

# Indonesia Property Sector

Permata Institute for Economic Research  
December 2023



## Latest Performance

The construction and real estate sectors, which encompass the property sector, have enjoyed a robust recovery in 2023. In 3Q23, the construction sector growth reached 6.39% yoy, surpassing the national GDP growth of 4.94% yoy. On the other hand, the growth of the real estate sector amounted to 2.21% yoy, still below the national growth, but accelerated from 0.96% yoy in 2Q23. The acceleration of infrastructure projects in several areas, such as West Java, East Kalimantan, and Riau, boosted the growth of the construction sector. Meanwhile, the development of residential and commercial areas on Java Island was one of the main drivers of real estate growth in 2023.

The recovery of the construction and real estate sector is also shown in their business activity. In 1Q23, the net weighted balance (NWB) value of the construction sector's business activity amounted to 0.66. It continued to increase in 2Q23 and 3Q23, reaching 1.61 in 3Q23. The construction sector activity increased as the National Strategic Projects (Proyek Strategis Nasional - PSN) took off in 2023, and housing demand remained resilient. Similarly, the real estate sector also exhibited the same pattern as the construction sector in 2023. The business activity's NWB of the real estate sector was 0.38 in 1Q23 and increased to 0.65 in 3Q23. One of the main drivers was the increasing number of visitors to malls, especially in the Greater Jakarta Area, incentivizing retailers to resume business in some malls and thus increasing demand for real estate services in retail areas.

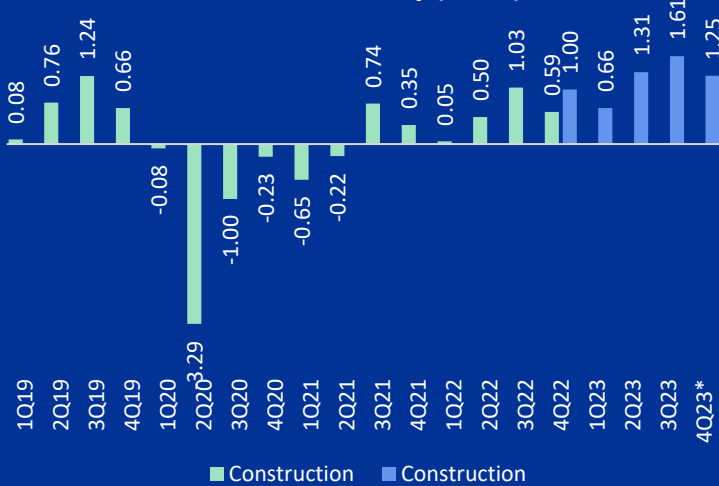
Meanwhile, in 4Q23, business activity in the property sector is expected to slow down as the election days approach in 1Q24. According to Bank Indonesia's survey, construction and real estate business activity levels are projected to decline in 4Q23. This is expected as Indonesia will hold the presidential election in February 2024, and investors are adopting a "wait-and-see" approach.

Indonesia's GDP related to Property Sector (%yoy)



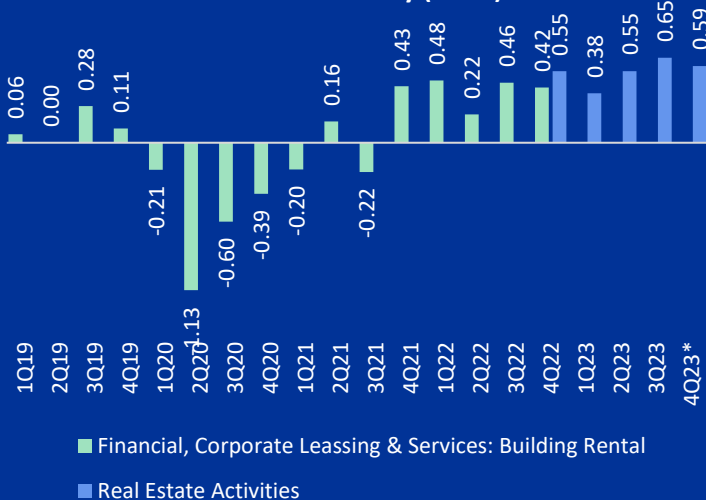
Source: Statistics Indonesia, Permata Institute for Economic Research

Business Activity (NWB)

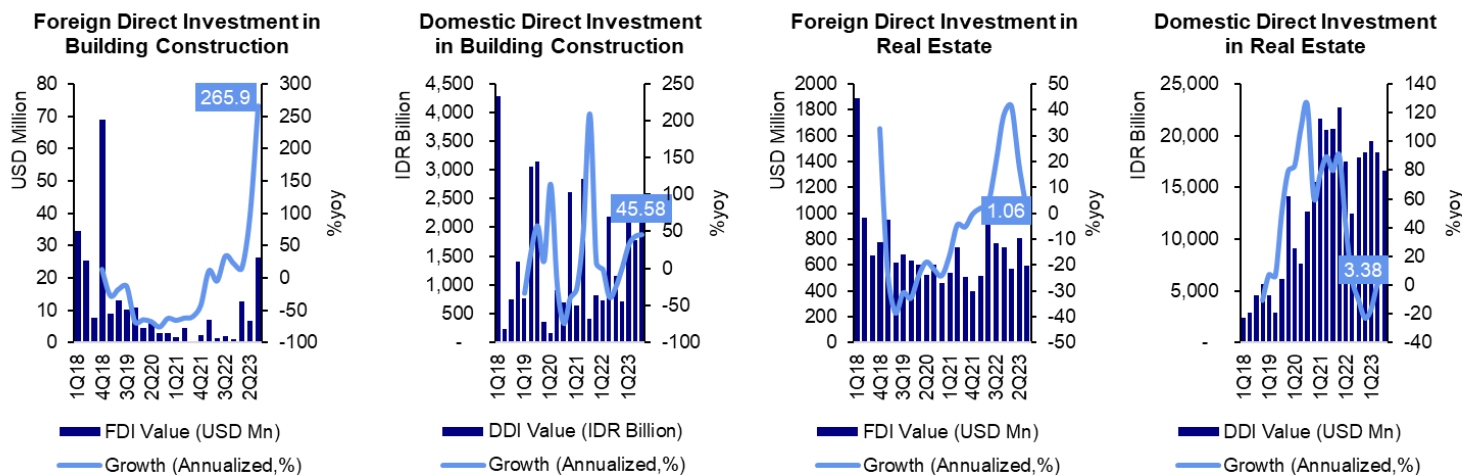


Source: Bank Indonesia, Permata Institute for Economic Research

Business Activity (NWB)



Source: Bank Indonesia, Permata Institute for Economic Research



This basic group covers general construction activities of various kinds of buildings, including construction of new buildings, building repairs, building additions and renovations, erection of buildings or prefabricated structures on site and temporary construction. This main group includes construction of residential buildings, office buildings, shops, other public facilities and infrastructure, including agricultural buildings and others. Building construction activities may be partially or wholly subcontracted.

This principal group includes the purchase, sale, rental and operation of real estate, buildings and dwellings, malls and shopping malls and land owned or leased, as well as the provision of dwellings for extended use, in particular on a monthly or annual basis. This principal group also includes the construction of self-managed buildings.

Source: Ministry of Investment, Permata Institute for Economic Research

**Investment in the property sector showed mixed performance, as investment in the construction sector soared while that in the real estate sector slowed.** In 3Q23, Foreign Direct Investment (FDI) in the construction sector reached USD26.3 million, marking an acceleration of 266% yoy (annualized). Furthermore, domestic construction investment grew by 45.6% yoy, amounting to IDR2.3 trillion. In contrast, FDI in the real estate sector slowed from 18.6% yoy in 2Q23 to 1.1% yoy in 3Q23, totaling USD595.4 million. However, domestic investment in real estate grew by 3.4% yoy, an increase from 1.2% yoy in 2Q23. Despite the slowdown, the value of investment in the real estate sector in 2023 remained higher than in the pre-pandemic period. Nevertheless, as the election period approaches, there could be a halt in investment in the property sector, especially at the beginning of 2024.

### Building Construction FDI and DDI Last 4Q (USD Mn, IDR Billion)

Province and Municipal	Last 4Q (USD Mn)	Province and Municipal	Last 4Q (IDR Bn)
<b>Jakarta</b>	<b>21.4</b>	<b>Jakarta</b>	<b>2602.0</b>
Central Jakarta	13.4	South Jakarta	1191.8
West Jakarta	4.5	East Jakarta	509.4
North Jakarta	2.5	Central Jakarta	362.2
<b>West Java</b>	<b>8.5</b>	<b>East Java</b>	<b>1066.9</b>
Bekasi City	5.3	Surabaya City	622.4
Bekasi Regency	2.3	Sidoarjo Regency	237.4
Bandung City	0.8	Blitar Regency	79.9
<b>North Kalimantan</b>	<b>8.4</b>	<b>West Java</b>	<b>990.7</b>
Bulungan Regency	8.4	Tasikmalaya City	195.5
<b>Riau Island</b>	<b>3.2</b>	Cianjur Regency	147.4
Batam City	3.2	Bekasi City	143.4
<b>Bali</b>	<b>2.7</b>	<b>South Sulawesi</b>	<b>370.9</b>
Badung Regency	2.7	Makassar City	223.9
Gianyar Regency	0.0	Palopo City	75.7
<b>Banten</b>	<b>1.6</b>	Enrekang Regency	11.5
Tangerang Regency	0.9	<b>Banten</b>	<b>254.0</b>
Tangerang City	0.4	Tangerang Regency	122.6
Serang Regency	0.4	Cilegon City	38.9
		Serang Regency	35.7

Source: Ministry of Investment, Permata Institute for Economic Research

**Jakarta continued to dominate investment in the construction sector.** Over the last four quarters, both foreign and domestic investments in the construction sector were predominantly concentrated in Jakarta. The establishment of new office buildings and residential complexes has been the primary driver of construction investment in the area. Meanwhile, West Java emerged as the second-highest recipient of foreign investment, closely followed by North Kalimantan. Foreign investment in North Kalimantan was mainly driven by the development of commercial areas, such as the Green Industrial Park in Bulungan. East Java ranked as the second-highest recipient of domestic investment in building construction, followed by West Java.

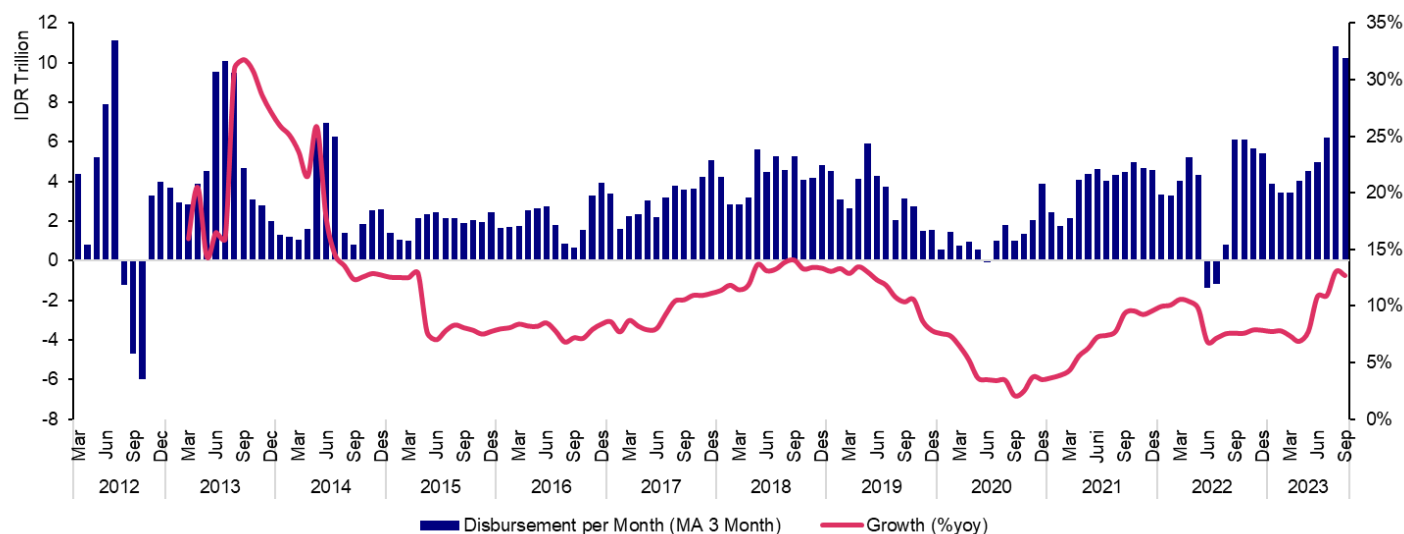
**In terms of the real estate sector, West Java led as the primary destination for investment over the last four quarters.** The province's development of residential and commercial areas significantly boosted real estate investment. For foreign investment destinations, Banten and North Maluku emerged as the next hotspots after West Java in the last four quarters. Conversely, Jakarta and Banten have become the preferred regions for domestic investors in the real estate sector. Banten, in particular, has become a prime investment destination, aligning with the massive regional development primarily aimed at supporting the industrial sector in the area and accommodating commuters to Jakarta.

### Real Estate FDI and DDI Last 4Q (USD Mn, IDR Billion)

Province and Municipal	Last 4Q (USD Mn)	Province and Municipal	Last 4Q (IDR Tn)
<b>West Java</b>	<b>550.3</b>	<b>West Java</b>	<b>19.4</b>
Bekasi Regency	258.6	Bekasi Regency	8.0
Karawang Regency	80.3	Purwakarta Regency	2.0
Bogor Regency	47.6	Bogor Regency	1.9
<b>Banten</b>	<b>502.8</b>	<b>Jakarta</b>	<b>14.9</b>
Tangerang Regency	452.0	South Jakarta	5.8
Tangerang City	35.8	Central Jakarta	4.7
Pandeglang Regency	9.1	North Jakarta	2.7
<b>North Maluku</b>	<b>378.4</b>	<b>Banten</b>	<b>10.2</b>
Central Halmahera Regency	376.4	Tangerang Regency	6.2
North Halmahera Regency	2.0	Tangerang City	1.6
South Halmahera Regency	0.1	South Tangerang City	1.5
<b>Jakarta</b>	<b>364.8</b>	<b>East Java</b>	<b>9.9</b>
Central Jakarta	194.1	Surabaya City	5.8
South Jakarta	87.2	Gresik Regency	1.6
East Jakarta	63.9	Sidoarjo Regency	0.9
<b>Bali</b>	<b>288.9</b>	<b>Central Java</b>	<b>4.0</b>
Badung Regency	132.9	Semarang City	1.6
Gianyar Regency	77.8	Banyumas Regency	0.6
Denpasar City	35.7	Sukoharjo Regency	0.6

Source: Ministry of Investment, Permata Institute for Economic Research

Housing Mortgage Disbursement Value per Month (MA3, IDR Trillion)



Top 5 Provinces and Its Top 3 Municipal (Sep'23)	%yoy	Source of Growth (%)	Loan Disbursement in Value (IDR Trillion)
<b>West Java</b>	<b>14.6%</b>	<b>4.6%</b>	<b>26.36</b>
Kab. Bekasi	13.8%	1.1%	6.42
Kab. Bogor	12.9%	0.8%	4.28
Kota Bekasi	20.1%	0.5%	2.71
<b>Banten</b>	<b>14.8%</b>	<b>2.2%</b>	<b>12.34</b>
Kab. Tangerang	10.9%	0.9%	5.18
Kota Tangerang	20.0%	0.5%	2.84
Kota Tangerang Selatan	23.8%	0.4%	2.50
<b>East Java</b>	<b>15.9%</b>	<b>1.7%</b>	<b>9.46</b>
Kota Surabaya	13.8%	0.5%	2.66
Kab. Sidoarjo	22.1%	0.5%	2.58
Kab. Gresik	26.7%	0.2%	1.39
<b>DKI Jakarta</b>	<b>7.2%</b>	<b>0.7%</b>	<b>4.14</b>
Wil. Kota Jakarta Selatan	9.1%	0.3%	1.49
Wil. Kota Jakarta Barat	8.4%	0.2%	1.13
Wil. Kota Jakarta Timur	9.1%	0.2%	1.03
<b>Central Java</b>	<b>11.1%</b>	<b>0.5%</b>	<b>2.89</b>
Kota Semarang	11.0%	0.1%	0.73
Kab. Kendal	24.0%	0.1%	0.45
Kab. Sukoharjo	19.1%	0.1%	0.31
<b>Others</b>		<b>3.0%</b>	<b>16.99</b>
<b>INDONESIA</b>	<b>100%</b>	<b>12.7%</b>	<b>72.19</b>

Source: Bank Indonesia, Permata Institute for Economic Research

**In 2023, Indonesia's housing mortgage accelerated, reflecting robust domestic economic conditions, with West Java and Banten emerging as the main contributors.** Post-pandemic, there has been a noticeable increase in mortgage values, indicating a continuous recovery in housing demand and a sustained banking risk appetite for the property sector. For instance, in September 2023, the average housing mortgage value reached IDR10.2 trillion, marking a surge of 12.6% yoy, which notably surpasses the 10.3% yoy growth observed in September 2019. This recovery has been primarily supported by growth in provinces on Java, specifically West Java and Banten. This trend aligns with the primary hotspots of real estate investment, suggesting that residential property has been a significant driver of real estate investment.

## Outlook

**Indonesia's housing demand remains prospective, especially in urban areas.** According to Statistics Indonesia, the population is still relatively young, with 189.7 million people, or 70.2% of the total population, in the productive age group, which will continue to drive housing demand. Furthermore, not all households in Indonesia currently have residential ownership. In 2021, referring to Statistics Indonesia data, approximately 16% of households in Indonesia did not have residential ownership, which means the housing need is still reaching 12.7 million houses. Looking more closely, the number increases in urban areas, with 21.7% of households not having ownership of housing, indicating that the demand for housing in urban areas is higher than in rural areas.

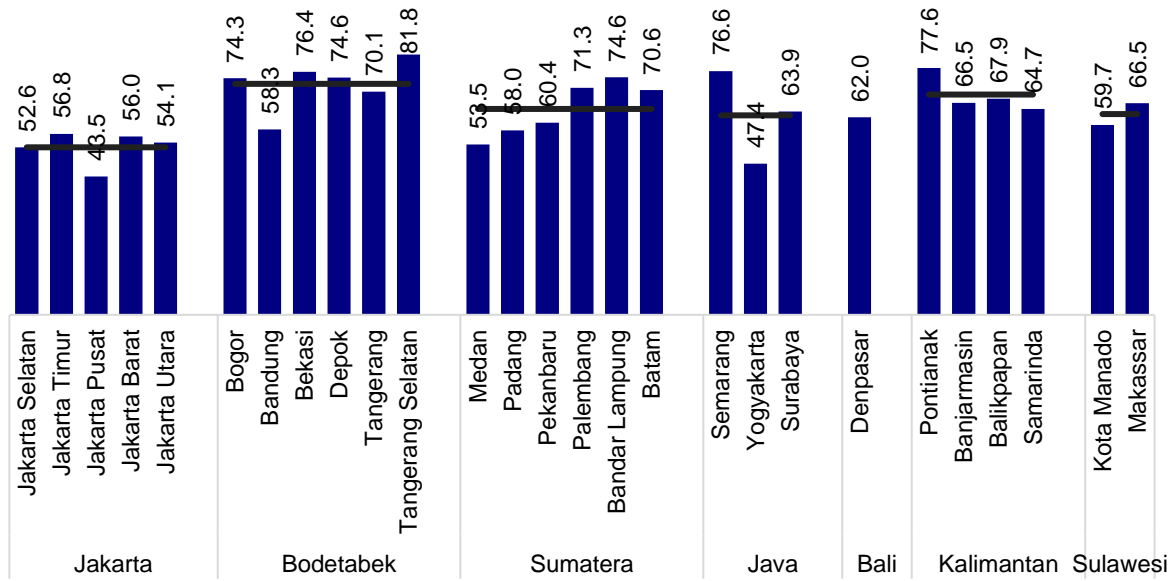
**High housing demand in the city center, which is not supported by an adequate supply, has caused housing prices to surge in the city center and ultimately supports the demand for housing in the hinterland that is relatively close to the city center.** According to Statistics Indonesia, housing ownership in city centers like Jakarta is much lower than at the national level. High land prices in the city center make the affordability of housing ownership lower, prompting people to seek alternative housing in the hinterland near Jakarta, such as Bogor, Bekasi, Depok, Tangerang, and Tangerang Selatan. Ownership levels in the hinterland are relatively higher, due to the lower land prices than in the city center. However, when compared to the national level, ownership in the hinterland of Jakarta is still below the national ownership level due to the rapid increase in housing demand near Jakarta. The economic level of a city and its agglomeration area becomes an important factor in housing demand in a city and its vicinity.

### Indonesia Population by Age Group

Age Group	Number of Population (Million)	Working Population	Generation Type		
0-4	15.5	189.7			
5-9	23.3				
10-14	23.7				
15-19	23.1				
20-24	23.0				
25-29	21.6				
30-34	21.1				
35-39	22.2				
40-44	20.7				
45-49	18.5				
50-54	16.1				
55-59	13.1				
60-64	10.3				
65-69	6.8				
70-74	4.1				
75+	5.0				
NA	2.0				
<b>Total</b>	<b>270.2</b>				

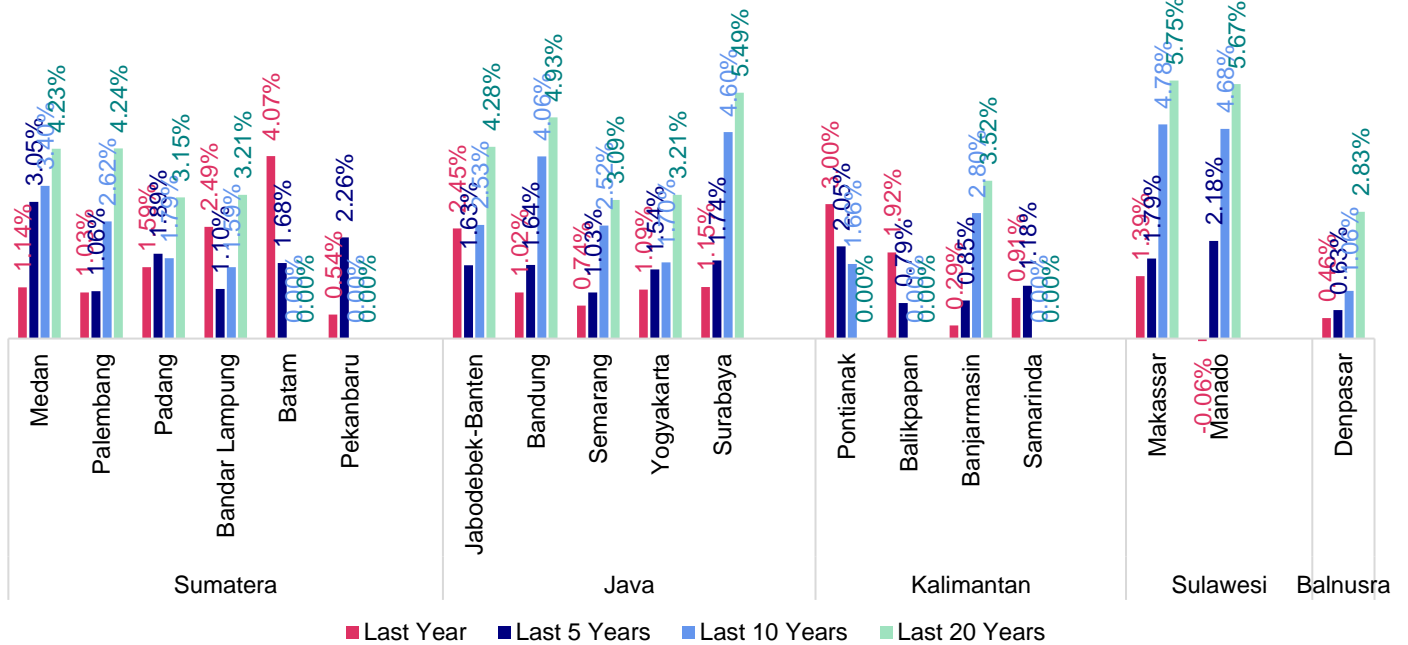
Source: Statistics Indonesia, Permata Institute for Economic Research

### Residential Ownership in Several Cities (%)



Source: Statistics Indonesia, Permata Institute for Economic Research

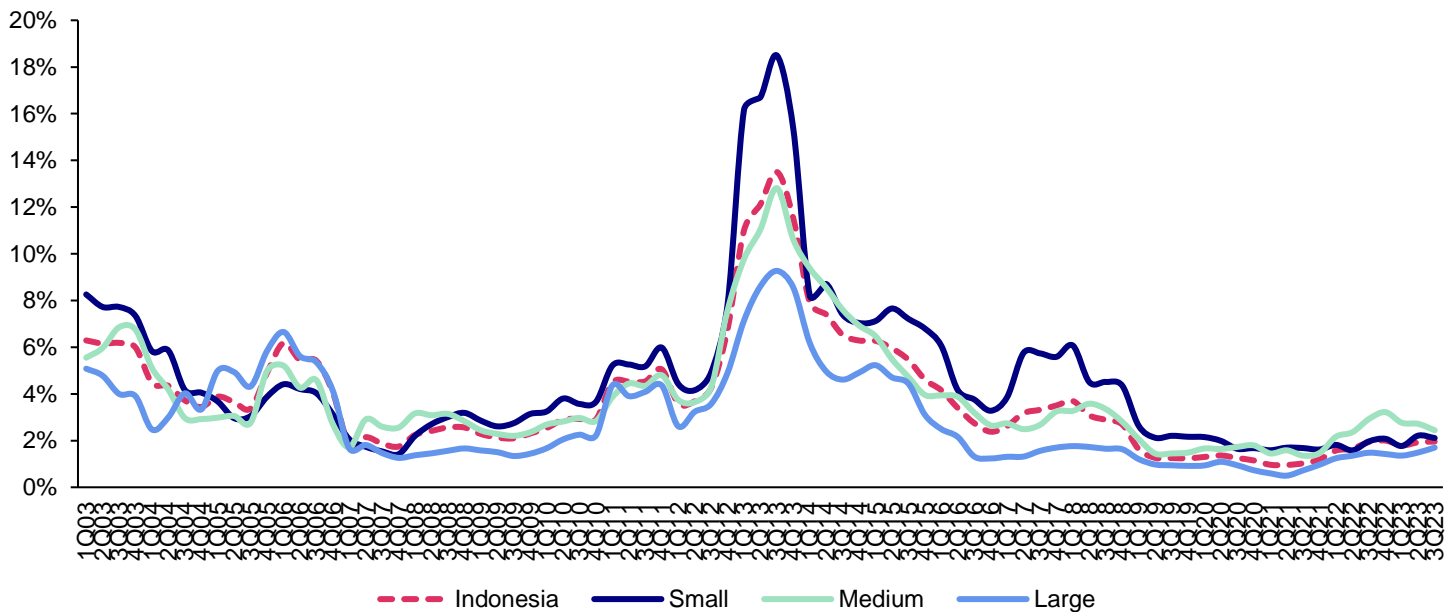
### Primary Residential Housing Price Growth by City (CAGR, %)



Source: Bank Indonesia, Permata Institute for Economic Research

**Persistent demand for housing is also reflected in the development of primary residential house price growth that has never decreased.** According to the Bank Indonesia Survey on Residential House Price, from 1Q03 until 3Q23, residential housing prices have never recorded a contraction. However, price growth has tended to decelerate in recent years compared to the 2000s. From a historical perspective, residential property price growth surged in 2013 due to the commodity boom period, which supported the capability of consumers to purchase houses and increased the speculative motive as property became one of the investment alternatives for people. After the commodity prices bust, the residential property price growth normalized, with only fundamental demand pushing the prices up. In the last five years, the average growth per year of residential property has been 1.48% per year. As the pandemic ended and drove economic growth, residential property price growth posted higher in 3Q23, growing by 1.96%.

**Indonesia Primary Residential House Price Growth (%yoy)**

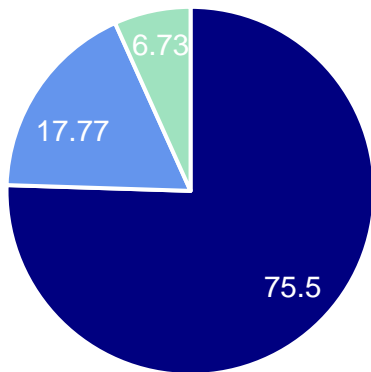


Source: Bank Indonesia, Permata Institute for Economic Research

**Banking support for residential property purchases remains relatively strong, which supports residential property demand.** With more than 75% of property purchases conducted using housing mortgages, the banking sector's housing mortgage is one of the drivers supporting property demand. Currently, the banking sector remains relatively supportive of lending for housing purchases. This is evident from the growth of Home Ownership Loans until September, which was 9.5% ytd, higher than the same period in 2022, which amounted to 4.8% ytd. In addition, banks' consumption loan interest rates have tended to be relatively stable despite Bank Indonesia's policy rate hike of 2.5% from July 2022 to October 2023. Consumption lending rates recorded a slight decline of 0.05% during the period, in contrast to working capital and investment lending rates, which increased by 0.63% and 0.69% respectively. This indicates that the appetite of banks to finance consumption activities, including mortgages, remains relatively high.

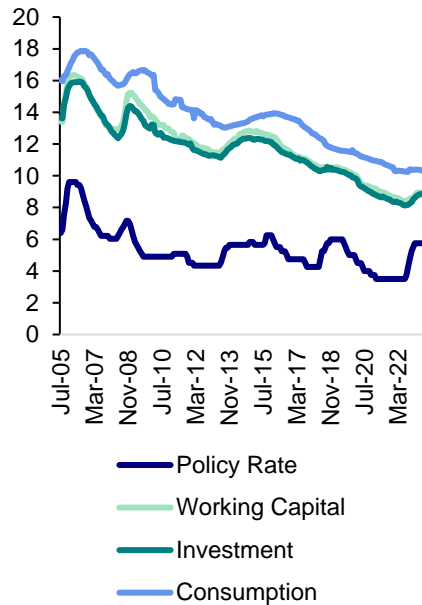


### Consumer Financing Scheme to buy a house

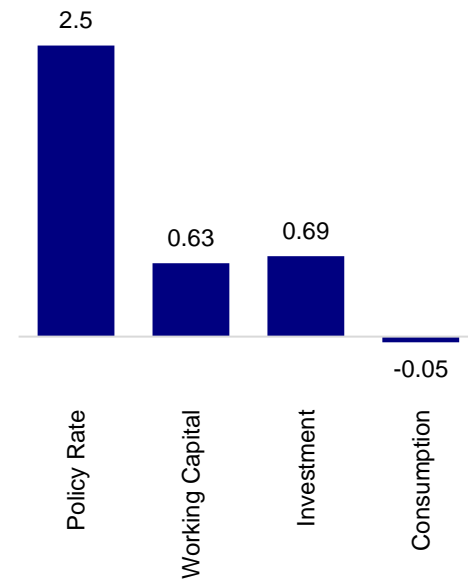


- Mortgage
- Cash Installment
- Cash

### Interest Rates Development (%)

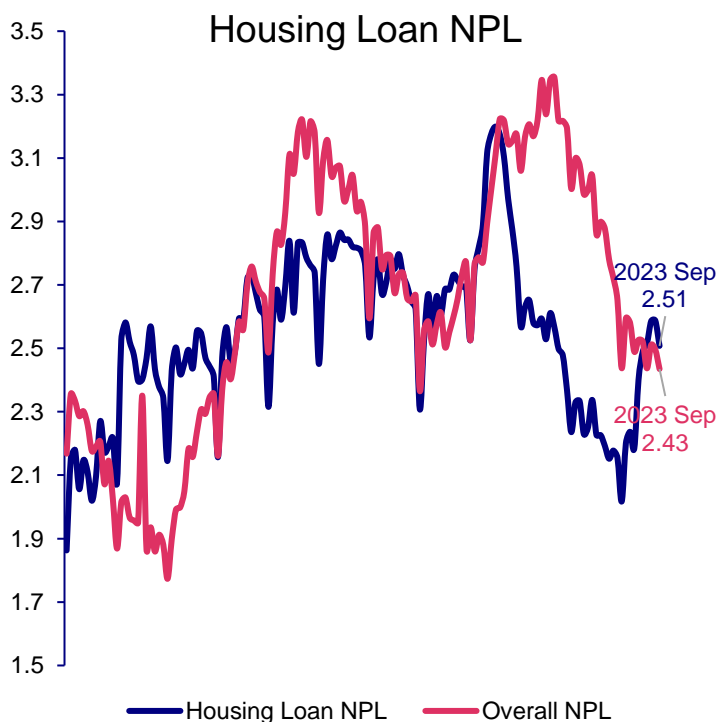


### Lending Rate Increase from Jul-22 to Oct-23

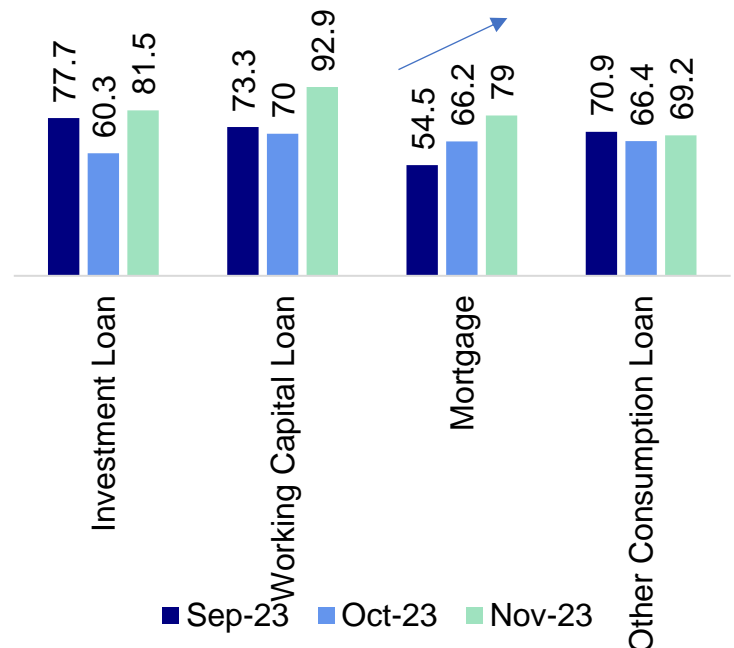


Source: Bank Indonesia, Permata Institute for Economic Research

**Banks in the future will continue to be supportive of mortgage financing.** According to Bank Indonesia Survey, the expectation for mortgage lending in the future is still increasing, as evidenced by the upward trend in the Weighted Net Balance of mortgage financing until November 2023. Additionally, the relatively manageable Non-Performing Loan (NPL) level also encourages banks to increase credit allocation to mortgage loans due to a relatively manageable risk perception. Until September 2023, the NPL for Mortgage loan is only 2.51%.



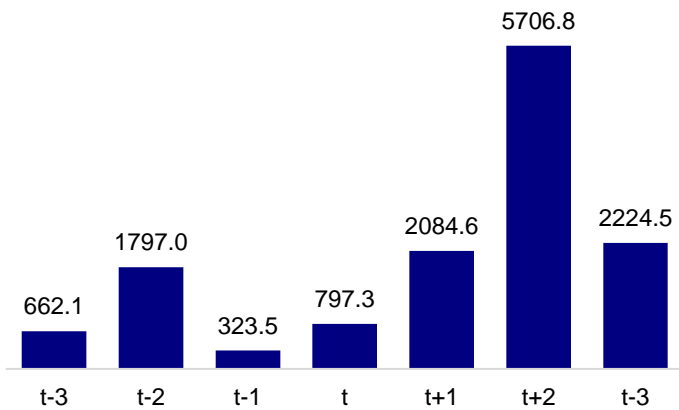
### Banking Expectation of Loan Disbursement by Usage (% NWB)



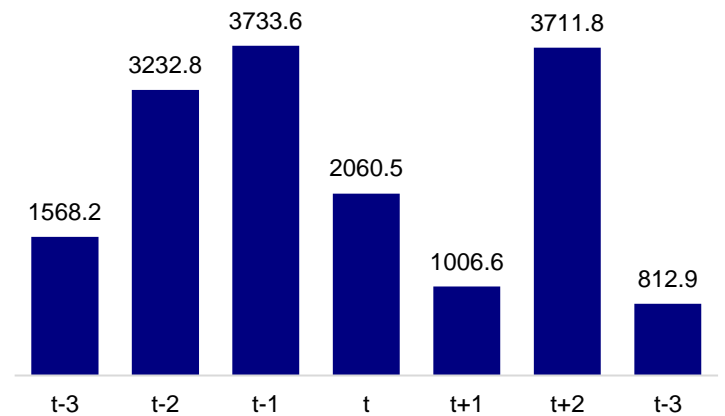
Source: Bank Indonesia, OJK, Permata Institute for Economic Research

**In the short term, there are challenges from the elections in Indonesia that could potentially hamper investment activities.** Looking at investment patterns related to the property sector in the last four elections in Indonesia, the value of investment tends to be lower in the quarters prior to the presidential election. This aligns with the behavior of investors who tend to adopt a wait-and-see attitude before elections are held, waiting for the new government to provide clearer direction on development policies. After the presidential election, the value of investment typically increases again. In 2024, the presidential election will be held in the first quarter, with three candidates. If a second round is necessary because no single candidate secures 51% of the vote, it will be held in June 2024.

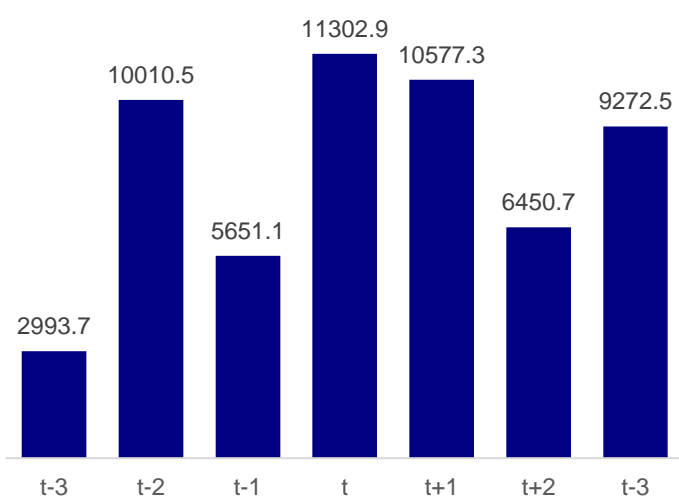
Direct Investment in Property, 2004 Election (t=3Q04, IDR Bn)



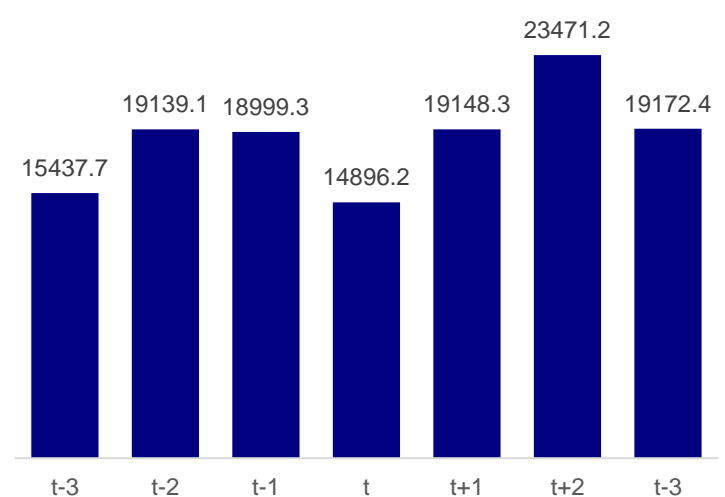
Direct Investment in Property, 2009 Election (t=3Q04, IDR Bn)



Direct Investment in Property, 2014 Election (t=3Q14, IDR Bn)



Direct Investment in Property, 2019 Election (t=2Q19, IDR Bn)



Source: Ministry of Investment, Permata Institute for Economic Research

# Thank you!

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