



FACTORS INFLUENCING RENTAL DECISION AMONG MIDDLE-INCOME GROUP IN JOHOR BAHRU

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ABSTRACT

Middle-income group is known as a group of earners that are mostly renting especially in the big cities in Malaysia. Despite various housing schemes introduced by the government, various factors have been discovered as barriers for this group to own a house. As the rate of renting a house is higher than owning in the urban area, this study aims at identifying and ranking the factors influencing middle-income group to rent in Johor Bahru. For this purpose, quantitative data were collected through a questionnaire survey involving the middle-income group in Johor Bahru area. Data collected were analysed using frequency analysis and the Relative Importance Index (RII). The main macroeconomic factors found to influence the rental decision were higher house prices as well as increasing density of population and competition in demand, while the microeconomic factors were higher house prices, accessibility and distance from the workplace. The findings from this study may provide the information to improve the current housing policy or initiative introduced by the government.

1.0 INTRODUCTION

House is a basic necessity of every human being especially for protection and comfort. Various housing schemes and policies have been implemented by the government to enhance homeownership among Malaysian by focusing on certain income groups so that everyone could afford to own a house. Unfortunately, the ability to own houses among the middle-income group is still lacking. In Malaysia, the middle-income group is defined as a household with a monthly income between RM 3,860 to RM 8,319. The rapid development in many big cities in Malaysia particularly in Kuala Lumpur, Selangor and Johor state has caused the property market price to increase drastically as shown in the statistics issued by the Ministry of Housing

and Local Government of Malaysia. This then caused the rate of renting to be higher than that of owning in the urban areas.

Unaffordability problem within the middle-income group is still happening although the government has performed multiple roles in providing houses and enabling the private sectors to provide houses based on demand and supply. According to the Department of Statistics Housing Income Survey in 2013, 80% of Malaysians earn less than RM 6,900 per month and are not able to purchase houses priced at higher than RM 300,000. This situation is referred to the middle-income group that mostly has to choose rental over ownership for their home. Figure 1.1 shows the actual median house price with the maximum affordable house

price (by state) that can be purchased by this group during 2016.

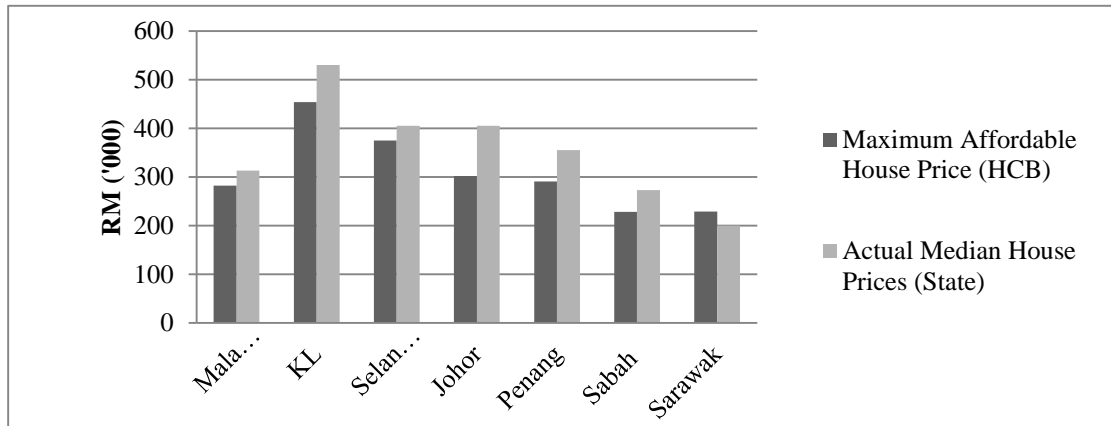


Figure 1.1: Actual median house prices and maximum affordable house prices by states (Department of Statistics Malaysia & Bank Negara Malaysia, 2016)

Besides the unaffordable issue, there are several factors that restrict the middle-income group from buy a house, which force them to rent to fulfil their needs. Hence, this paper aims to determine the factors that influence the decision made by middle-income group to rent a house in Johor Bahru, which is one of the main cities in Malaysia.

2.0 LITERATURE REVIEW

The government has introduced a provision to ensure adequate affordable housing for certain groups of those with the below-median household incomes. However, since the main focus of the government is lower-income group, the middle-income group in Malaysia becomes a group that mostly struggles with the rising costs of transportation, healthcare and education besides some interests that are being charged for their cars or housing loans. In housing financing, the borrower has to pay for the interest rate charged on a mortgage based on the loan amount and the terms of the loan repayment (Ismail, 2013).

Various factors may influence the middle-income group to rent, which can be divided as macroeconomic and microeconomic factors. The imbalance real estate market will cause excess supply of housing that does not correlate with the affordability of household incomes (Bujang et al., 2010). In this context, the housing market condition will affect the ability to buy a house

among the people. This aspect is related to the capacity of household incomes to be expensed to pay and occupy a house based on their need (Hulchanski, 1995; Bramley, 1990). Housing affordability has become a challenge for certain households to balance their income with the cost of the housing and the existing non-housing expenditure (Stone, 2006).

Income is one of the factors that have a high degree of significance in determining the decision made by an individual. The level of incomes determines an individual's ability to own a house (Linneman & Megbougbe, 1992). On the other hand, price is one of the factors that influences the decision made by the middle-income group to rent (Bujang & Zarin, 2008; Mahamud & Hussein, 2002). Within this context, the higher the price, the higher loan interest to be paid. The commitment to pay for the high interest will result in a reduction of household expenditures.

3.0 METHODOLOGY

A questionnaire was developed to identify and determine the factors influencing rental decisions among respondents. The developed questionnaire consisted of the basic information of respondents, status of homeownership of respondents and factors influencing the respondents in choosing to rent over buying and staying at their current house. The aim of the questionnaire is to identify the most influential

factors that affect the decisions made by the middle-income to rent.

The questionnaire required the respondents to rank the level of influential for each factor that influences them to rent. The range level of influential was divided into five, which were not at all influential, slightly influential, somewhat influential, very influential and extremely influential. The designed questionnaires were then distributed among middle-income group people living around Johor Bahru.

3.1 Data collection and sampling

This study focused on the middle-income group aged between 25 and 64 years old who are currently renting a house around Johor Bahru. Based on population statistics released by the Department of Statistics, Malaysia in 2018, the population in Johor Bahru in 2018 is represented by 1,679,500 people aged between 25 to 64 years old. At this stage, Taro Yamane sample formula was used to determine the number of respondents for this study. Based on 80% confidence level, the minimum number of respondents required in the study area is 156 respondents. To achieve this number, 250 questionnaires were distributed within the middle – income group who rent a house in Johor Bahru and 210 of questionnaires were returned by the respondents. The returned questionnaires were screened where 200 of them have been completely answered and usable.

The obtained data of 200 questionnaires were further analysed using the Frequency analysis and Relative Importance Index (RII) to reveal the main factors influencing the rental decision among middle-income people. Relative Importance Index (RII) was calculated using a formula as below:

$$RII = \frac{\sum n_1 + 2n_2 + 3n_3 + 4n_4 + 5n_5}{5N}$$

n1 = the number of respondents who rated 1
 n2 = the number of respondents who rated 2
 n3 = the number of respondents who rated 3
 n4 = the number of respondents who rated 4
 n5 = the number of respondents who rated 5
 N = total number of respondents

4.0 DATA ANALYSIS AND FINDINGS

Relative Importance Index (RII) analysis was conducted to both macro and micro factors. Table 1 and Table 2 show the ranking for macro-economic and micro-economic factors influencing the middle-income group in making the decision to rent in Johor Bahru.

Table 1: Ranking of Macro – Economic Factors

Rank	Factors	Loading
1	Higher price of a house	0.8690
1	Increasing density of population	0.8690
2	Competition in demand	0.8460
3	Longer repayment period of the loan	0.8400
4	Higher interest rate	0.8260
5	Availability of the loan	0.8230
6	Number of households	0.8020
7	Lower supply of affordable housing	0.7700
8	High supplication of house for B40	0.7120

The result shows that higher price of a house and increasing density of population were ranked number one with the loading of 0.8690. The increasing and imbalance supply demand exist in the market is the main reason for the high price of a house in the big cities. In this demand and supply context, the household income, shift in demographic, interest rate, cost of land and construction were among the long-term determinants that drove the house price (Tsatsaronis & Zhu, 2004). Besides, the demand for house keep increasing in big cities due to migration and increasing density of population. A study conducted by Glaeser *et al.* (2006) discussed the impact of housing supply within the urban development. With the high density of population, the study found that house supply across the space was responsible for the high housing price as well as productivity within the area. This situation has created a competition in demand for house, which was the third critical macroeconomic factor resulted from this study with 0.8460 loading factor. The competition in demand has contributed to the high house price in the cities. As a result, the middle-income people with limited purchasing power have been

forced to rent instead of buying their own houses.

income group to rent instead of spending too much money on travelling cost.

Table 2: Ranking of Micro-Economic Factors

Rank	Factors	Loading
1	High price of a house	0.8840
2	Accessibility	0.8650
3	Distance from workplace	0.8600
4	Land area and building (Landed house)	0.8580
5	Accommodation	0.8570
6	Development surround	0.8520
7	Bigger housing expenditures	0.8500
8	The distance from the city centre	0.8400
9	Type of house	0.8380
10	Landed or strata ownership (Stratified)	0.8330
11	Design	0.7940
12	Marital status	0.7860
13	Public amenities	0.7850
14	Basic facilities (water, electricity and telephone)	0.7820
15	Low household incomes	0.7590
16	Interior finishing	0.7170

Similar with macroeconomic factors, the result in Table 2 shows that the high price of a house was ranked number one with loading factor of 0.8840. In this context, the high price reflects the house price offered by certain developers that sell the houses at unreasonable price that cannot be afforded by the middle-income group. This factor is usually influenced by short-term factors such as length of planning and construction, financing process stamp and registration duties and inheritance taxes (Tsatsaronis & Zhu, 2004). The second ranked factor was accessibility with the factor loading of 0.8650. This result is in line with study conducted by Waddell *et al.* (2007) confirming that residence and workplace choice are interdependent. The workers usually prefer to stay in a place that is easily accessible to/from their workplace. Accessibility can be viewed from the availability of public transports within the rental area. This factor was closely related to the third ranked factor, which was the distance from workplace with a factor loading of 0.8600. Traffic problem that frequently occurs in most big cities may have influenced the middle-

5. CONCLUSION

This study has used a questionnaire survey to investigate the factors influencing rental decision among middle-income group in Johor Bahru. The influencing factors that have been discovered were categorised into macroeconomic factors and microeconomic factors. The overall results showed that high house price has been ranked first in both categories. The house price is highly related to the affordability level of the middle-income group to own a house. Supply and demand, as well as the pricing mechanism adopted by the developers, has led to the higher house price which caused the middle-income group has to rent instead of buying a home in the big cities. However, there was a limitation in this study that should be highlighted to ensure a fair interpretation of the findings. The scope of this study was only focusing on the middle-income group in Johor Bahru. Future study that can focus on the other two main cities in Malaysia such as Kuala Lumpur and Pulau Pinang is highly recommended so that better generalisation of the result can be made. Besides, comparison study between the cities should be considered if there are any differences of factors influencing the rental decision among the target group.

In conclusion, despite of the limitation mentioned, this study has filled the gap of the existing literature in regards to the rental decision within the middle-income group in Johor Bahru. The findings have portrayed the main factors influencing the rental decision, which may help the government or housing stakeholders to assist these group earners to own instead of renting a house.

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