Indonesia's Mortgage Industry: Outlook, Challenges, and Opportunities

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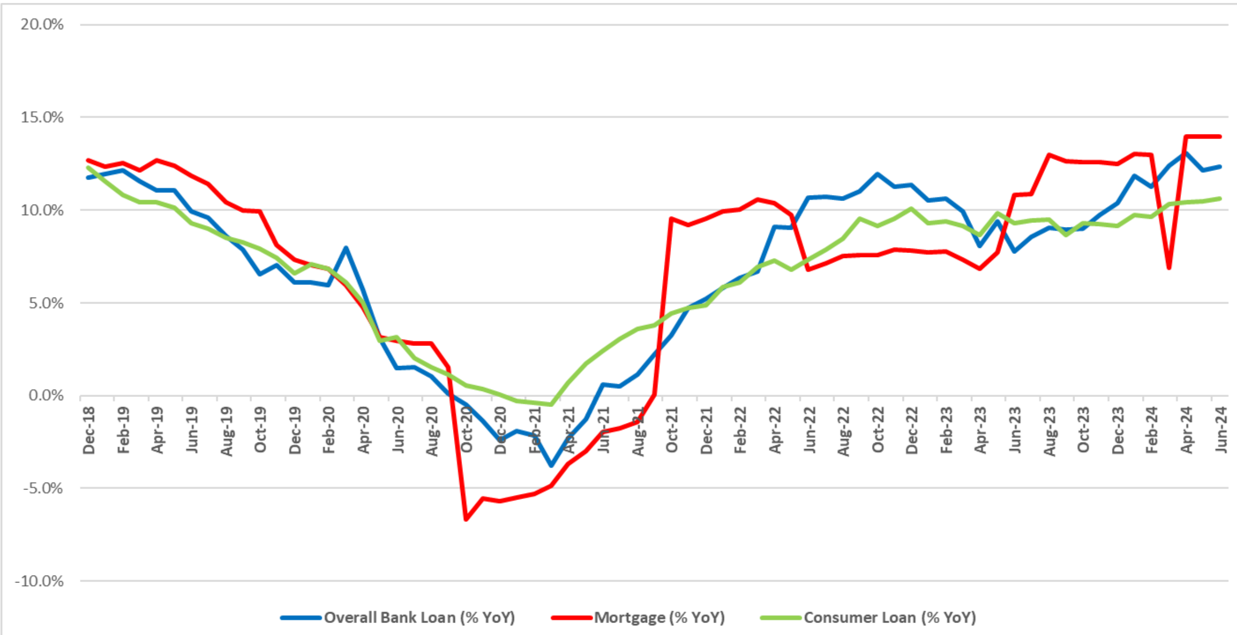
PEFINDO is of the view that the outlook for the mortgage industry will remain stable in the medium term with projected growth rates of 12%-14%, supported by the high demand due to a remaining high housing backlog, government support for the industry, and recently declining interest rate. The industry has demonstrated robust growth, with year-on-year (YoY) mortgage lending growth of 14.0% as of June 2024 and 12.5% in FY2023, slightly outpacing overall bank loan growth rates of 12.4% and 10.4% YoY during the same periods, underscores the resilience of the mortgage sector.

Chart 1. Indonesia Overall Bank Loan and Mortgage Growth (% YoY)



Source: Otoritas Jasa Keuangan

A key driver of this growth is Indonesia's demographic landscape, which is heavily dominated by younger generations. Millennials (born between 1981 and 1996, now aged 28-43) and Generation Z (born between 1997-2012, now aged 12-27) account for 53.8% of the population, according to the latest Statistics Indonesia (BPS) survey. As they enter their prime homebuying years, this demographic is expected to fuel ongoing demand for residential housing, particularly in urban areas with concentrated economic opportunities. Their preference for homeownership, combined with rising urbanization, is likely to sustain mortgage sales momentum in the market for the foreseeable future.

Another significant mortgage market driver is Indonesia's persistent housing backlog. The Ministry of Public Works and Public Housing (Kementerian PUPR) estimates that Indonesia will still face a 9.9 million housing units backlog by the end of 2023, with over 90% attributed to low-income households. This shortfall represents a major challenge for the housing market, as supply has struggled to keep pace with demand. However, it also presents a substantial opportunity for mortgage lenders, as closing this gap will require extensive financing solutions. The ongoing efforts to address this backlog are expected to drive continuous growth in mortgage lending.

Government support has also played a critical role in bolstering the mortgage market. The Indonesian government has implemented various policies to promote affordable housing and improve access to mortgage financing. Programs such as subsidized mortgages for first-time homebuyers and affordable housing initiatives should support the mortgage loan growth momentum. This support is significant for addressing the needs of lower-income groups, who might otherwise be excluded from the housing market financing.

Market overview

In terms of housing purchasing schemes, credit schemes remain the dominant method for homeownership in Indonesia, reflecting the high property values relative to income levels. As of June 2024, 75.5% of house purchases were financed through credit facilities, with gradual cash payments accounting for 17.1% and total cash purchases making up just 7.4%. This heavy reliance on credit is driven by the high cost of property, which often exceeds the average household's ability to pay upfront. Accommodating the condition, housing loans typically have long tenors, often exceeding ten years, to ensure monthly payments are manageable for borrowers. This trend mirrors Indonesia's broader consumer credit market, where high-value purchases, like cars, are also predominantly financed through credit.

Table 1. Housing Ownership Payment Scheme (%)

Housing Ownership Payment Scheme (%)	Jun-24	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Credit	75.5	75.9	75.0	76.1	75.3	71.9
Gradual Cash	17.1	17.2	18.2	16.6	17.9	20.2
Cash	7.4	6.9	6.8	7.4	6.8	7.9

Source: Bank Indonesia

Regarding the house type, 64.9% of housing loans (KPR and KPA) are directed towards homes ranging from 22 m² to 70 m² as of June 2024, while 31.1% of financing is directed towards larger properties over 70 m² and only 4.0% covers properties smaller than 22 m². The predominance of loans for 22 m² to 70 m² homes indicates that the bulk of housing demand is driven by the low- to middle-income segment, which typically seeks more affordable, modest-sized homes.

Table 2. Housing Loans Breakdown

Mortgage (IDR bn)	Jun-24	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Mortgage – Landed houses (KPR)	**697,266.0**	**659,766.1**	**586,568.4**	**544,004.4**	**496,603.2**	**479,927.7**
KPR type >70 m²	215,072.9	204,699.8	173,522.3	164,262.1	150,951.1	151,918.8
KPR type 22 - 70 m²	455,774.6	427,890.4	394,606.1	359,696.5	325,264.4	303,734.7
KPR type ≤ 21 m²	26,418.5	27,175.9	18,440.0	20,045.8	20,387.7	24,274.2
Mortgage – Apartments (KPA)	**30,316.2**	**29,551.5**	**27,944.9**	**26,099.9**	**22,825.6**	**22,309.3**
KPA type >70 m²	10,739.5	10,513.7	10,130.8	9,409.2	8,595.8	8,715.2
KPA type 22 - 70 m²	16,815.0	16,589.6	15,883.0	15,291.7	13,150.3	12,536.8
KPA type ≤ 21 m²	2,761.7	2,448.3	1,931.0	1,398.9	1,079.6	1,057.3
Total Mortgage	**727,582.2**	**689,317.6**	**614,513.3**	**570,104.3**	**519,428.8**	**502,237.0**
Mortgage (%)	**Jun-24**	**Dec-23**	**Dec-22**	**Dec-21**	**Dec-20**	**Dec-19**
Mortgage – Landed houses (KPR)	**95.8%**	**95.7%**	**95.5%**	**95.4%**	**95.6%**	**95.6%**
KPR type >70 m²	29.6%	29.7%	28.2%	28.8%	29.1%	30.2%
KPR type 22 - 70 m²	62.6%	62.1%	64.2%	63.1%	62.6%	60.5%
KPR type ≤ 21 m²	3.6%	3.9%	3.0%	3.5%	3.9%	4.8%
Mortgage – Apartments (KPA)	**4.2%**	**4.3%**	**4.5%**	**4.6%**	**4.4%**	**4.4%**
KPA type >70 m²	1.5%	1.5%	1.6%	1.7%	1.7%	1.7%
KPA type 22 - 70 m²	2.3%	2.4%	2.6%	2.7%	2.5%	2.5%
KPA type ≤ 21 m²	0.4%	0.4%	0.3%	0.2%	0.2%	0.2%
Total Mortgage	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Bank Indonesia

Although there are 106 banks operating in Indonesia, housing loans are highly concentrated on only a few, especially the top-tier banks with long-term experience, strong infrastructure, and favorable funding composition. The five largest housing lenders control around 90% of the market, with 66.4% being contributed by the government-owned banks (Himbara). As a government-owned housing loan bank, PT Bank Tabungan Negara Tbk (Persero) is the largest housing loan provider, maintaining a market share of 40.9% of total housing loans in the industry as of March 31, 2024. Other banks with a significant mortgage loan portfolio are PT Bank Central Asia Tbk (18.2%), PT Bank Negara Indonesia (Persero) Tbk (9.0%), PT Bank Mandiri (Persero) Tbk (8.6%), PT Bank Rakyat Indonesia (Persero) Tbk 6.4%), and PT Bank CIMB Niaga Tbk (8.0%). Several other banks also offer housing loan services, even though the portion is relatively limited compared to their overall loan portfolio.

Table 3. Top Housing Loan Players (%)

Mortgage (IDR tn)	Mar-24	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Mortgage Loan - Industry	**667.5**	**689.3**	**614.5**	**570.1**	**519.4**	**502.2**
Bank Tabungan Negara	272.8	257.9	233.7	213.9	200.7	191.8
Bank Central Asia	121.7	121.0	108.3	97.5	90.2	93.7
Bank Negara Indonesia	60.1	58.5	53.5	49.6	46.0	44.1
Bank Mandiri	57.4	56.0	50.1	46.2	43.5	44.3
Bank Rakyat Indonesia	53.1	51.5	44.0	39.1	35.7	32.3
Bank CIMB Niaga	42.9	42.7	41.8	39.0	35.8	33.8
Mortgage Market Share (%)	**Mar-24**	**Dec-23**	**Dec-22**	**Dec-21**	**Dec-20**	**Dec-19**
Bank Tabungan Negara	40.9%	37.4%	38.0%	37.5%	38.6%	38.2%
Bank Central Asia	18.2%	17.6%	17.6%	17.1%	17.4%	18.6%
Bank Negara Indonesia	9.0%	8.5%	8.7%	8.7%	8.9%	8.8%
Bank Mandiri	8.6%	8.1%	8.2%	8.1%	8.4%	8.8%
Bank Rakyat Indonesia	8.0%	7.5%	7.2%	6.9%	6.9%	6.4%
Bank CIMB Niaga	6.4%	6.2%	6.8%	6.8%	6.9%	6.7%

Source: Bank’s Financial Report

Mortgage NPL Trends in Indonesia

The mortgage industry's Non-Performing Loans (NPLs) have risen since 2023, reflecting the increasing financial pressure on borrowers amid a series of interest rate hikes. The Bank Indonesia 7-Day (Reverse) Repo Rate (BI7DRR) has been raised eight times between August 2022 to August 2024, with a cumulative increase of 2.75% to 6.25% up to August 2024, intensifying the challenges for mortgage holders. This surge in NPLs underscores the mortgage sector's heightened vulnerability to this economic condition, as mortgage-specific NPLs have now outpaced those of the broader banking industry since 2023, signaling growing risks within this sector.

As Indonesia contended with rising interest rates aimed at curbing inflation and stabilizing the currency, the higher borrowing costs and slower economic growth have significantly strained borrowers' ability to repay their mortgages. Given that mortgages represent one of the household's most substantial financial commitments, they are susceptible to macroeconomic fluctuations.

The recent cut in the BI7DRR to 6.0% in September 2024 is expected to provide some relief to mortgage holders, potentially helping to stabilize the rising NPL ratios. While it will not immediately reverse the trend, the lower borrowing costs should ease the financial pressure on households, especially those most affected by previous rate hikes. This, in turn, could lead to a gradual improvement in NPL figures across the industry.

Table 4. Mortgage Non-Performing Loans based on Bank Type (%)

Mortgage NPL Based on Bank Type (%)	Jun-24	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Overall Bank Industry NPL	2.26	2.19	2.44	3.00	3.06	2.53
Overall Mortgage NPL	2.41	2.33	2.01	2.15	2.23	2.29
Mortgage NPL - SOE Banks (Himbara)	2.15	2.14	1.74	2.02	2.24	1.82
Mortgage NPL - Regional Banks (BPDs)	6.15	5.49	5.54	6.73	7.66	7.37

Mortgage NPL - Domestic Private Banks	2.38	2.27	2.00	2.01	2.43	2.43

Source: Statistik Perbankan Indonesia (SPI) OJK

The NPL ratio within the mortgage industry varies significantly across different types of banks, highlighting disparities in risk management practices and their ability to weather economic challenges. State-Owned Enterprises (SOE) Banks consistently report the lowest NPL ratios. This trend underscores their robust credit management frameworks, which likely benefit from centralized risk assessment, more stringent underwriting standards, and extensive experience in the mortgage sector. SOE banks also have stronger capital buffers and greater access to government support, which enhance their ability to manage and mitigate risks effectively. Similar prudent risk management practices are also observed in several top-tier private banks with substantial mortgage loan portfolios.

In contrast, Regional Development Banks (BPDs) exhibit much higher NPL ratios, peaking at 7.66% in December 2020 and only marginally improving to 6.15% by June 2024. These persistently higher NPL ratios among BPDs suggest a higher vulnerability to credit risk, which can be attributed to several factors. Firstly, BPDs often operate in more localized and less economically diversified markets, making them more susceptible to regional economic downturns. In addition, their lending practices may be less stringent, potentially due to a lack of experience in mortgage loan evaluation process, or a lack of sophisticated risk management infrastructure compared to larger national banks. Thus, it increases their risk of loan defaults.

Government support for the housing loans sector

Housing is a critical sector in Indonesia, and the government has been actively supporting it to ensure that all Indonesians can access decent and affordable homes, as outlined in *UU No. 1/2011*. This law highlights the government's commitment to providing housing and developing residential areas.

In alignment with this mandate, the Indonesian government has significantly bolstered its support for the housing sector through various financial mechanisms, the most prominent of which is the Housing Finance Liquidity Facility (FLPP). The FLPP is a critical tool to reduce the housing backlog and enhance the affordability of homes for low-income groups. The 2025 budget (RAPBN) has allocated IDR18.8 trillion to the FLPP, up from the IDR13.0 trillion allocated in the 2024 budget, to finance the construction of 220,000 housing units, compared to 166,000 units in 2024. The FLPP subsidy scheme is structured with the government covering 75% of the funding, while participating banks contribute the remaining 25%, showcasing a public-private partnership approach.

Table 5. FLPP Realization in Amount and Unit

Year	FLPP Realization (IDR trillion)	FLPP Realization (Unit)
2010	0.2	7,959
2011	3.7	109,592
2012	2.6	64,785
2013	5.4	102,714
2014	4.7	76,057
2015	6.1	76,489
2016	5.6	58,469
2017	2.7	23,763
2018	5.9	57,949
2019	7.6	77,564
2020	11.2	109,253
2021	19.6	178,728
2022	25.2	226,000
2023	26.3	229,000
Aug-24	13.5	110,974
TOTAL	**140.2**	**1,509,296**

Source: BP Tapera

By the end of August 2024, the cumulative FLPP disbursement reached IDR140.2 trillion since the program's inception in 2010, supporting the construction of approximately 1.5 million houses. This initiative has effectively reduced around 7.5% of the housing backlog, demonstrating the program's significant impact on the housing sector.

Furthermore, the government introduced a government-born Value-Added Tax (PPN DTP) incentive to stimulate the housing market through *Peraturan Menteri Keuangan* (PMK) No. 7 Year 2024, which reduced PPN by 100%. This incentive applies to landed houses and flats with a maximum selling price of IDR5 billion and has already benefited 22,229 house purchases in the first half of 2024. This tax incentive is a strategic move to boost house sales, contributing to the overall growth of the housing market.

In addition to these measures, the government also expanded access to affordable housing for Low-Income People (MBR) by providing Administrative Cost Assistance (BBA) through the Permen PUPR No. 11/2023. This initiative offers financial aid to cover administrative expenses related to home ownership, easing the path for low-income households to secure affordable housing. The assistance covers costs such as land certification, notary fees, and loan processing, effectively reducing the financial burden on MBR families and streamlining access to home loans and property ownership. The program supports home financing for low-income communities over 14 months (November 2023 – December 2024), with each household eligible for up to IDR4 million in assistance. In its initial phase (November–December 2023), the program supported 62,000 housing units, with plans to extend assistance to 220,000 units in 2024.

The government has introduced additional support for the poorest segments of the population by providing Integrated Simple Housing (RST) program. Valued at IDR20 million per housing unit, the program was disbursed over two months (November and December 2023) and is coordinated by the Ministry of Social Affairs. This comprehensive approach, combining financial subsidies, tax incentives, and direct housing assistance, illustrates the government's efforts to address the housing backlog and make homes more affordable and accessible, fostering a more inclusive housing market.

Challenges and Opportunities

The Indonesian mortgage industry, despite its stable outlook, faces significant challenges. While essential in supporting affordable housing, the Housing Finance Liquidity Facility (FLPP) scheme is considered less favorable for some banks due to the low-profit margins and administrative complexities. Smaller banks, in particular, may find it challenging to meet the scheme's requirements, which include a 25% funding contribution from participating banks. Out of 37 participating banks, 55.3% of FLPP is disbursed through BTN as of 2023, indicating that smaller banks are less equipped or unwilling to engage in the program.

Furthermore, low purchasing power among Indonesians, particularly within lower-income segment, remains a formidable barrier to homeownership. This is exacerbated by escalating property prices in urban centers, driven by soaring construction costs and rising land prices. Land scarcity in desirable metropolitan areas, such as Greater Jakarta, compounds this issue, with prices increasing by 10%-15% annually, forcing developers to focus on less attractive and less accessible areas. These factors hindered housing affordability and homeownership in Indonesia, particularly for lower-income segments.

Despite these challenges, Indonesia’s mortgage industry is well-positioned to benefit from several opportunities. The country’s youthful demographic, particularly Millennials and Generation Z, is driving a surge in demand for homeownership, particularly in urban centers. This demographic momentum aligns with Indonesia’s significant housing backlog, estimated at 9.9 million units as of FY2023. Closing this gap presents a long-term growth opportunity for mortgage lenders.

Additionally, Bank Indonesia’s decision to lower the BI7DRR from 6.25% to 6.0% offers a favorable environment for mortgage growth. Lower borrowing costs are expected to make home loans more affordable, potentially increasing the number of prospective home buyers entering the market. This monetary easing, coupled with the growing demand from the country’s younger population, offers a promising outlook for the industry, creating a strong foundation for future growth in the mortgage and housing sectors.

Lastly, government intervention remains a critical driver of the industry’s stability and growth. Policies such as subsidized mortgage programs, tax incentives, and affordable housing initiatives help low-income groups access housing and encourage financial institutions to develop more targeted mortgage products. These initiatives allow banks to cater to a broader population, expanding the market for mortgage financing. The success of the industry will depend on how effectively these challenges are addressed, while capitalizing on the underlying demand for housing.