

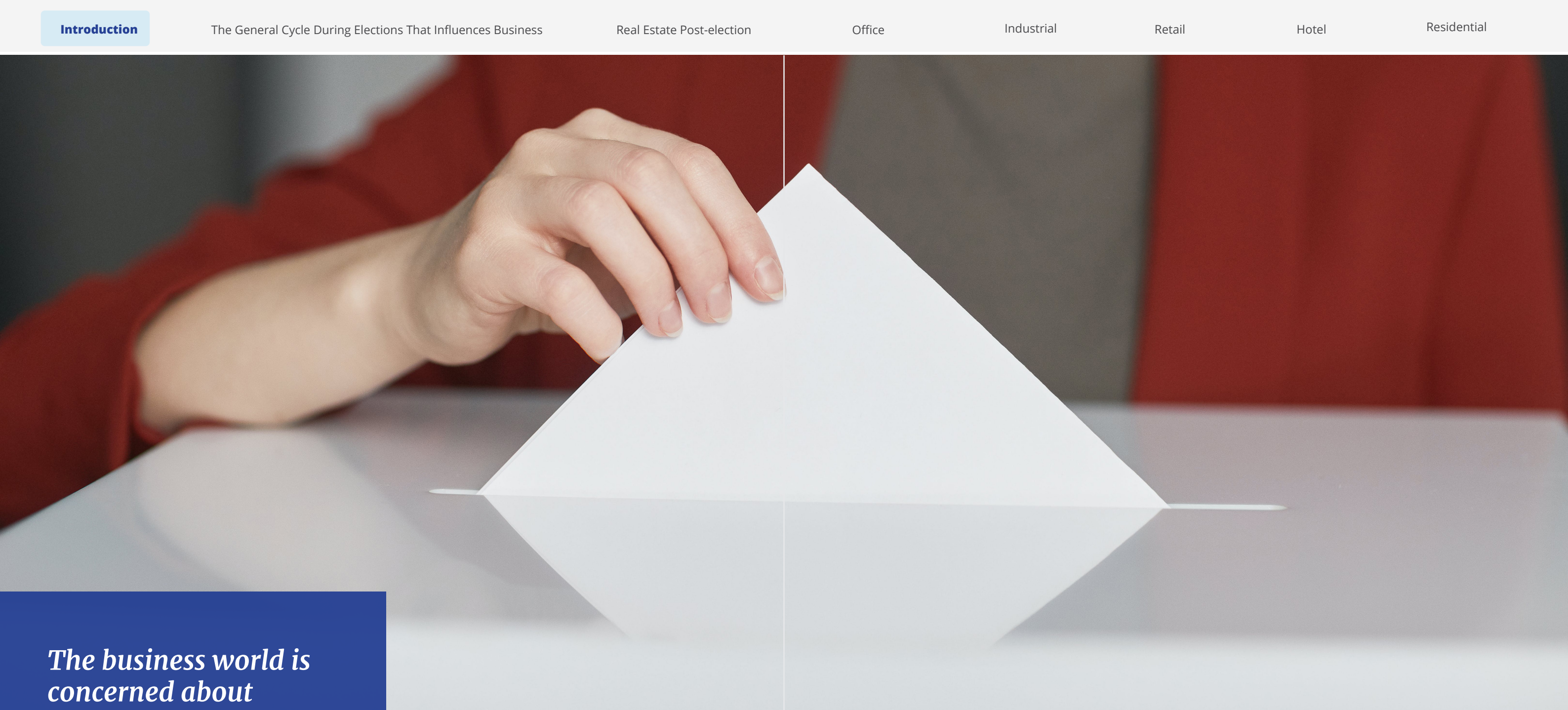
Market Insights

Impact of the 2024 Election on the Property Sector



Ferry Salanto
Senior Associate Director | Research
Indonesia

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The business world is concerned about leadership changes and policy shifts, leading to regulatory changes that result in business uncertainty.

As the election approaches, it invariably creates an atmosphere of uncertainty, especially with the proliferation of news filled with debates among political parties, future policy plans, and pledges from presidential candidates. The concerns about the pre-election uncertainty also have an impact on the property market.

Historically, the real estate market tends to decelerate before elections, usually starting approximately ten months before the event. This slowdown is characterized by a decrease

in transactions, particularly in the commercial property sector. However, despite the market's slowdown, prices generally do not decline leading up to the election. Property prices and rental rates may experience corrections due to internal factors within each property sector, such as an oversupply situation. Typically, after the election concludes, the property market regains activity.

While all eyes are on the election, the property sector is cautiously fostering optimism, especially post-election. This optimism is anticipated to en-

hance transaction activities and improve consumer sentiment in the property markets. Currently, the sluggish property absorption conditions, particularly in the high-rise residential and commercial office sectors, will undoubtedly impact developers' liquidity and, consequently, their financing capabilities. Given this situation, many developers are limiting the launch of new projects and are solely concentrating on selling existing inventory.

The General Cycle During Elections That Influences Business

Indonesia has undergone several election periods with diverse situations, all of which concluded with relatively stable conditions. However, sentiments regarding the election situation cannot be ignored.

Election campaigns in Indonesia often generate uncertainty for the business world, influencing the progress of investments



This cycle can be observed in previous elections, such as the 2009 election, where investment only grew by 3.3% compared to the previous 10.0%.

In the 2014 election, investment only grew modestly to 4.6% from 4.4% of the previous year.

In the 2019 election, investment growth declined from 7.0% to 4.5%.

Despite potential challenges, the Indonesian government remains optimistic that investment will persist during the political year in 2024.

Real Estate Post-election

With just a few months remaining until Indonesia's democratic celebrations bring forth a new government, investors and property buyers tend to postpone their business decisions. Many assume that property prices will surge after the election, but such expectations are unfounded, as numerous factors come into play, regardless of which party wins or assumes leadership. While election outcomes don't determine the market's fate, they do influence overall market sentiment. Following the election, property buyers are expected to resume activity and revitalize the market.



In this insight, we will delve into the impact of the largest democratic event in Indonesia on the real estate business.

Office



Even without electoral sentiment, the office sector will continue to pose challenges.

Overall, the prevailing political unrest does not exert a substantial influence on the office sector. A company's decision to renew its lease, relocate, or expand office space is not heavily dependent on the current political situation. However, it is undeniable that **some companies use the political year as a benchmark in deciding to move or expand, considering the capital expenditure involved.**



Even if tenants choose to relocate, it is often due to directives from their headquarters, such as a requirement to move to a certified green building or because they have occupied the current building for an extended period.



For owners or developers, the primary concern lies in maintaining regulatory stability, particularly concerning ongoing construction projects. The inclination is to adopt a 'wait and see' approach, ensuring a smooth progression and making decisions only when certainty emerges from the election results.

Based on observations, **from Q4 2023 until February 2024, significant changes in the office market are not anticipated.** Excess supply conditions will persist, with occupancy rates showing improvement but not to a significant extent. Therefore, the market conditions continue to favor tenants, necessitating building owners to maintain a flexible and accommodating stance towards them.

Industrial



Businesses related to state projects could potentially face impacts.

The industrial land transaction activities until Q3 2023 continue to present challenges for those seeking to match the sales achievements of the previous year. However, cyclically, transactions with higher volumes often occur towards the end of the year.

The automotive industry, particularly in the electric vehicles sector, is projected to remain quite active in the future, along with the data center business. On-site observations indicate considerable interest from companies originating from China and other Asian countries in this Q4 2023, as we have observed the market becoming more active compared to the previous quarter.

Reflecting on the previous political year in 2019 and preceding years, the situation was relatively conducive. Since the beginning of 2023, industrial land sales have continued, and land prices have remained relatively stable.

Many industrial land business players hope that this conducive situation will persist until 2024. Land transactions in industrial estates typically take a considerable amount of time, especially when the land area is substantial. Investors also have numerous considerations before investing, one of which is the conducive investment climate during the election period and the anticipated potential thereafter. Therefore, investment plans that were already in progress before the political year will continue. Business players and investors are proceeding as usual while closely monitoring the political situation.

Upon closer examination in relation to the political year in 2024, there are several aspects worth considering:



Investors and companies are actively accelerating projects, often with the goal of completing them before the upcoming election. The reason for this is that investors, developers, or companies want to ensure that projects do not face obstacles due to policy changes, especially concerning the potential for new regulations that may deviate from the initial plans.

A change in national leadership has the potential to instigate policy changes. Therefore, to ensure that no construction projects violate regulations, investors, developers, or companies strive to complete them before the change in leadership.



If a business is directly involved in collaborations with the government, such as participating in infrastructure development for government projects, it may be affected. In cases where businesses have direct collaborations with the government, **investors are more prone to adopting a 'wait and see' approach.** Regulatory certainty becomes a key factor in ensuring the continuity of projects.



Elections are also anticipated as a pivotal moment for business players, with the hope that the newly elected government will implement attractive, consistent, and business-supportive economic policies for investors and industries. **Concerns arise if the new policies are perceived as unappealing to the business sector, potentially resulting in a decline in investments.**

In general, the industrial sector is not directly impacted by the political year. Most planned business expansion activities are typically long-term projects that must ultimately proceed and be carried out, with little likelihood of reverting to square one. Moreover, not all business lines intersect with government projects that might be vulnerable to non-implementation when regimes change. So far, the activities of business players and investors continue as usual while carefully monitoring the political situation.

Retail



Retailers will strive to complete their projects before the election.

The political climate can influence the strategic decisions of new entrants in the retail market, especially foreign retailers, who are concerned about potential regulatory changes. Especially if it is related to regulations in the Omnibus Law, which also govern the presence of large retailers when opening business outlets. These regulations may include limitations on the size and scale of outlets, building radius concerning other nearby structures, and licensing or permits.

Regulation becomes a significant concern for large retailers and foreign retailers planning to enter the Indonesian retail market. Based on our findings, retailers are keen on completing their projects before the election and the subsequent change in government to ensure project continuity. If they anticipate that a specific project is unlikely to be completed on time, they might temporarily postpone it until after the change of government. This approach aims to prevent excessive progress and minimize all forms of risk.

From the retailer's standpoint, expansion initiatives remain unaffected as long as they perceive the location as suitable and promising. However, retailers, particularly those operating within malls, are concerned about regulatory issues, such as Presidential Regulation number 10 of 2021, which restricts business fields to:

- 1 Micro, small, medium enterprises (in Indonesian terms called UMKM)
- 2 The obligation of halal certification for non-food items
- 3 Strict import quotas make it difficult for international brands to supply, ultimately hindering growth
- 4 Safeguards that make the import of apparel products very expensive compared to neighboring countries, leading consumers to choose certain brands from abroad
- 5 The requirement to comply with National Standardization (SNI) for ready-made clothing, which will pose challenges for retailers.

Meanwhile, the primary concern among retailers is related to the persistence of illegal imports due to relatively weak supervision. Illegal imports remain the main competitors for micro, small, and medium-sized businesses (UMKM), and this practice has not diminished, ultimately causing challenges for law-abiding importers.

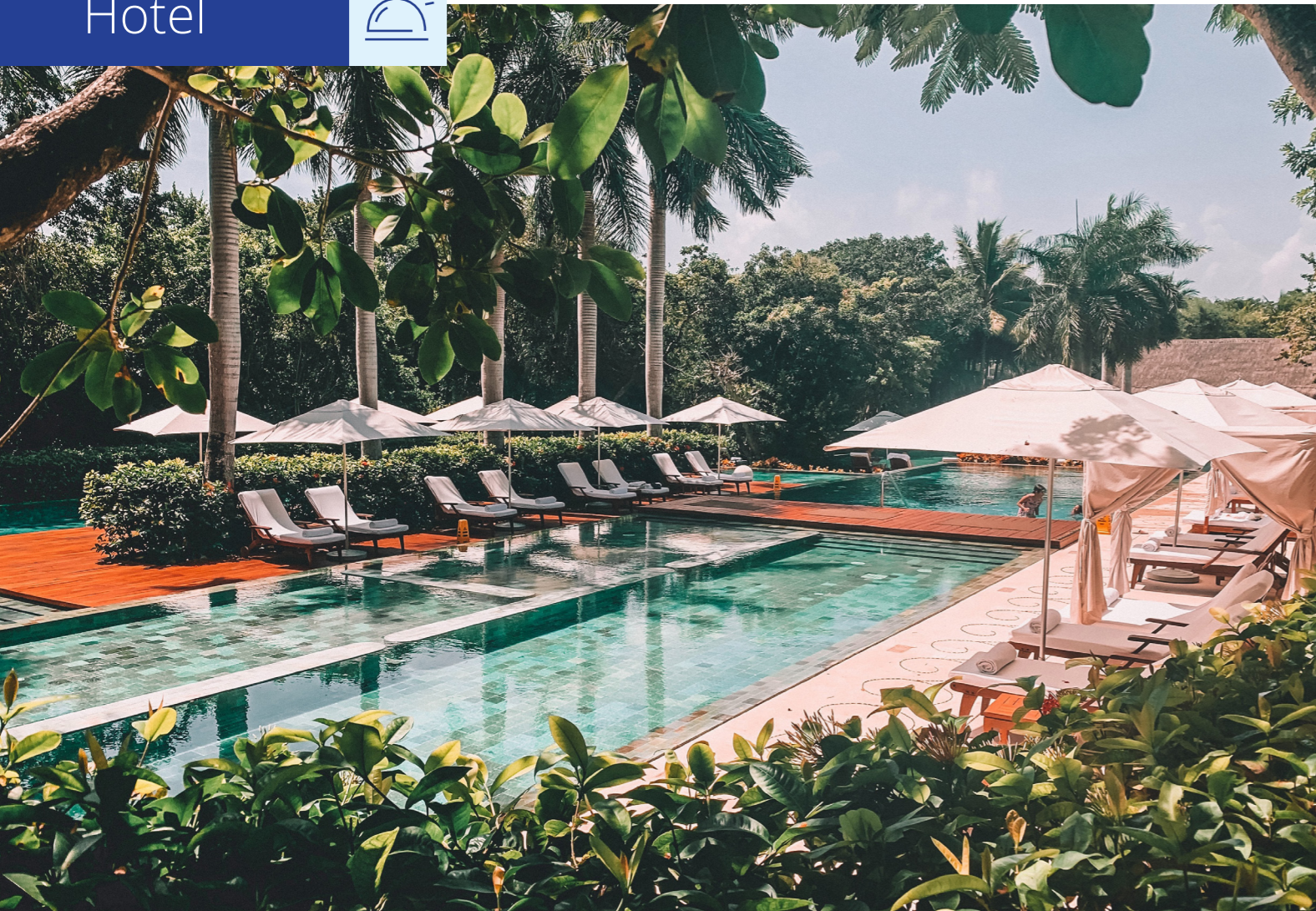
Retail business expected to continue thriving

Beyond the points mentioned above, **in general, this political year does not have a significant impact on the retail market. Retail performance from Q4 2023 to Q1 2024 is predicted to continue experiencing improvement**, especially in terms of sales.

Visitor numbers also appear to have returned to normal since the end of last year. This election is not expected to be significantly different from previous election situations and conditions. In fact, **there is potential consumption that can drive shopping related to large-scale simultaneous election activities**. Retail businesses will pursue expansion until before Ramadan and Eid al-Fitr in 2024 and then slow down afterward.

Expansion, especially in the clothing or fashion category, is expected to slow down, not solely due to the election but because aggressive expansion has already occurred from late 2022 through 2023. The slowdown in the expansion of the clothing sector, especially foreign brands, is also attributed to government policies restricting imported products by tightening the import process through the implementation of various import provisions and procedures.

Hotel



Political year potentially boosts hotel occupancy rates, however...

Based on patterns observed in the past, the political year cycle is expected to drive an increase in hotel occupancy rates. Based on our findings with the Hospitality Services team, the demand for hotel rooms leading up to this major democratic event may experience an upswing, especially around two months preceding the election, up to two weeks before D-Day arrives.

Historically, business hotels in major cities such as Jakarta and Surabaya heavily rely on government spending, particularly for activities involving Meetings, Incentives, Conferences, and Exhibitions (MICE) that drive hotel room usage. Specifically, as elections approach, political parties tend to intensify activities such as consolidation efforts or other events related to the election of the president and legislative members. This involves focusing on promoting their candidates and requiring meeting spaces or conventions, often available in hotels.

The activities of political parties related to elections are not expected to significantly contribute to hotel revenue, as these political activities usually do not involve substantial budgets. However, they can enhance the hotel's exposure. Currently, achieving target occupancy rates is a priority for hotel management, and the election period serves as an opportunity to introduce hotels to a wider audience.

Referring to previous election years, the increase in hotel demand in Jakarta typically rises by 7% to 8% compared to normal times. In other business cities, this increase is recorded at a lower range, between 2% and 3%. However, **for this election period, Colliers projects that the demand in Jakarta will increase, albeit at a lower rate, to around 5% to 6%.**

Hotel players inclined to focus on government and corporate markets

Most hotel business stakeholders hope that this election will be concluded in a single round.

A single-round election is expected to offer an opportunity for hotel industry players to concentrate on other business markets, contributing more significantly to hotel revenue.

Based on our team finding, **business hotels, particularly those with four and five-star ratings in Jakarta, are anticipated to be more selective regarding political events during the 2024 election.** Especially with the shorter campaign period, it will also influence the activities conducted in hotels.

Therefore, from Q4 2023 through 2024, **most hotel business players, particularly in Jakarta, appear poised to shift their focus towards other potential business areas to ensure stable revenue.** Aside from the impact of the political year, it is acknowledged that, as a trend, business hotels will experience a decline compared to leisure hotels.

Residential



Expatriate housing: From tenants' market to landlords' market

Reflecting on the conditions of the past few years, the residential market for expatriates is generally not directly affected by election activities. This is because the plan to bring foreign workers to Indonesia by a company has become an agenda that is unlikely to change unless prompted by urgent circumstances.

As long as the political situation does not impact the company's operations, it will not significantly affect the company's plans to continue bringing its foreign experts to Indonesia. However, **if the industry or business is engaged in a government project, or if its operations are disrupted due to global conditions**, the plan to bring in expatriates may potentially be temporarily limited or halted. Consequently, as the election approaches, **companies may adopt a wait-and-see policy.**

Similar to the industrial and retail markets, concerns typically arise due to potential regulatory changes when the government transitions. Therefore, the impact on the rental housing market for foreign workers **may become more noticeable after the political event concludes and new policies are implemented.**

In Q4 2023, Colliers Residential Services team has observed an uptick in market activity, characterized by a heightened demand for rental homes in preferred expatriate areas, especially South Jakarta, and in residential zones popular among foreigners. We note a shift in **the residential property market towards a "landlords' market"** compared to the previous period. This trend has led to adjustments in rental prices, reflecting the growing scarcity of housing specifically for expatriates in certain areas.

Apartment: Tax incentives to boost improved sales growth

In the past two to three years, the demand for apartments has been primarily fueled by end-users. These buyers acquire ready-made units from developers (primary units) and are enticed by incentives (marketing gimmicks) offered by developers, such as:



Electronic goods vouchers



Free service charge fees



Furniture



Flexible payment methods (installments over 2 years).

However, the potential rise in interest rates observed in early Q4 2023 could result in higher mortgage interest rates, potentially creating negative sentiment in the apartment market. Additionally, recent economic data, such as low inflation and Q3 2023 economic growth of 4.97%, slightly below the 5% target, indicate that the purchasing power of the public is under pressure.

Meanwhile, apartment prices have not shown significant movement in the last three years, increasing by only approximately 1.73% from 2020 to 2023. **Developers are currently opting not to aggressively increase prices significantly due to slow demand** and competition with secondary units offering discounts of up to 10-20% from the primary unit prices for fully furnished units.

On the supply side, the apartment sector contributed 13,927 new units (existing) from a total of 24 projects from 2020 to 2023, a 60% decrease compared to the three years before pandemic. Construction delays due to pandemic continue to affect apartment projects for the next two years. **Currently, developers on average need five to six years to complete apartment projects**, nearly twice as long as the average before pandemic, which only required two to three years for apartment buildings to be completed.

Approaching the 2024 election, the government is introducing fiscal policies to sustain public purchasing power, which includes providing tax incentives. **In November 2023, the government plans to implement a policy to eliminate VAT for residential properties.** Under this policy, the government will fully bear the VAT for homes under IDR 2 billion until June 2024. From June to December 2024, the government will bear 50% of the VAT. In our assessment, **this policy is advantageous for the apartment market, particularly for projects with handovers scheduled until next June.** This aligns with the current dominance of end-users in the apartment market.

We observe that the **apartment market in the upcoming year (2024) continues to face pressure** due to several factors, including:



The naturally occurring factor of the **election causes uncertainty, thus keeping investors on the sidelines.**



The ongoing high-interest rates, which might contribute to a potential rise in mortgage interest rates. Currently, the proportion of apartment buyers using mortgage loans is quite significant, around 30-40%.



A decrease in the number of investors choosing apartments as a form of investment, which has traditionally been a benchmark for apartment investments.



Deep-rooted societal preferences in **Indonesia favouring landed houses over apartments.**

To address the above issues, **we recommend that developers prioritize their commitment to consumers by ensuring construction timelines and project handovers align with schedules.** This approach fosters trust in the developer. **From the buyer's perspective, the current period is opportune for selecting an apartment unit.** In addition to having strong bargaining power, consumers also have the chance to benefit from fiscal incentives, namely the exemption from VAT.

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Primary author and further information:



Ferry Salanto
Senior Associate Director | Research
Indonesia
Ferry.Salanto@colliers.com