

# Influence of Economic & Financial Factors in Buying Decision of Residential Houses in Chennai Market – A Study

P. Senthilmurugan<sup>1</sup>, Dr. N. Mohan<sup>2</sup>, Dr. S. Dinesh Kumar<sup>3</sup>

<sup>1</sup>Assist. Professor, School of Business Studies and Social Sciences, Christ Deemed to be University, Bengaluru- 72

<sup>2</sup>Director, Department of Management Studies, Vasavi Vidya Trust Group of Institutions, Salem -636103

<sup>3</sup>Asst. Professor, Sri Sairam Institute of Mgmt Studies, Sri Sairam Engg. College, Chennai

<sup>1</sup>sen698@gmail.com, <sup>3</sup>dhineselvaraj@gmail.com

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## Abstract

Buying decision of houses is not merely the outcome that buyers recognise and feel a vast difference between their actual state to the desired state of a new dwelling. But buying situation is triggered by other influencing factors pertinent to their environment. Predominantly, financial and economic conditions affect buyer's High involvement buying decision such as residential house buying. Residential house buying is a stiff process as it implies large amount of investment and infrequent buying affair. Buyers contemplate several criteria in which financial and economic factors are substantial before attaining an eventual decision of buying home. Learning the factors which prohibit the buying decision of consumers is also essential for real estate marketer. This study explores the buyers' dominant economic and financial attributes influences decisions. The study adopts a descriptive research design. The data required is primary and the same was collected from the home buying aspirants in structured questionnaire patterns. This study has found significant influence of economic and financial attributes on buyers' residential home-buying decisions.

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## I. INTRODUCTION

The buying decision process is a sequence of interconnected activities that leads to a choice between alternatives. The marketers who attained consumer delights must fully understand the buying decision process of consumers which involves all the experiences in learning, selecting, using and even disposing of products. (Kotler & Keller, 2016). The decision-making process of consumers comprises five stages: problem recognition, searching for information, evaluation of alternatives, purchase decision, and post-purchase behaviour. This process commences while the buyer recognises a problem or need in response to internal or external stimuli. Once the problem is recognized, they

recollect relevant information from their memories to find the solution. If the appropriate answer is not found then the consumers initiate search process externally. Alternative products or brands are evaluated by consumers. They consider each product and services or brands as a bundle of attributes with varying capabilities for delivering the benefits sought to satisfy their real needs. The consumer determines the criteria to be employed to evaluate a product or service, based on those criterion rule all the alternatives are compared and evaluated. Eventually, consumers make buying decision-based on their decision-making rules. This paper analyses the economic and financial criteria influences the consumers buying decision.

## II. BUYING DECISION ON RESIDENTIAL HOUSES

Buying a residential house in a leading metropolitan city is not a one-day decision to make because it involves high investment and impossible to revoke it. Hence, buyers consciously contemplate various factors and ensure that the particular residential project which they intend to buy satisfies and encompasses all significant attributes they anticipated. The decision criteria pertinent to economic and financial attributes such as prevailing prices of the housing properties in the market, conditions of the real estate market, availability of credits, interest rate, expectation of future appreciation of value and tenure of the project, positive sentiments about the current economy and possession of ancestral properties etc., This research explores extent of various economic and financial factors influence the buying decision of residential houses.

## III. LITERATURE BACKGROUND

The previous studies which support economic and financial attributes influences on residential house buying decision construct are summarised. **Anand Bajpai & Prakash Bhalchandra (2015)** found in their research that the financial factor was the prominent factor to decide between buying properties. Authors state that those who intend to invest in properties usually seems to have four biases are over-confidence, herd, mental accounting, and loss aversion. Generally, the buyers who purchased properties in Dubai pay more attention to interest rates, property prices, mortgage amount, the maximum amount of monthly instalments payment terms and length of the property market<sup>1</sup>. **Jiangtao, Eddie, Zhongming (2015)** Authors explored post-purchase attitude of buyers relevant to their buying decision of residential houses. They state that a more promotion-focused position augments evaluating the housing in the all the approaches (i.e., Investment performance, functional performance, and financial burden), guidelines and regulatory concentrates

evaluating the housing which in turn actively effect on one's level of satisfaction and regret. While comparing pre-sale houses, finished homes produce a higher level of fulfilment and lower burden of finance, due to pre-sale houses' performances potential to be minimum anticipation than completed houses' performances due to uncertainties with regard to the unfinished houses' attributes<sup>2</sup> **Linqi Wang (2013)** found that the essential factors for real estate buying decision are location, quality, and price. He gave more emphasis on market price of the property than other factors mentioned. Preference of real estate buying is comprehensively declined while the price is soaring up in the market conversely investment in real estate is increased when the prices level slashed in the market<sup>3</sup>. **Uchenna Cyril Eze & Yih Ying Lim (2013)** The authors stated that the inflation hedge, low property price, small investment, high disposable income, access to revenue and high-interest rate are main financial influences that govern purchase decision of real estate properties. They identified that inflation factor has no effect on purchase decision of the buyers, but property price has substantial impact on investment as the investors reflect the affordability of buying. The disposable income and access to the mortgage loan and financial supports play a positive influence on the purchase decision<sup>4</sup>. **Lizawadi Abdulla & Norhaslina Jumadi (2012)** According to authors the economic factors such as affordable prices, saving a deposit and low-interest rate are essential elements for all the buyers irrespective of age, income or family make up in the decision to buy. The fast-growing housing market in Malaysia has induced a fall in prices due to competitions. It has made more affordability for first time home purchaser<sup>5</sup>. **Chantharat & Narukod (2010)** examined various economic and financial factors such as the price of the real estate, risks and cultural factors on holiday home investment decisions of Swedish investors in Thailand holiday homes. The buyers who have interest in buying holiday homes in Thailand viewed political stability and corruption

factors as necessary criterion before buying holiday housing. The corruption levels directly affect the extent of new investor exhibiting interest in investing in Thailand<sup>6</sup>. **Reed and Mills (2006)** mentioned that the financial key areas mainly considered for house purchasing decision were mortgage interest rate, household income, prices of the house and ability to obtain finance. As investors' perspective finance is the exclusive factors for house purchasing whereas housing is purchased for dwelling purpose finance factors are account for around 30 percent of decision for them to when purchasing a house<sup>7</sup> **A Murie (1991)** stated in his article that the current generation of people who newly entering to the market today is at any age cohort significant differences in housing experience connected particularly to income, employment, and bargaining power in the housing market but this is totally different from the generation had entered into the housing market in the past<sup>8</sup>. **Senthilmurugan.P (2018)** in his study mentioned that desire for owning a house is undoubtedly stimulated due to buyer's sufficient current income level, more than one member earning which lead to saving the income and influential person to take buying decision who have risk-taking and problem-solving ability<sup>9</sup>.

#### IV. RESEARCH METHODOLOGY

The research design was followed for this study is descriptive where the aim would be to make an in-depth analysis the economic and financial factors influences on Buyers' purchase decision of residential houses in Chennai real estate market. People who are intending or planning to buy

suburban homes in Chennai form population for the study. Therefore, the community is indeterminant. Snowball sample procedure was used by the researcher in selecting respondents who had enquired the builders' database for buying residential houses. Selected respondents were asked to refer other respondents who are willing to purchase homes. There were 750 samples collected in snowballing sampling method from various respondents who were planning to buy houses in Chennai out of infinite population. ANOVA, Independent 't' Test and Regression tools were used for analysing the data after selected variables were extracted through Factor analysis.

#### V. THE HYPOTHESIS OF THE STUDY

1. There is a no significant difference between the residence home buyers' demographic profile and influence of economic and financial factors in their purchase decision evaluation criteria.
2. There is a no significant difference between the economic and financial factors influence on the first time and second-time house buyers purchase decisions.
3. There is no impact of economic and financial factor influences on purchase intention of the buyer.

#### VI. ANALYSIS OF THE STUDY

ANOVA was used to identify the difference between the residence home buyers' demographic profile and the influence of economic and financial factors in their purchase decision evaluation criteria.

**Table – 1 Comparison of Buyers' demographic profiles and influences of economic and financial factors in their purchase decision**

Construct	Sub Construct	Age		Education		Occupation		Size of family		No. of Children		Income		No. of earnings	
		F	Sig	F	Sig	F	Sig	F	Sig	F	Sig	F	Sig	F	Sig
Economic & Financial considerations	Price on current market condition	10.77	0.000	3.193	0.013	2.044	0.072	11.386	0.000	14.541	0.000	4.153	0.003	2.593	0.052
		H0 Rejected		H0 Rejected				H0 Rejected		H0 Rejected		H0 Rejected			
	Price on the basis of location	4.758	0.000	8.871	0.000	5.752	0.000	10.852	0.000	3.646	0.013	9.709	0.000	7.062	0.000
		H0 Rejected		H0 Rejected		H0 Rejected		H0 Rejected		H0 Rejected		H0 Rejected		H0 Rejected	

From table 1, the ANOVA results of the study across buyers' demographic profile group are presented. The F value for the Price on current market conditions on occupation of the buyers ( $F = 2.044$ ,  $P = 0.072$ ), and number of earnings in the family ( $F = 2.593$ ,  $P = 0.052$ ), were found to be insignificant where P value was more significant than 0.05, so the null hypothesis  $H_0$  is accepted for these two variables. There is a significant mean difference between the residence home buyers' demographic profile and influence of economic and financial factors in their purchase decision evaluation criteria except their occupation and number of family members earning in the family.

Independent 't' test was used to find out the difference between the economic and financial factors influence on the first time, and second-time house buyers purchase decisions.

**Table – 2 Testing for the difference in means – Buying times and influence of economic and financial factors on House Purchase decision constructs T-Test**

S.No	Construct	Subconstruct	Buying times	
			t' value	P value
1	Economic Considerations	Prices based on the popularity of the location	3.17	0.002
		Prices on Current Market condition	2.905	0.004

The significance values (p-value) of the economic and financial construct namely prices based on the popularity of the location ( $p=0.002$ ), estimates based on current market conditions ( $p=0.004$ ), seems to be lesser than 0.05 and this disproves the  $H_0$  and accepts the alternate hypothesis stating that significant difference between first time and second time buyers of houses with reference to the economic and financial consideration factor influences while making buying decision of residential dwellings.

Regression analysis was done after checking Linearity and Multicollinearity analysis using Bivariate Pearson's correlation analysis.

**Table – 3 Assessing the impact of economic and financial factor influences on purchase intention of the buyer.**

S. No	Economic & Financial Considerations	Purchase Intention	
		Coefficients	Significance
	Constant	1.959	
1	Prices based on location	0.441	0.000
2	Prices based on the current market condition	0.282	0.000
	$R^2$	<b>0.466</b>	
	Adjusted $R^2$	<b>0.464</b>	
	Sig	<b>0.000</b>	

The results exhibit that the regression model has a coefficient of determination of 0.466 with an F value significance being 0.000 and this shows that 46 per cent of variance in the regression model are being explained by the independent variables. The model is also found to be significant at 0.01 level of significance. The influence of economic and financial considerations attributes variables that have the highest impact on purchase intention, the coefficients of the regression models are studied. Prices based on the current market situation has the highest effect on purchase intention with a factor of .382 and a significance of 0.000.

**Economic Considerations = 1.959 + 0.441 (Prices on the basis of location) + 0.282 (Prices on the basis of current market conditions)**

The above model has the Highest  $R^2$  or coefficient of determination, and the regression model is accepted to be fit. From the above data, the researcher can conclude that economic considerations positively influence the residential house purchase intention.

## VII. FINDINGS AND CONCLUSION

This research study endeavoured to explore the extent to which economic and financial factors play dominant role in the buying decision of the residential houses purchases by the buyers in the

real estate market. The outcome of the results indicates that buyers are extensively considering economic and financial factors while making buying decision of residential houses. This could be exempted to the buyers who are holding very high-profile occupations and earning very high-income due to more than one member earnings in the family are widely ignoring economic and financial factors and take bold decision of buying houses without providing much emphasis to understand about economic and financial factors. This study has proved that differences exist in consideration of economic and financial factors among first time and second-time house buyers. Typically, first time buyers buy houses triggered by dwelling needs but second time buyers buy houses for investment purposes, and the economic and financial factors strongly influence their buying decision. This study also exhibited the fact that purchase intention of the homes predominantly affected by industrial and commercial influences. This was proved in this study by taking the most weights variables for analysis such as price of the property based on the location of the project and builders' reputations. Eventually, this study is concluded with the note quoted by **Reed and Mills (2006)** in their research that 30% of residential house buying decision was influenced by the financial factors. In Indian scenario more than 40% of buying a choice of residential houses is influenced by the economic and financial considerations.

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