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**RATIONAL & IRRATIONAL FACTORS AFFECTING REAL
ESTATES BUYING BEHAVIOUR OF DIFFERENT
NATIONALITIES WITH SPECIAL REFERENCE OF DUBAI : A
SURVEY**

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ABSTRACT

The research paper focuses on rational and irrational factors that affect buying behavior of various nationalities while purchasing Real Estate property in Dubai.

There are so many different ways to invest in real estate and technology has brought every consumer much closer to opportunities than ever before. Once the deal is completed, there is always a questions whether it was a 'good deal' or not. Real estate investing is no different than any other product or service nevertheless it is always a healthy investment therefore decision to buy the property must be taken care. Investors/Buyers always have different types of demands based on the shapes, sizes, locations & other amenities but the question is Which factors influence the most to the buying behavior of the investors/buyers. Therefore, the researcher has tried to identify the factors that affect the behavior of the investors/buyers.

INTRODUCTION:

Having worked long into real estate business with one of the organizations namely "Nakheel Real Estate, Dubai" situated in Dubai, I have identified rational & irrational factors after exploring the investors/buyers mindset & thought process. The rational factors could be Physical structure, Location, Finance factors while irrational factors could be psychological emotion,



intuitional, socialization, intuitional; socialization and evaluation which have been taken into consideration.

The research sample in the study consists of prospective buyers/investors intending to buy property either to hold on or invest in Dubai however the research population would be all UAE Nationals, Arab Nationals, Asian Expatriates and Europeans. The nationalities are characterized as per the cultural similarities, languages & religious festivals. The findings of the research would be applicable over the research population exclusively.

RESEARCH QUESTION:

- What type of rational & irrational factors influences the most the buying behavior towards the real estate property among the sample of the research?

OBJECTIVE OF STUDY:

- To measure out the influence of rational & irrational factors on the buying behavior towards the real estate property.

LITERATURE REVIEW:

The researches about real estate buying behavior in Dubai were not yet to be found in public literatures. This research uses a summary of existing variables identified in previous researches. Since the previous researches were conducted in countries that have significantly different conditions and cultures compared to United Arab Emirates particularly Dubai, some adjustment were made. The increasing volume of real estate transaction in Dubai over the past few years has been a phenomenon that increases the most of the investors' awareness of real estate. Therefore, this study will provide a better understanding of decision making context and influences to all real estate participants which are the investors, buyers, and agents.

The current research aim is to consider factors influencing the purchase of real estate. A literature review has been carried out on the publications in related to studies previously carried out by various research scholars in this regard.

Traditional financial theory is based on idea that investors act rationally and consider all information properly in decision-making process (Kishore, 2006)¹¹. Consumer behavior theory was able to explain importance of income and determining purchase price level in any market if the goods are in idle condition. However, this study was to explain reasons behind their behavior and actions. Koklic and Vida (2009)¹⁵ focus on psychological factors and social decision. Katona



(1953)¹⁰ adds psychology, sociology, and anthropology factors to a better understanding of consumer problem solving.

The Public expenditure, tax, crime rate commercial activities are factors influencing buying decisions, (Nechyba and Strauss, 1997)²¹. The important factors are the fact that Dubai is a tax free country and has very low crime rate.

Apart from this, the material usage in construction which has environmental impact on newly constructed buildings is also one of the factors influence buying decision. (Morel et al, 2000)¹⁷. The quality of housing services that the prospect gets either through public services or through the developer plays the major role. (Hua Kiefer, 2007)⁷. In most of new construction, importance is given for sustainability which not only reduces services charges but has less impact on environmental pollution.

The buyer behavior influenced by aesthetic, economic, marketing, geographic and social constructs. (Mwfeq Haddad, 2011)¹⁸. The customer behavior also affects by residential mobility, choice and satisfaction (Brandstetter, M.C.G. de O, 2011)³. These factors are considered taking into consideration the infrastructure links in Dubai such as metro services, public transport, schooling and leisure facilities.

This study of buyers behaviour in the real estate purchase decision have provided the foundation of the factors affecting property buying decision, both rational and irrational. Ratchatakulpat et al.(2009)³⁰ have provided an overall view of variables. The influences selected were physical, distance, locational, environmental, financial, legal, psychological, and evaluation. In many cases the study of the irrational factors were not thoroughly discussed. A minority studies behavioural phenomena, (Salzman&Zwinkels, 2013).²⁴ Beracha&Skiba (2014)² have explained some of most common micro-level bias, such as overconfidence, mental accounting, loss aversion, familiarity bias, slow reaction to information. Salzman&Zwinkels (2013)²⁴ also provided a broader explanation of psychology and social determination of real estate decision making. The limitations bias the households' view on property are over-optimism, over-confidence, confirmation bias, momentum effect, herd behaviour, irrational exuberance, regret theory, money illusion, mental accounting, loss aversion, and home bias. Moreover, the study explained relationships of emotions and buyers decision making. Physical influences or property features is an important determinant of a household choice of residence (Quigley, 1976).²⁹ Physical influences include design, property quality and property size has positive impacts on



buyers' decision to purchase a property (Adair et al., 1996;¹ Daly et al., 2003⁴; Ratchatakulpat et al., 2009)²³. Lindberg, Gärling, & Montgomery (1989)¹⁵; Louviere and Timmermans (1990)¹⁶ found that another important influences is property location, it was included in the most of previous researches (Adair et al., 1996;¹ Si, 2012;²⁵ Haddad et al., 2011,⁶). Furthermore, Wang & Li (2004)²⁶ found that environmental influences were more important than property itself. Gabriel & Rosenthal (1989)⁵ stated that households individual characteristics neighborhood quality was concluded as one of the determinants of a household's residential choice.

Price, availability of easier loans has revolted the preferences and choices of consumer related to home buying decisions pertaining to buy a flat or residential villa (JomonLonappan, 2011)⁹. The lending rates in Dubai are very low and mortgage amount is in proportion to property value and also depends on age. These factors are important as consumer gets a loan based on income and also depends on disposable income.

Factors like high demand, low supply and limited income especially for salary class consumers affects the buying in real estate. Therefore it is important for real estate marketer to understand the behavior of prospect and to identify the factors influencing the customer choices beginning of new development. (N. Kathrvel, P. Vimalagracy, 2014)²⁰.

As per the above literature review for the customers it is of prime importance to pay attention to cultural background, income and spending capacity, local laws and regulations while investing into real estate. (Knight, Frank article, Spring 2014)¹².

To conclude above review in brief the new developments should give high importance to customer behavior while launching new developments as the customer will be happy only if the real estate he purchased has no big financial impact on him, educational institute are nearby, neighborhood is of similar income group, family size and commitments, public services, developers services and services charges etc.

FACTORS IDENTIFIED ARE:

1. Rational Factors:

Physical Factors includes Villa, Apartments and their size

Location Factors includes Schooling, Public Transport Connectivity

Environmental Factors includes Sustainability, Greenery, Open Space etc



Financial Factors includes Cost Per Square Feet

2. Irrational Factors:

Psychology Factors includes Information about Developer, other projects, mental accounting

Emotional Factors includes Intention to buy property in Dubai

Institutional Factors includes First impression, Scheme presentation

Socialization Factors includes Neighbors, Economic Class, Status Symbol.

METHODOLOGY:

The survey has been conducted among various prospective investors who intend to buy real estate property during the road show session conducted at site location. The sample has chosen from the people who came for the enquiry to buy the property and shown their interest to invest in the real estate. These enquiries were made during road show organized by the organization during advertising campaign. The sample was divided on the basis of four nationalities & set out to survey 25 people following each nationality given below. Therefore the sampling technique chosen is stratified random sampling.

Respondents	Numbers
UAE Nationals	25
Europeans Expatriates includes European continent Nationals and Australians	25
Arab speaking expatriates (Gulf Cooperation Council and neighbouring Arab countries)	25
Asian Expatriates including nationals from Asian Continent excluding Arab speaking countries.	25

The questionnaires has been distributed to 100 respondents and they filled it up during the show only.

The survey consists of demographic factors, rational factors and irrational factors.

They consisted of three main sections: background information of respondents, the rational factors and the irrational factors from the literature that are defined above.

Close ended Questionnaire have used a five-point Likert scale from 1 = 'highly unimportant' or 'strongly disagree' to 5 = 'highly important' or 'strongly agree'. The respondents have been



purely on the basis of convenience and gathered during road show including expats. The purpose was to obtain completed questionnaires quickly and efficiently. The survey was completed in 1 week.

DATA ANALYSIS:

The Researcher has analyzed the quantitative data through manual calculations. The researcher has tested the reliability and validity of the questionnaire by piloting the questionnaire as the Pilot test was conducted among two participants.

RESULTS AND DISCUSSION:

The first stage of survey analysis describes respondent demographic. The property purchasers are shown in table 1. The largest group of age is between 36-45 and 46-55 years. Further, 98 % respondents are married with children.

Demographic Characteristics:

Gender	
• Male	72
• Female	28
Age Group	
• 30-35 Years	06
• 36-45 Years	32
• 46-55 Years	38
• 56-60 Years	14
• 60 Years	10
Marital Status	
• Single	02
• Married	98



Table 1: Rational Factors:

Population/ Characteristic	Physical	Locations	Environmental	Financial
Nationals	8	5	4	8
European/US Nationals	5	5	5	10
Arab Nationals	5	2	5	13
Asian Nationals	1	2	4	18

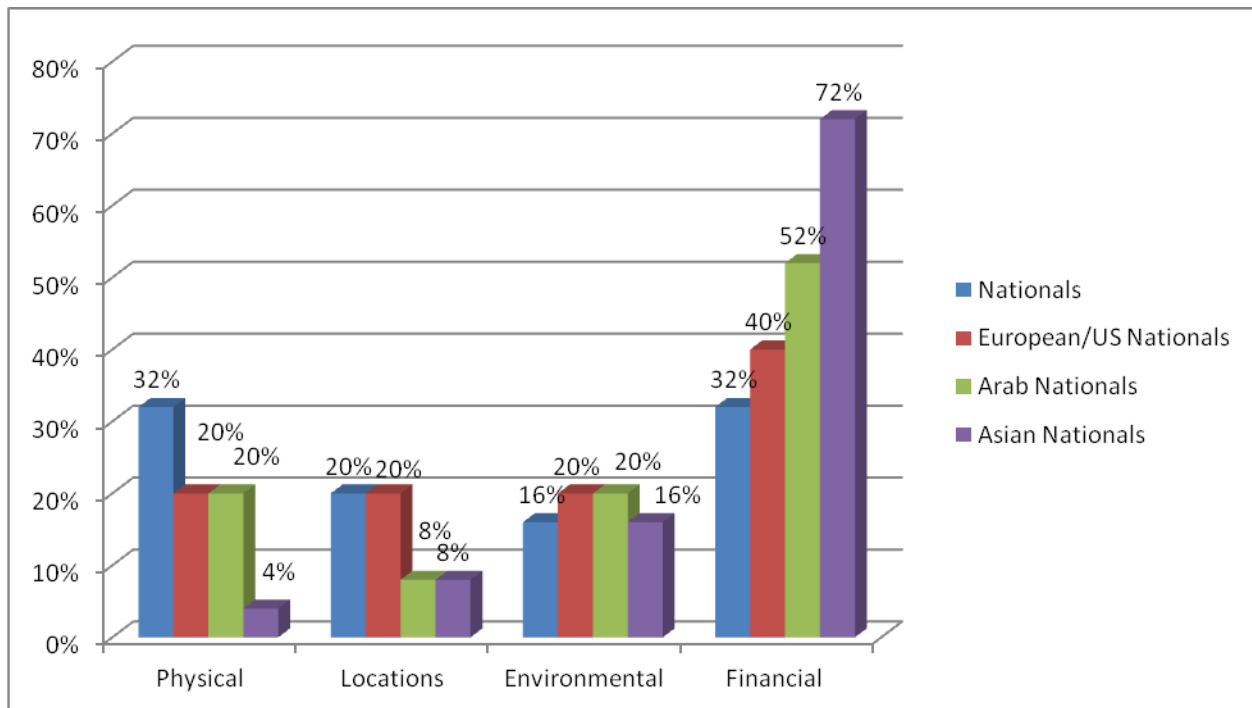


Figure 1:

From Figure1, it can be concluded that the three factors Physical. Location and Environmental conditions influence the buyers/investors but the most important factor is financial factor.



Around 32% UAE Nationals has given equal importance to physical factor and financial factor while buying the property. However, we found Europeans who have given equal preference around 20% to physical, location and environmental factors and 40% importance to financial factor. Around 20% Arab Nationals though give importance to physical factors and environmental factors, 52% gives important financial factor for doing investment in the property. We conclude that 72% Asian investment have given importance to financial factors. For most of Asians, investment in Dubai is for second home as first they prefer to have a house in their respective home country. Hence, they give more importance to financial factor while doing investment for second home.

This means that respondents who have bought property in Dubai pay more attention to property prices, interest rates, mortgage amount, maximum amount of monthly instalments, payment terms, and length of the property market.

Table 2: Irrational Factors:

Population/ Characteristic	Psychological	Emotion	Intuitional	Socialization
Nationals (25)	5	15	2	3
European/US Nationals (25)	2	3	5	15
Arab Nationals (25)	8	4	3	10
Asian Nationals (25)	6	10	2	7

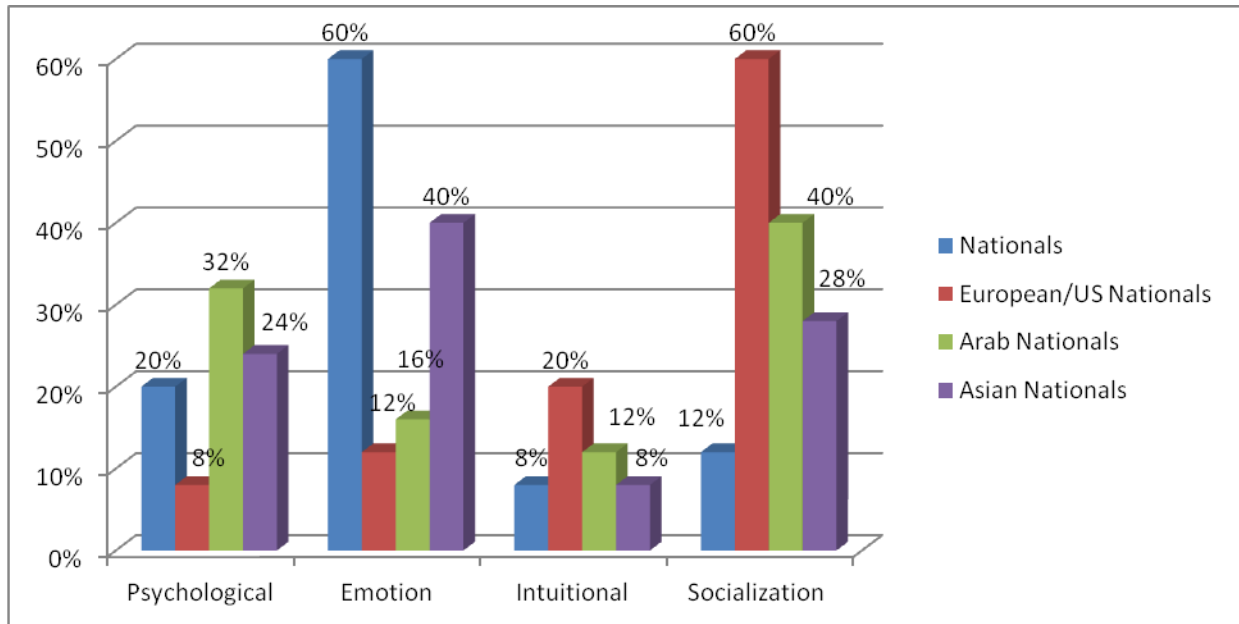


Figure 2:

Those who aim to invest into properties generally seems to have four biases (deviation) & such irregularities are over-confidence, herd, mental accounting, and loss aversion

From Figure 2, it can be concluded that the Emotion plays an important role for UAE Nationals when they invest into properties while on the other hand, socialization is identified at high priority for the Europeans as they give more preference to Socialization while doing investment to buy property.

Arab speaking gives more preference to Psychology and Socialization factors which is nearly 35% to 40% in case of the investment to buy property. While 40% Asian's investment to buy property is based on emotional factors and 28% is based on socialization factors. From the emotional side, the nationalities pay more attention to security than live in groups.

CONCLUSION:

This study concluded that there was a significant difference in decision making regarding buying property in Dubai among the respondents of four type of nationalities. The financial factor was the highest consideration by the participants to make the decision of buying the property in Dubai. The value of rational & irrational factors cannot be overlooked in the real estate sector especially in case of Dubai real estate however these findings can strongly be reflected over the UAE real estate. UAE Nationals priority is crucial to understand while doing the property



business in Dubai as they are more into emotional side while buying the property. The factors & their degree of influence show the typical understanding about the market scenario and how the people think about the investment in the real estate.

LIMITATIONS & IMPLICATIONS: First, the sample of this study is only 100 respondents and since the respondents were picked randomly, the respondents who were interested in purchasing and have not purchased any properties in Dubai were assumed that they are the prospective purchasers of property. However, individuals who are interested in purchasing property vary in their intentions regarding the likelihood and timing of actually purchasing a property. Some of them may or may not view numbers of properties with intention to purchase whether in immediate time or a really long period of time. Prospective buyers may also do not have a clear cut decision to live in or invest. And therefore, the outcomes may not represent the buyers' behavior perfectly. Secondly, the one-shot survey only captures a certain point in time. Given the nature of buyer behavior, it will be great if the process of buyers' decision making is discussed and therefore add more quality to the output. One of the most important implications of this study is the distinctions between live in and investment for the prospective buyers. Most of the prospective buyers may not have a clear intention of purchasing a property for live in or investment. There are several stages found in the process of searching a property. The prospective buyers at earlier stages (those who have not yet started searching) of the process may not have the same level of understanding the importance of each factors with those who are already at further stage of the process (those who have already viewed several options).

FUTURE SCOPE:

To ascertain more degree of generalization for the study, further research could be conducted to include respondents from the real estate offices, in addition to the buyers and prospective buyers of properties. This way, we may get respondents with bigger possibilities of actually searching for properties and considering to purchase. Moreover, it was strongly recommended for further research to differentiate the factors according to the types of property. The differentiated factors may provide more specific characteristic of each type of property, and therefore the outputs will better explain the buyers' behavior towards each type of property. Another avenue for future research is to add more factors or variables to the study, such as marketing, legal, culture and other factors represent real estate financial behavior.



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