



PRESS RELEASE

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Residential Estate: Sustained Demand and Tax Revision Challenge

PT ICRA Indonesia (ICRA Indonesia) has today released a commentary on residential estate sector: sustained demand and tax revision challenge. Key points of the commentary are as follow.

- Assuming annual population growth of 1.4% with a household consisting of 4 people, there will be new demand for housing of about 860-910 thousands per year in the next five years. Moreover, currently national backlog stands at about 13.6 million that needs to be settled gradually. Cumulatively, there would be new demand of 1.5-1.6 million per year until 2018 when the population is estimated to reach around 266.5 million. The demand has also been backed by the urbanization trend and availability of bank loans.
- More specifically in the apartment segment, apartment for sale growth (in unit) for Jakarta, Bogor, Depok and Bekasi (Jabodebek) of about 13.2% in 2013 was backed by mortgage loans growth of 26.6%. As the loan expansion dipped to 12.8% in 2014, mainly due to the tighter loan to value regulation, apartment for sale growth also weakened to only 0.9%.
- Likewise, the central bank reported that loan extended to real estate sector grew at a slower pace of 19.1% (vs. 34.8% a year earlier), amounted to about IDR 90.4 trillion in 2014.
- The real estate sector generally moves in tandem with the economy. As a component of GDP and in the normal condition, growth in the value of this sector is higher than GDP's as evident in 2011 (7.7% vs. 6.2%), 2012 (7.4% vs. 6.0%) and 2013 (6.5% vs. 5.6%). However in 2014, it only grew by 5.0%, broadly the same pace with GDP's owing to unfavorable market conditions.
- Given the steady economic growth estimated for 2015 following the ongoing transition and reform by the new government, real estate sector growth is likely unchanged from last year. Aside from the abovementioned factors, the sector will also be challenged by the upcoming tax revisions on property transactions.
- There are three areas of tax to be revised in the near future namely PBB (land & building tax), PPH 22 (income tax), and PPNBM (luxury tax). If the revisions are approved, the price of residential properties would increase because developers are likely to pass on the tax increments to the consumers. This will potentially depress demand and supply and in turn can cause a slowdown in this sector.

The full commentary is available at www.icraindonesia.com.

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