

CONSUMER'S DECISION MAKING TO INVESTS ON CONDOMINIUM AND HOUSING AT EAST SURABAYA, INDONESIA

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ABSTRACT

As the rapid growth of the middle-class residential building, development is now increasing in major cities in Indonesia, especially Surabaya. Developers trying to create demand by increasing the supply. But sometimes supplies didn't fit with consumer's preferences. Preference were easily changing and unpredictable, it was caused by internal and external factors. Therefore, developers needs to know factors that most influential for individual investors when buying a residential property as an investment. This study is an exploratory research with quantitative approach, using questionnaire and direct interviews to respondents both who will and who had invested in residential property. The analysis technique using factor analysis, sorting and mapping methods to determine consumer's most preferred attributes. Results of this study indicates that individual investors tend to choose a property which is close to the public facilities, having good accessibility and traversed by public transportation. The purchase price, per unit spacious, and the design of the building also has added value as an investment tools.

Keywords : Behavioral Finance, Condominium, Decision Making, Housing Preferences, Individual Investors, Investment

1. INTRODUCTION

Later today, many developing countries support the domestic economic growth by encouraging investment activity. Investment is a process to gain an advantage of the value in the future (Halim, 2005). Indonesia is a developing country that is experiencing a fairly rapid investment growth, particularly in the property sector. Construction of condominiums and housing

starts mostly found in big cities in Indonesia. Lamudi (2014), as a global property portal who focused on developing countries in Asia, reported that investment in Indonesia experienced a significant development. In 2012 a total investment of US\$ 28.5 billion, was increased to US\$ 33 billion in 2013. The increasing factors of investment in Indonesia is primarily due to economic growth and infrastructure development (Lamudi, 2014).

Surabaya is one among the biggest cities in Indonesia, enough to be considered by investors and developers to developing a project, especially on residential sectors. It had proven from data that showing an increasingly supply types of residential property from year to another. Not only the institutional investors, but also many individual investors were invested on the property sectors in East Surabaya. Construction of residential property is growing rapidly, most developers sought to create demand by increasing the supply, especially on condominiums in East Surabaya. However, many people as a consumer thought that condominium in this city is not too necessary, considering the adequate accessibility with high affordability and requires only a relatively short travel time to reach the destination. In general, most of the units of condominiums purchased for investment by leased back for people who settled for college or work in Surabaya.

Developers should have understand that many factors could influences the consumers when choosing products for residential property, related to the preferences and consumer financial behavior, especially when it's being used as an investment tools. Research on consumer preferences need to be conducted to determine the factors that influences the most in decision-making process for individual investors who invests in residential property in East Surabaya, and discover the characteristics of the consumers when selecting a residential product, so it will increasing the occupancy rates of its property.

2. LITERATURE REVIEW

2.1 Location of the Property

Associated with residential property, location is very influential to the requirement and purchasing power of the consumers. Consumers with a high mobility level requires a dwelling which located in the city center, so it will facilitate the movement from one place to another in a shorter time. Otherwise, consumers who have childrens tend to choose a place with larger

residential units, close to public facilities, such as schools, markets, and hospitals. According to Hodgkinson and Allen (1982), the value of a property will be determined from the location of the property is located. Accessibility would be obtained if the property is located in the city center. The strategic location of the property will attract the consumers, it is because the location of the property which close to the center of activity and entertainment can guarantee a safe and profitable investment.

The requirements for a proper land used as a residential location is good physical condition of the land, adequate environmental quality, easy accessibility, close to public facilities, as well as the availability of utility networks such as electricity, gas, and water. According to Turner (1976), the most fundamental thing in residential development is to ease the movement to most frequently visited locations, such as the workplace, schools, and shopping centers. In Indonesia's government regulations, it is stated that a residential have to be close to seven facilities, there are government and public services, education and learning, health, worship, trade and commerce, culture and recreation, open space, parks and sports fields.

In addition, the price of affordable land, clear land tenure and land use conformance with predetermined spatial local government is become important aspects as well. Besides, market demand is also the basis for the development of properties in a region (Rabinowitz, 1989). Therefore in an investment, position and location of the building will determine consumer interest as investors and consumers as a tenant when choosing a residence.

2.2 Housing Preferences

The success of a project can be achieved when developers have a capable to guessing the preferences and characteristics of consumers, either the first consumer who became individual investors, or the second consumers as an occupants and tenants. There is a relationship between the cultures with their physical environment. Culture describe the physical object and the response to surrounding environment, which will always be reflected in their daily life. It is because culture is a guideline of the person's behavior habits. Basically, culture is formed in a group or population with similar characteristics (Ember and Ember, 1998).

The culture is not only can be seen at the perceptions, beliefs, values, norms and habits, but also in the design of an object, such as design of residential property. Generally, the design embodied the culture of its owner. The house which located in a residential complex with similar design was definitely going to have differences, even just a paint color on the walls or the design of the fence, it's all due to the occupant's preferences. When choosing a residence, people usually made two main options for consideration, such type of the property and the surrounding environmental conditions. Both of these choices are made based on the needs and preferences of the consumer, but limited by the size of revenue and market opportunities (Dieleman and Mulder, 2002). The research indicates that economic factors have contributed to the variables, including consumer income and equity in voting patterns residences (Clark and Dieleman, 1996).

2.3 Standard Finance versus Behavioral Finance

There is a great debate about the comparison of standard finance and behavioral finance, Statman (1985) states that the standard finance theory is designed to explain the questions in the mathematical finance, but when it faced to the real life, it did not make any sense because it is not appropriate in some circumstances. Standard finance approaches rely on assumptions that oversimplify the reality. Homo Economicus or rational economic man notion theorized that humans always make rational economic decisions at any time. In fact, humans can not fully do not fully act rationally or irrationally. Basically, standard finance is rules on how the investor "should" do. While behavioral finance is an attempt to identify and study the psychological phenomenon of a person when dealing with financial markets and competitors.

There are two categories of regret often experienced by an investor when faced an opportunity. Regret of omission is a state when someone missed a great opportunity and regret not taking the chance. While the regret of commission more to regret as one step in taking wrong action. Between this two types, the regret of commission makes a person feel more devastated than the regret of omission. Past experience considerable influence on financial behavior especially when it related to number of funds in large amounts (Pompian, 2006). To avoid regrets in the investment acts, an individual investor should be cautious and

act more rationally. Consumer as an individual investor should not depends on subjective decisions, but based on careful considerations.

2.4 Decision Making Process

Before making a decision to invest, people needs to fulfill their basic needs first. Referring to the theory of "Hierarchy of Needs" by Maslow (1970), there are four levels of basic human needs gradually to be met, and can lead to the further achievement while still accompanied the needs thereunder at the same time. Levels of human need according to Maslow (1970) are including psychological, safety, love and belonging, esteem, and self-actualization. Investment is at the highest level of need, namely self-actualization. People usually wants to be considered to exist and proving their achievements, so they wanted to do something different than the others.

When deciding to buy a product, the consumer generally passing through a series of stages. Consumers get a stimulus from the external which usually categorized in two types of stimuli, including marketing and others. The marketing stimuli involves the marketing mix including product, price, place, and promotion. The other stimulus such as economic conditions, technology, politics, and culture. The stimulus will deliver consumers in the decision making process (Tambunan, 2009). Besides, psychological factors in the economic and financial regarded as behavioral finance, which is considered as something that is reasonable but not necessarily rational. Therefore investor's background and their past experiences can also influence the decision making process. This trends can be read and expected to generate good investment decisions.

At the time of the decision making process, individual investors tend to rely expectations without realizing a risky decision. This situation called the expected utility theory. In lectures on Choices under Uncertainty, Raiffa (1968) introduced the three approaches that describes thinking process more accurately, including normative analysis, descriptive analysis, and prescriptive analysis. Several years after the theory of Howard Raiffa published, this theory refined by Kahneman and Tversky (1979). They enhanced the theory and make an alternative theory called prospect theory. The point of prospect theory is a description of how the individual investors face the gains and losses through two processes of

thinking, that is editing and evaluating. They also explained that there are three things that become the basis of the individual in decisions making process, including mental accounting, loss aversion, and regret aversion. This points is considered to be quite influential in the consumer decision to invest.

3. METHODOLOGY

This research using quantitative approach, which involves the use of data in the form of numbers and mathematical calculations as a solution. This approach can be used to examine specific populations through random sampling, using statistical data analysis to test the hypothesis that has been set. According to the types of research, including research in exploratory research, which is trying to find the factors that influence consumer decision making when choosing residential property as an investment.

4. RESULT AND ANALYSIS (FINDING AND DISCUSSION)

4.1 Location Overview

This research location is in the city of Surabaya, East Java Province. Surabaya has an area of 333.063 km² and consists of 5 areas. In this study, limited to the territory of East Surabaya to limit the scope of research to be more focused. Results of surveys and interviews of a number of condominiums then compared with datas of respondents who invest in medium-sized housing which located near to the condominium, with a ratio of the same number of respondents (1:1). This needs to be done so that the respondent has an equal ratio between the property because it is located in the same region, so as to know the motivations and considerations of the respondents when first purchased their property as an investment.

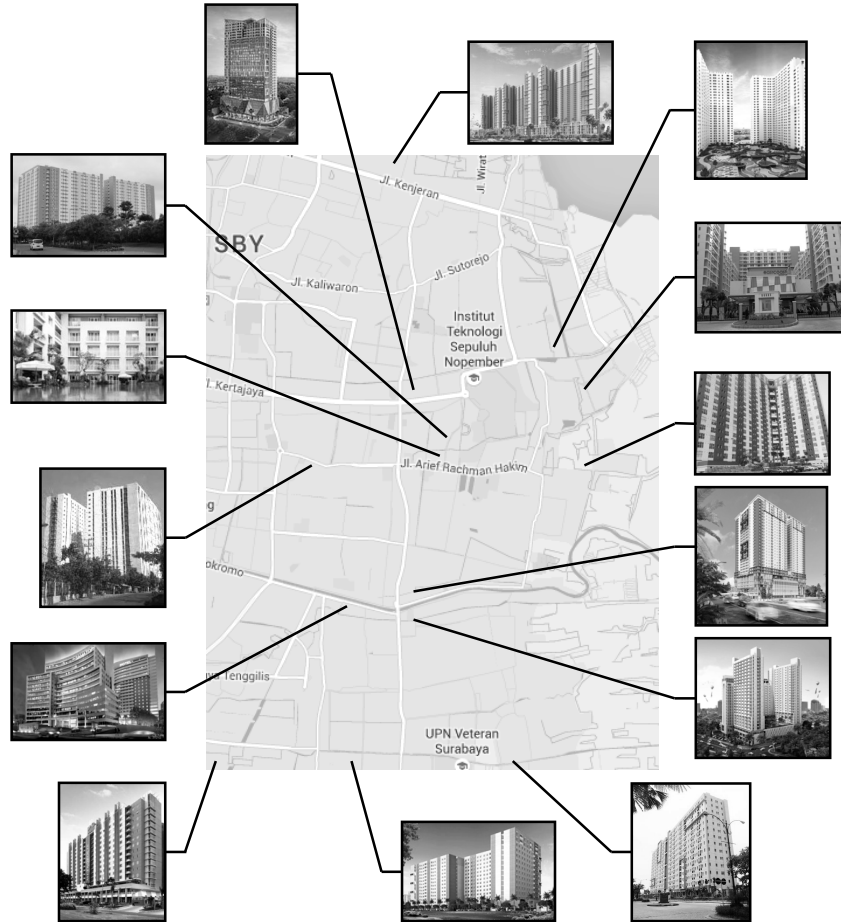


Figure 1: East Surabaya's Condominiums Map
Source: Personal Documentation, 2015

4.2 Discussion

Respondents are dominated by private employees, then following by the self-employed profession, civil servants, employees of state-owned entities, police, and doctors. The results of the analysis found that there are five most influential factors in the investment decision making process of residential property, sequentially from the most influential, including:

1. Availability of facilities and infrastructure; such as trade and services, basic education, health facilities, higher education, and worship facilities. Respondents tend to choose a residence which is close to the public facilities. It will attracts the tenants to rent their properties.

2. Architectural attributes; such as price of the property, spacious unit, number of rooms, building and interior design. Consideration of the respondents' architectural attributes affected by the amount of income and available supplies.
3. Accessibility and public transportation; including city bus, and city transport. It will help the occupants' movement and increase the affordability of the property.
4. Past experience of investment; including experience of friends and relatives, and individual experiences. Past experience become consideration when respondents would choose as an investment property. This may be the evaluation so that no more wrong decision in the next investment.
5. Completeness of investment; including property management, and surrounded by office facilities. Most respondents prefer a property that is well managed by the management. In addition, the existence of an office building close to the property are also becoming more value as an investment.

In the selection of the property as a residence, most respondents prefer lived in housing compared to condominiums. It's because house is more flexible and comfortable for the whole family. While when choosing residential property as an investment, respondents agreed to invest in condominiums. The location of condominiums are generally located in the city center, so that more tenants will be interested. In addition, rental rates in urban centers rated higher, so the estimate of the payback period will be shorter of time. But there are also respondents who still choose housing as an investment, because it has private land that can be modified as a carport and garden.

5. CONCLUSION

Economic improvement in a country influencing the increase of investment. This is evident in the growing number of property development at East Surabaya. Construction of condominiums and retail properties dominate the sector. Most developers choose a location adjacent to the University level education area and office complex. It aims to create demand by bringing supply and change the lifestyle of Surabaya's population. In advanced cities such as Jakarta, the condominium is necessary due to the high mobility and rapid movement is needed. This trend that wants to be taken to Surabaya, in the hope of a demand for condominiums will risen.

The results of a preliminary survey that has been conducted shows that the phenomenon is indeed the case, both the condominiums and housing. But related to the selection of the property as an investment, mostly the first consumer as an individual investor is affected by many factors, could be external and internal factors. These considerations may affect the investment preferences change over the object, and the selection of the most ideal residential property. The research have found 5 factors that most influencing in the decision making process to invest in residential property. These factors including the availability of facilities and infrastructure, architectural attributes, availability of public transportation, past investment's experience, and the investment opportunities.

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