

Market Insights

Indonesia Investment Trends as Global Economy Slows



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Introduction

The global economy is already showing signs of slowing in the major global markets of North America and Europe.

During this unusual period of the Covid-19 pandemic since Q1 2020, the global economy has experienced unprecedented supply chain and labour disruptions that have created supply and distribution constraints leading to rising inflation rates across most markets and products. Added to that, the Ukraine and Russia conflict has also exacerbated inflation in the energy and food sectors.

As inflation in the United States (US) recently touched the highest level in 40 years at just above 9% (year to year), **the Federal Open Market Committee (FOMC)** announced on July 27, 2022, **it was raising the federal funds rate by 75 basis points, bringing the target range to 2.25% to 2.5%**. This marks the fourth rate hike this year. The quickly rising federal funds rate, in turn, is affecting the US domestic market home mortgage rates, credit card rates, and other business and consumer loans.

Thirty (30) year home mortgage rates in the US have increased from \pm 3% range around five to six months ago to around 6%. As a result of increasing expectations of recession, and the likely resultant slowdown in business spending, we expect to see increased employment layoffs in the US. Already, the US economy is effectively in a recession based on two back-to-back quarters of reduced GDP. This is further evidenced by a brisk slowdown in single family home transactions across most markets in the US.

The objective of this investment trends update is to address the consequences for the Indonesian property market of the global economy slowdown.



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Effect of Current Global Conditions on Indonesian Property Market

How will property markets in Indonesia be affected by these global conditions?

1

Indonesia has been blessed with healthy mining and commodity markets that have maintained large export numbers and supported the Indonesian currency, despite rapid interest rate increases in the US and other major global markets.

Bank Indonesia (BI) just lifted its seven-day reverse repurchase rate to 3.75% from 3.5%. This marks the first increase since November 2018, when the benchmark stood at 6%. As the Federal Reserve and other central banks around the world continue to raise rates in their fight against inflation and a rising dollar, **there will be more and more pressure on BI to follow suit and further raise interest rates. Eventually, this will affect the cost of funds for developers, investors, and end-users in Indonesia.**

2

Inflation in Indonesia is also rising at a level of 4.94% (year on year) with increases in certain construction materials rising as much as 20-30%. While property developers are attempting to hold their prices to maintain healthy sales and take-up, at some point developers will need to pass along the higher construction costs in the form of higher selling prices.

Ultimately, higher prices to the consumers and rising interest rates will be a dampener on the local property market. Additionally, if hiring at start-up and e-commerce companies and in the general economy begins to slow, and there is even an increase in layoffs, **buyers will become more cautious about committing to medium to long-term investments and expenses.**



3

Foreign investors are back but trading somewhat cautiously as they look to commit fresh funds to new strategies in Indonesia. As usual, most foreign investors, including developers, private equity funds, sovereign funds, institutional funds and private investors, will normally prioritize the choice of the local partner(s) as the first step in the investment process. Next, will be the type of asset and validating the asset type is not over supplied and profit margins are achievable to meet their minimum targets. **Colliers expect the main asset class targets over the next 12 to 18 months will be:**



Landed housing



Townships



Logistics



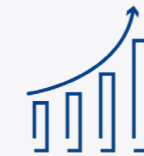
Data centres

Local landowners and developers with land banks in these asset groups will be in the best position to attract new foreign and local investment. Also, developers with recurring income portfolios in these asset classes will find a receptive investment market. Colliers expect to see **more investment and development activity in mixed-use projects near transit stations such as MRT and LRT** where tenants and owners can enjoy proximity to work, shopping and a more convenient lifestyle.

4

Contrarian investors (local and foreign) may become a factor as the local property market experiences more limitations in terms of short-term demand and some forms of distress, such as defaulted bank loans and rising pressure to repay deferred interest and loans.

Even with the current under-performance of the office and apartment markets, **Colliers may see some opportunistic investments as contrarian investors hope to acquire properties at affordable prices,** even below replacement cost, and time their investments perfectly with the next property cycle, where we observe a re-set in the demand, take-up and pricing of offices and apartments.



All in all, the expectation is that the Indonesian economy should be in a relatively strong position to weather the pending global recession, due to our strong domestic consumer economy and healthy mining and commodities sectors. However, with the Indonesian presidential election coming up in 2024, global interest rates quickly rising to combat inflation, and the resultant six to twelve months (minimum) turbulence in the global economy, it doesn't look favourable for the softer sectors of the local property market in the short to medium term.

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