

## **Islamic House Financing in Pakistan: A Demand Analysis**

Submitted to  
School of Business and Economics  
in Partial Fulfillment of the Requirements  
for the Degree of  
MASTERS OF SCIENCE in Finance

by

**Muhammad Mansoor Javed - 110196011**

**April, 2014**

The Thesis titled  
**-ISLAMIC HOUSE FINANCING:  
A DEMAND ANALYSIS\***

By

Mr. Muhammad Mansoor Javed  
ID #110196-011

has been examined by the undersigned panel of examiners and has received full approval for  
acceptance in partial fulfillment for the degree of  
MS (Finance)

Dated: 10<sup>th</sup> May, 2014



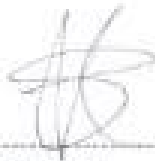
Mr. Muhammad Mahmood Shah Khan  
Supervisor  
Assistant Professor, SBE  
University of Management and Technology



Mr. Haris Aslam  
Co Supervisor  
Assistant Professor, SBE  
University of Management and Technology



Dr. Hafiz Khalil Ahmed  
External Examiner  
Economics Department,  
Panjab University



Mr. Abdul Rafay  
COD, Finance  
School of Business & Economics  
University of Management & Technology



Dr. Rukhsana Kaleem  
Dean  
School of Business & Economics  
University of Management & Technology

School of Business and Economics  
University of Management and Technology

**DEDICATED**

**To**

**My Parents**

## **DECLARATION**

I hereby declare that the work entitled “Islamic House Financing: A demand analysis” is my own work and no part of this dissertation has been copied from any other source except where explicit acknowledgement is made in the text.

**Muhammad Mansoor Javed**

30 April 2014

Faisalabad.

## ABSTRACT

This study analyzes the demand for house financing offered by Islamic banks by exploring the nature of demand as well as highlighting its major determinant. The paper also strives to find out the level of knowledge of people regarding Islamic financing, factors encourage them to buy their own house, their perception of Islamic house financing and finally those features which influence customers' decisions relating to the selection of finance provider.

The population of the study is residents of Lahore who intend to buy their own house within next three years. A survey has been conducted using convenient sampling technique taking a sample size of 300 respondents. The response rate of survey is 81%.

The study found that nature of demand for house financing offered by Islamic banks is conventional. Later, logistic regression has been applied to find out the affect of knowledge, quality of service and sincerity with religion on such demand. The results indicate that religious factor and knowledge affect the demand for Islamic house financing negatively whereas quality of service affect such demand positively. However, only the affect of quality of service on demand is statistically significant. On the other hand, study found that people have general knowledge of Islamic financing but they do not have specific knowledge of Islamic house financing. Further, male respondents have higher knowledge than the knowledge of female respondents. Moreover, people with higher qualification have higher knowledge. Income rise is the most important factor which encourages people to buy their own house. It is also found that people perceive Islamic house financing similar to conventional house financing. Finally, the survey also highlight that the cost of service is the most important criterion used by the potential clients to select their finance provider.

**Key words:** Islamic house financing, conventional demand, quality of service, religious factor.

## **ACKNOWLEDGMENT**

First of all, I want to thank Almighty Allah who has bestowed me with all those capabilities which have enabled me to complete this work. I am also grateful to my supervisors Mr. Muhammad Mahmood Shah Khan and Mr. Haris Aslam for their immense guidance and kind support. Finally I am also thankful to my family who supported me so that I can solely concentrate on the dissertation.

## TABLE OF CONTENTS

Abstract	i
Acknowledgment	li
Table of Contents	lii
List of Tables	iv
List of Figures	v
Chapter 1: Introduction	1
1.1 Islamic House Financing Industry	2
1.2 Identifying Literature Gap	9
1.3 Problem Statement	10
1.4 Research Objectives	11
1.5 Significance of the Study	11
Chapter 2: Literature Review	13
2.1 Awareness of Islamic Finance	14
2.2 House Buying Decision	19
2.3 Perceptions about Islamic Finance	20
2.4 Demand for Islamic Financial Products & Its Determinants	26
2.5 Selection Criteria	31
Chapter 3: Research Methodology	36
3.1 Hypothesis of the study	37
3.2 Theoretical Framework	37
3.3 Data Collection Technique	38
3.4 Population and Sampling Technique	39
3.5 Sample Size and Response Rate	39
3.6 Variables, Constructs and Items	39
3.7 Reliability of the Questionnaire	41
3.8 Validity of the Scale	42
3.9 Respondents' Profile	44
Chapter 4: Data Analysis	54
4.1 Descriptive Statistics	55
4.2 Testing the Hypothesis	60
Chapter 5: Conclusion & Recommendation	84
5.1 Conclusion	85
5.2 Implications and Recommendations	87
5.3 Future Research	88
References	89
Appendix 1: Questionnaire	99
Appendix 2: Improving Reliability	107
Appendix 3: Factor Analysis	108

## LIST OF TABLES

Table 1.1	Housing Finance Statistics	6
Table 3.1	Constructs and Items	40
Table 3.2	Dependent and Independent Variable	41
Table 3.3	Reliability Analysis	41
Table 3.4	Improving Reliability	42
Table 3.5	Principal Component Analysis	43
Table 3.6	Demographics: Age	44
Table 3.7	Demographics: Gender	46
Table 3.8	Demographics: Marital Status	47
Table 3.9	Demographics: Qualification	48
Table 3.10	Demographics: Industry	49
Table 3.11	Demographics: Income	50
Table 3.12	Demographics: Home Type	52
Table 4.1	Frequency Distribution: Knowledge	55
Table 4.2	Frequency Distribution: Buying Decision	56
Table 4.3	Frequency Distribution: Perception	56
Table 4.4	Frequency Distribution: Demand	57
Table 4.5	Frequency Distribution: Determinants of Demand	58
Table 4.6	Frequency Distribution: Selection Criteria	59
Table 4.7	One Sample T Test: Knowledge	60
Table 4.8	One Sample T Test: Comparison	62
Table 4.9	Descriptive: Knowledge * Qualification	63
Table 4.10	One Way ANOVA	64
Table 4.11	Post Hoc Test: Knowledge * Qualification	65
Table 4.12	Descriptive: Knowledge * Occupation	66
Table 4.13	One Way ANOVA	67
Table 4.14	Post Hoc Test: Knowledge * Occupation	67
Table 4.15	Independent Sample T test: Knowledge * Gender	69
Table 4.16	One Sample T test: Buying Decision	70
Table 4.17	One Sample T test: Perception	72
Table 4.18	Independent Sample T test: Perception * Gender	73
Table 4.19	One Sample T test: Demand	74
Table 4.20	Logistic Regression Model: Model Summary	76
Table 4.21	Classification Table	76
Table 4.22	Variables in the Equation	76
Table 4.23	Collinearity Statistics	77
Table 4.24	One Sample T test: Criteria	80
Table 4.25	Descriptive: Criteria * Income	81
Table 4.26	One Way ANOVA	82
Table 4.27	Post Hoc Test: Criteria * Income	83

## LIST OF FIGURES

Figure 1.1	House Financing – Outstanding	7
Figure 1.2	Share of Loan Providers in House Financing	8
Figure 1.3	Islamic Banks Vs Islamic Divisions	8
Figure 1.4	Mortgage Product	8
Figure 3.1	Theoretical Framework	38
Figure 3.2	Demographics: Age	45
Figure 3.3	Demographics: Gender	46
Figure 3.4	Demographics: Marital Status	47
Figure 3.5	Demographics: Qualification	49
Figure 3.6	Demographics: Industry	50
Figure 3.7	Demographics: Income	51
Figure 3.8	Demographics: House Type	53
Figure 4.1	Histogram	78
Figure 4.2	P-P Plot of Regression Standardized Residual	78
Figure 4.3	Scatter Plot	79