

Psychological Factors Affecting Decision Making in Real Estate

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ABSTRACT

This research explores the effect of behavioural, psychological, and socio-economic factors on real estate investment decisions among individuals aged 20 to 50 years. The main aim of the study is to understand how personal insights, emotions, cultural norms, legal awareness, financial literacy, and herding shape investment behaviour in the real estate market. A questionnaire was prepared, and responses were analysed to study the impact of seven major variables which are psychological, personal, socio-economic, legal, cultural, herding, and financial literacy factors. The analysis showed that Personal Bias emerged as the most effective influence on real estate decision-making, with respondents showing strong dependence on their financial willingness, risk tolerance, and personal confidence. Psychological Bias and Herding Behaviour were moderate yet significant contributors, showing the role of emotions, social pressure, and fear of missing out in investment choices. Other factors such as cultural background, legal awareness, and economic literacy did influence the decision making but their effect was not direct. The findings help us understand that real estate decisions are made by both careful reasoning and personal factors. Investors do not act purely on market data instead, their choices are often influenced by internal decisions, emotional responses, and social factors. This study contributes to a deeper understanding of how human behaviour shapes real estate markets and helps us understand about the possibilities that can assist developers, policymakers, and financial advisors in shaping strategies that align with real-world investor psychology

Key words: real estate investment, behavioural factors, psychological bias, herding behaviour, financial literacy

1. Introduction

A person takes a decision every day and being a rational consumer the person tries to maximize his total satisfaction however Before a decision is made, customers analyse the available information and make choices The decision process is less complicated in the case of everyday

goods (Bartkowiak et al., 2019). But as the capital contribution of the consumer increases like in real estate the decision making becomes more complex. There are certain variables the consumer thinks about before investing such as psychological, traditional, cultural, socio-economic and much more.

In recent years, psychological factors have gained increasing attention in understanding the decision-making process of real estate investors. As traditional models based on rational decision-making (Markowitz,1952;Fama,1970) often fail to explain certain market behaviours, thus researchers have turned to behavioural and psychological theories to understand why individuals make unusual property investment choices. Recent research shows that real estate markets are influenced by behavioural and emotional factors. Marney and Fakhry (2024) record that prejudices such as overconfidence, securing, and emotional attachment can create market wastefulness and price change. Singh, Kumar, Goel, and Johri (2023) emphasize that behavioural prejudices including herding and regret aversion drive irrational investment behaviours and remain unexplored in emerging markets. Similarly, Malik et al. (2021) found that overconfidence, herding, gambler's delusion and regret affects property investment decisions, showing that psychological factors have continuously shape real estate markets across areas.

Artkowiak et al. (2019) emphasize that real estate purchasing is not purely driven by market data but is significantly shaped by individual emotions, perceptions, and heuristics. Many researchers (Kahneman & Tversky, 1979; Thaler, 1985) have argued that factors such as risk perception, optimism, and herd behaviour heavily influence investment preferences. According to Artkowiak et al. (2019) real estate buyers often make decisions based on subjective factors like visual appeal, familiarity with a location, or social influence, rather than objective investment criteria. People are easily influenced by what others say or what is in trend which cause them to make wrong investment decisions. As noted by Adielyani and Mawardi (2020), investor decision-making is often shaped by behavioural biases such as herding, anchoring and regret factors that also apply in real estate markets where emotional and psychological influences are especially prominent.

This research paper aims to explore these behavioural aspects through both primary and secondary data, focusing on how individual and psychological factors affect real estate decision-making

Overall, studies show that behavioural factors such as overconfidence, herding, and regret aversion meaningly affect real estate investment decisions across different markets. However, partial research has combined these factors with cultural, socio-economic, and institutional effects in the Indian context. This study aims to link this gap by analysing how behavioural and psychological factors together shape real estate investment behaviour among Indian investors

2. Literature Review

Real estate investment is a complex process influenced by several behavioural, economic and cultural factors. While traditional economic theories assume that investors make rational decisions based on financial data, current research understands the important role played by psychological and behavioural variables. This literature review studies the main psychological, personal, socio-economic, legal, cultural, and factors that influences how people think which includes herding and financial literacy on real estate investment decision making.

2.1 Psychological Factors

Psychological factors include emotions, beliefs and motivations that creates an investor's judgment. These unreasonable influences often lead to decisions based more on observation than data. According to Bartkowiak et al. (2019) 'investors emotional responses such as fear, overconfidence, and regret are critical in shaping property purchase behaviour.' The study emphasizes how anxiety or confidence can either promote or hinder investment actions.

Shiller (1998) says that 'many investors ignore market fundamentals and instead respond to narratives, market sentiment, or past performance.' Investors often prefer properties they are emotionally attached to, even though the advisors or the stats recommend otherwise. Waweru et al., (2008) found that 'anchoring where investors rely on recent property prices can lead to poor investment decisions', showing how beliefs often influence investment behaviour even when the market trend has changed.

(RealWealth, 2025) report highlights that overly optimistic investors tend to underestimate risks and overestimate potential returns. This aligns with Kahneman and Tversky's (1979) Prospect Theory, which shows how a person understands gains and losses rather than actual financial decisions.

Marney and Fakhry (2024) further argue that psychological biases such as overconfidence and anchoring are among the strongest effects on real estate investor behaviour. They found that arrogant investors usually overestimate their ability to predict market trends, leading to high asset valuations and financial bubbles. On the other hand, it causes investors to rely on previous price points or personal estimates rather than updated market information, causing slow responses to changing market conditions. The study also shows emotional attachment as a factor that often dominates rational analysis, especially when purchaser view property ownership as a source of personal identity rather than an investment decision.

Similarly, Malik et al. (2020) found that psychological biases, especially overconfidence and gambler's misconception, have a measurable impact on real estate pricing in developing markets.

Investors often believe that their personal experience or past market cycles can precisely predict future prices, which leads to hypothetical investments and increased market values. Their study also showed that regret bias plays an important role that is investors tend to hold onto unprofitable properties longer due to fear of realizing losses, a behaviour which is consistent with Prospect Theory.

2.2. Personal Factors

Personal factors such as age, income, occupation, and risk tolerance greatly influence investment behaviour. For example, older investors might prioritize security and future returns, whereas younger ones could be willing to take risks which can be both pro and con for them as it can result in higher returns but also can result in poor investment decision making.

According to Bartkowiak et al. (2019), income level directly affects property choices, as individuals with higher incomes are more likely to invest in diversified or higher-end properties and for them the fear of loss is also comparatively less. The research also showed how the professionals in secure employment are more confident in taking real estate investments. Risk tolerance which is another personal factor, influences the types of properties chosen. Kloch et al. (2022) observed that high-risk-tolerant individuals which are mostly the ones with higher level of income are more willing to invest in under-construction or emerging-market properties.

2.3 Socio-Economic Factors

Socio-economic factors include education, employment rate, and economic situations. These factors shape financial awareness and the ability to understand market data it improves the decision making and assists the investor in making correct investment decision. As noted by (Waweru et al 2014), ‘investors with higher education levels are more likely to engage in rational evaluation and are less likely to make emotional decision-making’.

Kloch et al. (2022) study shows that during the post-pandemic period, socio-economic changes like online work and economic unreliability changed what people thought about property investment. Educated investors, who had more knowledge about financial tools and market trends, responded more strategically compared to others who relied on intuition and predications.

Education also results in reliable information. As per the (RealWealth, 2025) article, individuals with higher socio-economic status are more likely to consult real estate firms, legal advisors, or financial planners, ensuring informed decision-making. This shows how a person who is more educated and has more knowledge about real estate investment will result in making a smarter choice than others.

2.4 Legal and Institutional Factors

Legal and institutional factors refer to the government rules and regulations, property rights, and financial systems that create the structure for real estate investment and binds us from making various decisions. These governmental conditions can either help us in our investment decisions or can act as a hindrance.

Kloch et al. (2022) saw that post COVID policies, such as interest rate changes and tax benefits on home loans, had a considerable effect on investors behaviour. People rushed to invest due to various benefits offered by the government and fall in price of the properties. Bartkowiak et al. (2019) says that ‘in markets with strong legal institutions, investors feel more secure and comfortable, reducing the psychological barriers to investment’.

The Nairobi study by Waweru et al. (2014) also shows that poor institutional structure and unverified public information discourage rational investment, causing investors to rely on others advice or market rumours instead which causes them to make unprofessional decisions.

2.5 Cultural Factors

Cultural factors such as values from society family expectations, and traditions play an important and significant role in real estate decisions. In communist societies, decisions are often influenced by family beliefs or community rules.

According to Kloch et al. (2022), ‘in many Eastern European and Asian contexts, buying property is seen not just as a financial investment but also a symbol of social status or family stability’. Similarly, Bartkowiak et al. (2019) mention that in some societies, renting is often criticized, making people buy properties early even when it's financially insignificant which cause them to go into financial crisis.

Such cultural trends disallow rational financial concern. Cultural biases also affect location preferences like choosing homes near temples, schools, or ancestral areas regardless of investment return potential because they are considered to be auspicious

2.6 Herding

Herding refers to the mindset of investors to follow their relatives, friends, neighbours etc even when it leads to irrational decisions. It often leads to increase in price and excessive market responses.

Waweru et al. (2014) documented that Kenyan real estate investors often bought properties just because others in their known were doing so, regardless of individual financial conditions. This imitating behaviour creates artificial demand and increases prices beyond realistic valuations.

(RealWealth, 2025) explains that during the period when price of properties is rising, even cautious investors get swept up in the momentum, fearing they'll miss out. This aligns with Lebaron (1999) and Shiller (1998), who found that herding behaviour increases in emotionally charged markets, making independent, analysis rare.

Supporting these findings, Singh et al. (2023) identified herding as one of the most leading behavioural biases in property markets of upcoming economies. Their study revealed that individuals often copy others' actions not just because of social pressure but due to intellectual limitations and hesitation in market data. The researchers also argued that regret aversion which is fear of making a decision that could later be regretted further increases herding behaviour, as investors prefer to "stay with the crowd" even when it means lower returns. The writers suggest that increasing behavioural awareness and improving transparency in property data could help reduce such prejudices and promote more rational investment behaviour.

The experiential findings of Malik et al. (2021) further confirm that herding is not just a social phenomenon but a major cause of real estate price misrepresentations. Just like when house prices in Pakistan increased experienced investors followed market trends blindly, intensifying volatility and creating unsustainable price levels. This evidence strengthens the worldwide understanding that herding bias, combined with overconfidence and regret aversion, can weaken property markets across both emerging and developed economies

2.7 Financial Literacy

Financial literacy of an investor's understanding of real estate markets, loans, and investment strategy is important for smart decision-making. Low financial literacy often results in risky or impulsive investments because of which a person can end up in financial crisis

Bartkowiak et al. (2019) found that many real estate investors lacked a clear understanding of mortgage structures, property tax implications, or resale potential. Those with higher financial literacy, however, showed better portfolio diversification and future planning

(RealWealth, 2025) emphasizes the role of financial education in reducing emotional decisions as they depend upon the persons gut and not the changing market trend. Investors who understand how the market functions are less open to panic selling when the price falls or irrational buying because of their psychological thinking. Similarly, Waweru et al. (2014)

observed that investors who participated in financial seminars or consulted advisors made decisions which were comparatively safer and more rational.

3. Methodology

In the research paper psychological factors that affect the decision making in real estate both primary and secondary data has been collected. For the primary survey, a questionnaire has been prepared with 7 variables the reason behind choosing them was-

- Psychological factors - This tells us about the emotions and the beliefs that affects the person before taking an investment decision.
- Personal factors - This tells us about the investors age, income level, job, and risk-taking capability that affects their property decisions.
- Socio-economic factors - These include things like education and income level which shapes how people invest.
- Legal and institutional factors - This includes the rules, property laws and government policies that affects how a person invests in real estate.
- Cultural factors - These are the values and traditions that affects the investment decisions in various communities.
- Herding - This is when people follow what others doing in the market even when it is not the best decision.
- Financial literacy - This means how much people understand about investments and property which affects how they make decisions.

From each variable, 3–4 questions have been chosen. The responses to the questionnaire have been measured through a 5-point Likert scale.

A Likert scale is a rating scale used to measure respondents aim, belief, opinion, attitude and more. The five-point Likert scale comprises 5 answer options including a mid-point or a neutral point to assess respondents' opinion. This helps in understanding how strongly the respondent agrees or disagrees with the given question.

The data collected from the questionnaire was evaluated to understand the impact of these psychological factors and variables on real estate decision-making. The target audience for the questionnaire was people aged between 20 to 50 as they are frequently the active investors. The

secondary data was taken from existing research papers and online resources related to real estate psychology and real estate investment strategies

4. Data Analysis

To understand the impact of behavioural factors on decision making in real estate investment, an analysis based on primary data collected through a questioner was conducted. This analysis motive was to identify which psychological, personal, or social (herding and financial influence related) factors cause the most influence on a buyer's decisions when purchasing property. The process involved changing the responses into numerical data, organizing the variables into categories, and calculating comparative results to interpret patterns.

Step 1: Converting Survey Responses into Numerical Format

The survey was based on a 5-point Likert scale format for all behavioural statements, where responses selected one of the following options:

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

To enable meaningful data analysis, each of these responses was assigned a numerical value ranging from 1 to 5:

- Strongly Disagree = 1
- Disagree = 2
- Neutral = 3
- Agree = 4
- Strongly Agree = 5

Step 2: Classifying Questions into Bias Groups

Every survey question was recorded to one of three main behavioural bias types:

- Psychological Bias – This includes factors like fear of missing out, emotional attachment to properties and overconfidence in decision making.

- Personal Bias – These questions showed the individual's internal comfort zone for finance and risk. It includes factors like job confidence, trust in personal characters, financial situation and risk tolerance.
- Herding Bias – This included social factors, such as peer pressure, family opinions, traditional belief and the impact of social media on property choices.

By arranging each question under these factors, the study was able to find out how much each bias influenced the average respondent's behaviour.

Step 3: Calculating Average Bias Scores

Instead of calculating individual data for each respondent, this study focused on average bias levels across all participants.

The following table summarizes the results:

Bias Type Average Score

- Psychological Bias-3.03
- Personal Bias-3.92
- Herding Bias-3.00

These scores range on a scale of 1 to 5, where 1 shows minimum influence and 5 indicates a strong influence. A score around 3 represents neutral meaning that participants neither agreed nor disagreed that the factor influenced their behaviour.

Step 4: Visualizing the Results with a Bar Chart

The visualization showed that Personal Bias had the highest average score of 3.92, showing it was the most important factor in decision-making. Psychological Bias (3.03) and Herding Bias (3.00) scored nearly equal and slightly above neutral, showing that emotional and social pressures also played a role, though not as suggestively.

5. Interpretation of Findings

The findings from the primary data analysis shows that Personal Bias has the most important influence on investment decisions, which is followed by Psychological Bias and Herding Bias. This means that investors in real estate are largely influenced by their personal financial status, risk capacity, and job confidence, but emotional biases like overconfidence or fear of missing out and social factors like family or peer influence still affect their choices.

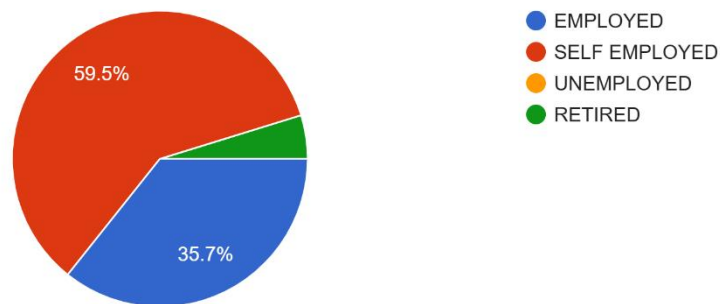
This matches with previous studies (Bartkowiak et al. 2019; Malik et al. 2021), which also found that emotions and personal experiences strongly influence investors' behaviour even when market data suggests otherwise.

The following are the questions taken from the questioner the following example explains each variable

Personal Factors

Current employment status?

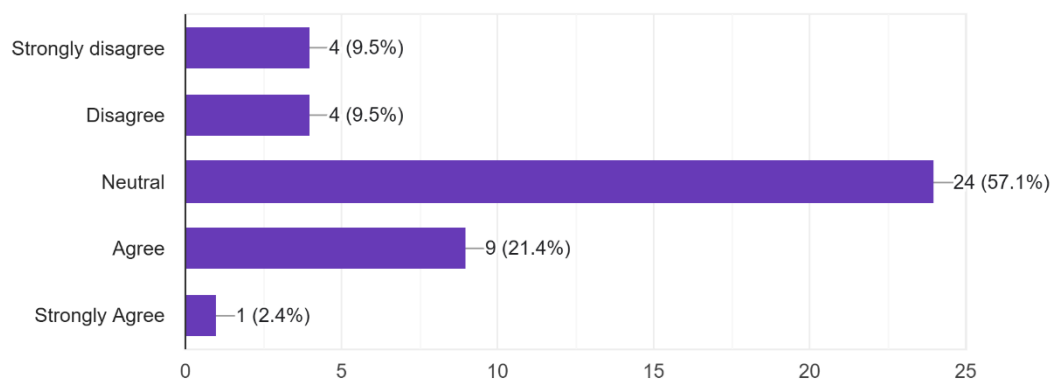
42 responses



Psychological Factors

My emotions (such as fear or excitement) often influence my investment decisions.

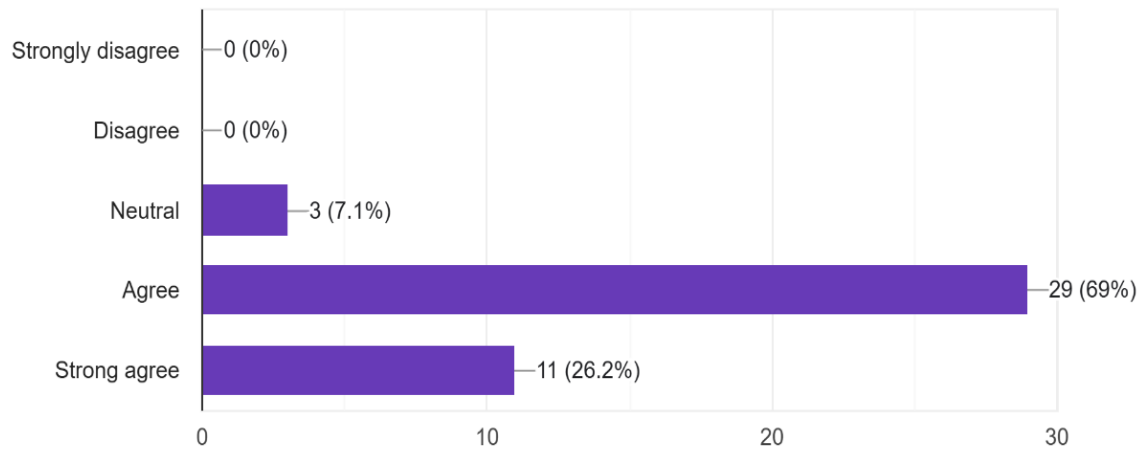
42 responses



Socio-Economic Factors

I feel confident making real estate decisions based on my job stability.

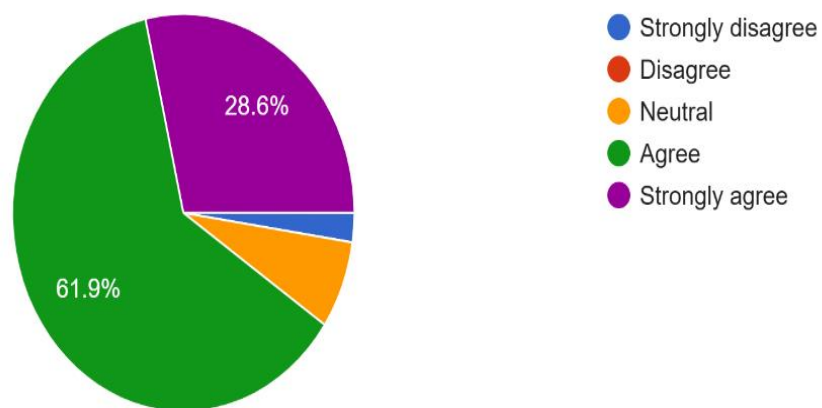
42 responses



Legal and Institutional Factors

I consider government policies and legal requirements before investing in real estate.

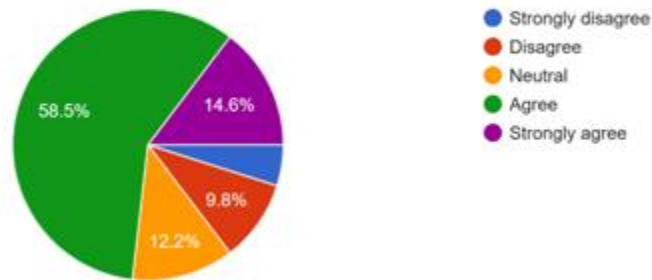
42 responses



Herding

I often seek advice from family or friends before deciding to invest in property.

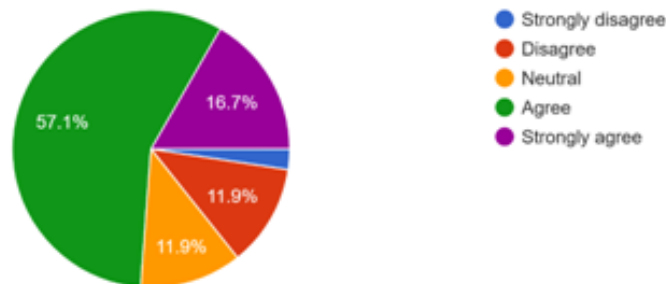
41 responses



Cultural Factors

Traditional beliefs (e.g., land is wealth) influence how I view real estate investments.

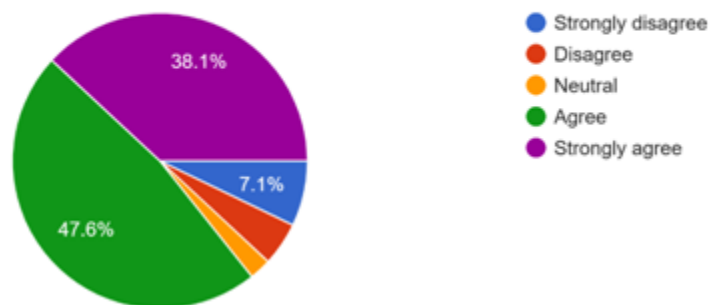
42 responses



Financial Literacy

My current financial situation plays a key role in my real estate investment decisions.

42 responses



6. Conclusion

This research study, based on both analytical truth and individual interest, understanding the effect of psychological and behavioural considerations on real estate investment choice. Based on a primary survey of individuals aged between 20 to 50 years, who were most actively involved in real estate, a group of 7 fundamental variables was observed and measured: psychological, personal, socio-economic, legal, cultural, herding, and financial literacy influences. The following is the complete framework of this work. And based on the information gathered and processed, the strongest cause of decision-making proved to be Personal Bias with an average rating of 3.92. This shows how intensely one's own financial situation, occupational self-assurance, and capacity for risk influence property decisions. It is not markets on the outside or herd opinion, but inner feeling, financial preparedness, and gut feeling, that is at the heart of real estate decisions. Psychological Bias and Herding Bias came in close second with a score of 3.03 and 3.00 respectively. These indicate a subtle but real influence of emotions, social comparison, and peer behaviour on purchasing decisions. Though not overwhelming, these are the dishonest pressures of trend following, fear of losing an opportunity, and emotional responses to property, choices often beyond the orders of logic based on data. The results accord with behavioural economic principles laid out by Kahneman, D. and Tversky, A. (1979)) that investments are never truly taken in a space of human emotion or environmental context. In this research, though, emotional and social bias were secondary to practical, personal concerns, maybe better indicating the change in city investors who are becoming increasingly financially sophisticated and independent in choice. This paper also studies the influence of economic literacy and cultural heritage, two factors that quietly determine the ground on which property transactions are taken. As much as cultural forces push consumers toward value-based or traditional alternatives, increasing economic literacy equips them to make decisions based on self-control. They are a double-bladed sword: one guided by values and faith, the other improved by information.

In summary, this study proves that an investor is a complicated decision-maker, balancing emotions, social pressures, and practical considerations. The path to understanding what motivates real estate investments is not only historical, but it is very human. It is influenced by fear, hope, family culture, and financial judgements. And that's what makes it so convincing. For me, this paper was not an academic exercise. It was a move towards my own dream of becoming one day a builder such as Unity Group or DLF.

We can conclude that building buildings is not only cement and diagrams; it's about knowing people the way they think, feel, and make decisions.

This project, reflects that resolve; to build not just real estate, but trust. To shape not just structures, but decisions. To grow not just a career, but a vision

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Link for online questionnaire -

https://docs.google.com/forms/d/e/1FAIpQLSc2eT5V28R2v5okzOLY_Ow1-98s-thFMK6p4eIizIPsy3Rgxw/viewform?usp=header