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# Relative Importance Analysis of Purchasing Decision Factors for Residential Properties in Bandar Seri Iskandar, Perak, Malaysia

Nor Aini Salleh, Nur Raihan Murtadza, Noraini Johari, Yuhainis Abdul Talib

Faculty of Architecture, Planning and Surveying,  
Universiti Teknologi MARA Perak Branch, Seri Iskandar Campus, Seri Iskandar 32610, Perak, Malaysia

[draini2017@gmail.com](mailto:draini2017@gmail.com); [anis500@uitm.edu.my](mailto:anis500@uitm.edu.my); [ininjohari@gmail.com](mailto:ininjohari@gmail.com); [nurraihanmurtadza@gmail.com](mailto:nurraihanmurtadza@gmail.com)  
Tel: +06 019 380 2535

### Abstract

A limited supply of houses and a rapidly increasing population have caused house prices to skyrocket. The main objective of this study is to understand the consistency in purchasing residential properties among homebuyers in Seri Iskandar, Perak. The questionnaires distributed to a sample of 110 respondents in Bandar Seri Iskandar. The analysis methods are the Relative Importance Index and Descriptive Analysis. This study revealed that the most significant factors influencing home buyers' purchase decisions of residential properties in Seri Iskandar is neighbourhood factors. Hence, this study is essential to improve the knowledge of the property developer for new development.

Keywords: Home Ownership; Relative Importance Analysis; Purchase decision factor; Residential and property developers

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### 1.0 Introduction

The property sector is one of the fastest-growing areas in economies across the world. Malaysia, as a developing country has obtained substantial economic benefits from the property development industry (Jarad, Yusof, & Mohd Shafiei, 2010). The increasing population and limited supply of property have amplified the demand for housing and escalated the housing price significantly (Rahadi, Wiryono, Koesrindartoto, & Syamwil, 2015b). Even though the housing market sector in certain areas and types in Seri Iskandar, Perak remains higher, it is still a popular choice among households in this area. The Malaysian Department of Valuation and Property Services (2015) reports that single-storey terrace houses recorded the highest number of transactions in the District of Perak Tengah for the period 2012 to 2015. Hence, it is imperative to investigate the factors influencing the purchase decisions of residential properties in Bandar Seri Iskandar, District of Perak Tengah, Perak.

### 2.0 Purchase Decision Factors for Residential Properties

#### 2.1 Location

Studies conducted by Kauko (2007) and San (2016) show that the success or failure of a housing development project determined by the location of the development project itself. Location factors include the distance to various facilities such as a location near workplaces, a location near business centres area, a location near religious centres and other areas. A residential property at a suitable location will generate more favourable returns in terms of capital appreciation and rental value (Tan, 2012). According to Nor Aini, Shahrul, Siti Akhtar & Yuhainis (2015) the natural beauty of the surroundings, proper ventilation, exclusivity, and excellent performance of lighting are some of the factors that can influence homebuyers to purchase residential properties.

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## **2.2 Neighbourhood**

The primary factor affecting the decision-making process of a homebuyer to purchase a residential property is neighbourhood (Blair & Larsen, 2010; De & Vupru, 2017 and Hei and Dastane, 2017). A neighbourhood is a space in which people live together for beneficial and common interests (Nor Aini et al., 2015; Sean & Hong, 2014). To meet homebuyers' needs, the property developer should deliver intangible benefits in the neighbourhood such as better security, good quality of surrounding and infrastructures that can support the lifestyle of the homebuyers (Tan, 2011). The best approach to decide whether a neighbourhood has good condition is by observing the quality of surroundings such as the facilities and amenities provided, as well as the environmental aspects (Tan, 2011).

## **2.3 Concepts and Building Features**

Nowadays, most housing developers are eager to construct environmentally friendly buildings and develop sustainable residential developments (Tan, 2016a). Apart from the gated and guarded concept, housing developers also offer other innovative ideas such as the green concept (Rahadi et al., 2015b). The idea in the green theory is to minimise energy consumption and to reduce the number of resources used in the construction and operation of the buildings. At the same time, the application of this concept also minimises negative impacts such as pollution, emission and waste from manufacturers (Ragheba, El-Shimy, & Raghebb, 2016 and Tan, 2012).

## **2.4 Financial**

Financial factors strongly influence the decision of homebuyers to purchase residential properties (Hei & Dastane, 2017; Sean & Hong, 2014 and Thaker & Sakaran, 2016). The decision to purchase a residential property involves the initial down-payment, the margin of financing, the interest rate of financing, the base lending rate (BLR), the household income, and the ability to obtain financing facility (Sean & Hong, 2014). Hei and Dastane (2017) iterate that most people perceive that the total cost of initial payment in purchasing residential property is an initial down-payment only.

## **2.5 Demographics**

The demographic criteria measure a buyer's affordability at various levels. According to R. Majid, Said, and Daud (2012), different demographics contribute to different buyers' choices in life. Demographic factors include gender, age, education level, marital status, household income, and the number of people in a household (Hei & Dastane, 2017 and Jain & Mandot, 2012).

## **2.6 Type of Land Ownership**

One of the factors influencing a homebuyer's decision to purchase residential property is the type of landholding. Tan (2011) and San (2016) reported that nowadays, homebuyers prefer to live on freehold properties. Two types of land ownership exist in Malaysia, which are freehold and leasehold tenures. The main difference between these holdings is the term of ownership. There is no time limit for freehold properties, which means the tenure is for perpetuity starting from the date of acquiring the property. Whereas leasehold holdings will revert to the state government upon the expiry of the term of the lease.

## **2.7 Developer's Reputation**

The brand of developments interconnects with the reputation of the developers in producing real estate products. Property developers will have better reputations if they are willing to identify homebuyer preferences in real estate products, act professionally in their business conduct, maintain the product quality, deliver their products on time, and maintain a good relationship and good after-sales service with the customers (Rahadi et al., 2013). Casual observation by the author indicates that homebuyers usually check out the profiles of property developers before they decide to purchase the property from a particular developer to avoid problems in the future.

## **2.8 Socio-Cultural Factor**

Previous researchers have identified the importance of socio-cultural factors in decision-making when purchasing residential properties (Nor Aini et al., 2015; Tan, 2012). According to Sultan Sidi (2010), these factors are apparent in the settlement patterns and lifestyles of some communities, for example, the Feng Shui in the Chinese community. The Feng Shui is related to Qi, the vital energy that promotes health and peace and brings harmony into an individual's life (Tan, 2012).

## **3.0 Research Methodology**

In achieving the study's objectives, the authors conduct a desk analysis to review the literature on factors influencing the purchase decision for residential properties. Then, a set of questionnaires was developed to identify the purchase decisions of residential properties made by the homebuyers. Data collection is through the distribution of questionnaires to three residential schemes in Bandar Seri Iskandar namely Taman Iskandar Perdana, Taman Iskandar Bestari, and Bandar Universiti. The choice of these housing schemes is due to their high population as compared to the other areas in the locality. The questionnaire consists of two parts; Part I for questions relating to factors influencing the purchase decision of residential properties in Bandar Seri Iskandar; and Part II for demographic data of the respondents. A pilot study was conducted in the State of Perlis in the three housing schemes due to their similar characteristics to the study area. The total population within the area of study is 3,959 which is as recommended by Israel (1992) where the total number of samples selected by using convenient sampling technique is 110 respondents. Out of the total 110 sets of questionnaires distributed, only 76 sets representing 69% were usable. Despite the low response rate, the results are still acceptable in accordance

with Mundy (2002). The highest value of RII shows the most important or strongly agreed point and vice versa. The formula for the RII as suggested by Johnson and LeBreton (2004) and Rajgor, Paresh, Dhruv, Panchal, and Dhrmesh (2016) is as follows:

$$RII = \frac{\sum W}{A * N}$$

where *W* — weighting is given to each statement by the respondents and ranges from 1 to 5;  
*A* — Higher response integer (5); and *N* — total number of respondents.

$$\text{Index Relevant} = \frac{1n1 + 2n2 + 3n3 + 4n4 + 5n5}{5(n1 + n2 + n3 + n4 + n5)}$$

With:

*n1* = Strongly disagree; *n2* = Disagree; *n3* = Slightly agree; *n4* = Agree; *n5* = Strongly agree

## 4.0 Results and Discussions

### 4.1 Factors Influencing Purchase Decision for Residential Properties in Bandar Seri Iskandar

The highest value of RII shows the most important or the most strongly agreed point and vice versa. The RII results in this study produce a value ranging from 0.5474 to 0.7523 as shown in Table 1. The study results revealed that the RII value for neighbourhood factors group variables is 0.7523, the highest-ranking that influences purchase decision by the homebuyers. Consequently, the RII value ranking in order of highest to lowest are the concepts and building specifications, financial, location, type of land ownership, developer's reputation, demographics, and lastly a social-cultural group of variables.

Table 1: Factors influencing Purchasing Decision for Residential Properties in Bandar Seri Iskandar

Factors/Variables	5	4	3	2	1	RII	Rank
<b>1. Location</b>							<b>0.7207</b>
Working Places	23	42	11	0	0	0.8316	
Retailing Centre	5	48	23	0	0	0.7526	
Religious Centre	3	51	19	3	0	0.7421	
Recreational Parks	3	16	33	24	0	0.5947	<b>4</b>
Central Business District	3	31	35	0	0	0.6789	
Education Centre	16	48	12	0	0	0.8105	
Ventilation and Views	1	29	28	18	0	0.6342	
<b>2. Type of Land Ownership</b>							<b>0.7184</b>
Type of Land Ownership	4	37	35	0	0	0.7184	<b>5</b>
<b>3. Neighbourhood</b>							<b>0.7523</b>
Level of Crime Rate	24	47	5	0	0	0.85	
Level of Pollution	4	47	23	2	0	0.7395	
Safety within the Neighbourhood	6	53	17	0	0	0.7710	
Availability of Public Transportation	1	25	44	6	0	0.6553	<b>1</b>
Availability of Education Facilities	30	32	13	1	0	0.8395	
Availability Business Facilities	20	36	20	0	0	0.8	
Availability Living Facilities	1	20	50	5	0	0.6447	
Availability Religion Facilities	3	41	30	2	0	0.7184	
<b>4. Concepts and Building Specs</b>							<b>0.7391</b>
Development Concept	3	35	37	1	0	0.7053	
Lot Size	10	40	24	2	0	0.7526	
Built-Up Size	4	47	21	1	0	0.7579	
Size of Living and Dining Hall	3	34	34	5	0	0.6921	<b>2</b>
Height of Building Ceiling	9	28	24	15	0	0.6816	
Number of Bathrooms and Bedrooms	25	44	7	0	0	0.8474	
Quality of Material used	6	41	28	1	0	0.7368	
<b>5. Financial</b>							<b>0.7296</b>
Down Payment	7	31	31	7	0	0.7	
Base Lending Rate	4	33	38	1	0	0.7053	<b>3</b>
Ability to get Financing	6	47	19	4	0	0.7447	
Interest Rate of Financing	5	54	17	0	0	0.7684	
<b>6. Developer Reputation</b>							<b>0.7013</b>
Performance of Developer	1	52	21	2	0	0.7368	<b>6</b>
Well-Known Developer	2	30	35	9	0	0.6658	
<b>7. Socio-Cultural</b>							<b>0.5474</b>
Social-culture	4	10	27	32	3	0.5474	<b>8</b>

<b>8. Demographic</b>							<b>0.6727</b>
Marital Status	4	43	20	9	0	0.7105	
Household Size	1	49	22	4	0	0.7237	
Age	2	17	42	14	1	0.6132	7
Household Income	5	52	19	0	0	0.7632	
Education Level	1	16	24	34	1	0.5527	

Source: **Field Survey (2018)**

#### 4.1.1 Neighbourhood

The findings of the study ranked the neighbourhood factor as the leading factor influencing purchase decision for residential properties in Bandar Seri Iskandar. Upon closer scrutiny, the consideration of the crime rate level under the Neighbourhood group variables ranked as the highest individual variable; supporting the findings by Sean and Hong (2014), and Tan (2011). Most of the homebuyers were prepared to pay a higher price for a residential property in an excellent neighbourhood to avoid the detriments due to the increasing crime rate (Sean & Hong, 2014; Thaker & Sakaran, 2016).

#### 4.1.2 Concepts and building specifications

RII results rank the concepts and building specifications as the second factor influencing purchase decision for residential properties in Bandar Seri Iskandar. The RII analysis rated the individual consideration on the number of bathrooms and bedrooms as the highest variable under concepts and building specifications. This supports the findings by Hurtubia, Gallay, and Bierlaire (2010), and Opoku, Robert, Abdul-Muhmin, and Alhassan (2010) that the number of bedrooms and bathrooms are critical housing attributes as they determine the level of privacy among the household as well as with visitors.

#### 4.1.3 Financial

The third highest RII-ranked is the financial aspect. In terms of individual consideration within the financial group of variables, the interest rate of borrowing is the major variable that influences the purchase decision of respondents in purchasing their residential properties in Bandar Seri Iskandar. The results of this study support the findings by Tan (2011) and also proved by Hei and Dastane (2017) in their research.

#### 4.1.4 Location

RII results rank the location factor as the fourth factor to influence the purchasing decision for residential properties in Bandar Seri Iskandar. Independently, respondents rank location of residential property near their working places variable as the most crucial variable compared to other locational variables. This finding concurs with Karsten's (2007) that most homebuyers would rather not spend too much time on commuting to their workplaces. The decision to purchase the residential properties in Bandar Seri Iskandar also influenced by locational factors nearby education centres such as schools and universities. Rahadi, Wiryono, Koesrindartoto, & Syamwil, (2015a) state that locations in proximity to education centres such as schools and universities are popular choices among the homebuyers.

#### 4.1.5 Type of land ownership

The fifth-highest ranking by the RII analysis is the type of land ownership. Besides neighbourhood and financial factors, most respondents in Bandar Seri Iskandar place great importance on the type of land ownership of the residential property on sale. Tan (2011) and San (2016) report that most homebuyers prefer to purchase a residential property with freehold tenure. Freehold interest in the property removes all the headaches involved in the ownership uncertainties intrinsic in leasehold properties.

#### 4.1.6 Developer's reputation

The developer's reputation ranked as the sixth factor that influences the purchase decision of residential properties in Bandar Seri Iskandar. The results of the analysis find that most of the respondents consider the variable performance of property developers very important as compared to the popularity or brand of the property developer in their decision-making when purchasing residential properties in Bandar Seri Iskandar. This finding contradicts with the discovery by Rahadi et al., (2013) who claimed that choosing a reputable developer is an essential factor influencing purchase decision by homebuyers.

#### 4.1.7 Demographics

The demographics factor group of variables is the seventh factor influencing the purchase decision for residential properties in Bandar Seri Iskandar. The findings show that household income variable as the highest variable under demographic factor, above the other demographic variables such as marital status, age group, household size, and education level. In contrast, findings by Haddad, Judeh, and Haddad (2011), and Hurtubia et al., (2010) show that age and gender are the most important factor in demographics variables group that influence purchase decision by the homebuyers.

#### 4.1.8 Socio-cultural

The lowest RII value is the socio-cultural factor. Results indicate that respondents are less concerned about the socio-cultural factors when they decide to purchase residential properties in Bandar Seri Iskandar. A contributing factor is that the majority of respondents and residents of Bandar Seri Iskandar are Muslims, signalling that the residents are familiar and comfortable with the socio-cultural

norms among themselves. The results of this research concur with Tan's (2012) when he found that the socio-cultural attributes of housing are less influential on the purchase decision among first-time homebuyers in Greater KL.

## 5.0 Conclusion and Recommendations

The results derived using RII Analysis of the survey provide insight into the factors influencing homebuyers' decision when purchasing residential properties in Bandar Seri Iskandar, Perak. When deciding to purchase residential properties, the respondents place high values on neighbourhood variables that are level of crime rate, proximity to education and business facilities, and safety measures within the neighbourhood. Clearly, environmental safety and the community ambience are top on their list of must-haves in a home. The second-ranking reflected as an inclination for internal comfort in building concepts and specifications. Respondents prefer residential properties that offer the optimum number of bedrooms and bathrooms within the affordable price range. The lot size, as well as the built-up area of the house, also recorded high scores. These indicate a preference for personal privacy and possibly status. In keeping with current trends of sustainable and green developments and augmented by primary data such as these findings, developers need to invest more in making their projects stand out by providing physical features to reflect enhanced safety and neighbourhood aspects. The aspect of the design is crucial in delivering residential properties with features that meet the homebuyers' preferences. Other than the pricing of the residential properties, property developers should adopt a more holistic vision to their residential development projects. A successful residential development project should be able to help homebuyers develop a safe and secure neighbourhood. It is thus crucial for developers to build sustainable residential projects and complement them with the required facilities and amenities within the neighbourhood to avoid the issue of residential property overhang in the future.

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