Factors Influencing Apartment Buying Decision

: An Analysis of Company and Customer Perspective

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Abstract

Housing is the basic need of human being and apartment is a type of housing. The real estate developers play a significant role in solving the housing crisis in Dhaka City as well as this sector is contributing in the national economy. The aim of this study is to identify the factors which influence customers to buy apartments rather than land. For conducting this study, 10 companies and 50 customers who bought apartments were interviewed. The study has revealed that scarcity of open space, hazards of purchasing land as well as construction of building, increasing population, and high price of land are major reasons for buying apartment over land. Moreover, when customers take their buying decision of apartment in our country, they consider some factors such as – brand image of Real Estate Company, tailor-mad home, timely handover, inside fittings, less risk, standard of convenience living, transportation facility, availability of necessary institutions, etc. If the real estate businesses can take necessary steps concerning the needs of apartment's buyers and build some projects for the middle as well as lower middle class people it will have a greater contribution to the economy.

Keywords: Real Estate, Apartment, Land, REHAB, tailor made home, brand image.

Introduction

Urbanization is a development phenomenon that comes about with the development of a country's economy in general and industrialization in particular. The rate of urbanization is directly related to the demand for houses. It is expected that as a country becomes more urban, more houses will be needed to accommodate the increasing population in urban centers. However, houses are not being built as per as demand in Bangladesh (Daily Star, 2008, p. 3). Various factors have been pointed out in relation to this deviation between the inadequate availability of housing on the one hand and the rapid urbanization on the other (Tesfaye, 2007, p.29). Consequently real estate industry has emerged in the country which attempts to create a bridge between demand and supply of accommodation facilities.

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In Bangladesh, real estate is a recent phenomenon, although such activities started sometime in 1964. Ispahani Group was the pioneer in this sector (Hossain, *et el.,* 1998, p.37). During 1970s there were fewer than five companies in Bangladesh engaged in this business (REHAB, 2004). But in early 1980s with the inception of Eastern Housing Ltd., the apartment project started flourishing. Now this is a booming sector of the economy. Since late 1980s, it came within the purview of business field. As a fast growing city of Bangladesh, such business was initially concentrated in Dhaka. In1988, there were 42 such developers working in Dhaka and in 2004 there were about 250 companies engaged in this business (REHAB, 2004). Such activities are later on speeded to Chittagong and Khulna cities. At present, there are about 400 firms operating apartment business and they have apartment projects in Dhaka City as well as in some other cities. Over the last 15 years, the real estate development sector has made significant contribution to many sectors in our economy. Since 1985 this sector has created homes for over 20,000 families in the Dhaka Mega City (Seraj, 2003, p. 6). Additionally, thousands of acres of land have been developed into housing estates where lower-and middle-income families can construct their own dwellings. The Dhaka Metropolitan City has seen a new dimension of modern shopping complexes due to the initiative of the Real Estate Developers.

The real estate sector is at present creating employment for about 10 lakh people who are directly or indirectly involved in the sector. According to the LFS, in 1999-2000, 2.1 per cent of the labor force was engaged in construction whereas for 1995-1996 the figure was 1.8 per cent. These figures include workers engaged in brick chipping and working in delivery trucks to architects, engineers and entrepreneurs. Some 5,000 engineers and 6,000 management staff are engaged in this sector (REHAB, 2009).

Recent information concerning investment in the housing sector shows steady growth both in absolute terms and as a percentage of total private investment and GDP. Private investment in housing and construction has more than doubled during the Fourth Five Year Plan period, from Tk 700 crore in 1989-1990 to Tk 1589 crore in 1994-1995. During the first three years of the Fifth Five Year Plan period the average investment in housing and construction was Tk 7,642 crore. As a share of total private investment, private investment in housing and construction in the 1997-1998 to 1998-1999 period accounted for 47.3 per cent which far exceeded the target of 16.35 per cent for this period. The proportion of investment in housing and construction in the national GDP increased from 3.4 percent in FY 1997 to 4.1 per cent in 1999 (REHAB, 2009).

Objectives of the Study

The main objectives of this study are as follows:
  (i)   to find out factors that companies emphasize to sell their apartment.

  (ii) to find out major facilities considered by customers while making such decision.

  (iii) to find out area preferences determinant while buying an apartment.

  (iv) to suggest some guidelines to the policy makers of this industry to improve some

        qualities and benefits to the customers.

  (v) More specifically, the hypothesis of the study is as follows

  H1: There is relationship between facilities of apartment and sources of finance.

H2: There is relationship between reasons for choosing apartment over land and problems faced by customers.

H3: There is relationship between area preferences and facilities of apartment.

H4: There is relationship between area preferences and sources of finance.

H5: There is relationship between reasons for choosing apartment over land and area preferences.

Methodology of the Study

This is a descriptive research. Both primary and secondary data have been used for conducting the present study. In order to explore the factors, which were influenced buyers to purchase apartments, 10 (ten) real estate companies were selected purposively as sample. Moreover, 5 (five) buyers from each real estate company were interviewed who bought apartment recently or earlier were interviewed through using a structured questionnaire. The secondary data have been collected from various published research works on subject areas, brochures, articles etc. In order to make the study more informative, reliable and useful the data and information have been processed and analyzed critically with the help of some statistical tools.

This paper is divided into **four sections**: The first section covers the introduction and rationale of the study. The second section depicts the strong literature review and the third section, which is focused on the several factors that influence buying decision. Finally, the last, not least one presents appendix to make this paper more attractive to the readers.

Rationale of the Study

This study is significant from the perspective of company and customers to gain more knowledge about the determinants; customer consider while buying an apartment.

Bangladesh is a country of more than 150 million populations. People are continuously migrating from rural to urban areas for many obvious reasons, choosing Dhaka city as the primary target. Due to unplanned urban designing and non stop influx of people, housing in Dhaka has become a serious problem. The land price in Dhaka city has been increasing fast. Price of the constructions materials is also increasing (Ullah, *et el.,* 2000, p. 78). Statistics show that Bangladesh will need to construct approximately 4 million new houses annually to meet the future demand of the next twenty years (CPD, 2003, p. 6). Estimates for annual requirements for housing in urban areas vary from 3 lakh to 5.5 lakh units. In Bangladesh 25 per cent of the population (some 35 million people) now live in urban areas; this proportion will be 34 per cent (75 million) by the year 2015(CPD, 2003, p. 10). This is the consequence of high rate of in-migration to Dhaka. By the year 2015 Dhaka is projected to rank as the 5th largest city in the world, where 19 million people will have to find their house. On the other hand, with the continued growth of population, land for agriculture and forest will shrink in tandem. The area occupied by human settlements and supportive infrastructure in Bangladesh is quite high at 30 per cent. Land is becoming increasingly inadequate to provide individual housing solution to all and as a result demand for apartments is growing rapidly.10,000 couples get married in Bangladesh and thus in a ninth month period there will be 10,000 new children coming (CPD, 2003, p. 18). Thus, the high propensity of marriage in Bangladesh itself is an indication of the growing housing needs in the country. Consequently, the city is growing up-ward and multi-storied building is seen as the solution of the problems.

The house is the most important durable good in the household and requires high involvement as well as complex decision making. Compared to buying convenience products, consumers perceive these kinds of `large ticket' purchases as riskier; sometimes even `traumatic' (Bauer 1960, p. 25; Mitchell, 1999 p. 168). Outcomes of such purchases are unknown in advance and some of them are likely to be unpleasant.

In most cases, consumers consider several possibilities, compare them and ultimately make a selection (Bayus and Carlstrom, 1990, p. 765).The marketers of apartment can tailor appropriate marketing strategies concerning the needs of apartment's buyer to serve their current customers and to attract new ones in a more effective way. Furthermore, the results of the study will provide advertisers, marketers as well as business people with practical information; so that they can better understand their customers preferences while making purchase decision apartments. They can also help an organization to improve sales and profits as it is more likely that the customers patronize the organization's facilities if the organization knows what satisfies them.

Literature Review

Dhaka City, born during the Moghul Empire and grown with the British rule, is expanding rapidly. From the beginning of the 20th Century its growth and latter development is marked with sheer lack of proper and far-reaching planning. The impact is now being felt at the end of the century. Dhaka City is undergoing terrific growth phase throughout the last two decades. In addition to the low level of economic development, the lack of genuine political practice will to address the issue in a fundamentally structured, sustainable and large scale manner is commonly cited (UN-HABITAT, 2002, p. 33). In categorizing provision of shelter as one of the fundamental responsibilities of the state, the Constitution of the People's Republic of Bangladesh recognized shelter to be among the fundamental human rights. The UN Declaration on Fundamental Rights also reveals that every person has a right to an adequate standard of living which includes housing. Nevertheless, making shelter available to all is increasingly becoming a tremendous challenge especially to the government.

Bangladesh is a country of more than 140 million populations. People are continuously migrating from rural to urban areas for many obvious reasons, choosing Dhaka city as the primary target. Dhaka has now become the most crowded city in Bangladesh. Due to unplanned urban designing and non stop influx of people, housing in Dhaka has become a serious problem.

The land price in Dhaka city has been increasing fast. Price of the constructions materials is also increasing (Ullah, *et el.,* 2000, p. 73). Statistics show that Bangladesh will need to construct approximately 4 million new houses annually to meet the future demand of the next twenty years. Estimates for annual requirements for housing in urban areas vary from 3 lakh to 5.5 lakh units. In Bangladesh 25 per cent of the population (some 35 million people) now live in urban areas; this proportion will be 34 per cent (75 million) by the year 2015. This is the consequence of high rate of in-migration to Dhaka. By the year 2015 Dhaka is projected to rank as the 5th largest city in the world, where 19 million people will have to find their house.

On the other hand, with the continued growth of population, land for agriculture and forest will shrink in tandem. The area occupied by human settlements and supportive infrastructure in Bangladesh is quite high at 30 per cent. Land is becoming increasingly inadequate to provide individual housing solution to all and as a result demand for apartments is growing rapidly. About 10,000 couples get married in Bangladesh and thus in a nine month period there will be 10,000 new children coming (CPD, 2003, p. 26). Thus, the high propensity of marriage in Bangladesh itself is an indication of the growing housing needs in the country. Consequently, the city is growing up-ward and multi-storied building is seen as the solution of the problems. Apartment living as concept has been gaining popularity in our country (Ullah, *et el.,* 2000, p. 75).

Findings and Interpretations:

Findings from survey have been discussed on two dimensions i.e. company responses and customer responses. At first companies responses are shown in graphical presentation and in second part customer responses have been analyzed in details. Then hypotheses tests have been shown at the last part of the findings.

Graphical Analysis of Company Response:

Type of Product: The development projects for apartments and residential purposes range from Duplex Home, Triplex Home, Penthouse, Luxury Home, Furnished Apartment, Unfurnished Apartment, to Condominium and Vacation-Resort Property. Commercial projects includes Industrial Shed, Agro Farm House, Warehouse, Commercial Space, Industrial space, Office Building, Office Suit, Furnished Office, Commercial Showroom, Exquisite Office, Industrial Park, Factory, Lofts, Shopping Center, etc. All these offerings can be categorized in three groups such as apartment, commercial place, and site.
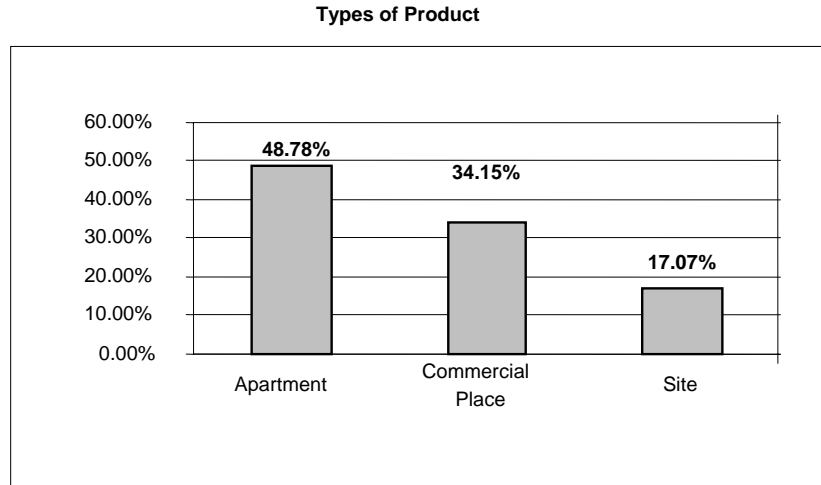
Types of Product

Figure: Types of Product Offered by the Company

The above figure shows the product line of companies and their percentage of product. Maximum companies have the apartment product most. They have also a big percentage of commercial places. It is not possible for a company to provide solution to each and every customer. There arise the needs of dividing market into small groups of buyers' distinct needs, characteristics, or behavior who might require separate products or marketing mixes referred to as segmentation (Kotler and Armstrong, 2006, p. 195).
Real estate market is geographically segmented into six groups(in appendix):

Segmentation-I: Baridhara, Gulshan, Banani, DOHS, Uttara;
Segmentation-II: Dhanmondi;
Segmentation-III: Segunbagicha, Shantinagar, Kakrail, Malibagh, Kalabagan;
Segmentation-IV: Mirpur; Segmentation-V: Old Town of Dhaka City; and
Segmentation-VI :(For office building) Motijheel, Dilkusha, Fakirapool DIT

Extension Road, RK Mission Road, Shahidbagh, Kawran Bazar, Pantha Path etc.

Figure1: A (in appendix-1) shows that same percentage (19.59) of companies has their apartment in segment (i) and (ii) and 17.53% in segment (iii) and (vi). 18.56% in segment (iv) and only 10.31% in segment (v).

Reasons for Development of Apartment Industry:

In our everyday life, we use real estate in some manner; we make use of real estate resources to provide shelter, comfort, convenience, and privacy, a place of work, recreational facilities and related services. In an estimate real estate business represents more than 40% of national wealth (Hossain, 1998, p. 37).Companies were asked to express their opinion regarding reasons for development of apartment industry. No single explanation is highlighted by all; rather they convey views in a different way.
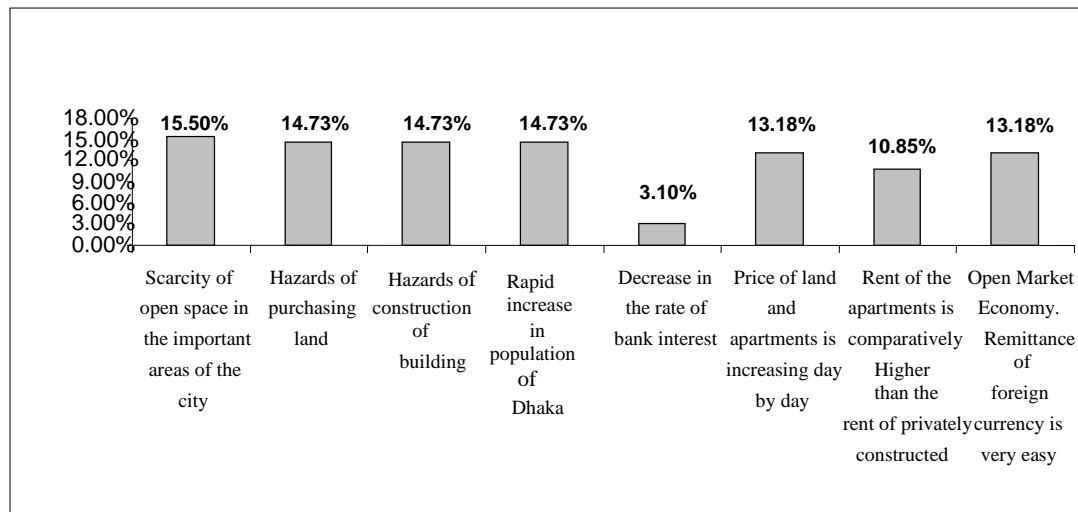

Figure: Reasons for Development of Apartment Industry

This above figure depicts how some crucial factors contribute to the development of apartment industry. It shows that several factors, which are critical in the decision making process of the consumers, play their role in nearly equal manner. Among these - scarcity of open space, hazards of purchasing land, hazards of construction of building, rapid increase in population of Dhaka city, increasing trend of price of apartment and land, increasing trend of rent of apartment are the reasons of apartment development.

Graphical Analysis of Customer Response

In apartment business there are a number of customers such as: business people, senior doctors, pilots, personnel of multinational companies, top and mid level managers of large companies or group of companies, people living abroad, government service holders, senior professors of universities, black money holders, industrialists, police officers , defense professionals etc. (Ullah, *et el.,* 2000, p. 76).

Factors Affecting Choice of Housing Companies: As more people adopt a fast urban and western lifestyle,they are becoming self-centered and looking for more security and less risk in every matter. This very phenomenon also influences the customers in case of buying an apartment or apartments.
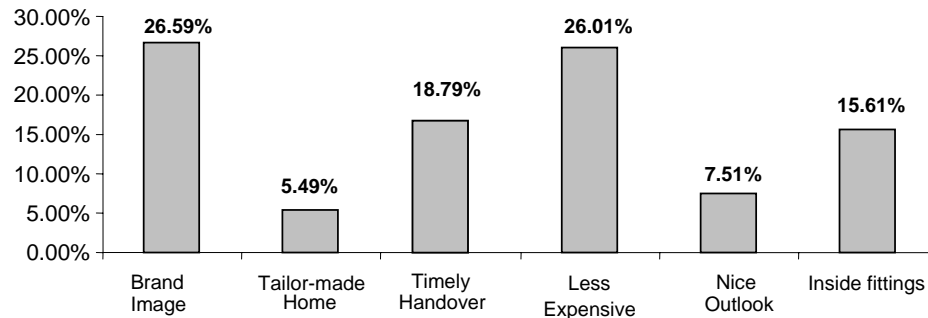

Figure: Factors Affecting to Buy Companies Apartment

The above figure shows the determinants' trend that is responsible for customers' buying preferences. From the response of sample, it is clear that customers emphasize most on the company's brand image from which they will buy. Almost the same preference is given to the expense factor. Moreover, a good emphasis has been given on timely handover factor. Inside fittings is also a strong determinant.

Factors Affecting Choice of Apartment: Technology has made the life smooth and comfortable. Apartment is a technology and it is bought by customers for different reasons.
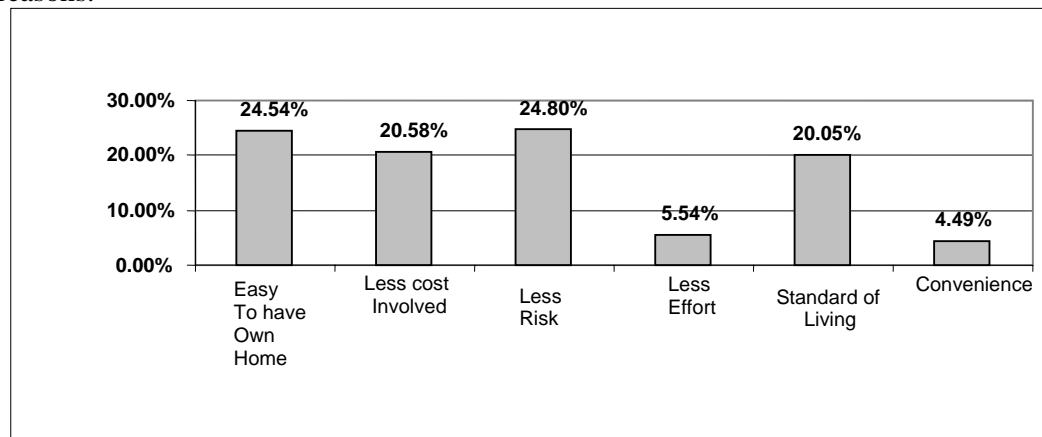

Figure: Factors Affecting to Choose Apartment

This figure shows the trend of determinant that influences the decision making process of apartment choosing. Here we see that customers emphasize most on the matter that they may own a home and on the less risk issue to have a home. Standard of living improvement is another strong determinant in choosing apartment. Less cost is also a factor that people do consider while choosing apartment.

Area Preferences Determinant: Place has been created by God, but not all place carry the same value and same attraction to all. Therefore, there are different determinants in preferring apartment area.
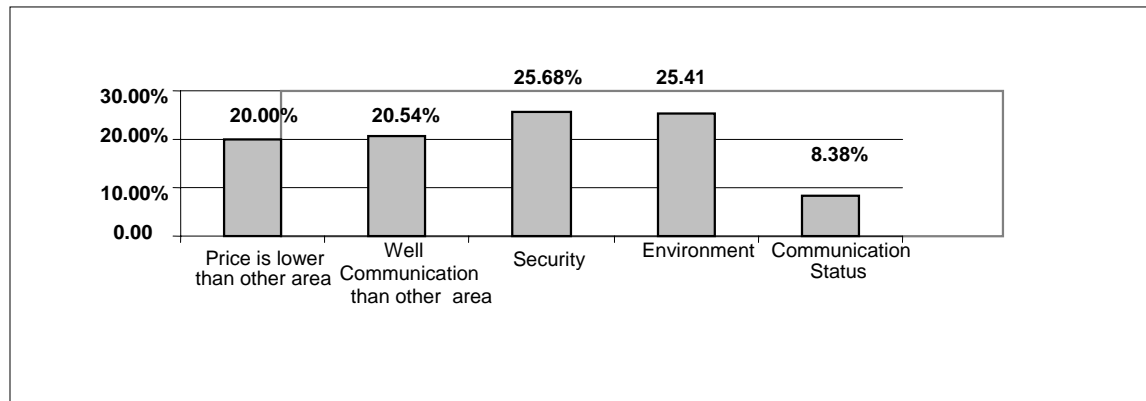

Figure: Area Preferences Determinants

This figure shows the determinants that people consider in choosing the area in which they would buy the desired apartment. It shows that the security and environment are the biggest factors in choosing area for apartment. Price and communication are also big factors in the matter of choosing area.

Considerations of Major Facilities: Apartment is bought for comfort, rest and as one's own permanent dwelling place. Apart from these, there exist some more factors while considering different facilities provided by the real estate companies. Millions of money is spent by middle class and affluent members of society to have peaceful abode. For this purchase they spend some time in searching the desired destination, sometime they halt for making the right decision and finally when they are convinced, they do the action in terms of purchase. The figure-2 (A- in appendix: 2) shows the trend of facilities that are considered in case of choosing apartment. In this regard customer gives the most preference on small distance of workplace from their dwelling places. The educational institutions and transportation facility in the vicinity also play a vital role in this regard.

Sources of Finance: In order to assess the affordability and the need that arises from the different income categories of the houses, it is assumed that the proportion of low income, medium income and high income household to be 80:13:7 (Tesfaye, 2007, p. 33). In fact, flats are bought today by rich or upper middle class family financed by different sources of funds. The figure-2 (B- in appendix: 2) shows the trend of finance sourcing that the people go for. It shows that maximum customer finance themselves by their own. A good proportion of customers take aid from the financial organizations.

Problems Faced by the Customers: Despite having much demand, the apartment customers faced problems by the companies. The number, however, is not significant. From the figure 2-C (in appendix: 2), it represents the trend of problems faced in buying apartment. It shows that 40% customer didn't face any problem. These customers bought apartment basically from those real estate developers who are renowned and doing business for decades. But 60% customers' said they faced

problem in case of buying apartment. According to the time and conditions made by the REHAB, "the possession of the apartment shall be duly handed over to the allottee on completion and full payment of installments and other charges and dues. On the other hand, payments of installments and all other charges are to be made on due dates according to the schedule by the customers. The company may issue reminders to the allottee, but notwithstanding the issue of reminders, the allottee must adhere to the schedule to ensure timely completion of construction". Despite rules and regulations and full payment by the customers, 37% customer faced the problem of untimely handover of the apartment. This uncertainty of obtaining apartment at due time prevent other potential customers' to think about buying the apartment. Moreover, the company may cancel an allotment for non-payment of installments in disregard of reminders and after final intimation to the allottee by registered post at the address given n the application form. But number of customers complains that the installation is not maintained properly by the company as they promised at the very beginning. During the installation period time and conditions are changed and it becomes thorny for the customers to continue payment process. Consequently, many of them surrender installation payment and failed to acquire their paid amount. This dilemma makes customer suspicious about the companies and coerce them to think twice to procure an apartment.

Reasons for Choosing Apartment over Land*:* Customers buy apartment over land due to several reasons. From the figure 2-D (in appendix: 2), it shows the trend of factors that customers consider in choosing apartment rather than land. 26% customers choose to buy land for the reason of hassle free procedure of purchasing apartment rather than land. 23% customer considers that the price of land in a better area is much more expensive comparing to that of an apartment. 19% customer emphasizes on the fact that land in better place is not available and buying land is a longer process.

Hypotheses testing about apartment buying

Variables	Λ^2	df	α	Decision
facilities of apartment and sources of finance	74.057	12	.001	Accepted
reasons for choosing apartment over land and problems faced by customers	84.375	10	.001	Accepted
area preferences and facilities of apartment	127.010	16	.001	Accepted
area preferences and sources of finance	81.044	12	.001	Accepted
reasons for choosing apartment over land and area preferences	152.729	20	.001	Accepted

H1: There is relationship between facilities of apartment and sources of finance. This hypothesis is accepted as the probability .001 is less than the significance level .05. So we accept the hypothesis and conclude that facilities of apartment and sources of finance are related while considering buying apartment.

H2: There is relationship between reasons for choosing apartment over land and problems faced by customers. This hypothesis is accepted as the probability .001 is less than the significance level .05. So we accept the hypothesis and conclude that customers analyze problems than decide to choose apartment on the basis of determinant.

H3: There is relationship between area preferences and facilities of apartment. This hypothesis is accepted as the probability .001 is less than the significance level .05. So we accept the hypothesis and conclude that area preferences and facilities are interrelated.

H4: There is relationship between area preferences and sources of finance. This hypothesis is accepted as the probability .001 is less than the significance level .05. So we accept the hypothesis and conclude that area preferences and facilities are related.

H5: There is relationship between reasons for choosing apartment over land and area preferences. This hypothesis is accepted as the probability .001 is less than the significance level .05. So we accept the hypothesis and conclude that area preferences are related with sources of finance.

Conclusion

Dhaka City is undergoing terrific growth phase throughout the last two decades. While there are so many real estate developers in the market, there are also very few of them who have maintained the quality, safety and customer preference. It has already become a sort of tradition in the country that the first day quality and impression of a company is never found if the company can attain some familiarity even if to a little extent. The main reasons why people get interested to buy apartment in Dhaka city can be attributed to a number of factors, such as- scarcity of vacant space in the important areas of the city, hazards of purchasing land, hazards of construction of building, rapid increase in population of Dhaka, decrease in the rate of bank interest, price of land and apartments is increasing day by day, rent of the apartments is comparatively higher than the rent of privately constructed flats, open market economy, easy remittance of foreign currency, security, service facilities such as garbage disposal, central satellite TV connection, apartments services, roof top facilities, lift and so on. Though the sector is facing some problems right now, it has a strong business potential if transparency is maintained and more importantly if some substantial services can be provided to the middle and lower middle class people. Finally, it cannot be denied that the real estate business has contributed a lot to the infrastructural development of Dhaka city.

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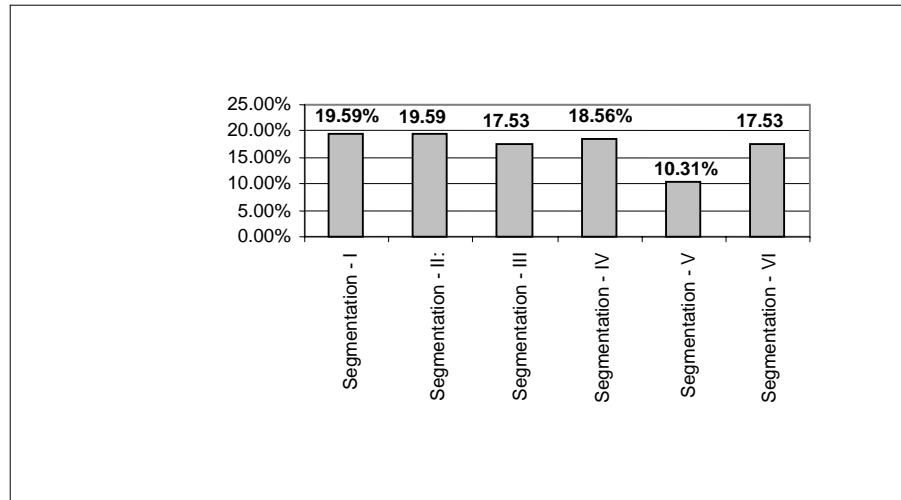# Appendices

Appendix: 1

(From Company Perspective)

Figure: 1-A: Segmentation on the basis of areas in Dhaka city, (Source: Authors Survey,2010)

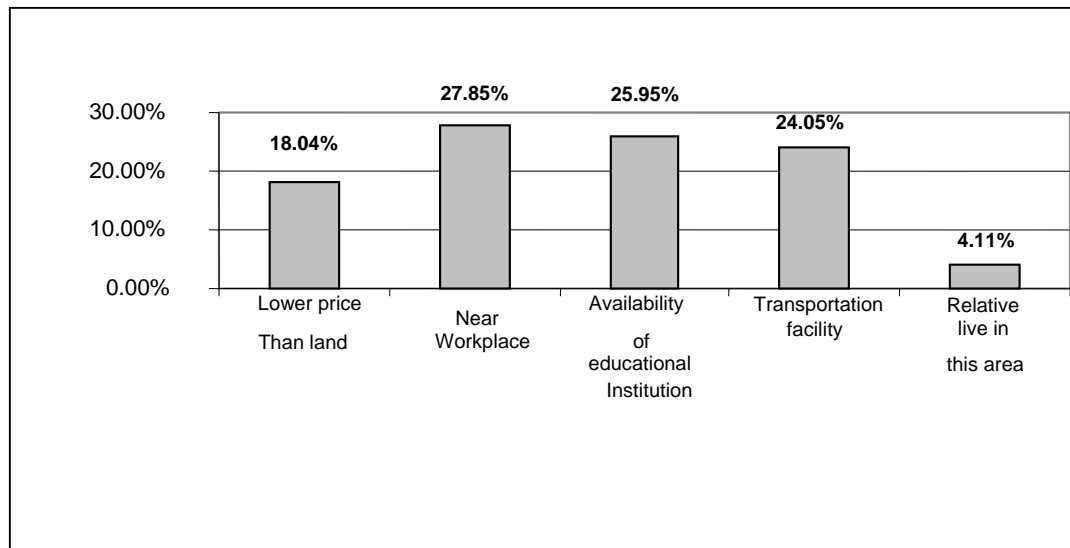## Appendix: 2

(From Customer Perspective)

Figure 2-A: Consideration of Major facilities (Authors Survey, 2010)

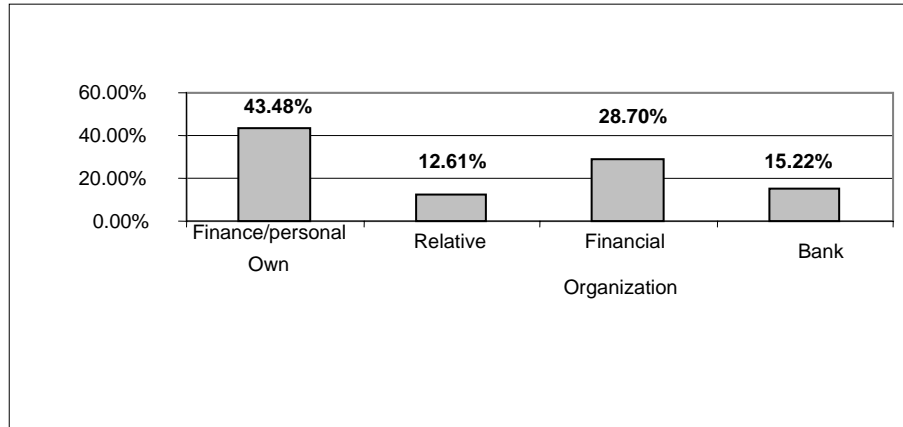Figure: 2-B: Sources of Finance (Authors Survey, 2010)

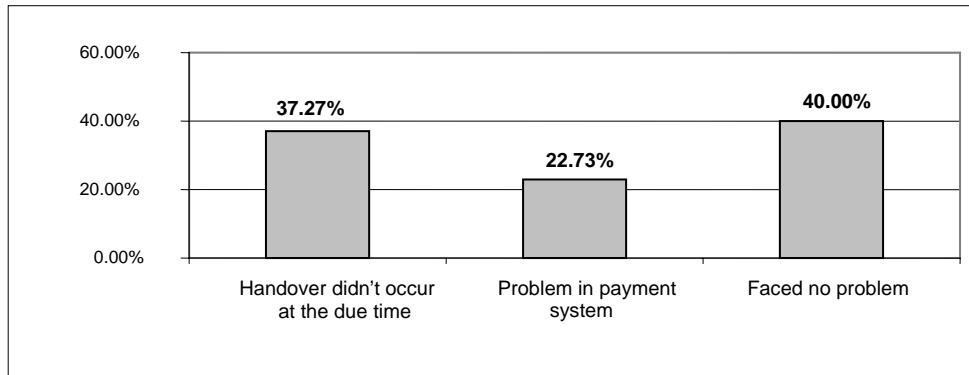Figure: 2-C: Problems from Company Side, (Source: Authors Survey, 2010)

Figure: 2-D: Reasons for choosing apartment over land (Source: Authors Survey, 2010)