Economy

2019 has been a tough period for the global economy with trade tension between US and China and recessions in some countries. World GDP growth recorded its weakest pace since GFC a decade ago, reflecting common influences across regions and country-specific factors.

While economy this year is predicted to grow moderately, many expect that the bottom has passed. Yet, downside risks remain with US-Iran conflict, surmounting debts worldwide and unfinished trade talks – these may hamper global recovery.

As part of the open market, Indonesia cannot escape from various global issues. In order to achieve economic target, the country should quickly response and put a balance between sustaining growth momentum and maintaining macroeconomic and financial stability.

Indonesia has so far sustained a solid growth on the back of strong domestic consumption, fiscal expansion and export growth. The government massive spending on infrastructure is expected to continue while development on human capital - through education and health is anticipated to improve. Furthermore, structural reforms have been widely implemented in many aspects, including laws and regulations. For instance, government had proposed to the parliament Omnibus bill to amend around 74 laws in efforts to cut red tapes.

Indonesia’s economic growth for 2020 is projected to increase modestly. The government is targeting GDP growth at 5.3% – higher than 2019 (estimated) growth rate of 5.0%.

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Indonesia has so far sustained a solid progress on the back of strong domestic consumption, fiscal expansion and export growth. The government massive spending on infrastructure is expected to continue while human capital development program through education and health is anticipated to improve.

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TABLE 1
Key Figures – Indonesian Economy

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth (%)</td>
<td>6.50</td>
<td>6.23</td>
<td>5.78</td>
<td>5.09</td>
<td>4.79</td>
<td>5.02</td>
<td>5.07</td>
<td>5.17</td>
<td>5.02**</td>
</tr>
<tr>
<td>Interest Rate (%)</td>
<td>6.00</td>
<td>5.75</td>
<td>7.50</td>
<td>7.75</td>
<td>7.50</td>
<td>4.75</td>
<td>4.25</td>
<td>6.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Inflation Rate (%)</td>
<td>5.38</td>
<td>4.28</td>
<td>6.97</td>
<td>6.45</td>
<td>6.38</td>
<td>3.02</td>
<td>3.61</td>
<td>3.13</td>
<td>2.72</td>
</tr>
<tr>
<td>Exchange Rate (USD/IDR)</td>
<td>9,068</td>
<td>9,670</td>
<td>12,189</td>
<td>12,440</td>
<td>13,795</td>
<td>13,436</td>
<td>13,548</td>
<td>14,481</td>
<td>13,091</td>
</tr>
<tr>
<td>Unemployment Rate (%)</td>
<td>6.56</td>
<td>6.07</td>
<td>6.17</td>
<td>5.94</td>
<td>6.18</td>
<td>5.61</td>
<td>5.50</td>
<td>5.34</td>
<td>5.28</td>
</tr>
</tbody>
</table>

Source: BPS. BI, MoF  (*) government target, unless other mentioned  **) latest data available
To anticipate the sluggish economy, the Indonesian government has implemented some policies to ensure domestic stability and resiliency. In line with global trends among central banks in cutting off interest rates, Bank Indonesia also trimmed the benchmark interest rate four times in 2019 – which now stood at 5.0%.

The move had some positive impacts to support low inflation and relatively stable rupiah. By end 2019, inflation rate stood at 2.7% which still within the target range of 2.5%-4.5%. As for 2020, the government targets the inflation rate at 3.0±1%.

Meanwhile, rupiah exchange rate against US dollar have been relatively stable in 2019 and it was closed at IDR 13,900 by end-Dec. Solid foreign reserves (approx. USD 129 billion) helped to maintain the rupiah.

Furthermore, the government recently announced to lower oil and gas prices in early 2020. If realized, this will help to reduce household’s gasoline expenditures that in turn would boost spending in other sectors including the property sector.

Aside from the above, the government continues their efforts to cut red tape and providing more tax provisions to spur investments. Compared to other countries in the region, Indonesia with much bigger economy and healthier GDP growth should be able to attract international and foreign companies to do business here. Interests in the last few years remained high with energy and trading sectors become investors’ focus.

With more acceleration in economic growth and better policies are in place, we expect to see gradual improvement in spending power as well as better wealth distribution. As such, we expect inquiry from both end-users and investors to gradually strengthen, while more corporate expansion would translate into more demand in sectors like office, logistics and also hotel accommodations.

However, we also believe that developers should wisely manage their expectation particularly on their pricing to make it more attractive in order to win the competition during a tough market condition.
Jakarta Apartment

The market witnessed the completion of around 19,100 new apartment units in 2019, bringing total existing supply to approximately 168,400 units.

Of 19,100 new completions, upper-middle grade dominated with 52% – developers’ preferences in terms of grade seemed to have changed from lower-middle to upper-middle. Meanwhile mid-end, upper and lower-middle represented about 19%, 15% and 11% of new supply, respectively. After three years of no new supply, 2 projects in the high-end segment finally entered the market, namely Anandamaya and Langham.

Despite preference to develop higher grade projects, the lower-middle apartments remained as the largest segment in the market so far, representing almost half of the total existing supply. The second highest supply was in mid-end grade (24%), then followed by upper-middle (14%), upper (12%) and high-end (1%).

Regarding location, most apartments were located outside the Jakarta CBD area (81%) with the highest percentage in West Jakarta area at 23%. North Jakarta and South Jakarta comprised 19% and 18% of total existing stock respectively.

Furthermore, the CBD area presented 19% of the total existing apartment stock. Meanwhile, East Jakarta only constituted about 6% of the total existing stock.

Despite market slowdown in the past three years, interests to develop apartments in Jakarta remained stable in view of strong fundamental demand from affluent population in the capital city. This could be seen in the number of new launches during 2019 which we consider as an indication of steady confidence level among developers.

### TABLE 2

**Market Indicators – Apartment | Jakarta**

<table>
<thead>
<tr>
<th></th>
<th>2H 2019</th>
<th>1H 2019</th>
<th>2H 2018</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Stock (unit)</strong></td>
<td>168,409</td>
<td>160,130</td>
<td>149,223</td>
<td><strong>HoH</strong></td>
</tr>
<tr>
<td>High-end</td>
<td>1,729</td>
<td>1,729</td>
<td>1,163</td>
<td>5.17%</td>
</tr>
<tr>
<td>Upper</td>
<td>20,617</td>
<td>19,329</td>
<td>17,661</td>
<td>0.00%</td>
</tr>
<tr>
<td>Upper-middle</td>
<td>23,623</td>
<td>21,486</td>
<td>13,623</td>
<td>6.66%</td>
</tr>
<tr>
<td>Mid-end</td>
<td>40,809</td>
<td>38,009</td>
<td>37,199</td>
<td>9.95%</td>
</tr>
<tr>
<td>Lower-middle</td>
<td>81,631</td>
<td>79,577</td>
<td>79,577</td>
<td>2.58%</td>
</tr>
<tr>
<td><strong>Avg. Price (per sqm)</strong></td>
<td>26,641,583</td>
<td>26,384,788</td>
<td>26,368,196</td>
<td>0.97%</td>
</tr>
<tr>
<td>High-end</td>
<td>58,652,026</td>
<td>57,626,667</td>
<td>57,600,241</td>
<td>1.78%</td>
</tr>
<tr>
<td>Upper</td>
<td>43,678,609</td>
<td>43,533,125</td>
<td>42,887,667</td>
<td>0.33%</td>
</tr>
<tr>
<td>Upper-middle</td>
<td>34,333,694</td>
<td>33,990,111</td>
<td>34,697,019</td>
<td>1.01%</td>
</tr>
<tr>
<td>Mid-end</td>
<td>24,333,900</td>
<td>24,164,050</td>
<td>24,072,290</td>
<td>0.70%</td>
</tr>
<tr>
<td>Lower-middle</td>
<td>17,628,607</td>
<td>17,448,183</td>
<td>17,373,376</td>
<td>1.03%</td>
</tr>
</tbody>
</table>

Source: Savills Research & Consultancy
However, new launches in 2019 gave a slightly different insight regarding preferred segment offered by developers. Throughout 2019, most of projects launched were positioned as mid-end developments. In the previous years, developers had focused on upper-middle or higher segments. Due to weakening demand in those segments, developers shift their focus into more affordable mid-end segment targeting end-users.

In total, 2019 saw a lower number of new launches as compared to a year ago: approx. 4,200 units vs 5,600 units in 2018. The declining trend had been observed since 2015 with the biggest drop seen between 2015 and 2016. It is understood that expensive land price in the city and land scarcity also contribute to the trend.

Meanwhile, slow market absorption continued amid efforts from developers to attract buyers. This had resulted in a lower number of annual sales – in 2019, approx. 2,100 units were sold.

Tight competition has pushed developers to be more creative in attracting buyers. Various strategies and concepts need to be adopted, including optimizing convenience to potential buyers. Some examples were the development of apartments within walking distance to public transportation, providing park and ride facilities as well as partnership with co-living providers.

On the regulatory environment, some new policies have been introduced to the market such as cutting income tax from luxury property sale to 1% from 5% while increasing luxury property threshold price to above IDR 30 billion. The government also decided to loosen Loan to Value (LTV) ratio effective on December 2, 2019. Impacts of recent regulations are expected to take effects over medium to long-term.

As demand on residential market remained modest, selling price per qm during 2019 was seen to be quite stable. The average apartment sales price stood around IDR 26.6 million/sqm.
What is the outlook?

Between 2020 and 2023, Jakarta market is expected to receive around 49,200 apartment units. New completions in 2020 may reach over 26,000 units; however, delays in some projects are very likely – just like around 40% of scheduled completions in 2019 were postponed.

Average annual supply between 2020 and 2023 is predicted to be around 12,300 units, lower than 2015-2019 average annual supply. The declining trajectory is projected going forward against the backdrop of limited land and development costs factor.

By type of projects, many of the upcoming supply in the city are Transit Oriented Development or large scale mixed-use. The future stock is concentrated in South Jakarta (31%), then followed by West Jakarta (25%), North Jakarta (17%), East Jakarta (15%), Central Jakarta (7%) and CBD (5%).

The future supply in the CBD area is either high-end or upper grade apartments meanwhile East Jakarta houses lower-middle or mid-end apartments.

As a whole, the largest future supply is mid-end grade at 37%. Lower-middle and upper-middle account for 30% and 25% respectively. While upper and high-end projects continue to be limited: at 7% and 1% respectively.

### TABLE 3
**Future Supply – Apartment | Jakarta**

<table>
<thead>
<tr>
<th></th>
<th>2020F</th>
<th>2021F</th>
<th>2022F</th>
<th>2023F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Future Supply (unit)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High-end</td>
<td>267</td>
<td>187</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Upper</td>
<td>1,324</td>
<td>283</td>
<td>472</td>
<td>1,298</td>
</tr>
<tr>
<td>Upper-middle</td>
<td>8,738</td>
<td>2,081</td>
<td>945</td>
<td>-</td>
</tr>
<tr>
<td>Mid-end</td>
<td>12,447</td>
<td>4,629</td>
<td>1,751</td>
<td>390</td>
</tr>
<tr>
<td>Lower-middle</td>
<td>9,774</td>
<td>3,056</td>
<td>1,529</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Savills Research & Consultancy
With moderate number of future supply in the upper-middle, this segment recorded the highest sales rate at around 62%.

Furthermore, robust demand level was also seen in lower-middle grade with sales rate at 58% despite its abundant supply yet a relatively low price point is likely the main attraction. Sales rate for other grades stood at around 40% to 45%.

Over the short term, we expect sales to stay around the same levels in view of challenging business environment. The anticipated improvements in economy and accommodation in property regulations is expected to spur apartment sales on the medium- to long term.

Accordingly, price is estimated to be relatively stable at current point in the next few quarters. Afterwards, price may increase moderately. A steeper price hike can only happen if the economy rise fast.

**Marketplace for Rental Apartment**

Technology advancement has changed various life aspects, including the nature of rental apartment. Today, many players are trying to bridge the gap between lessor and lessee, optimizing every possible opportunity and resource. Private landlords can lease their apartment units through a marketplace like OYO, Reddoorz, Airbnb and Travelio – no longer need to go to conventional brokers.

Every provider has their own characteristics, terms and conditions. Landlords can explore and choose to cooperate with provider that suit them best. Options for long term or short term lease are available. OYO, AirBnB and Reddoorz offer daily rent while Travelio offers daily and monthly rent. Price point also differentiate each operator; OYO and Reddoorz cover more of lower-middle to mid-end segments with daily rent package, such as Amethyst Kmayoran, and Green Pramuka Apartment. Travelio provides upper-middle and upper grade properties such as The Grove Masterpiece, Puri Mansion and Lexington Residence by offering daily and monthly rent price.

![OYO's partnership with H Residence – Amethyst Kemayoran, covering about 60 units](image-url)
Bodetabek Apartment

More than 25,000 apartment units were completed in 2019. Those new units were spread across 27 projects in Bodetabek area, with domination in Tangerang area.

Prominent developers, such as Ciputra, Lippo, Summarecon and Agung Podomoro, contributed significantly on the new completions. Bodetabek are continuously seen as strategic areas for new developments – supported by better infrastructures and public transportations over time. Savvy developers differentiate themselves through technology integration, environmental awareness, or even by bringing influential tenants to their developments.

Most of new completions were upper-middle grade (61%). Lower-middle represented 37% of new units while another 2% was belong to upper grade projects.

The new additions brought total existing supply to approximately 102,500 units, dominated by lower-middle grade with 54%. Upper-middle constituted 45% of existing supply and the lowest percentage was on upper grade.

On location basis, the existing apartment stock was concentrated in Tangerang (54%). Bekasi is accounted as the second highest stock at 24% then followed by Depok (12%) and Bogor (8%).

Developers expect market potential from recent infrastructure development while targeting millennial consumers as prospective buyers.

Tangerang was the first area in Bodetabek where massive developments took place; while price was once started on low figures, today, Tangerang is considered to have the highest rate compared to the rest.

As land price in Tangerang area becoming more expensive due to its popularity, some developers have explored opportunities in other areas like Bekasi, as evidenced by its increasing supply share in these regions over time.

TABLE 4

<table>
<thead>
<tr>
<th></th>
<th>2H 2019</th>
<th>1H 2019</th>
<th>2H 2018</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HoH</td>
<td>YoY</td>
<td>HoH</td>
<td>YoY</td>
</tr>
<tr>
<td>Existing Stock (unit)</td>
<td>102,466</td>
<td>91,225</td>
<td>77,093</td>
<td>12.32%</td>
</tr>
<tr>
<td>Upper</td>
<td>928</td>
<td>928</td>
<td>471</td>
<td>0.00%</td>
</tr>
<tr>
<td>Upper-middle</td>
<td>46,057</td>
<td>41,304</td>
<td>30,561</td>
<td>11.51%</td>
</tr>
<tr>
<td>Lower-middle</td>
<td>55,481</td>
<td>48,993</td>
<td>46,061</td>
<td>13.24%</td>
</tr>
<tr>
<td>Avg. Price (per sqm)</td>
<td>15,936,032</td>
<td>15,766,635</td>
<td>15,808,470</td>
<td>1.07%</td>
</tr>
<tr>
<td>Upper</td>
<td>25,728,411</td>
<td>25,295,097</td>
<td>25,443,941</td>
<td>1.12%</td>
</tr>
<tr>
<td>Upper-middle</td>
<td>17,187,466</td>
<td>17,221,267</td>
<td>17,311,679</td>
<td>-0.20%</td>
</tr>
<tr>
<td>Lower-middle</td>
<td>11,995,939</td>
<td>11,819,653</td>
<td>11,783,135</td>
<td>1.49%</td>
</tr>
</tbody>
</table>

Source: Savills Research & Consultancy
In 2019, around 20 projects were launched with total units of 14,700 units, lower than 2018 new launches at 17,000 units.

In terms of grade, upper-middle accounted for 68% of new launches, meanwhile lower-middle and upper grade constituted about 30% and 2% respectively. Upper-middle apartment continues to dominate new projects.

Of 14,700 units, 54% was located in Bekasi and 40% was in Tangerang. This finding further confirms the increasing appetite of developers to build in Bekasi, both private and state-owned developers.

Majority of state-owned developers like Adhi Karya and WIKA are responsible for Transit Oriented Development (TOD). Generally the developments will cover a large number of units with mix of facilities.

WIKA Realty, a subsidiary of WIKA, has been actively developed high-rise apartments in multi cities across the country, including Bodetabek. In 2019, its revenue from high-rise sales was the highest against other sectors. Based on information in January, there have been 12 ongoing high-rise projects; Tamansari Bintaro Mansion, Urban Sky, Urban Suites, Skybox and TOD Karawang are some projects in Bodetabek.

Following the declining number of new launches, annual sales also dropped from the previous year. Around 9,200 units were sold in 2019 compared to 9,600 units in 2018.

Slow economic recovery, political year and weak consumer confidence levels all contributed to the low figure of apartment launching and sales. Developers delayed their projects’ launching while customers waited for the right time to buy.

Amid the sluggish market in 2019, sale price/sqm of Bodetabek apartment remained relatively stable at IDR 15.9 million.
What is the outlook?

After being delayed for years, ample of new supply is predicted to enter the market; between 2020 and 2024, about 129,500 units will be completed in which many of them are estimated to be delivered in 2020.

Developers will observe the market from time to time and carefully plan their completions. Therefore, the anticipated amount of new units are prone to change and another delay may occur should the risks outweigh rewards.

The upcoming supply is dominated by upper-middle at 51% then followed by lower-middle at 48% – similar pattern as in new completion and launches. Upper grade continues to be limited, only accounts for 1% of the pipeline.

Location wise, the future supply will be centralized in Tangerang (50%). Bekasi, Bogor and Depok will represent around 28%, 12% and 10% respectively.

Going forward, TOD will flourish while township and large-scale development will continue to be popular on the back of work-life balance or live-work-play motto. Residents, especially young community, want to be as close as possible to their workplaces, reducing their commuting time without compensating their lifestyle. Therefore, developers should explore attractive and hip concepts.

<table>
<thead>
<tr>
<th>TABLE 5</th>
<th>Future Supply – Apartment</th>
<th>Bodetabek</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020F</td>
<td>2021F</td>
</tr>
<tr>
<td>Future Supply (unit)</td>
<td>65,252</td>
<td>46,837</td>
</tr>
<tr>
<td>Upper</td>
<td>1,170</td>
<td>112</td>
</tr>
<tr>
<td>Upper-middle</td>
<td>36,544</td>
<td>22,590</td>
</tr>
<tr>
<td>Lower-middle</td>
<td>27,538</td>
<td>24,135</td>
</tr>
</tbody>
</table>

Source: Savills Research & Consultancy
Mortgages for Millennials

Skyrocketing price of houses has caused millennials burnout when they want purchase their first home. Rapid rise of the pricetag has outpaced income growth, making homeownership is even more challenging than before. In tackling this issue, the government, through state-owned banks, provides a more affordable financing for millennials – called KPR milenial.

Some examples are ‘KPR Gaesss’ from Bank BTN, ‘Mandiri KPR Milenial’ from Bank Mandiri and ‘KPR Xtra Bisa’ from CIMB Niaga. The key differences between ‘KPR Milenial’ and the mainstream mortgage are: more flexible underwriting requirements, lower down payment starting from 0% to 5%, two to three years fixed rate, and longer loan term up to 30 years.
Glossary

• The Jakarta apartment market covers the administrative region of DKI Jakarta, which is defined based on municipality i.e. Central, South, East, West and North Jakarta.

• The Bodetabek apartment market covers the regencies and municipalities of Bogor, Depok, Bekasi and Tangerang.

• High-end apartments refer to apartments located in prime CBD areas with international standard luxurious facilities and rated as the highest rank in terms of unit size and quality, exterior and interior finish, facilities, maintenance etc.

• Upper-grade apartments refer to apartments located in prime areas with complete range of international standard facilities and rated as the second highest rank in terms of unit size and quality, exterior and interior finish, facilities, maintenance etc.

• Upper-middle apartments refer to apartments located in extended prime areas with quality standard facilities and rated as the third highest rank in terms of unit size and quality, exterior and interior finish, facilities, maintenance etc.

• Mid-end apartments refer to apartments located in extended prime areas with average standard facilities and rated as the second lowest rank in terms of unit size and quality, exterior and interior finish, facilities, maintenance etc.

• Lower-middle apartments refer to apartments located in secondary areas with standard basic facilities and rated as the lowest rank in terms of unit size and quality, exterior and interior finish, facilities, maintenance etc.

Forecasting Methodology

• Optimistic Scenario
  Based on assumptions that the general economic conditions to improve significantly (i.e. higher GDP growth and positive macro environment) which will lead to a more robust buying power, thus able to generate significant transactions, which would be reflected in much higher sales volume.

• Moderate Scenario
  Based on assumptions that the general economic conditions to grow steadily (i.e. moderate GDP growth and neutral macro environment) which will provide a foundation for sustained buying activity and positive investment sentiment.

• Pessimistic Scenario
  Based on assumptions that the general economic conditions to weaken/decline (i.e. lower GDP growth and negative macro environment) with lack of developer’s expansion and limited buying activity.

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