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FIRST-TIME HOME BUYERS: FACTORS INFLUENCING DECISION MAKING

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Abstract

In a housing market, first time house buyers are important as they indirectly act as indicator to help regulating the housing policies and further promoting home ownership. The preferences of this group are taken into consideration as the basis for forecasting housing demand. Therefore, this group is considered as important and it is essential to identify their preferences. Purchasing a home is considered as the biggest financial decision in one's life and would affect the household's budget as the process involves a long time commitment starting from the very first down payment to the monthly payment in the future. Based on the literature reviews, several factors have been recognized which may influence their decision-making. Among the factors are house price, location, family transition, neighborhood and others. In this paper, the emphasis is placed on identifying the most important factors that influenced their decision.

Keywords: first time home buyer, decision making, housing preferences, factors influencing decision

1.   Introduction

Buying a house is the largest spending in most household budgets. That consumer expenditure importance to the economics of the country as it also importance to serve the psychological and social need. People who buy homes not only for a shelter but they are also seeking to express their values and aspirations.

Study on housing choice has developed by understanding the housing preferences based on home buyers demographic factors such as age, household composition, income and current housing situation (e.g., Rossi, 1980). Such factors are initially will influences the buyers decision to buy a house. By understanding the consumer preferences and influenced factors can summarized the ideas of actual demand in the market.

During 1980s, Malaysian faced a rapid development in property market especially in housing industry. Housing plays a major role in developing the country as it is treated as important sector in property industry. The property market has benefited from the social trend of independent living that has resulted in fewer occupants per household in Malaysia in the last two decades (Hamid, 1998). To the extent, fewer occupants per household means that demand for houses increased due to population started independent living or smaller families. In addition, the living trend also change as the children no longer stayed with their family, moving out live in different house, young adult married with few kids to ensure that they can cater all the need of their children.

2.   Research Background

2.1   Housing Needs

Robinson (1979) defines housing need as: the quantity of housing that is required to provide accommodation of an agreed minimum standard and above for a population given its size, household composition, age distribution, etc. without taking into account the individual household's ability to pay for the housing assigned to it. It is explain Bramley *et al* (1995) and Oxley and Smith (1996) that housing is a merit good which is on the basis of need.

Needs and wants are two different things as explain by Levine (1995) that needs are things 'imposed upon me independently of my will', whilst wants are things 'we choose for ourselves as a way of expressing who we are'. The distinction between this two clearly explain that the need usually can be fulfill by the wants. Therefore, according to Robinson's definition, the housing needs work independently. Peter (2003) explains that the

implications of the definition the need of housing can be defined 'independently of the choices and decision-making capabilities of individual households'. In addition, Peter summarized the housing need as an abstract, depersonalized category.

Abraham Maslow (1970) developed a theoretical structure on human needs to a psychoanalytic society that outline the human needs by explaining the human motivation. As known as Hierarchy of Human Need, in this theory there are five level of needs that human will try to satisfy in their life journey. The lower level needs must be satisfied first before further up to the higher level.
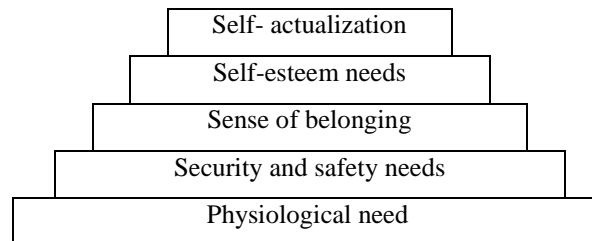
Self- actualization

Self-esteem needs

Sense of belonging

Security and safety needs

Physiological need

Figure 1: Maslow's hierarchy of human needs
(Source: Adapted from Housing Education and Research Association, 2003)

A home can provide the environment which can encourage a person to express their ability and potential. As a result, the Maslow's framework is widely used to explain the role of housing in supporting life (Lindamood & Hanna, 1979). In Malaysia, government confirmed that housing is a basic human need to the Malaysian population and an important component of urban economy (Alia *et al*, 2007).

Wants and desire must be intentional states in that we must be aware of the condition (Griffin, 1986; Plant, 1991). We are desire of something but it is tied to our perception of an object (Griffin, 1986). This explain that if a need of housing is convert to want relatively a choice of housing, then it would probably explain the heterogeneity of the housing units.

2.2   Housing Choice

From the needs to choice, it would be more consideration to be made. Peter (2003) argues that considering needs and choice not really comparing like with like. When we want to fulfill the need, it is a basic consumption that we need at that condition. However, if the choice that we want to fulfill, it is explain an action of choosing the best that can meet with our desire.

Housing choice can be variety, in location, size, type, design, materials and price. As discussed above in Maslow's hierarchy, the housing choice can fulfill the housing needs. How do people choose a house from available housing? How do they make their decision? What influences their choice? Housing Education and Research Association, 2003 with conceptual framework for influences on housing choice explain various factors that impact lifestyle further to housing norms which will lead to housing choice.

One of the household characters would be the age which is the important way to identify population. Different range of age will act different towards lifestyle. Type of household refer to the census categories; married-couple family, female householder families; and male householder families. For size of household refer to number of members in the household. This will influences on the numbers of bedroom required in the housing choice.

Stages in the life-cycle always referred as family life-cycle is developed by referring to the age and family formation. In housing, this family life-cycle relatively influences the buying's behavior. RBC Royal Bank (adapted from Kotler, 2008) has developed five segment of life- stage. Starting with the *Youth* segment, represent by the customers younger than 18, the G*etting Started* segment customers aged 18 to 35 who are going through first experience, such as graduation, marriage, first loan, first car, and first child. This is when usually the home buyer's experience their first time home buying and made their biggest consumption of household budget. The character of social class is defined by the income, education and occupation. Michelson (1976) identified five levels of social class i.e. lower-class, working-class, lower middle class, upper middle class and upper class. In most states, education is viewed as the way to increase income. Thus, if household income is within the range of average population income, the household affordability to purchase a unit of house is good.

Purchase a house is a biggest decision ever household made that involve complex decision-making. The process requires buyers to pass through a number of steps (Hamid, 2000). One model of buyer readiness that commonly

recognize is AIDA, for awareness, interest, desire, action (Strong, 1925). The model explain when a buyer reach at the decision stage, he actually know and aware of the product and alternatives product, then the buyer will find out the information regards to the product as it will developed his interest, then the gathering of all information for evaluation to create desire to buy, then finally the action to purchase.

At the evaluation stage, the product characteristics for example type, number is requiring for the buyer to further to decision stage.
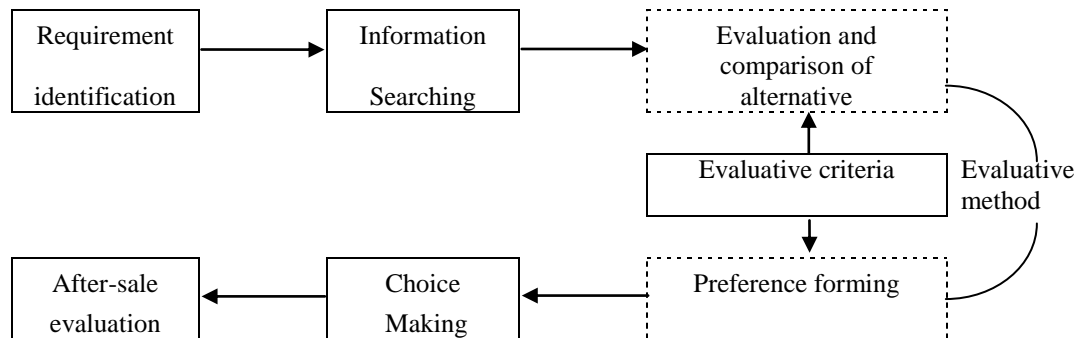

Figure 2: Real estate purchase decision –making process
(Source: Hamid, 2006)

Majors factors that influences house buyers in their choice are location, built-up area, surrounding, design and layout, developer's reputation, security and convenience (Hamid et al, 2006; Chua, 1988; Hasmah and Ariffian, 1999; Chau et al, 2004;Tan, 2007). Others factors that may consider for housing choice are environment (Ge & Hokao, 2005), family influence (Levy & Lee, 2002) private living space and aesthetics (Opoku & Abdul-Muhmin, 2009). All these factors will create the buyer's preferences in selecting a house.

3.   Methodology

Descriptive research relies on observation as a mean of collecting data, attempts to examine situations in order to establish what is the normal-what can be predicted to happen again under the same circumstances (Clarke, 2005). To identify on the human observation and response, data can be collected through interviews, questionnaires or selective observation of situation.

For this study, it was decided that the research method to be utilized would be a mail surveys, e-mail surveys and personal interviews. The sample of respondents will be examined by researcher on their intentions or experience to buy a house before the questionnaires have been sending to them. Mail survey is where the questionnaire is distributed to each individual in the sample by mail, with requested that it be completed and then returned by a given date. Data will be collected from the target sample through questionnaires.

A set of questionnaires have been use as research instrument. The survey instrument packages consist of a cover letter and a questionnaire. The questionnaire designated into two sections, Part 1 for consumer profile to identify the demography background of respondents and Part 2, for experiences and preferences of first-time home buyer. A total of 11 questions were asked in each set of questionnaire.

The questionnaires were design to understand the factors influence the decision of first time buyer. The first part is requested the general information about the respondents as to developed the background of home buyer. It consist 4 questions. The important of this section is to identify the personal factors that driven the buyer's behavior such as age of respondents, marital status and income level.

The second section of the questionnaires is about the experience of buying a house. It would be the section where the objectives of this research can be outline. This section consist 7 questions (questions 6 to 11) include the various factors that most probably influences the buyer's decision to buy. For question 10, the respondents were ask to rank 1 to 7 of a seven factors that most important to their consideration before buying a house. But for question 11, the items were to be described along a Likert Scale as 'very high important', 'high important', 'moderate', 'low important' and 'very low important'.

4. Data Analysis and Findings

A total of 110 sets of questionnaires were sent to the targeted respondents. Respondents are among the population of Bandar Seri Iskandar have intention to buy their first home within the area. A total of 69 respondents returned the questionnaires i.e. 63% of total respondents. But, 2 respondents were eliminates when they have been purchase a house more than one time and total final respondents is 67 (61%).

4.1   Home ownership
Table 1 below shows the experience of homeownership of respondent in Bandar Seri Iskandar. This is the main question to qualify the respondents as a first-time home buyer. If respondents have an experiences purchase a house more than once, further discussion are not required. The previous explain that those fall into that categories have been eliminated from the sample.

Table 1 : Experience of homeownership

Experience of homeownership	Frequency	Percent	Valid Percent
None	50	74.6	74.6
Once	17	25.4	25.4
Total	67	100.0	100.0

4.2   Price

In terms of price, the result findings shows that the distribution of house price is almost the same in between below RM100,000 and RM250,000. Only 2 (3%) indicates their consideration of house purchase probably above RM250,001. This result is important to indicate the price consideration when the respondents want to buy a house as their one of decision making in housing purchasing.

4.3   Intention on Timing of purchase

The next finding is wanted to identify the respondents intention of buying a house related to their experience purchase a house. For the purpose of analysis, only those who had never experience any house purchase are selected because the experienced respondents are all bought a house within the last 12 months ago.

The overall resulted that majority of respondents intend to purchase a house within the next 12 months (42%) and after next 12 months (40%). Only 10% and 8% intend to buy more than 12 months ago and within 12 months ago respectively. The responses indicated that majority of the respondents are looking forward to own a house and aware of the market situation.

4.4   Intention to buy a house

The respondents were asked to indicate their intention to buy a house. This is to confirm with Hamid (2006) that is most first-time home buyer are more likely to own the house as residential home rather than investment purposes. The findings resulted that a total of 83.6% of the respondents are intend to own their first time home for residential purpose. This is responses to the findings of Hamid (2006) on relationship between age and status of buying.

4.5   Factors consideration

Result had shown the most seven factors that have been identified from the literature review that used to measure the home buyers preferences. This result is according to respondent's rank of each factor from 1 to 7 base on their consideration and perception before purchase a house. 1 represents the most important factor.

Table 2: Ranking of factors consider in purchase a first home

	Rank	Minimum	Maximum	Mean	Std. Deviation
Location	1	1	4	1.55	.744
Financial	2	1	5	2.27	1.136
Neighbourhood	3	1	7	4.09	1.593
Interior	4	1	7	4.36	1.453
Developer	5	1	7	4.60	1.750
Exterior	6	2	7	5.46	1.329
Family life-cycle	7	1	7	5.66	1.601

The total respondents answered resulted the location is the most consider factor by mean of 1.55; the financial factor was ranked second by mean 2.27 followed by neighbourhood factor by 4.09 mean. The others factor were ranked lower consideration are most of the housing related factors such as interior design (4th), developers (5th), exterior design (6th) and family life-cycle (7th).

4.6   The importance of factors

By using Likert Scale analysis, each respondents should indicates details of the factors according to '1=very high importance', '2=high importance', '3=moderate', '4=low importance' and '5=very low importance' impact to their decision to purchase a house. There were 20 details to consider.

From the average score across all respondents, the top three ranked factors in order of importance were house prices with mean score1.37, close to amenities with mean score 1.43 and followed by ability to obtain finance with mean score 1.52. The payment term such as deposit and interest rate was ranked 4th (mean score 1.55) and low criminal area at 5th (mean score 1.61). Other five followed factors are close to workplace, close to main roads, highways and public transportation, size of the building, type and quality of finishing and developer's reputation. Within the top five factors resulted that 3 of the most factor influences the decision is financial elements. Even though in previous question location was ranked at first, but when it's come to details, respondents might consider other importance element such as the house prices as it will relates to the ability to obtain loan and deposit to pay upon purchase a house.

Table 3: Details of Ranking of factors consider in purchase a first home

Factor 1 : Financial/economic	House price Ability to obtain finance Payment term i.e. deposits, interest rate
Factor 2 : Location	Close to workplace Close to amenities i.e. shops, school Close to city or town centre Near to main road, highway, public transport
Factor 3: Neighborhood	Quiet place Green surrounding Low criminal area
Factor 4 : Developer's reputation	Reputable developer
Factor 5 : Interior design and space	Size of the building Number of floor Building layout design Number of bedrooms and bathrooms Type and quality of finishing
Factor 6 : ***Family Life-cycle***	Current house too small Marriage; family expansion
Factor 7 : Exterior design	Size of garden Building orientation

5.   Conclusion

The result emphasis on the financial factors in the purchase decision is consistent with Reed and Mills (2006) study of the Australia housing market which their decision to purchase a house for first-time buyer influences by the financial factor rather than other factors. Kupke (2000) also found that economic factors such as affordable house prices, saving a deposit and low interest rates are important factors for every household irrespective of age, income, or family make up in the decision to buy. In this study, it needs to be outline in the context of Malaysia housing market trends which the rapid growth in housing price slowly eradicated the affordability of house purchase. For first-time buyers, these changes in housing market are reflecting to their decision to purchase.

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