture (shopping product) than the traditional family.

Kirchler (1993) is also of the view that often husbands and wives are unaware of each other's influence within joint purchase decision-making processes. The commonly accepted role structure of family buying decision-making is (1) husband-dominated decisions, (2) wife-dominated decisions, (3) autonomic decisions (in which either the husband or wife is the primary or sole decision maker, but not both), and (4) syncretic

or joint decisions (in which both are influential). In summing up, this can be suggested on the basis of studies that the roles of husbands and wives in the family decision-making process are changing and emphasis is being made to examine current practices in family decision making.

#### **2.2.6 PURCHASE DECISION**

Customer behaviour is an important research topic for recent decades. “There is also a clear shift from rational factors to psychological factors and to social decision factors” Bargh (2002). Besides, there is a link between the “intention to purchase” to “decision to purchase” of customers, especially the decision related to purchase real estate Demography “Demographic” characteristics of customers are internal factors related to decision making Mateja and Irena (2009). “Demographic” characteristics consist of the individuals in term of “gender, age, educational status, marital status, career, the quantity of family members and children, as well as the residence property”. “Demographic” characteristics consist of age Yalch and Spangenberg (1990), education, income level, gender Zhang (2007) which are factors influenced on the “purchase intention” of customer. Particularly, “gender” has significantly influence on the financial feature of the house. It is also confirmed that there is a significant difference in real estate buying decisions to “age” and “gender”, and not to “educational levels” and “marital status”. Correspondingly, in this study, “gender” and “age” characteristics are considered as control variables so that investigate whether effect of those demography variables on housing purchase decision making of customers or not.

## **CHAPTER 3**

### **METHODOLOGY**

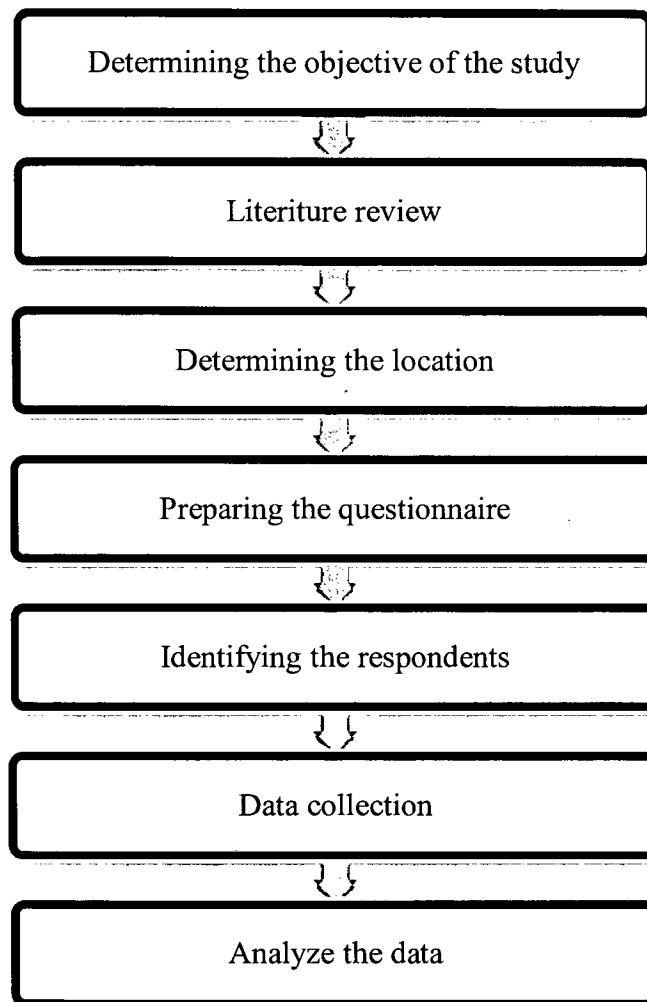
#### **3.1 INTRODUCTION**

Planning the methodology is necessary in order to achieve the objectives of the study. Basically, the strategy used in obtaining the data and information is done through interview with the locals, questionnaires, observation of the public and information and the authority of the subject-matter. These methods are used in making sure that the project will run smoothly and efficiently. The steps are taken from the beginning until the end of the project.

In conducting the study on factors affecting house purchase decision of middle class income in Kuantan, a number of measure and procedures have been put into practice. Basically, the steps that need to be taken in this particular study can be seen as below:

In the previous chapter it reviews about this study that has been conducted by another person. This such as factor affecting the house buyer decision and many more already been discussed in the previous chapter. In this Chapter, all the steps and method

that will be used to obtain the required data will be mention and discuss. Information required is related to the level of knowledge about factor that effect house purchase decision on middle class income in Kuantan.



**Figure 3.2:** Flowchart of methodology

### **3.2 Determining the objective of the study**

There are three objectives that we are going to focus on for this particular study. The first objective is to determine affordable housing prices that preferred by middle

class in Kuantan Town. From this objective, we can determine the price of the house that middle class income in Kuantan can afford to buy a house.

The second objective is to identify the key factors affecting the house purchase decision of middle class earner in Kuantan. The result can be obtained by the means of questionnaire. The data obtained can also be used for other related study. The third objective is to impact of these factors on house purchase decision of middle class earner in Kuantan. Based on the data that we get from the questionnaire we can determine the impact of these factors to the decision of the respondent to buy affordable house.

### **3.3 LITERATURE REVIEW**

At the early stage, literature review will be used as a tool to collect the information. Information will be collected to be used as a guide in this study. Other than that, discussion with the supervisor is also important. This will help to determine the scope that can be achieved. The knowledge and information gained are important to make sure that the study will achieve its objectives.

The literature review mainly consists of information from journals, newspaper and also studies that was carried out by researcher in the past. Apart from that, it also consists of information from textbooks and the previous thesis. These resources are more often used in order to produce a better research.

### **3.4 LOCATION AND RESPONDENT**

The study will be done in a few residential areas around Kuantan. There are a few types of residential areas in Kuantan such as the low-cost area, high-cost areas,

partment, hostels and many more. We will focus on low-cost and medium cost house in Kuantan because we need to know the feedbacks from the middle class income.

The information can be obtained through questionnaires. The questionnaires will be distributed to the respondents from selected locations. The sampling technique that will be used is in the convenience sampling. This technique is more practical in term of cost, time and manpower. The respondents will vary in age. This will help in increasing the accuracy of the data obtained.

### **3.5 QUESTIONNAIRE**

A total of 310 questionnaires that will be distributed to the correspondents are divided into several parts. For Part A, the question will be focused on the basic categories such as gender, age, level of education, ethnic, and a few more. This section will give a data to determine relation between these factor that affect house purchase decision or not.

For Part B, there are five main factors that will focused on factors that affect consumer buying decision on middle class income. For the first part, the question will focused on the house characteristic and feature. There are few question asked to determine the ideal house characteristics and feature that they want. The second section in Part B is about house location and environment. There are many factors in this section to determine the ideal location of the house such as near working premises, near school, near public transportation route and a few more.

For the third section in Part B, the question will focused on financial factor that affect house buying decision. Financial is crucial part because many people nowadays can afford to buy house because of financial status. The question that will asked in this part include financial assistance from family members, present financial capability,