

Housing Sector Outlook in 2024

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Indonesia's economic growth in the second quarter of 2023 reached 5.17 percent, up 13 basis points (bp) from the first quarter. This achievement is not only the result of effective economic policies but also driven by high international energy commodity prices, which boosted Indonesia's export value.

In mid-third quarter 2023, global uncertainty heightened due to the potential for renewed inflation in the United States and the bankruptcy of China's largest property developer, Evergrande. Nevertheless, Bank Indonesia maintained its 7-day Reverse Repo Rate (BI7RRR) at 5.75 percent during the Bank Indonesia Board of Governors Meeting on September 21-22, 2023. Based on recent developments, national economic growth in 2024 is projected to remain in the range of 4.7-5.1 percent.

Growth in the housing sector is expected to slow further. In the second quarter of 2023, the sector recorded economic growth of 3.49 percent (current prices), a decline of 84 bp compared to the second quarter of 2022. Since the pandemic, the housing sector has faced significant slowdowns, dropping from 7.81 percent growth (current prices) in Q4 2019 to 1.18 percent in Q1 2021. The sector experienced some recovery through Q1 2022 but then slowed again until Q2 2023. The housing sector's sluggish recovery can be attributed to high uncertainty and a monetary policy stance that remains relatively tight to control inflation. This combination has caused people to delay the consumption of long-term goods. The slowdown could become more pronounced if national economic growth decelerates in 2024.

The potential of Indonesia's housing market remains vast. The March 2022 National Socio-Economic Survey (Susenas) indicates that 16.01 percent of households still do not own their own homes. Moreover, projections from Statistics Indonesia (BPS) show that until 2045, the average annual household growth will exceed 660,000, and these households will require homes. Even if only 50 percent of the total housing backlog and household growth translate into effective demand, the housing market remains substantial. Additionally, Susenas data highlights that 28.66 million households are living in inadequate housing. The demand for housing and the issue of housing quality are primarily concentrated in metropolitan areas.

The Residential Property Price Index (IHPR) from Bank Indonesia shows that housing prices rose by 1.92 percent in the second quarter of 2023. Despite this price increase, housing sales experienced negative growth, contracting by -12.3 percent in Q2 2023. This combination of rising prices and declining demand indicates a significant contraction on the supply side of housing. Bank Indonesia's June 2023 Residential Property Price Survey (SHPR) identified four key factors hindering housing sales: 1) licensing issues; 2) mortgage interest rates; 3) high down payments; and 4) taxation.

The property sector has the potential to serve as a key driver of economic growth given the size of the market. However, to optimize its role, the government needs

to pay more attention to the sector, particularly in providing regulatory support and easing processes.