

## INFORMATION SOURCES AND DECISIONS FOR HOUSING PRODUCTS AND SERVICES: A EXAMINATION IN THE EMERGING MARKET OF MONGOLIA

*Burmaa Jamiyuansuren, MBA*

*Lecturer, Ider University, Mongolia*

*Dana-Nicoleta Lasca, Ph.D of International Marketing Head of Marketing Department of Robins Business School at University of Richmond, USA*

### Abstract

This research study considered Mongolian housing products and services based on the population of Ulan-Bator capital city and its influence on consumer market. The present study attempts to assess government and the real estate industry approaches in order to provide and market housing for a rapidly increasing urban population in the capital city and to relate consumer aspirations. The study also examines the extent to which consumers seek information from various service providers and other promotional and relational sources of information for their housing search process. We took survey from total of 500 individuals, which attempted to illustrate how consumers approach information sources, utilize related services, and make decisions on house ownership. The survey also reveals that some customers value comfort, design, reputation and reliability of the construction company while the others consider price and mortgage interest rate more in their decision making.

**KEY WORDS:** Marketing housing, consumer aspirations, sources of information, 40, 000 Family Housing, dwelling owned, more rooms individuals, fewer number of rooms, minimal concern, to rely on price, real estate services

### INTRODUCTION

For over two decades, Mongolia has experienced an unprecedented degree of economic, political, legal, and social transformation: since the demise of Communism in the 1990s, the process of transition to a market economy, privatization, reform, deregulation, and foreign direct investment have fully changed the Mongolian housing landscape and the overall effects of transition to a market economy in terms of aggregate economic growth have been most pronounced in the capital city, Ulaanbaatar. The present study attempts to assess the Mongolian government's and the real estate industry's approach to providing and marketing housing for a rapidly increasing urban population in Ulaanbaatar, and to evaluate related consumer aspirations. The study also examines the extent to which consumers seek information from various service providers and other promotional and relational sources of information in their housing search process.

The next section offers an overview of economic development in Mongolia in light of its rapid transition to a market economy, and its rapid economic growth fueled by the mining industry. The section following addresses the builders' considerations for developing housing for the Mongolian population, their branding strategies, and their use of service providers to communicate their strategies to consumers. Following, we present a study where we address consumer aspirations and sources of information used in the process of their home purchase decision. Finally, we offer insights into strategies that the government and firms involved in housing development could use in the process of addressing the housing needs of working consumers.

### LITERATURE REVIEW

#### *Background*

Housing policy is becoming an important consideration for the government

of Mongolia in the process of adapting to a double-digit economic growth and the resulting population influx into the capital city in the past decade. The government and international development organizations have worked extensively, for the past six years, to improve the living conditions of the population by initiating several programs for developing the local housing market and by supporting private sector efforts through loans.

Mongolia's current growth has been unprecedented in its history. Its market economy is extremely vulnerable to volatility in global commodity prices, given the concentration of growth in mining and herding; the collapse in copper prices and the global financial crisis has deeply affected the country's economy in 2009, such that the International Monetary Fund had to step in to provide a \$224-million loan (IHS Global Insight, 2011). Today, however, Mongolia is on its way to a strong recovery. Its current economic growth is largely attributed to the construction of the Oyu Tolgoi copper and gold mine, the world's largest underdeveloped copper-gold project launched as a result of a joint investment by the Mongolian government and a British, Australian, and Canadian mining consortium, and to the herding of livestock, which represents the second largest share of domestic output, employing 30 per cent of the labor force (IHS Global Insight, 2011).

Mongolia continues to receive substantial help from donor aid that is essential in the process of maintaining economic stability, especially as the country is often subject to severe weather conditions, which could create economic risks at any given time (IHS Global Insight, 2011). Its population is small, at 2.76 million, projected to be 2.85 in 2015 (IHS Global Insight, 2011) and its nominal GDP per capita is at \$2,546 in 2011, making it one of the world's poorest countries – ranked 166, just ahead of the West Bank; however, nominal GDP is projected to reach \$5,045 in 2015 (Gluckman 2011), placing it comfortably at the level of a middle-income country. Mongolia's stock exchange, still the world's smallest, rose 125 per cent in 2011, and conservative forecasts (by the International Monetary Fund)

are for double-digit GDP growth rates, with less conservative ones predicting an overall economic output that would quadruple by 2013 (Gluckman 2011).

The Mongolian government is keeping a close watch on the country's rapid economic development, attempting to control inflation and to address negative growth outcomes. For example, the government has recently approved the Fiscal Responsibility Law, aimed to restrict rapid spending growth from mining revenues and to prevent excessive borrowing against future wealth (IHS Global Insight, 2011). It is also ensuring that the influx of new businesses and population to support these businesses are appropriately supplied with the necessary housing.

### *A New Era of Consumer Spending*

In the early 1990s, Mongolia had just emerged from seven decades under the Soviet umbrella. Today, its capital city, Ulaanbaatar, looks very much like a Chinese boomtown, with exploding property prices, huge capital inflows, concerns about corruption, widening gaps in income disparity, and expensive automobiles (Gluckman 2011). Popular and expensive Western brands are invading the Mongolian landscape, many wooing the luxury consumer. For example, Louis Vuitton opened in the posh Central Tower in the proximity of Sukhbaatar Square; there, a glass cabinet holds a horse saddle encrusted in gems, and a crocodile purse priced at \$20,000 is within proximity of watches that are well over \$10,000 (Gluckman 2011). This is very much in contrast with Mongolia's standard of living, which is among the world's lowest – at least for now.

### *The Mongolian Housing Market*

Since the 1990s, when Mongolia transitioned from a planned economy to a market economy, the construction of new buildings has increased sharply and 3,725 families moved to new apartments in Ulaanbaatar (Battulga 2009). More and more individuals are moving to the city in search of better education and job prospects, and more and more need housing.

The Mongolian government currently has engaged in several projects aimed at providing solutions to the housing challenge. One such endeavor was setting up the Sustainable Development Tasks Force, and providing support for the “40,000 Family Housing Project” between 2004 and 2009; the Project helped build new apartments for families working for the government of Mongolia (Bayarsaihan 2010).

Between the years 2000 and 2009, construction companies and private businesses have built from 680 to 8574 apartments annually (Bayarsaihan 2010), many for investment purposes. According to the Population and Housing Census, 22.8 per cent of the population owns housing units with plumbing, electricity, and separate bathrooms and kitchens; and yet, with all the construction, only 12,000 individuals have moved to these apartments, with the rest in dire need of new homes (Bayarsaihan 2010). More than half of the total population of Mongolia lives in Ulaanbaatar. Here, the majority of residents live in the outskirts of the city in courtyard-type buildings known as *ger*, built on one level. They are comprised of 1 or 2 room houses with electricity, but with no plumbing and heating – they rely on coal for heating, which creates a high level of air pollution. It is a high priority for the Mongolian government to move the population from these court-yard-type buildings into high-rise apartments with central heating systems.

In addition to high-rise apartments, individuals who can afford it are also able to purchase single family two-story houses and townhouses. Many are able to purchase these homes and apartments with remittances from family members working abroad – nearly one fifth of the labor force works abroad (Lee 1993) and sends remittances to facilitate the purchase of apartments or houses.

### ***Building the Builder Brand***

When searching for an apartment, Mongolian consumers evaluate their prospective purchases on many of the same dimensions as Western buyers – prices, apartment style, neighborhood, number of

rooms, and so on. The builder’s reputation in particular is an important consideration. Builders are keen on finding available lots in the center of Ulaanbaatar, in the *Tool* River basin, and the *Bogd Khan* Mountain area, a protected park located in the Red Nature Book of Preserved Lands, a scenic area 15 miles from the center of Ulaanbaatar. There appears to be a hierarchy of builders, from the point of view of Mongolians, with the top-ranking construction companies from Japan, followed by Korean and then by Chinese companies.

Builders advertise their building projects on television, in weekly newspapers, and on billboards in the city center, and offer open houses to market their homes to prospective buyers. They also use real estate agencies to market new apartments, homes, and even districts. To differentiate their offerings, builders have created new communities marketed as “Japan town,” “Marshal town,” or “Digital town”. Mongolian names often have references to traditions – for example, “Sun Rise town”, “Krystal town,” and “Rich Mongolian town.” This is in sharp contrast to names under the socialist rule, where districts were designated using numbers, such as first, third and forty thousand neighborhood, to name a few.

In 2006, the “Japan town” district offered homes with a price of \$650 per square meter, with the kitchen installed and with built-in entertainment center furniture. Then, a competing Mongolian Construction Company followed suit to offer garages for cars to the first families who purchased. In 2009, builders also focused on creating playgrounds, sheds where the elderly could congregate, a more modern interior design, and so on.

In creating these new living environments, builders largely ignored the middle class consumer. The government is keenly aware that low-income families are underserved when it comes to housing opportunities. As Table 1 indicates, prices for apartments in Ulaanbaatar have practically doubled in the last decade, making the purchase of an apartment a challenge for most middle-class families.

**Table 1: Number of Apartments and Prices in Ulaanbaatar**

Year	Number of Apartments Commissioned	Year
2000	978	\$300
2001	816	\$340
2002	1285	\$309
2003	2041	\$348
2004	2955	\$350
2005	2935	\$461
2006	5863	\$502
2007	4832	\$580
2008	4216	\$650
2009	4562	\$850

Source: National Statistics Committee Information, 2000-2009. *Construction Statistics for New Apartments*, Ulaanbaatar, Mongolia.

The study herein attempts to evaluate consumer aspirations regarding housing for consumers in Ulaanbaatar and to assess the sources of information used in the process of searching for a new home. The next section addresses the method used for collecting data, including the sampling procedure and the operationalization of variables.

**METHOD**

***Sampling and Procedure***

The data was collected in the capital city, Ulaanbaatar, using a street-intercept procedure. Fifty trained investigators were hired to collect data from the State Department Store, the Central Post Office, the South Grocery Market, the Sunday Market Department Store and the Bayunzurch Market. A total of 500 data collection instruments, written in Mongolian, were administered, and 450 were deemed as usable questionnaires. A total of 500 individuals were approached and 99.8 per cent agreed to complete the questionnaire; such a high response rate is explained by the fact that the respondents were keen for their opinions regarding housing to be widely known and disseminated: the present study was presented as an international survey and the respondents were informed that the aggregate responses in the study would be made known internationally, as well as locally.

***Research Instrument/Operationalization of Variables***

The research instrument comprised of a survey questionnaire. The specific questions asked to collect the data on different operational variables and performance measures are described below. Respondents were first asked if they lived in a single-family house, an apartment, a *ger* with a yard, or a *ger* in someone else’s yard. They were also asked the number of rooms in their dwelling and whether their home was in Ulaanbaatar City. Respondents had to indicate if they planned on buying a new home in the following three to five years. If so, they were asked about the number of rooms of the intended apartment and the price they were willing to pay using five categories, namely, \$250-\$500 per square meter, \$501-\$700 per square meter, \$701-\$900 per square meter, \$901-\$1,100 per square meter, or \$1,200-\$1,500\$ per square meter.

They were asked what sources of information they would likely consult for the apartment – friends, television advertisements, newspaper advertisements, street posters, or the services of a real estate firm. They were then asked to indicate the extent to which the following factors would influence their decision to buy an apartment using a 5-point semantic differential scale; the factors are: price, location, neighborhood, bank loan interest, reputation of the building company, apartment quality, construction and design of the apartment, structure and plan of the rooms, demand for apartments, and the supply of apartments. Respondents were also asked to indicate their age category, their gender, the number of family members, whether they lived in Ulaanbaatar, in a town in the provinces, or in the countryside. Finally, respondents had to indicate whether they worked for the state government, for a nonprofit organization, for a private employer, whether they owned their own business, if they were unemployed, or retired, or if they were students.

**RESULTS AND DISCUSSION**

The respondents were evenly distributed with regard to age, with 137 (30.4%) under the age of 25, 165 (36.7%) between 26 and 35, 119 (26.4%) between 36 and 50, and 29 (6.4%) over the age of 51. In

a relatively young country, where the average 21 and 70 per cent of the population is under the age of 35 (www.mongoliatoday.com 2011), this distribution is deemed as appropriate. Of the total respondents, 176 (39.1%) are male, and 274 (60.9%) are female. Family size, defined as the number of family members living together, ranges between 1 and 11, with a mean of 3.86. With regard to employment, most respondents self identify as entrepreneurs or working in the private sector – see Table 2. A total of 431 (95.8%) respondents live in the capital city of Ulaanbaatar, with only 16 living in the provinces/village center and 3 living in the countryside.

**Table 2: Respondents' Employment Information**

Employment	Number	Percent
Government organization	40	8.9
Nongovernmental organization	58	12.9
Private sector	117	26.0
Entrepreneur/Business Owner	168	37.3
Unemployed	11	2.4
Retired	18	4.0
Student	38	8.4
<b>Total</b>	<b>450</b>	<b>100.0</b>

The study attempted to identify if there were differences between respondents depending on whether their current dwelling was a single-family house, an apartment, a traditional home (*ger*) with a yard, or a *ger* in someone else's yard. We found that the type of dwelling did not significantly determine the sources of information individuals used to find housing. However, we did find that most respondents relied either on newspapers (197) or on television advertising (120) out of 442 valid respondents, rather than on friends or real estate services. Not surprisingly, real estate services are rarely used as information sources, as they constitute a new service in the market, and consumer are not used to consult them in the process of searching for housing.

On the other hand, we found that one's current type of dwelling was an important determinant of the price of the apartment sought (Chi-Square=32.74,  $p < 0.01$ ). It also appears that price was more of a consideration

for individuals living in apartments and those living in a *ger* in someone else's yard. Individuals living in a *ger* in someone else's yard have fewer financial resources than those owning a home or a *ger* with their own yard and thus perceived price as a more important consideration. Surprisingly, the reputation of the building company, the design and structure of the apartment, and the location were not related significantly to the type of dwelling owned.

The number of rooms one currently owned, however, appeared to be an important information variable, determining the source of information individuals consulted (Chi-Square=30.55,  $p < 0.05$ ). It appears that the more rooms individuals have, the more sources of information – other than friends – they are likely to consult, in particular, newspapers, television advertising, and real estate information. It is important to note that real estate services are more frequently considered for those who owned more rooms, compared to those who owned fewer rooms. Alternatively, the fewer number of rooms individuals had, the more they were likely to rely on information from friends for their housing decisions. Also, the more rooms individuals had, the less they considered price as an important variable (Chi-Square=100.33,  $p < 0.01$ ), and the more they considered the construction and design of the apartment (Chi-Square=47.87,  $p < 0.01$ ). Also, the fewer rooms one currently owned, the more important the mortgage interest charged by the banks (Chi-Square=37.86,  $p < 0.01$ ).

Surprisingly, there was no relationship between the number of rooms one had and the importance of the reputation of the builder. This suggests that there is, for the time being, a minimal concern with the builder brand in Mongolia. This is explained by the fact that there is substantial demand for housing and very limited supply. As such, the majority of Mongolian home purchasers are concerned with the availability of new homes, rather than with the added value that builder perception could potentially provide. As more builders compete for consumers and more building stock becomes available, the builder will increasingly become an important consideration.

## MANAGERIAL IMPLICATIONS AND CONCLUSIONS

The study presented herein attempted to offer insights into the housing market of Mongolia, and into the related services and sources of information. It attempted to illustrate how consumers approach information sources, related services, and decision making related to house ownership. An attempt was made to uncover the sources of information consulted in the process of purchasing a home – friends, television advertisements, newspaper advertisements, street poster, or consulting with real estate services. They were then asked to indicate the extent to which price, location, neighborhood, bank loan interest, reputation of the building company, apartment quality, construction, and the design of the apartment, the structure and plan of the rooms, the demand for apartments, and the supply of apartments influenced their decision to purchase an apartment.

The study found that the type of the current dwelling of the respondent and the number of rooms of the respective dwelling constituted important determinants of whether price was an important consideration in the consumer decision making. However, the type of dwelling that one had appeared to have only a minimal relationship to the sources an individual used for information on housing. On the other hand, the number of rooms one owned in his/her current dwelling appeared to determine the sources of information individuals consulted. That is, the more rooms individuals had in their current dwelling, the more sources of information – other than friends – they were likely to consult. In particular, they were likely to consult newspapers, television advertising, and real estate services and information. Also, the more rooms individuals had in their current dwelling, the less they were likely to consider price as an important variable, and the more they appeared to take into consideration the construction and design of the apartment.

This finding is relevant, as buyers are more likely to pay attention to company communication in the form of television advertisements, magazine and newspaper

ads, and billboards, and to publicity. These consumers are less likely to rely on price as a key decision variable. Rather, they are more likely to respond well to branding strategies that focus on company reputation and design.

An important finding of this exploratory study is that the reputation of the building company, although deemed important, did not particularly stand out as an important determinant of purchase in general. As the Mongolian market matures and consumers have more choices with regard to builders, the builder brand will clearly become an important consideration. Similarly, the respondents appeared not consider real estate services as important in their decision process. This too is an issue related to the fact that such services are relatively new in the Mongolian market and individuals have yet to learn that they provide an important service to consumers in their process of searching for a new home.

This was primarily an exploratory study of housing purchase behavior; future longitudinal studies or studies with post-hoc debriefing should attempt to capture more comprehensively the processes involved in the home purchasing decision-making process of the Mongolian consumer.

## REFERENCES

- Battulga, J. (2009). Report of the Ministry of Roads, Transportation, Construction and Urban Development, Ulaanbaatar.
- Bayarsaihan, B. (2010). Report of the Apartment Finance Corporation at the Ministry of Roads, Transportation, Construction and Urban Development, Ulaanbaatar, January.
- Gluckman, Ron (2011). "Welcome to Minegolia: How the Land of Genghis Khan Became a New Gold Rush San Francisco on the Steppe," *Foreign Policy*. January/February.
- IHS Global Insight (2011). IHS Global Insight // Economic Forecasts, Industry Analysis, Financial Data and Consulting. Accessed on February 23, 2011.
- Lee, Eddy (1993). "Initiating Transition in a Low-Income Dualistic Economy: The Case of Mongolia," *International Labour Review*, Vol. 132, No. 5/6, pp. 623-638.
- [www.mongoliatoday.com/info/country\\_briefs.html](http://www.mongoliatoday.com/info/country_briefs.html). Accessed on February 23, 2011.