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RESIDENTIAL PROPERTY SALES IN THE PRIMARY MARKET DURING THE COVID-19 PANDEMIC IN INDONESIA

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ABSTRACT

This study aims to determine the residential property sales in the primary market in Indonesia during the outbreak of Covid-19 pandemic. This research used multiple regression analytical method by utilizing the following variables: the residential property price index (IHPR), credit interest rates, inflation, gross domestic product, and Covid-19. From the regression results, it is clear that IHPR and credit interest rates have a negative and significant effect on residential property sales. An increase in price causes a decreasing demand for an item, while an increase in credit interest rates results in an increase in the burden of consumers. Inflation and domestic product variables have a positive effect on residential property sales, whereas the Covid-19 pandemic variable has a negative effect on residential property sales in Indonesia.

Keywords: residential property sales, IHPR, loan interest rates, inflation, GDP, Covid-19 pandemic

INTRODUCTION

In order to survive, humans need to fulfill the basic needs essential for human life. These primary needs are not only related to food and clothing, but also related to a shelter or a house to live in. People may share a different perspective on housing ownership. The deprived people with lower middle income may deem housing as a basic need to possess for their survival despite the increasingly soaring prices of residential property, which makes them unable to afford it. The escalating price of residential property is owing to limited availability of land and the incompatibility between the increasing rate of house selling prices and the increase in people's income. In contrast, the privileged group with middle to upper income level may consider residential property as an investment or a measure of individual welfare.

The Central Bureau of Statistics of Indonesia has classified the status of residential property ownership into the followings.

a. Owned-House, if the house occupied by the household at the time of census belongs to the head of the household or a member of the household. This ownership includes houses purchased in installments through credit or houses with lease purchase status.
b. Contracted House, if the house occupied by the household at the time of census is a rented house by the head of the household or a member of the household for a certain period of time based on a contract agreement between the owner and the user, for example for 1 or 2 years.
c. Rented House, if the house occupied by the household at the time of census is rented by the head of the household or one of the household members with regular and continuous rental payments without a certain time limit.

d. Official house, if the residential house occupied by the household is owned or provided by an agency where the head of the household or one of the household members works, whether by paying rent or not.
e. Others, if the house occupied cannot be classified into one of the abovementioned categories, such as a traditional house.

Central Bureau of Statistics (2021) released that the number of households with private house ownership in Indonesia amounted to 81.08, while the number of households with rental or contract housing ownership reached 8.66 percent. The large percentage of households with private residence ownership in Indonesia is in line with the increasing number of people who decide to apply for housing loans at commercial banks and housing financing at Islamic banks. Bank Indonesia (2021) revealed that most of their consumers (75.31%) used housing loans to buy residential houses, with 17.85% buying residential houses in cash in installments and only 6.84% who buy residential properties in cash.

Although most of house buyers still rely on the provided housing loans, there was a significant decline in the sales of residential properties in the first quarter of 2020. Bank Indonesia (2020) recorded a contraction of -30.53% (qtq) in the sales of residential properties. The decline occurred in all types of houses. The large house type contracted the most by -41.01% (qtq), followed by the medium type by -34.39% (qtq) and the small type house with -26.09% (qtq). This decline in property sales was primarily attributed by the widely shared assumption among the community of the considerably high rate of housing loans as opposed to the weak purchasing power of the community due to the prevalence of COVID-19 pandemic in Indonesia. The Covid-19 disaster not only resulted in a health crisis, but also an economic hardship that affected all sectors of the economy, including the residential property sector. In addition to the Covid-19 pandemic, other factors that affect the dwindling rate of residential property sales include the residential property price index (IHPR), loan interest rates, inflation rates and growth in Gross Domestic Product. For this reason, it is necessary to analyze residential property sales in Indonesia before and during the Covid-19 pandemic along with the relevant factors.

PROBLEM STATEMENT

The abovementioned background prompted the implementation of this research by primarily looking at residential property sales in the primary market in Indonesia before and during the Covid-19 pandemic. Some variables were used as considerations in selling residential property in Indonesia, including the residential property price index (IHPR), the applicable loan interest rate, the inflation rate, the gross domestic product, which reflects the income per capita of a society, and the conditions before and during the Covid-19 pandemic.

RESEARCH OBJECTIVES

The purpose of this study was to determine the sales of residential properties on the primary market in Indonesia before and during the Covid-19 pandemic in terms of the residential property price index (IHPR), loan interest rates, inflation rates, gross domestic product, and the conditions during the Covid-19 pandemic.

LITERATURE REVIEW

The residential property market in Indonesia consists of the primary market and the secondary market. The Real Estate Indonesia (2016) defined the primary market as a real estate property business run by legal entities, with most of which is limited liability company (PT), as opposed to the secondary market as a real estate property business run by individual developers. In this case, residential properties in the primary market refer to residential houses constructed by developers with the first-hand owners of the residential house. According to Filbert (2015:40), developers in the primary market turn a vacant land in an area into a residential property through land acquisition. As opposed to the secondary market, which is characterized by the relatively stagnant prices of residential property, the residential property sales of the primary market are more susceptible to fluctuating prices or price declines.

The sales of residential properties during the Covid-19 pandemic are not only influenced by the commonly identified factors, but also by the current circumstances. Several factors are known to affect the sales of residential properties during the outbreak of Covid-19 pandemic, such as the residential property price index (IHPR), loan interest rates, inflation rates, and gross domestic product. IHPR is an index issued by Bank Indonesia every year on a quarterly basis. This index indicates the average selling price of residential properties in Indonesia. IHPR was obtained by Bank Indonesia by taking samples from developers in 18 cities in Indonesia. IHPR affects the size of residential property sales in Indonesia. The benchmark loan interest rate is set by Bank Indonesia. The interest rate on this loan affects the sale of residential houses, because it determines the consumer's ability to bear the payment of installments. When the loan interest rate is high, the consumers are charged with higher rate of installments. Ayuningtyas and Astuti and Situmorang (2018) demonstrated that the property price index has a negative and significant effect on housing demand. Meanwhile, interest rates have no effect on the demand for housing in Yogyakarta.

Inflation rate is indicated by an overall constant increase in the price of goods. In the developer's perspective, inflation is deemed to have an impact on the sale of residential houses for selling, while as seen from the consumer side, inflation has an impact on reducing their purchasing power in real terms. Gross Domestic Product reflects the income per capita of people in Indonesia. The higher the GDP of a country, the higher the income per capita of each individual. Afika and Ariusni (2019) held that inflation has a positive and significant effect on housing demand in Indonesia.

HYPOTHESES

Henceforth, this research proposed the following hypotheses.

1. IHPR (residential property price index) is suspected to have a negative and significant effect on residential property sales in Indonesia.
2. The loan interest rate is deemed to have a negative and significant effect on the sale of residential properties in Indonesia.
3. The inflation rate is assumed to have a negative and significant effect on residential property sales in Indonesia.
4. Gross Domestic Product, which reflects a person's income, is suspected to have a positive and significant correlation with residential property sales in Indonesia.
5. Covid 19, which reflects the current state of the pandemic, is suspected to have a negative and significant correlation with residential property sales in Indonesia.

RESEARCH METHODOLOGY

This study used a correlational research design with a quantitative approach. The quantitative approach was aimed to test a theory by specifically detailing the existing hypotheses, and thus it requires statistical information and accurate statistical data tests. The data referred to time series data from the period 2013-2020 obtained from Bank Indonesia, the Central Statistics Agency, and the Financial Services Authority. The data were analyzed using multiple linear regression analysis. Multiple regression method was utilized to see the correlation between two or more independent variables on the dependent variable. Aiyubbi (2022) delineated that statistical tests for multiple regression are partial regression coefficient test (t test), model feasibility test (F test), and regression line goodness test (R^2 test). Widarjono (2013) held that the effect of the independent variable significance test on the dependent variable with the t test will only be valid if it has a minimum variance or BLUE estimator (Best Linear Unbiased Estimator). Therefore, it requires the classical assumption test in the first place before performing statistical testing. The mathematical equations of the multiple regression model in this study are as follows.

$$Y = \beta_0 + \beta_1 IHPR + \beta_2 SBL + \beta_3 Inf + \beta_4 PDB + \beta_5 Cov + e$$

Where:

β_0 : constant
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$: regression coefficient
Infl : Inflation
SBL : Loan Interest Rate
PDB : Gross Domestic Product
e : error

RESULTS

The estimation results to answer the hypothesis show that the regression results are free from the classical assumption problem. The estimation results are delineated in the following details.

Dependent Variable: Y
Method: Least Squares
Date: 02/08/22 Time: 20:33
Sample: 2013Q1 2020Q4
Included observations: 32
HAC standard errors & covariance (Bartlett kernel, Newey-West fixed bandwidth = 4.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-138.0625	140.7661	-0.980794	0.0000
X1	-4.663333	2.912693	-1.601038	0.0121
X2	-3.397940	2.750223	-1.235514	0.0227
X3	11.42927	5.160507	2.214757	0.0357
X4	16.14571	20.71905	0.779269	0.1429
X5	-10.49551	13.23415	-0.793063	0.1349

R-squared	0.572511	Mean dependent var	9.866250
Adjusted R-squared	0.471071	S.D. dependent var	15.83505
S.E. of regression	12.55800	Akaike info criterion	8.065953
Sum squared resid	4100.285	Schwarz criterion	8.340778
Log likelihood	-123.0552	Hannan-Quinn criter.	8.157050
F-statistic	4.658025	Durbin-Watson stat	1.463420
Prob(F-statistic)	0.003614	Wald F-statistic	9.665610
Prob(Wald F-statistic)	0.000026		

The regression analysis resulted in the F statistic value of 0.003614 with a probability value of 0.000026, which is smaller than the level of = 5 percent. On this basis, it is conclusive that IHPR, loan interest rates, inflation, gross domestic product, and Covid-19 together have an effect on residential property sales. The R-squared value was 0.572511 or 57.25 percent, which indicates that 57.25 % of the residential property sales variable can be explained by the IHPR variable, loan interest rates, inflation, gross domestic product and Covid-19, while the remaining 42.75 % is explained by other variables outside the model.

In terms of the effect of the IHPR variable on residential property sales, it is clear that the regression analysis resulted in the coefficient value of -4.663 with a probability value of 0.0121, which is smaller than the level of = 5 percent. This result indicates that the IHPR had a negative significant impact on residential house sales. In other words, a 1% increase in residential property prices will generate a decrease by 4.66% in residential property sales, and ceteris paribus. The decline in residential property sales is in line with the demand theory. Property sales reflect the number of types of housing demanded by consumers. The increasing price of an item will decrease the demand for that particular good. In addition, house prices which are negatively correlated with residential property sales indicate that house prices are elastic. This means that a slight change in the price of a residential house may cause a significant decline in the sale of residential houses. Rising property prices also have an impact on the loan rates of banks. An increase in house price will generate in the decreasing rate of house loans. Ayungingtyas and Astuti (2018) revealed that the level of house prices has an important role in determining an individual's ability to own a house.

In terms of the effect of loan rates on residential property sales, it is apparent from the regression analysis with the coefficient value of -3.397 and a probability value of 0.0227, which is smaller than the level of = 5 %. This means that the effect of loan interest rates on residential property sales is negative and significant. In other words, an increase in loan interest rates by 1 %, will decrease the residential property sales by 3,397 %, and ceteris paribus. The increase in loan interest rates resulted in the higher rate of house loan to be paid by consumers. Bank Indonesia (2020) noted that 17.9 respondents considered the house loan interest rates as quite high, and 13.8 % deemed that the proportion of down payments was considerably high in the house loan applications. This is in line with data from Bank Indonesia (2020) that 74.73 % of Indonesians still rely on house loan facilities from banks to buy a house.

In terms of the effect of inflation on residential property sales, the regression analysis of the coefficient value was 11,429 with a probability value of 0.0357, which is smaller than the level of = 5%. This means that the effect of inflation on residential property sales is positive and significant. Nur (2012) held that inflation not only has a negative impact, but also generates a positive impact. Mild inflation can actually encourage a better economy, increase national income, and people's eagerness to work, to save and to invest. The controlled inflation can maintain people's purchasing power and ensure the stable public demand for goods. This also includes the community's ability to purchase houses.

In terms of the effect of Indonesia's Gross Domestic Product on residential property sales, the regression analysis resulted in the regression coefficient value of 16.145 and a probability value of 0.1429, which is greater than the level of = 5%. This means that the effect of gross domestic product is positive and insignificant. In other words, 1% rise in GDP will increase residential property sales by 0.142%, and ceteris paribus. This is in accordance with the theory of demand that gross domestic product reflects the income per capita of the population in a country. An increase in the income per capita of the population will increase demand or investment. Siagian (2017) posited that the size of a person's income affects his purchasing power, including the purchasing power of a house. Income is not a significant predictor for property sales due to the growth rate of population income which is not proportional to the rate of growth of residential property prices. Buhaerah (2019) demonstrated that as a result of the SHPR (Residential Property Survey) conducted by Bank Indonesia, in just 7 years, the prices of small and medium-sized houses increased by 62 and 46 percent, respectively. However, at the same time the level of community income did not increase significantly. The Central Statistics Agency (2017) recorded that the average increase in the Provincial Minimum Wage from 2012-2017 was only 14.1 percent. In contrast, the prices for small and medium-sized houses increased by 62 % and 46 percent, respectively. It can be said that house prices are far above the people's purchasing power. This indicates that the increase in people's income levels is not able to exceed the increase in residential property prices.

In terms of the impact of the Covid-19 pandemic on residential property sales, it is clear that the regression analysis resulted in the coefficient value of -10,495 with a probability value of 0.1349, which is greater than the level of = 5%. This means that the impact of the Covid-19 pandemic is negative and insignificant. A 1% increase in the Covid-19 pandemic will decrease the residential home sales by 10,495 percent, and ceteris paribus. Aiyubbi (2022) held that the Covid-19 pandemic has caused the economic sluggishness, as reflected in the economic recession in the 2020-2021 period. This condition certainly has an impact on the declining purchasing power, including in the residential property sector. To deal with the decline in the residential property sector, the government made a policy to lower the house loan interest rate. A total of 16.12 respondents in the third quarter of 2020 said that house loan interest rates were an obstacle in property sales. In addition to lowering the house loan interest rate, the government has also implemented a policy of disbursement of FLPP (Housing Loan Liquidity Facility) which is aimed to help the middle and lower class people to obtain small type houses. The FLPP is provided to support the government's program of “One Million Houses for the People”. This FLPP policy has resulted in the positive growth in the sale of small-type houses as compared to other types of houses.

CONCLUSION

Sales of residential properties during the Covid-19 pandemic in Indonesia were not only affected by the pandemic, but also by several other factors, such as IHPR, interest rates, inflation and gross domestic product. From the estimation results carried out using the 5 % alpha level, it is found that the IHPR variable and the interest rate have a negative and significant effect on property sales, while the inflation variable has a positive and significant effect on property sales. The inflation variables and the Covid-19 pandemic generate positive and insignificant negative effects on residential property sales in Indonesia, respectively.

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