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## Mapping the housing needs of the urban middle class in greater Jakarta

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# Mapping the housing needs of the urban middle class in greater Jakarta

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**Abstract.** The housing affordability discourses have long been focusing on the low income community. However, the middle class in Indonesia are beginning to experience their own brand of affordability problems, fuelled by the skyrocketing house market price and the wage stagnancy issue. This research expects to map the housing needs of the middle class, including the average combined income and desired house price for middle class families in Greater Jakarta. The survey also inquired current residencies and aspirational location of the respondents, which was used to create a mapping as evidence for future housing policies. This data was analysed quantitatively and elaborated descriptively with consideration to the socio-economic condition of the middle class. The result shows that middle class families with combined income of more than seven million rupiah aspire to buy houses out of Jakarta Province with proper surrounding facility, and are willing to allocate housing budget of more than five hundred million rupiah. This research recommends an improvement to the housing development policies in greater Jakarta and reiterates the importance of new regulation on long term rent as a secure tenure alternative.

## 1. Introduction

Housing crises, which was formerly mainly discussed in regards of the low income community, have now slowly become an issue for the middle class in many countries, even in the developed ones. With rapidly increasing house price and a wage stagnancy, many of the middle class in the developed countries, such as Canada and the US, are cost-burdened when it comes to paying their rent or mortgage. In Indonesia, the same issue exists especially in Greater Jakarta where housing market price has rapidly increased over the years and salaries paid to the working class have been unable to keep up. As the middle class gradually expands Indonesia's housing backlog, an updated outlook on their current housing needs and purchasing consideration is needed to assist the government and private developers in controlling the impending housing crises.

Previous research in other developing country [1] suggests that the middle income group are prone to be trapped in affordable housing issues, particularly due to the constantly rising house price and the strict housing payment schemes available for them. In the global north, Cox and He [2] reported that Canada's house market price has outgrown household income by threefold since the 2000, which could deteriorate the economy as home buyers' discretionary income was further reduced by the burden of paying for mortgage and utilities. In the most expensive cities in the USA, even the upper middle class residents were cost burdened by 46 percent in 2017 [3], while the nation's housing affordability was eroded by the lack of housing production and the increasing new households. In the recent years, more



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researches about urban housing were published [4-6], although most of them observed millennials instead of the middle class as the subject of the research.

The distinction of research subject in this matter is necessary as the criteria differ; while researches on millennials focus on the age of the subject, this research considers the financial standing of the subjects as one of the most important deciding factors in major financial decision such as purchasing a residential. Building from previous literatures, this research aims to discover the baseline housing needs of the middle class in Greater Jakarta, mainly in regards of buying ability and purchasing considerations. Additionally, the location preferences of the middle class are analysed to formulate policy recommendation for the government, especially in the cities and regencies in Greater Jakarta.

## 2. Methods

This research was initially triggered by the difficulties of finding a suitable house for the middle class in Greater Jakarta and other metropolitan in Indonesia, as reported by various national news outlet [7,8]. Therefore, the purpose of this research in its infancy was to gauge the baseline housing needs of the middle class currently working and residing in Greater Jakarta. Only by acknowledging their basic needs can the government formulate robust, accurate evidence-based policies on urban housing.

For the purposes of this research, the middle class is defined as those with Rp 1.2 to Rp 6 million monthly expenditure [9]. The World Bank report estimated that the middle class are about 20% of Indonesia's total population in 2019, and more than 30% of them resided in Jakarta's agglomerated area, which supports the locus of this research.

Recognising that there are issues of housing affordability and a growing concern of global middle class housing crisis, the author reviewed a wide breadth of literature which can be roughly categorised to 1) National housing policies, 2) researches on housing preferences for both millennials and the middle class, and 3) market research report. Several important variables of housing needs and preferences for the middle class were then extracted from the literature reviews and put into an online questionnaire.

This questionnaire was distributed randomly through various channels which inquired the combined household monthly income and expenditure as a means to consider their buying ability, house purchasing considerations with options such as proximity to work, public transport, and other facilities [4,6,10], actual buying ability, as well as the respondents' current and ideal residency locations. In the three weeks that the questionnaire was distributed and open for responses, 62 respondents submitted their information.

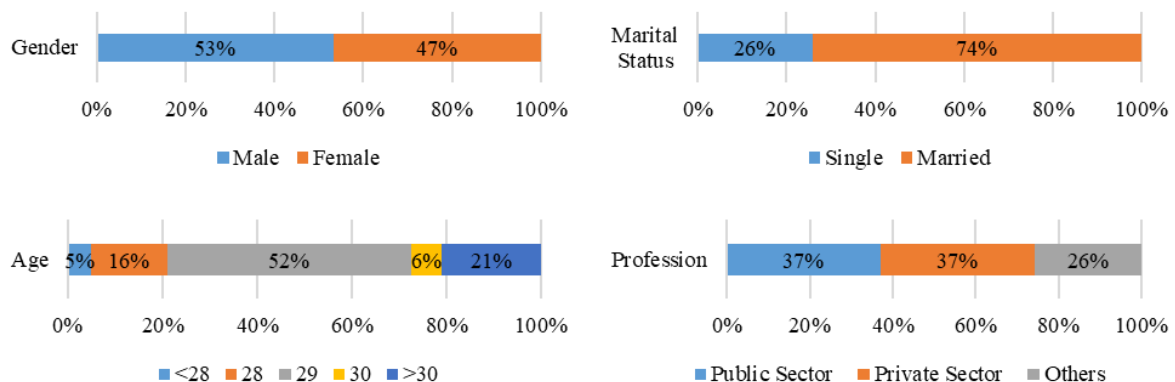
Additionally, this questionnaire enlisted two conditions for the respondents: 1) respondents must live and work in Greater Jakarta (all cities in Jakarta Province, Tangerang, Tangerang Regency, South Tangerang, Bogor, Bogor Regency, Depok, Bekasi, Bekasi Regency); and 2) respondents must spent approximately Rp 1.2 to 6 million monthly or earn Rp 7 to 15 million a month. Subjects are not categorised based on age or gender, although a section of the questionnaire would inquire subjects' marital status.

The data from the questionnaire will be analysed descriptively to better understand the baseline housing needs for the middle class in Indonesia and gauge a proper policy response to accommodate said needs. A framework of this research can be observed in Figure 1.

## 3. Results and discussions

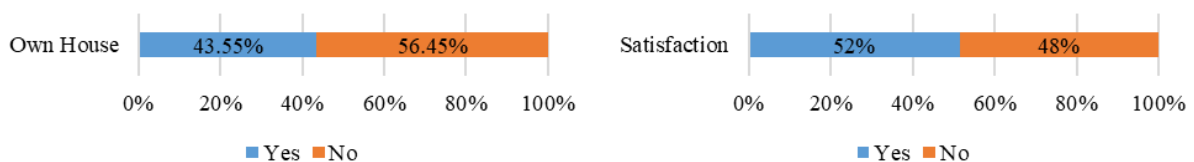
### 3.1. General information of respondents

From Figure 1 below we can see that the proportion of gender among the respondents are relatively balanced, with 53% male and 47% female. The respondents are 29.85 years old by average, with 52% of them aged 29 years old and 21% are older than 30 years old. As the questionnaire does not consider marital status, 26% of the respondents are single or unmarried, although at least 74% of them are salaried employees both in public and private sectors.



**Figure 1.** Gender, are, marital status, and profession of respondents.

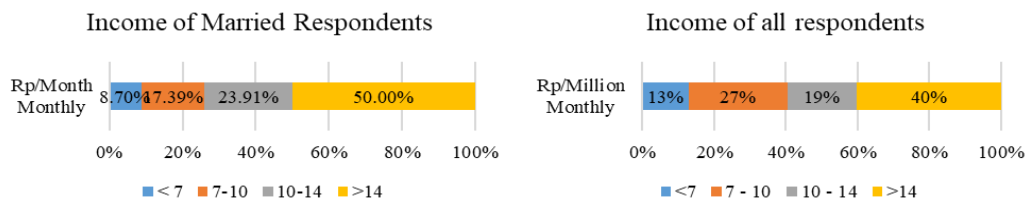
In regards of house ownership, 56.45% of the respondents are non-homeowners with various tenure situations, including living with relatives and renting houses or flats on short term tenancy. Among the respondents, 52% of the respondents reported satisfaction with their current living location, while 48% expressed their wish to move someplace else, as we can see in Figure 2 below.



**Figure 2.** House ownership and location satisfaction.

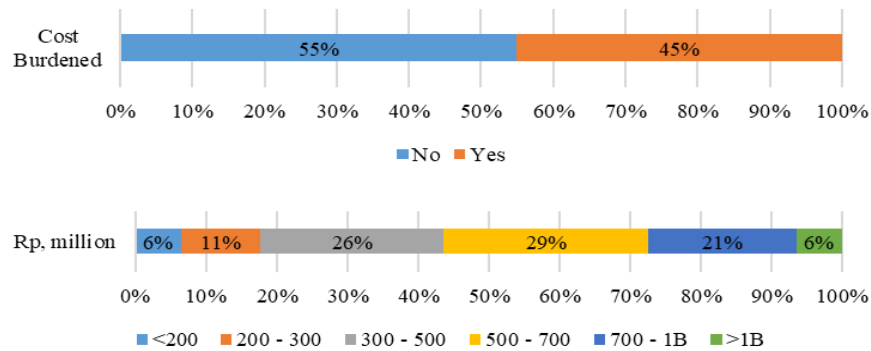
### 3.2. Financial standing of the respondents

A slight mismatch of categorisation occurred in this section, mainly because the categorisation of the middle class considers individual income and expense, while most residential financing schemes in Indonesia require information on the combined monthly income for married applicants. Therefore, the questionnaire for this research inquire only the total monthly income and expenses, disregarding their marriage status. The income charts in Figure 3 shows than among the married respondents, 50% reported a combined monthly income of above Rp 14 million. The second income chart displays total monthly income of all respondents regardless of their marital status, which reported a bigger percentage of respondents making less than Rp 7 million and Rp 7 to 10 million monthly (13% and 27% respectively).



**Figure 3.** Monthly income.

Although 45% of the respondents believed that they are cost-burdened by housing-related expenses, it is worth noting that 56% of them would allocate a budget of over Rp 500 million to purchase a house (Figure 4). This finding is important because it reaffirms the notion that the middle class are financially secure enough to allocate more money for non-food related expenses. This finding also dissents the property market research by Rumah.com [11] which suggested that 62% of their respondents preferred houses below the Rp 500 million price point.

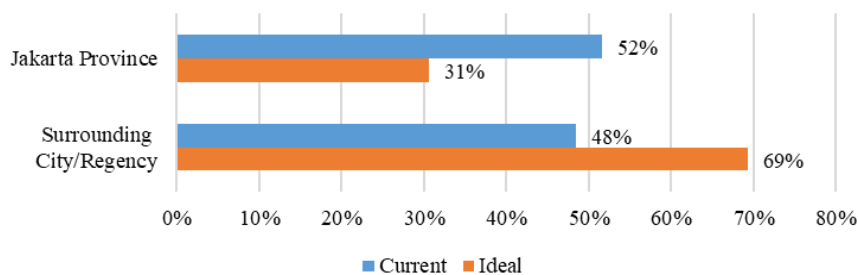


**Figure 4.** Cost-burdened percentage and buying ability.

However, the current financing schemes available for most of the middle class to buy their first homes can be unaffordable. For a house priced at Rp 700 million, for instance, with the most common attributes for mortgage (13.5% floating interest, 15% down payment, 9% first year interest), potential homebuyers must allocate Rp 5.4 million per month for a 20 years tenor or Rp 6.1 million per month for 15 years tenure, with the condition that they must already have more than Rp 150 million in cash for the down payment and all other notary and bank fees. If the banks or loan providers require mortgage to be 30% of homebuyers’ monthly salary, then this scheme can only be affordable for those with a total monthly income at least Rp 18 million. These numbers mean that without proper financing solution or price control from the government, more than half of the middle class in Greater Jakarta will not be able to purchase a house.

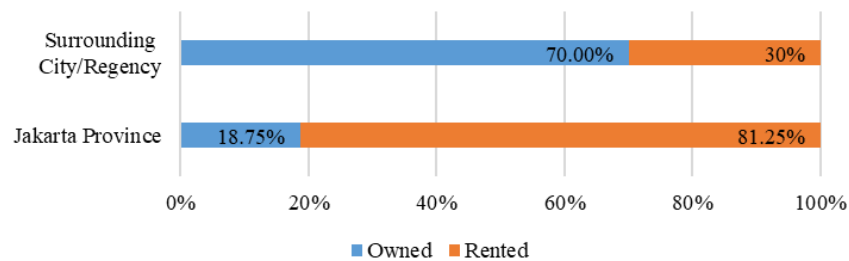
*3.3. Geographical preferences*

In Figure 3, we can see that 48% of the respondents were not yet satisfied with their current residential location. In more detail, as we can see in Figure 5, although 52% of the respondents currently live in Jakarta Province, 69% of them expressed desire to move to the surrounding cities and regencies, with South Tangerang being the most popular destination. Although this research does not elaborate deeper into the reasons behind this phenomenon, the questionnaire did inquire the realistic residential location which showed that 56% of the respondents wished to move to another city/regency on budgetary considerations.



**Figure 5.** Current and ideal residency locations agglomerated into 1) Jakarta Province, and 2) Cities and regencies surrounding the Province.

Closely related to the chart above, it is discovered that among the respondents who live in Jakarta, only 18.75% of them own their residency, while 81.25% are on short term rentals. The opposite applies to an aggregated numbers of tenure condition in the surrounding cities and regencies where 70% of the respondents currently living around Jakarta are able to purchase their residencies, as we can see in Figure 6 below.

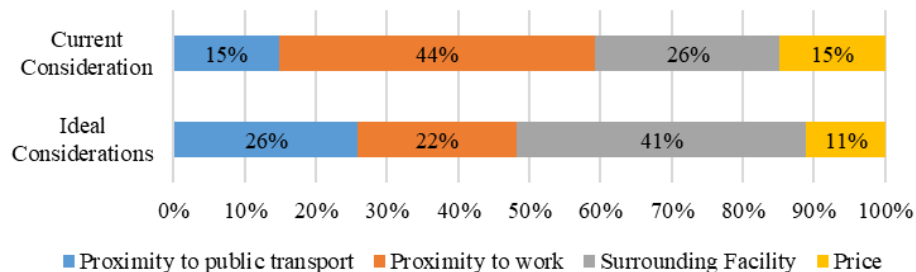


**Figure 6.** Housing ownership status or tenancy.

There are several implications to these results. First, seeing that 81.25% of those residing in Jakarta Province are on insecure tenure, the provincial government should consider creating a formal regulation to address short term and private rents and encourage secure tenancy on housing to protect renters [12]. Second, seeing that a majority of respondents currently living in Jakarta are looking to move to the surrounding cities, it is advisable for the local government to prepare their housing supply and manage the housing market to accommodate a potential influx of new residents.

### 3.4. Housing location preferences

In the questionnaire, respondents were asked to identify different sets of preferences in deciding where to settle. The first set of questions inquire respondents' main consideration before they decided to live in their current residencies. The second set of questions inquire residents to address their ideal purchasing consideration: if they could live anywhere in Greater Jakarta, how would they decide where to live? Figure 7 below illustrates the shifts of priorities between both questions.



**Figure 7.** Current and ideal preferences on deciding where to live.

In selecting their current residencies, 44% of the respondents prioritised their proximities to the workplace, 26% considered the surrounding facility, and 15% considered both proximity to public transport and price. However, when answering the questions about their ideal housing location, 41% of the respondents prefer to live in a location with proper surrounding facilities, such as good schools or healthcare services. Proximity to work becomes less important at 22%, just a few per cent behind proximity to public transport at 26%. This alludes that the priorities of preferences in choosing where to live or which house to buy can change from time to time. Seeing that proximity to transport consistently charted high in both category, the government's initiative of building more transit oriented development around busy commuter line stations can be a highly effective tools in providing housing supplies for the middle class.

Nevertheless, the government should also develop proper surrounding facility, including the availability of good quality education institution and healthcare services, is also highly necessary for at least 41% of the respondents.

#### 4. Conclusion

According to the data discussed in this research, despite the common notion that housing affordability is an issue exclusive to the low income community, this research suggests that in reality more than fifty per cent of the middle class in Greater Jakarta still struggle to own a permanent residency. If left untreated, this issue could cause further setbacks to the government's endeavour in reducing the country's rapidly increasing housing backlog.

When it comes to buying ability, although 56% of the respondents are willing to allocate over Rp 500 million, 45% of them are cost-burdened by their residential arrangements. Houses priced at Rp 700 million would require potential buyers to budget over Rp 6 million per month for a 15 years mortgage. If funding schemes require housing expenses to not exceed 30% of applicants' combined income, then homeowners must earn a total of over Rp 15 million monthly salary to be eligible to apply. According to this research, half of the middle class in Jakarta would not be eligible to apply for any financing scheme under this mechanism.

In terms of geographical preferences, although the majority of the respondents currently live in Jakarta, 69% of them believed the surrounding cities to be more ideal living locations, mainly due to financial considerations. Additionally, this research also sees that over 80% of respondents residing in Jakarta are on rented housing, compared to only 30% in the surrounding cities. This suggest that the government of Jakarta should consider devising a formal regulation of long term rental for secure tenancy while the local governments of the surrounding cities should plan their housing supply to accommodate potential homebuyers.

Lastly, although the central government's TOD initiative is supported by the statistics, both local government and private developers should also pay closer attention to facilities of the surrounding area, especially since the middle class in Greater Jakarta care deeply about the quality of life and therefore put the surrounding facility of a house into greater consideration.

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