

FACTORS AFFECTING TO BUYING DECISION OF MIDDLE-INCOME HOUSE BUYERS: STUDY ON SELECTED MIDDLE-INCOME HOUSE PROJECTS IN COLOMBO

R.M.K.B Rathnayaka ^{a*}, R.G. Ariyawansa ^b, Delipa Endagamage ^c

^aLand Manager- Land Development and Management Division, Urban Development Authority,

^bDepartment of Estate Management and Valuation- University of Sri Jayewardenepura,

^cDepartment of Decision Science- University of Sri Jayewardenepura,

Abstract

The Economic Development of the City of Colombo, caused to attracted large population to the city for better living, employment purpose, education and so on. The lands were developed with the development and fulfilling the needs of the housing of the residence in the city has become a challenge. The high rise apartments have become better solution for housing and it has become emerging sector in the Housing Market in Colombo. The study of the housing market become vital since decision of house buying is complex and unique other than goods and services. This paper has focused on the house buyer's point of view and further specific to Middle Income House buyers since Middle-Income-Category has identified as considerable proportion of the population and impact on the Housing Market. Thus this paper discussed on the buying behaviour of the buyers and the objectives of the research is to examine the factors influencing to Middle-Income house buyers' decision. The primary data was collected through questionnaire survey from 100 potential buyers who are interested for Middle-Income houses developed by the Urban Development Authority. Data was analysed through Categorical Regression. From the study it was found that reasonability of the price of the house, increase the price of the house, having enough monthly income to buy a house, readiness to compromising daily expenses on non-housing expense of a house, having knowledge regarding the way of getting and how profitable of using a Housing loan, and ability to get a loan are as significant financial factors. Goodness or modernism of the structure of the house, sufficiency of the space or room facilities are identified as significant physical factors. Under the environmental factors, the quality and supply of water, quality of the surrounding environment are also become as significant factors. Buying a house as new requirement because of a marriage, to maintain the Social Status, and need of live as a community are the social factors which significantly influence on the house buying decision.

© 2020 The Authors. Published by CRES Dept. of Estate Management and Valuation, University of Sri Jayewardenepura

Keywords: Buying Behavior; Housing Affordability; Middle-Income Class

Introduction

The Middle-Class consumers have received greater attention in recent times due to they are essential for sustained economic growth and development (Arunathilake and Omar, 2013) and they also demanding for better housing, durable goods and other resources.

The study of buying behavior of the Middle-Income buyers is vital since it is a rational decision. Buyers are always trying to maximize the utility according to the theory of consumer buying behavior (Gibler and Nelson, 2003). The house buying behavior is deficient area for the real

* Corresponding Author: *kosalabuddhini@gmail.com*

estate sector. As well as the behaviour of the consumers are complex and it is depend on the internal and external factors and since most of the studies (Gibler and Nelson, 2003; Wilcox, 2003; Aden and Yemen, 2014) have considered the financial forces for the house buying decision, the analysis of factors effecting to the buying decision can be benefited for professionals and practitioners.

Subsequently Sri Lanka has become an Upper Middle-Income category with the National Income 4060 US dollars. Along with that Middle-Income class leads to a greater demand for better housing along with the attainment of the country. The consumption pattern has changed in the middle class and they are highly spend on housing, education, health, transport durable goods etc. (Arunathilake and Omar, 2013).

Colombo is the commercial capital in Sri Lanka and most of administrative activities are concentrated. Due to urban migration, people seeking better job opportunities the low income and lower Middle-Income population has increased rapidly (Doalphilla 2000, Department of Census and Statistics, 2018). According to the Department of Census and Statistics 600,000 annually migrated to Colombo. Security of tenure, access to public services, access to environmental assets, housing affordability, compatibility of the use of housing materials, structure, space with the occupant's culture, are few of the issues that can be identified.

The Middle Class is defined as a social class (Asian Development Bank 2010), and they are professionals, technicians, government officers etc. They are the well-educated and service providers and also small scale entrepreneurs. They are demanding for houses, better quality services, and trying to enjoy comfortable lifestyles.

According to the Asian Development Bank (2010), the middleclass is growing demand for luxury goods. They are demanding for mobile phones, computers, Nano cars. Access to social media by the middle class is significant.

Economically the middle class has defined by two approaches: relative approach and absolute approach. By the relative approach middle class is defined relative to median per capita income. Another definition is that middle class is relative to standards of the developing countries. Under the Absolute approach middle class is defined according to the earnings or income range. And their global demand for branded goods such as designer clothes, latest technical appliances, and education and health services.

Buyer behavior has influenced by four main factors such as cultural, social, personal, and Psychological (Kotler et. al.2007; Kotler, 1991). Housing is important product and it (Ariyawansa, 2007) was identified that the location of a house is the most important determinant of the buying decision. However, it is not the dominant factor because some other factors such as quality of construction, price, legality, facilities, neighborhood are also more important closely as important as the location.

The government is doing its best by continuously promoting affordable housing schemes and improving it from time to time. Since Housing affordability would not be a matter for the low income households and Middle-Income category is the vulnerable for housing affordability. The current research suggests that Middle-Income earners are most likely trapped in the affordable housing issues (Baqutaya et al, 2016).

The objective of the study

The Objective of this research is to study the factors effecting to House Buying decision of Middle Income House Buyers.

Literature Review

The huge demand for housing effects on its value and create a house bubble. They have analysed the housing market economic determinants by their study by analysing primary and secondary market separately. Considering the housing apartment in Central European market, housing developers use price discrimination and the market in nature monopolistic and therefore house prices are higher than market price.

The Middle Class is defined as a social class (Asian Development Bank 2010), and they are professionals, technicians, government officers etc. They are the well-educated service providers and small scale entrepreneurs, who are hardworking and relatively secure. They are planned to own houses, demand better quality services, and trying to enjoy comfortable lifestyles. It is further explained that middle class is important for economic growth and development and poverty reduction. And the size of the middle class is important for the economy.

According to the Asian Development Bank (2010), the middleclass is growing demand for luxury goods. They are demanding for mobile phones, computers, Nano cars. Access to social media by the middle class is significant. It has further defined that the social class can be classified as follows (www.adb.org)

- Poor Class -Spending Less than 2\$ per day
- Local Middle Class - Spending Less than 2\$-10\$ per day
- Global Middle Class - Spending Less than 10\$-100\$ per day
- Rich - Spending More than 100\$ per day

Economically the middle class has defined by two approaches; relative approach and absolute approach. By the relative approach, middle class is defined relative to median per capita income. Another definition is that middle class is relative to standards of the developing countries. Under the Absolute approach middle class is defined according to the earnings or income range and global demand for branded goods such as designer clothes, latest technical appliances, and education and health services.

Decision of buying a house related with the pricing and the political framework of the housing market. Further he has found that marriage and the birth of children are very important triggers in the decision to move.

However, Clark and Huang (2003), found in their study of the London housing market that the birth of a child was not associated with the decision to move house. He has found that the low interest rate and deposit has persuaded for buying a house. Further in this study, delay in marriage or the birth of a child as these were not considered important in the decision to buy purchasing a house as first time.

Inability to save a deposit or lack of affordable house prices are financial reason for the delay of buying a house and those items were most important in the timing of decision as first home. Financial environment is another important factor to identify the housing decision. The interest rate changes caused to the amount that can lend and it reflect the financial infrastructure for buying housing. The housing market changes has been identified as one of the driving factor of the economy. The construction of new housing caused to growth of the economy. The drivers behind the amount of new housing constructed are influenced by the households.

“Home ownership may be purchasing or renting. Renting is more preferable than buying and few factors that can be identified for the housing affordability such as demographic factors, Economic factors” (Mills and Reed, 2003 pp 2),

Therefore, it can be identified that the demographic factors such as age, size, distribution and household formation rate are important for buying decision. For economic factors there can be identified that current and future wage levels, direction of interest rates, and availability of finance, and tax policy. Housing assistant schemes and local government zoning are the Government factors.

Mills & Reed (2013) has pointed that the construction of new housing has been a degree for growing in regards to a direct and indirect increase in employment. The amount of new housing constructed is influenced by households and depend on the criteria driving their preferences. The residential construction industry is an important element of the Australian economy. Spending on dwellings has become significant proportion of GDP.

Methods

The study has conceptualized with 26 variables under four factors namely Financial, Physical, Environmental and Social. Under the financial factors there were nine variables identified. For Physical factors there are six variables, five variables were identified as Environmental and, six variables were identified as social factors. Potential House buyers are the population for the study and 100 potential house buyers who were interested in the Middle Income Projects was the sample selected under the convenience sample technique. For this study the primary data was collected through questionnaire survey and secondary data was collected from published data. The Categorical regression was used to analyze the data.

Results and Discussion

Table 1: Significance Values of the Factors Effecting to House Buying Decision

Variable	Beta	Std. Error	Sig.
Housing Affordability (Moderating Factor)			0.000
Financial Factors			
Increase of the house prices,	.167	.091	.025
Enough Monthly Income to buy a house	-.315	.140	.010
Reasonability of the price of the house	.200	.089	.010
Ability to get a Housing Loan	.583	.108	.000
Knowledge regarding the way of getting and how profitable of using a Housing loan	-.466	.110	.000
Physical Factors			
Goodness or modernism of the structure of the house	-.391	.131	.000
Sufficiency of the space / Room facilities	-.406	.126	.000
Environmental Factors			
Quality and supply of water	.313	.111	.001
Quality of the surrounding environment	.502	.157	.000
Social Factors			
Buying a house as new requirement because of a Marriage	.325	.154	.040
Buying a house as Living as a Community	.143	.076	.035
Maintain the Social Status	.217	.086	.003

Source: Analysis Data, (2020).

From the study it was found that reasonability of the price of the house, increase the price of the house, having enough monthly income to buy a house, readiness to compromising daily expenses on non-housing expense of a house, having knowledge regarding the way of getting and how profitable of using a Housing loan, and ability to get a loan are as significant financial

factors. Goodness or modernism of the structure of the house, sufficiency of the space or room facilities are identified as significant physical factors. Under the environmental factors, the quality and supply of water, quality of the surrounding environment are also become as significant factors. Buying a house as new requirement because of a Marriage, to maintain the Social Status, and need of live as a Community are the social factors which significantly influence on the house buying decision.

Conclusion

Based on the findings, the increase the prices of houses is the most important consideration for buying a house among financial factors. Goodness or modernism of the structure of the house and Sufficiency of the space / Room facilities are major concern of physical factors, Quality and supply of water is the particular vital for the decision of buying as environmental factors and Buying a house as new requirement because of a Marriage is the most important criteria under the social factor. With the continuous increase in living cost and property prices, home buyers, especially the first-timer, will face a huge challenge to buy a house in today's market. Therefore supply of the Middle- Income houses should be provided which can be satisfied the preferences of the buyers. On the other hand, more housing projects are still in need, for the Middle-Income households.

Acknowledgements

Center for Real Estate Studies (CRES), Department of Estate Management and Valuation, University of Sri Jayewardenepura.

References

Aden and Yemen (2014), "Residents' Perception of the Affordability of Private Housing", Conference on Quality of Life 2014, Istanbul, Turkey, www.emerald.com

Anne M D (2012), "Categorical regression compared to Random Forests", "techniques for prediction using semi-quantitative data from micro-arrays,

Ariyawansa R G (2007), "An empirical study of consumer behavior in housing market in Colombo", Built-Environment - Sri Lanka, Vol. 08, Issue 01: 2007.

Ariyawansa R G and Perera R (2018), "Socio Economic Insight of the secondary housing market in Colombo suburbs: Seller's Point of Views,

Ariyawansa R G and Prathapsinghe D (2016), "Review of Price Formation of Land and landed properties in Colombo: Is it a Myth or Reality?" 2nd National Symposium on Real Estate Management and Valuation.

Arunathilake N (2013), "The Sri Lankan Global Middle Class", Institute of Policy studies in Sri Lanka.

Asian Development Bank (2010), "The Rise of Asia's Middle Class: Key Indicators for Asia and the Pacific," Asian Development Bank, Manila, www.adb.org

Baqtaya B et.al (2016), "Affordable Housing Policy: Issues and Challenges among Middle-IncomeGroups", International Journal of Social Science and Humanity, Vol. 6, No. 6. www.emerald.com

Chia et.al (2017), "Understanding factors that influence house purchase intention among consumers in Kota Kinabalu: An application of buyer behavior Model Theory" Journal of Technology Management and Business Vol 03, 2016, www.emerald.com

Jones Lang LaSalle, (2017) Land and Real Estate Opportunities, , [https://www.Jones Lang LaSalle.com.lk](https://www.JonesLangLaSalle.com.lk) accessed on 28.12.2019

Niriella C (2010), "Social mobility and class formation: an analysis of the housing market in Colombo, Sri Lankan

Samarathunga T (2013), "Reflects an over 100 years of urban housing policies in Sri Lanka", scientific Publication Group, Vol.2 pp.14-21.

San C (2016), "Attributes influencing home buyers' purchase decision: A study of residential property in Setia Alam"

Sen C et.al (2013), "An Evaluation of Group Housing Affordability in Core Kolkata: The Case of Low-To-Middle-Income Groups", International Journal of Property Sciences Vol. 3 Issue 12013, Department of Humanities and Social Sciences, Indian Institute of Technology, Kharagpur, India.

Shrestha S L (2009), "Categorical Regression models with Optimal Scaling for Predicting Indoor Air Pollution Concentrations inside Kitchens in Nepalese Households", "Nepal Journal of Science and Technology Volume 10 Pp 205-211.

Sunethra J P, (2014), "Internal Migration Pattern in Sri Lanka", Vol. 16, No.4 (1-9), ISSN: 1823-884

Tawfik S et.al (2015), "Behavioral Factors Affecting Real Estate Purchasing", Housing Building and planning school, University science of Malaysia, International Journal of Business and Social Science Vol.6.

Valerie K (2008), "Factors Important in the decision to buy a first home ", published in 14th Pacific Rim Real Estate Society Conference Istana Hotel, Kuala Lumpur January 2008

Wijewardena, W.A (2018), "The problem of overcoming Middle-Income- trap: getting integrated to Global Economy is the way out", "Association of Professional Bankers" www.lankapropertyweb.com accessed on 28.12.2019
www.statistics.gov.lk accessed on 05.05.2018
www.uda.lk accessed on 28.12.2019