RESIDENTIAL SATISFACTION AND THE PROPENSITY TO STAY: AN ANALYSIS OF POTENTIAL MOVERS FROM LOW COST HOUSE

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Corporate Master in Business Administration
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I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Corporate Master in Business Administration.

Dr. Ernest Cyril De Run
Supervisor

This research paper was submitted to the Faculty of Economics and Business, UNIMAS and is accepted as partial fulfillment of the requirement for the degree of Corporate Master in Business Administration.
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I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

Signature : 

Date : 2 August 2011

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Universiti Malaysia Sarawak
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ABSTRACT

RESIDENTIAL SATISFACTION AND THE PROPENSITY TO STAY: AN ANALYSIS OF POTENTIAL MOVERS FROM LOW COST HOUSE

by

Syahrizan bin Junaini

(This research is designed to study potential factors contributing to satisfaction and dissatisfaction among low cost house owners residing in Kuching, Sarawak. This study also focuses on reasons for low cost house owner to continue staying at their property and also potential pulling factors to draw them to move out and owning other properties.

The findings show that factors can be grouped into dwelling unit factors, neighbourhood factors and community factors respectively. The findings endow potential recommendations to the Government, Housing Development Authorities, developers and local authorities to provide better services in increasing satisfaction among low cost house owners in the future thus increasing their propensity to continue staying at low cost house.
ABSTRAK

KAJIAN KEPUASAN HATI DAN KEBARANGKALIAN UNTUK TERUS MENETAP: ANALISIS KEMUNGKINAN PERPINDAHAN KELUAR DARI RUMAH KOS RENDAH

Oleh

Syahrizan bin Junaini

Kajian ini dibuat untuk meninjau faktor-faktor yang menyumbang kepada kepuasan dan ketidak puasan hati di kalangan penduduk yang mendiami rumah kos rendah di kawasan Kuching, Sarawak. Kajian ini juga merangkumi faktor-faktor yang menyebabkan penduduk rumah kos rendah terus menetap di kediaman sekarang serta faktor-faktor pendorong untuk mereka berpindah keluar dari mendiami rumah kos rendah.

Hasil dari kajian yang dibuat ini menunjukkan bahawa faktor-faktor ini boleh dibahagikan kepada beberapa kumpulan iaitu keadaan fizikal rumah kos rendah, keadaan kejiranan dan keadaan komuniti. Hasil kajian ini juga boleh memberikan cadangan kepada pihak Kerajaan, Jabatan Pembangunan Perumahan, kontraktor dan pihak berkuasa tempatan untuk memberikan perkhidmatan yang lebih baik bagi menaikkan tahap kepuasan hati di kalangan penduduk rumah kos rendah untuk masa akan datang dan seterusnya menggalakkan mereka untuk terus menetap di kediaman kos rendah yang dimiliki sekarang.
1. INTRODUCTION

1.1 Background

Construction industry is one of economic sectors which play an important role in the economic development of the country. The Gross Domestic Product (GDP) in 2010 shows that construction industry only covers 4.9% of overall GDP. However, the importance of the construction sector should not be determined by its size, but by its role in economic development which produces all facilities needed by other producers and ultimate consumers (Fadhlin Abdullah, 2004). Construction sector covers various types of construction such as civil engineering, special trade construction, non-residential, and also residential.

The residential construction or housing is the second highest constructed after civil engineering (Department of Statistics, Malaysia). This is related to the scenario of housing provision which has been a crucial issue in developing countries including Malaysia. Under the Ninth Malaysia Plan (2006-2010), it is stated that the fourth thrust of the National Mission is to improve the standard and sustainability of quality of life.

For this objective, the Government will continue to provide basic needs such as water, energy, housing and transportation. Under the Seventh Malaysia Plan (1996-2000) the Government for the first time had introduced the Low Medium Cost Housing category for the
middle low income group with salary ranging from RM1,501 to RM2,500 per month to complement Low Cost Housing projects.

Eighth Malaysia Plan continued with the objective of housing development programs to increase accessibility to adequate, affordable and quality houses for all income groups. Priority was then given to the development of low cost and low medium cost houses. The number of houses built in the Eighth Malaysia Plan has exceeded the set targets. For the Ninth Malaysia Plan, the Government will build approximately 43,800 units of low cost houses through Program Perumahan Rakyat complemented by the building of approximately 29,000 low cost and medium cost houses by Syarikat Perumahan Negara Berhad.

Successfully, this low medium cost housing development has helped a lot to overcome housing problems such as illegal housing or squatters. This shows the success of low cost and low medium cost housing as a way to provide Malaysian, particularly the low-income categories, accessibility to adequate and affordable housing.

It is also important to look from the owner’s perspective on the low cost house in terms of their level of satisfaction to the property owned. As one of the most important decision and the biggest investment in ones life, owning a house need to be related closely to the level of satisfaction that the property gave to the house owner. Home owner at one point in life will be tempted to move to other places for some reason. These potential reasons for leaving homeownership will be studied and the relationship of satisfaction and propensity to stay will be determined. Hence, it is necessary to study the level of satisfactory and
dissatisfactory of low cost home owner and their propensity to stay to better understand the
needs and issues of low cost home owner.

Government has put in great efforts towards providing affordable houses to increase
standard of living for lower income group. However, it is also essential to note on the issue of
sustainability and adequacy of low cost house for the intended group.

1.2 Problem Statement

Sarawak Housing Development Corporation has set a standard minimum floor size
for the Low Cost and Low Medium Cost house that are build in Sarawak. The minimum floor
size for Low Cost house is 153 meter square whereas for Low Medium Cost house, the
minimum floor size is 163 meter square.

With all the efforts from the Government to reduce poverty and to increase the
standard of living through the introduction of low cost housing scheme, it is crucial to note
the satisfaction and the adequacy of the low cost house to the house owners. These factors
will lead the tendency to retain homeownership and propensity to stay.

Research framework below indicates that house owner satisfactory level can be
viewed in terms of dwelling unit variables, neighbour variables and community variables.
The research will also underpin the relationship of demographic factors to overall satisfactory
level and propensity to stay.
1.3 Aims and Objectives

The aim of this research is to determine overall satisfaction and dissatisfaction factors of the dwellers on their property. The research will also determine factors contributing to reasons why dwellers of a low cost house retain staying at the low cost house instead of moving to a different type of housing scheme. This aim will be supported by the following objectives:

a) To identify common satisfaction and dissatisfaction factors of low cost house owner on the property owned.

b) To identify common deciding factors on the decision to continue staying at low cost house or to move out from low cost house.
1.4 Scope of Study

This research will look further on factors contributing to residential satisfaction and dissatisfaction together with their tendency to stay by focusing into the low cost housing in Kuching, Sarawak as the scope of study. The respondents of the research will cover low cost housing dwellers in Kuching. The respondents will be asked to give their respond on reasons for retaining the low cost house based on factors that are to be tested and also on their overall satisfactory and dissatisfactory factors on the low cost property owned.

1.5 Low Cost Housing in Malaysia

1.5.1 Overview of Malaysia Housing Policy

The provision of low cost housing has become a priority of the government in the Five Years National Plans. The government agencies are responsible in providing housing for the low income group in urban areas through establishment of the State Economic Development Corporations.

1.5.2 Low Cost Buying Requirement

Housing Development Corporation has set up standardized requirement for the eligibility to purchase low cost and low medium cost house. The requirement applies throughout the housing development market in Sarawak inclusive of both private and public housing developers.
1.5.3 Reselling of Low Cost House Policy

The owner of low cost house must comply with requirement set by Sarawak Housing Development Corporation on the issue of reselling of low cost property that they possess. According to the regulation, low cost house owner is not permitted to sell the property within the first five year of residence. Upon exceeding five years, the owner is allowed to sell the house at present market value and it can be sold to the open market regardless of income level of the subsequent buyer. The appreciation in value of the property will in some way affect the decision of low cost house owners to retain possession on their property.

1.5.4 Housing Price Categories in Malaysia

Housing price categories in Malaysia based on the Ministry of Housing and Local Government definition can be divided into four categories as listed in the table below:

<table>
<thead>
<tr>
<th>Type of House</th>
<th>Requirement</th>
</tr>
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<tbody>
<tr>
<td>Low Cost House</td>
<td>• Must be a Malaysian citizen of Sarawak Origin</td>
</tr>
<tr>
<td></td>
<td>• Age ranges from 18 – 65 years old</td>
</tr>
<tr>
<td></td>
<td>• Do not own any low cost house and/or landed property</td>
</tr>
<tr>
<td></td>
<td>• A combined gross household income between RM650 to RM1,500 per month.</td>
</tr>
<tr>
<td>Low Medium Cost House</td>
<td>• Must be a Malaysian citizen of Sarawak Origin</td>
</tr>
<tr>
<td></td>
<td>• Age ranges from 18 – 65 years old</td>
</tr>
<tr>
<td></td>
<td>• Do not own any low cost house and/or landed property</td>
</tr>
<tr>
<td></td>
<td>• A combined gross household income between RM1,501 to RM3,500 per month.</td>
</tr>
</tbody>
</table>

Source: Sarawak Housing Development Corporation
Table 2: House Price Structure and Target Groups

<table>
<thead>
<tr>
<th>Category</th>
<th>House Unit Price (RM)</th>
<th>Target Group/Income per month</th>
</tr>
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<tbody>
<tr>
<td>Low Cost</td>
<td>42,000 – 47,000</td>
<td>Below RM1,500</td>
</tr>
<tr>
<td>Low Medium Cost</td>
<td>80,000 – 100,000</td>
<td>RM1501-RM3,500</td>
</tr>
<tr>
<td>Medium Cost</td>
<td>140,000 – 200,000</td>
<td>Not stated</td>
</tr>
<tr>
<td>High Cost</td>
<td>More than 230,000</td>
<td>Not stated</td>
</tr>
</tbody>
</table>

Source: Syarikat Perumahan Negara Berhad

1.5.5 Low Cost Housing in Sarawak

The construction of low cost houses in Sarawak has started back in year 1972. The following table shows that number of completed affordable houses has tremendously increased under the Seventh Malaysian Plan and continued to increased under the Eighth Malaysian Plan.

Table 3: Completed Affordable Housing in Sarawak (1972-2005)

<table>
<thead>
<tr>
<th>Malaysian Plan</th>
<th>Period</th>
<th>Unit Completed</th>
<th>Cumulative Unit</th>
</tr>
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<tbody>
<tr>
<td>Second</td>
<td>1972 – 1975</td>
<td>394</td>
<td>394</td>
</tr>
<tr>
<td>Third</td>
<td>1976 – 1980</td>
<td>911</td>
<td>1,305</td>
</tr>
<tr>
<td>Fourth</td>
<td>1981 – 1985</td>
<td>1,961</td>
<td>3,266</td>
</tr>
<tr>
<td>Fifth</td>
<td>1986 – 1990</td>
<td>748</td>
<td>4,014</td>
</tr>
<tr>
<td>Sixth</td>
<td>1991 – 1995</td>
<td>2,481</td>
<td>6,495</td>
</tr>
<tr>
<td>Seventh</td>
<td>1996 – 2000</td>
<td>23,836</td>
<td>30,331</td>
</tr>
<tr>
<td>Eighth</td>
<td>2001 – 2005</td>
<td>28,576</td>
<td>58,907</td>
</tr>
</tbody>
</table>

Source: Sarawak Housing Development Corporation
2. LITERATURE REVIEW

2.1 Homeownership and Satisfaction

Homeownership is expected to have a positive impact on a person's life or their residential satisfaction. Life satisfaction is defined as a person's level of contentment with all aspects of his or her life (Campbell 1976; Fernandez and Kulik 1981). Residential satisfaction is more narrowly defined satisfaction with both the housing unit and the surrounding neighborhood (Rohe and Stewart 1996). Housing satisfaction also refers to the degree of contentment experienced by an individual or family with regard to the current housing situation (McCray and Day, 1977). Morris (1978) pointed out that housing satisfaction is an index of the level of contentment with current housing conditions.

Homeownership may contribute to life satisfaction in a number of ways. First, buying a home is an important goal for many Americans (Fannie Mae 1998, 1999). It is perceived as a symbol that a person has achieved a certain economic status. Hence, achieving this goal would link to the individual's satisfaction with his or her life.

Satisfaction factors for homeowners are also related to the feeling of ownership and to show ones personality. Many homeowners find satisfaction in both maintaining and improving their homes (Saunders 1990). Homeowners also have greater freedom in
customizing units to suit their own tastes. Their living environments are likely to better support their styles of life, thus increasing their satisfaction with both the residence and life in general (Galster 1987).

Home owning provides the owner to accumulated additional wealth through a combination of mortgage amortization and home price appreciation. These, in turn, may contribute to their satisfaction with life.

Neighbourhood and social factors also play an important role in determining one's satisfaction on homeownership. Onibokun (1974) argues that the habitability of a house is influenced not only by the engineering elements, but also by social, behavioral, cultural, and other elements in the entire societal-environmental system. The dwelling that is adequate from the engineering or from the design point of view may not necessarily be adequate or satisfactory from the inhabitants' point of view. Onibokun concluded that the house is only one link in a chain of factors which determine people's relative satisfaction with their accommodation.

Housing satisfaction acted as an intermediary variable between background characteristics and mobility behavior. Housing characteristics were more crucial determinants of housing satisfaction than demographic characteristics of housing occupants (Lane and Kinsley, 1980).
2.2 Decision to move

The cost of buying and selling a home is very expensive as it deals with the processing charges, legal fees and other financial charges involves. In the longer run, it is expected that the nominal house price are very likely to appreciate whereas short periods of falling nominal house prices are not uncommon (Belsky and Duda, 2002b). The owner will incur the nominal declines in values if they are forced to sell the house in a down market. The short term nominal declines can be avoided by having a longer tenure in the home.

Studies suggest that low-income households are somewhat less likely to move than higher income groups. The studies imply the fact that higher income household have more choices in the housing market as they are less deterred by the high transaction cost. Thus, higher income group are more likely to move as compared to low income households.

2.3 Length of Time as Homeowners

The tendency for homeowner to move from the existing property to the other property is due to the owner trading up to a better quality homes. Several studies were carried out to examine the question of how long low-income and minority first-time buyers maintain homeownership (Reid, 2004; Haurin and Rosenthal, 2005a; Haurin and Rosenthal, 2005b; and Boehm and Schlottmann, 2004b). These studies indicates that fairly sizeable share of all first-time owners, regardless of income or race ethnicity return to renting or living with other after first achieving homeownership. Both Reid (2004) and Haurin and Rosenthal (2005a) find that about 40 percent of first-time homebuyers leave homeownership at some point after buying. These studies also find that low-income owners face a higher risk of being unable to sustain homeownership over time.
From the analysis of data from the Panel Study of Income Dynamics from 1976 through 1993, Reid found out that 53 percent of low-income buyers left homeownership within five years of buying their first home, compared to 23 percent of high-income buyers. Moreover, Haurin and Rosenthal’s analysis of data from the National Longitudinal Study of Youth from 1979 through 2000 found that about 43 percent of low-income buyers did not sustain homeownership for more than five years, compared to 30 percent of high-income buyers.

2.4 Factors Contributing to Leaving Homeownership

The studies by Reid (2004) and Haurin and Rosenthal (2005a, 2005b) also estimate models to identify the factors associated with a household leaving homeownership. The models taking into account the characteristics of the household when they first purchased the property as well as changes in their personal circumstances and the macroeconomic environment after purchase. Besides the income and race-ethnicity, one of the most significant household characteristics is the marital status of the owner. Haurin and Rosenthal (2005a) find that this is the single most important factor predicting the length of time that homeownership is maintained. Household headed by single persons are found to have double the risk of exiting homeownership as compared to married couples. Reid’s results find out that the importance of being married is somewhat less for low-income households, who face only a 30 percent increase in risk of exiting homeownership if they are not married. This finding supports the concerns that the growth in homeownership among single persons and single-parent households may raise the number of owners who are vulnerable to economic shocks.
Age and education is the next significant factor associated with the risk of leaving homeownership. Younger households are found to be at greater risk of exiting homeownership by either returning to renting or living with others. Low-income first-time buyers include a relatively large share of both younger and older households. While the younger households may be at greater risk of leaving homeownership, those who come to homeownership later may be more likely to uphold their property.

Those with more education are also more likely to sustain homeownership. Both Reid and Haurin and Rosenthal speculate that education likely indicates the long-run earnings potential of the owner. Higher educated owners are more likely to experience rising in their earnings. Besides, possessing higher education level is associated with greater financial literacy. This also relates to the importance of financial knowledge to maintaining homeownership.

The studies also examine the importance of changes in household circumstances to determine the exit from homeownership. It is generally believed that "trigger events," which are unexpected changes in a household's circumstances, are important factors in producing defaults or otherwise ending homeownership spells (Vandell, 1995; Elmer and Selig, 1999). The most common events are the reduction in earnings as a result of job loss, the breakage of the household due to divorce or separation, or an increase in expenses or reduction in earnings due to a health crisis or other necessities. Cutts (2003) reports that among delinquent Freddie Mac borrowers during the period from 1999 to 2003, 40 percent reported unemployment or reduction of income as the reason for their delinquency. The next most common issue was illness or death of the borrower or someone in the family, which was
reported for 24 percent of delinquent borrowers. Marital difficulties and excessive financial obligations each were cited in about 10 percent of cases.

2.5 Customer Satisfaction

Customer satisfaction is defined as the feeling that results when consumers make a positive evaluation or feel happy with their decision (Hoyer and MacInnis, 2007) or post-purchase or post-choice evaluation that results from a comparison between these pre-purchase expectations and actual performance (Campbell and Finch, 2004). The CIRIA has listed some areas that may be improved by determining customer satisfaction such as better determination of customer uses and needs, identification of problems with customer services, a sharper focus on areas for improvement and also gaining insight for new products or service offerings.

Oliver (1997, p. 28) defined satisfaction as “the consumer’s fulfillment response, the degree to which the level of fulfillment is pleasant or unpleasant”. Zeithaml and Bitner (2000, p. 75) defined customer satisfaction as the “customers’ evaluation of a product or service in terms of whether that product or service has met their needs and expectations”. Parasuraman et al. (1988) conceptualized customer evaluations of overall service quality as the gap between expectations and perceptions of service performance levels.

2.6 Customer Satisfaction Theories

A number of customer satisfaction theories had been developed such as the Expectancy-Disconfirmation Theory (Cronin and Taylor, 1985), Gap Analysis Model (Parasuraman, 1988) and Ten Domains of Satisfaction by Berry Brodeur (1998). The