A STUDY OF FACTORS INFLUENCING HOUSE PURCHASE DECISION AMONG MIDDLE INCOME POPULATION IN KLANG VALLEY

CHIAM HOW TEIK

INTERNATIONAL ISLAMIC UNIVERSITY
MALAYSIA

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BY

CHIAM HOW TEIK

PROJECT PAPER SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTER OF MANAGEMENT

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ABSTRACT

This study was conducted to determine the preference of middle income population living in Klang Valley, Malaysia in the selection of types of house, as their home. It also sought to identify factors that significantly influence their type of house selection process. Finally, it attempted to determine which factor exerts the strongest influence in the house selection process.

The study has been conducted on the basis of the consumer choice behavior model of Sheth, Newman and Gross (1991). According to the theory of Sheth, Newman and Gross (1991), there are five values or factors which influence consumers' choice behavior. These are functional value or factor, social value or factor, emotional value or factor, epistemic value or factor and conditional value or factor. The functional value is economic in nature and the emotional, epistemic and conditional values are psychological and cultural in nature. Henceforth, to simplify the study, the researcher has reclassified the five values or factors into four factors, which encompasses psychological, cultural, social and economic factors. This theory has been found to have high predictability for consumers' preference in the buying and selection process.

Results of the study indicated that middle income population in Klang Valley have significantly high preference for terrace house over other types of house.

The findings of the study are also consistent with the theory of Sheth, Newman and Gross (1991). While some studies have shown that all four factors are relevant, this study

suggested that three factors, namely psychological, cultural and economic factors are significantly relevant.

Consistent with economic utility theory of Stigler (1950) and Marshall (1890) which expressed human beings as "rational economic man", this study found that economic factors have the strongest influence on house purchase decision.

The study revealed that in the Klang Valley of Malaysia where lands for housing development are becoming more and more scarce, terrace houses are still the most popular choice of accommodation among its middle income inhabitants.

This research gives input to both government authorities and housing developers in identifying the appropriate planning and marketing strategies in the housing industry.

APPROVAL PAGE

TITLE OF PROJECT PAPER : A STUDY OF FACTORS INFLUENCING HOUSE PURCHASE DECISION AMONG MIDDLE INCOME POPULATION IN KLANG VALLEY

NAME OF AUTHOR : CHIAM HOW TEIK

The undersigned certify that the above candidate has fulfilled the condition of the project paper prepared in partial fulfillment for the degree of Master of Management.

SUPERVISOR :

Signature :

Name : Mr. Yusof Ismail
Date : 30th November 1999

ENDORSED BY :

Assistant Professor Dr. Nik Nazli Nik Ahmad
Head, Master of Management Program
Date: 30th November 1999

Associate Professor Dr. Obiyathulla Ismath Bacha
Director, IIUM Management Center
Date: 30th November 1999

DECLARATION

I hereby declare that this project paper is the result of my own investigation, except where otherwise stated. Other sources are acknowledged by reference notes and a bibliography is appended.

Date: 30th November 1999

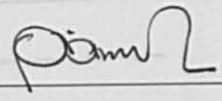
Signature : 

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TABLE OF CONTENTS

Abstract..... 2

Approval Page..... 4

Declaration..... 5

Copyright Page..... 6

Acknowledgement..... 7

Table of Contents..... 8

List of Tables..... 11

List of Figures..... 13

List of Appendices..... 14

CHAPTER 1 : INTRODUCTION

1.1 Background of the Study..... 15

1.2 Housing and Marketing..... 16

1.3 Malaysian Context..... 17

1.4 Scope and Significance of the Study..... 20

1.5 Objectives of the Research..... 20

CHAPTER 2 : LITERATURE REVIEW

2.1 Introduction..... 22

2.2 Psychological Factors..... 23

2.3 Cultural Factors..... 25

2.4 Social Factors..... 27

2.5 Economic Factors..... 29

2.5.1 Rise in Household Earnings..... 30

2.5.2 Employee Provident Fund (EPF) as a Source of Fund 31

2.5.3 Ease of Obtaining Mortgage Loan..... 31

2.5.4 Owner-occupied Property as an Investment..... 33

2.6 Models of Purchase Decision..... 35

2.6.1 Howard-Sheth Model..... 35

2.6.2 Engel-Kollat Blackwell Model..... 36

2.6.3 Sheth Family Decision-making Model..... 37

2.6.4 Sheth-Newman-Gross Model..... 37

2.6.5 The Nicosia Model..... 39

CHAPTER 3 : RESEARCH METHODOLOGY

3.1 Hypothesis Statements..... 43

3.2 Population and Sample..... 44

3.3 Design of Investigation..... 44

3.4 Data Collection Methods..... 45

3.5 Operationalization of Variables..... 46

3.6 Data Analysis Methods..... 46

3.7 Hypothesis Testing and Significant Level..... 47

CHAPTER 4 : RESULTS OF THE STUDY

4.1 Overview of Data Gathered 50

4.1.1 Background of the Respondents..... 51

4.1.2 Background of Respondents and House Type Preference..... 55

4.2 Tests of Hypotheses..... 60

4.2.1 Binomial Test..... 60

4.2.2 One Sample T-Test 62

4.2.3 Discriminant Analysis..... 67

4.3 Summary of Findings and Hypotheses Testing..... 69

CHAPTER 5 : CONCLUSIONS AND IMPLICATIONS

5.1 Conclusion..... 71

5.2 Implications..... 73

5.3 Limitations of the Study..... 75

5.4 Direction of Future Research.....76

BIBLIOGRAPHY..... 77

APPENDICES.....79

LIST OF TABLES

3.1 Summary of Hypotheses, Questions, Literature Sources and Statistical Tools Used..... 48

4.1 Gender Classification of Respondents..... 51

4.2 Race Classification of Respondents..... 51

4.3 Age Classification of Respondents..... 52

4.4 Family Income Classification of Respondents..... 53

4.5 Number of Persons in the Household Classification of Respondents..... 53

4.6 Education Level Classification of Respondents..... 54

4.7 House Type Preference Classification of Respondents..... 54

4.8 House-Owned or Rented Classification of Respondents..... 55

4.9 Gender of Respondents and Preference for House Type..... 56

4.10 Race of Respondents and Preference for House Type..... 56

4.11 Age of Respondents and Preference for House Type..... 57

4.12 Family Income and Preference for House Type..... 58

4.13 Number of Persons Per Household (PPH) and Preference for House Type..... 58

4.14 Education Level of Respondents and Preference for House Type..... 59

4.15 Binomial Test for Choice Preference for House Type..... 61

4.16 Mean and Standard Deviation of the Group Variables..... 63

4.17 One Sample T-test for Determining Significant Influence of Psychological, Cultural, Social and Economic Factors..... 66

4.18 Discriminant Analysis of Classification Function Coefficient..... 68

4.19 Summary of the Results of Hypothesis Testing..... 70

LIST OF FIGURES

1. Figure 2.1 : Outline Model of Buying Behavior..... 34

2. Figure 2.2 : The Nicosia Model: A Structure of Consumer Behavior..... 42

3. Figure 4.1 : Proposed Outline Model of House Buying Behavior..... 70

LIST OF APPENDICES

Appendix 1 : Questionnaire - Parts A, B and C..... 79

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The study of consumer behavior is an increasingly important activity in today's marketing. By understanding consumer behavior, a marketer will be able to make better strategic marketing decisions. Runvon and Stewart (1987) defined consumer behavior as how individuals involve themselves with planning, purchasing and using economic goods and services.

In the early 1960's, several models of consumers purchase decision process were developed (Howard and Sheth, 1960; Engel, Kollat and Blackwell, 1968; Howard and Jagdish, 1969). These models attempted to explain consumer decision making process based on rational brand choice behavior. Runvon and Steward (1987) in their model identified that the basis of human goals and decisions are influenced by a variety of variables. Some internal (personal and psychological) and some external (social, cultural, economic and environmental).

Whereas, the theory of Sheth, Newman and Gross (1991) describes five consumption values that influence behavior in decision making. These values are functional value, social value, emotional value, epistemic value and conditional value.

Nicosia (1966) proposed a model based on the technique of computer flow charting with feedback loops. A distinctive feature of this model is the shift of emphasis away from purchasing as an act towards the decision as processes which both precede and follow this act. It also assumed that neither the firm nor the consumer has had previous experience directly related to a specific product or brand; the starting point is truly zero. Nicosia identified several internal and external factors influencing the search, evaluation and purchasing processes. Internal factors include personal and psychological and external factors include social, cultural and environmental. Lunn (1971) highly recommended this model for infrequent purchased high-cost products. Both Nicosia (1966) and Sheth, Newman and Gross (1991) models are relevant to this research.

1.2 Housing and Marketing

Housing is considered a sub-sector of the larger construction sector of the Malaysian economy. Construction sector contributed 4.1% to the real GNP in 1998 (1997: 4.8%). Similarly, the growth of construction sector has been phenomenal. In 1997, the sectorial growth rate was 9.5% before crushing to negative growth of -24.5% in 1998 due to the regional economic crisis, which also hit Malaysia in mid 1997.

Like all other sectors, the housing sub-sector is also important in marketing. The high growth rate in the housing sub-sector and the structural changes that are taking place, example, the introduction of new market segments such as town houses, apartments and condominiums have caused the housing market to become highly competitive. Therefore, the success of the housing developer will depend very much on up-to-date information on

consumers' preferences, family purchasing behavior and factors relating to the purchasing process. For instance, prior knowledge of the targeted market segment and the various factors influencing them in making house purchasing decisions will contribute greatly to the success of a product concept and the marketing and promotional strategies.

1.3 Malaysian Context

Malaysia is a rapidly developing country. It has been growing at a quite remarkable pace since independence until the recent regional economic crisis in mid 1997, which put a brake to its growth. To achieve the objectives of Vision 2020, it is generally acknowledged that the real GNP of the country 's economy will be the key factor in determining the progress towards a developed nation. Vision 2020 is the Malaysian government's long term goal of achieving a developed nation status by the year 2020.

In Malaysia, construction sector which includes housing properties sub-sector is an important component of the Malaysian economy and contributed 4.1% of the real GNP in 1998.

The Malaysian Treasury under the Ministry of Finance reported that the growth in the construction sector declined sharply in 1998 by 24.5 %, reflecting a significant drop in construction starts of high-rise commercial buildings and higher-end condominiums in the face of weaker demand. In the case of landed properties, construction starts of higher priced residential units have been affected by weaker demand while construction of factory lots have been affected by the slow-down in investment in the manufacturing

sector. Construction activities during 1998 were also subdued by the completion of major infrastructure projects (Source: Publication of Malaysian Treasury, Ministry of Finance, "The Malaysian Economy in 1998 and Prospect for 1999").

To a large extent, the weaker construction starts during 1998 can be attributed to the erosion of financial wealth of the population due to lower stock prices, difficulty in getting end-financing and bridging finance from the banking system and higher interest rate which have affected both demand and new supply of real estate properties.

Nevertheless, construction starts of residential properties subsector especially the low and medium cost units were sustained, as demand for these residential units remains strong as they are more affordable and mortgage rate remains at 9% and below for residential units costing RM150,000.00 and below. Furthermore, this sub-sector is supported by the RM2 billion funding facility under the Special Scheme For Low and Medium Cost Houses established by the Malaysian Government and managed by Syarikat Perumahan Negara (SPN).

Recent government measures aimed at reducing interest rates, exempting financial institutions lending from the 20% limit on lending to the broad property sector for the construction or purchase of residential properties costing RM250,000.00 and below as well as for infrastructure, and the abolition of 60% maximum financing margin for the purchase of higher priced properties have provided some stimulus to the construction

industry. In the light of a sharp decline in construction starts during 1998, the share of the construction sector to real GDP dropped to 4.1% in 1998 (1997: 4.8%).

Reflecting the impact of a weaker demand for real estate properties, the Malaysian House Price Index which tracks the prices of residential properties transacted, declined by 9.3% during 1998. In terms of type of houses, the steepest decline was recorded by bungalows (-10.2%), followed by semi-detached (-6.7%), high-rise residential buildings (-5.6%) and terrace houses (-5.1%). The sharper decline in the price of higher-end residential properties was partly attributed to difficulty in procuring financing as well as the reluctance of prospective buyers to commit themselves in anticipation of further decline in property prices. Regionally, the biggest drop in the house price index was recorded in Johor Bahru (-21.7%) followed by Penang (-12.5%), Klang Valley (-12.1%), Seremban-Sepang (-5.0%) and Ipoh-Kinta (-4.1%).

Growth in the construction sector is forecast to decline further by 8% in 1999. This is largely due to sluggish construction starts in some segments of the property market particularly commercial buildings and higher-end condominiums, as excess supply of office space, retail outlets as well as high-end condominiums are not expected to be taken up fully in 1999. Nevertheless, construction starts of landed residential properties particularly low and medium-cost houses are likely to be sustained, given the relaxation on bank lending recently for purchases and construction of properties. Lower mortgage rate will also provide some stimulus for the residential construction industry, particularly of lower end. However, in view of the anticipated decline in disposable income as well as

uncertainty with regard to employment prospects given that the economy is forecast to recover only mildly, demand for residential properties is expected to stagnate at about 1998's level. In part, speculative buying of these properties is expected to be minimal, due to the recent decline in prices of houses.

1.4 Scope and Significance of the Study

With increasing competition in the housing industry, there has been an increased awareness on the need for strategic marketing activities and for learning consumer decision making process. To meet this need, this research has been conducted to determine the factors that influence house buyers' preference for the various types of house. This research will try to understand the factors that motivate house buyers in choosing the type of house and also to find out the discriminating factors that discriminate in the choice process among the various types of house.

This research will contribute to the understanding of the factors that influence house buyers decision making process in choosing the various types of housing. This research will also contribute in identifying the appropriate marketing strategy for housing industry.

1.5 Objectives of the Research

The objectives of the research are: -

1. To identify house buyers' preference for a particular type of house.
2. To determine factors that influence house buyers' preference.
3. To determine factors which have the strongest influence on house buyers' preference.

Moreover, through this research, it also can be found whether there is any relation in between the demographic characteristics and their preference for types of house.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Consumer behavior is an interdisciplinary science which encompasses psychology, sociology, anthropology and economics that investigates the consumption-related activities of individuals. It involves the study of how individuals make decisions to spend their available resources - time, money, and effort on consumption-related items. It includes the study of what they buy, why they buy it, when they buy it, where they buy it, how often they buy it and how often they use it.

It is important for organizations to understand and recognize why and how individuals make their consumption decisions, so that they can make better strategic marketing decisions. If organizations understand consumer behavior, they are able to predict how consumers are likely to react to various informational and environmental cues, and are able to shape their marketing strategies accordingly. Organizations that understand consumer behavior have great competitive advantage in the market place.

Researches have shown that there are numerous factors influencing consumer behavior. Cultural, sociological, economic and individual psychological factors are the prime movers of consumer buying decisions. An outline model of consumer buying behavior is referred in Figure 2.1 on Page 34. This chapter will present a review of these factors in